GENWORTH FINANCIAL INC
Form 424B4
March 24, 2005
Table of Contents

Filed Pursuant to Rule 424(b)(4)
Registration No. 333-123156

PROSPECTUS

80,500,000 Shares

Class A Common Stock

GE Financial Assurance Holdings, Inc., the selling stockholder and an indirect subsidiary of General Electric Company, is offering all the 80,500,000 shares of Class A Common Stock to be sold in this offering. We will not receive any proceeds from the sale by the selling stockholder of Class A Common Stock in this offering.

Our shares of Class A Common Stock are listed on the New York Stock Exchange under the symbol GNW. The last reported sale price of our Class A Common Stock on the New York Stock Exchange on March 23, 2005 was $26.75 per share.

We have agreed to repurchase directly from the selling stockholder, concurrently with the closing of this offering, $500 million of our shares of Class B Common Stock at a price per share equal to the net proceeds per share that the selling stockholder will receive from the underwriters in this offering. The closing of the repurchase will be contingent on the closing of this offering.

Investing in our Class A Common Stock involves risks. See Risk Factors beginning on page 14.

PRICE $26.50 A SHARE

	Per Share	Total

Price to public	$ 26.500	$ 2,133,250,000
Underwriting discounts and commissions	$ 0.689	$ 55,464,500
Proceeds to selling stockholder	$ 25.811	$ 2,077,785,500

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of Class A Common Stock to purchasers on March 30, 2005.

Morgan Stanley

Global Coordinator

JPMorgan **Merrill Lynch & Co.**

Citigroup

Banc of America Securities LLC
Deutsche Bank Securities
Lehman Brothers
Credit Suisse First Boston
Goldman, Sachs & Co.
UBS Investment Bank

ABN AMRO Rothschild LLC
Capital Management Group Securities
Legg Mason Wood Walker
Incorporated
BB&T Capital Markets
Fox-Pitt, Kelton
Ramirez & Co., Inc.
The Williams Capital Group, L.P.
Blaylock & Partners, L.P.
Keefe, Bruyette & Woods
Raymond James

March 23, 2005

Table of Contents

TABLE OF CONTENTS

Table of Contents

Prospectus Summary

This summary highlights information contained elsewhere in this prospectus and may not contain all of the information that may be important to you. You should read this entire prospectus carefully, including the information set forth in Risk Factors before making an investment decision. In this prospectus, unless the context otherwise requires, Genworth, we, us, and our refer to Genworth Financial, Inc. and its subsidiaries and include the operations of the businesses acquired from GE Financial Assurance Holdings, Inc. and other GE subsidiaries in connection with our corporate reorganization.

Genworth Financial, Inc.

We are a leading insurance company in the U.S., with an expanding international presence, serving the life and lifestyle protection, retirement income, investment and mortgage insurance needs of more than 15 million customers. We have leadership positions in key products that we expect will benefit from a number of significant demographic, governmental and market trends. We distribute our products and services through an extensive and diversified distribution network that includes financial intermediaries, independent producers and dedicated sales specialists. We conduct operations in 22 countries and have approximately 6,150 employees. We have the following three operating segments:

Protection. We offer U.S. customers life insurance, long-term care insurance and, primarily for companies with fewer than 1,000 employees, group life and health insurance. In Europe, we offer payment protection insurance, which helps consumers meet their payment obligations in the event of illness, involuntary unemployment, disability or death. In 2004, we were the leading provider of individual long-term care insurance and a leading provider of term life insurance in the U.S., according to LIMRA International (in each case based upon annualized first-year premiums). We believe we are a leading provider of term life insurance through brokerage general agencies in the U.S. and that this channel is the largest and fastest-growing distribution channel for term life insurance. Our leadership in long-term care insurance is based upon 30 years of product underwriting and claims experience. This experience has enabled us to build and benefit from what we believe is the largest actuarial database in the long-term care insurance industry. For the year ended December 31, 2004, our Protection segment had pro forma segment net earnings of $527 million.

Retirement Income and Investments. We offer U.S. customers fixed and variable deferred annuities, income annuities, variable life insurance, asset management, and specialized products, including guaranteed investment contracts, or GICs, funding agreements and structured settlements. We are an established provider of these products. In 2004, according to VARDS, we were the largest provider of variable income annuities in the U.S., and according to LIMRA International, we were the second-largest provider of fixed income annuities in the U.S. (in each case based upon total premiums and deposits). For the year ended December 31, 2004, our Retirement Income and Investments segment had pro forma segment net earnings of $148 million.

Mortgage Insurance. In the U.S., Canada, Australia, New Zealand and Europe, we offer mortgage insurance products that facilitate homeownership by enabling borrowers to buy homes with low-down-payment mortgages. These products generally also aid financial institutions in managing their capital efficiently by reducing the capital required for low-down-payment mortgages. According to *Inside*

Mortgage Finance, in 2004, we were the fifth-largest provider of mortgage insurance in the U.S. (based upon new insurance written). We also believe we are the largest provider of private mortgage insurance outside the U.S. (based upon flow new insurance written), with leading mortgage insurance operations in Canada, Australia and the U.K. and a growing presence in Continental Europe. The net premiums written in our international mortgage insurance business have increased by a compound annual growth rate of 45% for the three years ended December 31, 2004. For the year ended December 31, 2004, our Mortgage Insurance segment had pro forma segment net earnings of $426 million.

We also have a Corporate and Other segment which consists primarily of unallocated corporate income and expenses (including amounts incurred in settlement of class action lawsuits), the results of several small, non-core businesses that are managed outside our operating segments, most of our interest and other financing expenses and net realized investment gains (losses). For the year ended December 31, 2004, our Corporate and Other segment had pro forma segment net earnings of $29 million.

We had $12.9 billion of total stockholders interest and $103.9 billion of total assets as of December 31, 2004. For the year ended December 31, 2004, on a pro forma basis, our revenues were $10.2 billion and our net earnings from continuing operations were $1.1 billion. Our principal life insurance companies have financial strength ratings of AA- (Very Strong) from S&P, Aa3 (Excellent) from Moody s, A+ (Superior) from A.M. Best and AA- (Very Strong) from Fitch, and our rated mortgage insurance companies have financial strength ratings of AA (Very Strong) from S&P, Aa2 (Excellent) from Moody s and AA (Very Strong) from Fitch. The AA and AA- ratings are the third- and fourth-highest of S&P s 2 ratings categories, respectively. The Aa2 and Aa3 ratings are the third- and fourth-highest of Moody s 21 ratings categories, respectively. The A+ rating is the second-highest of A.M. Best s 15 ratings categories. The AA and AA- ratings are the third- and fourth-highest of Fitch s 24 ratings categories, respectively.

Until our initial public offering, or IPO, in May 2004, our business was wholly owned by General Electric Company, or GE. GE currently owns approximately 70% of our outstanding common stock. After the completion of this offering and the stock repurchase, described below under The Stock Repurchase, GE will own approximately 52% of our outstanding common stock. GE has indicated that it expects, subject to market conditions, to reduce its ownership over the next two years as we transition to full independence.

Market Environment and Opportunities

We believe we are well positioned to benefit from a number of significant demographic, governmental and market trends, including the following:

Aging U.S. population with growing retirement income needs, resulting from large numbers of baby boomers approaching retirement and significant increases in life expectancy that heighten the risk that individuals will outlive their retirement savings.

Growing lifestyle protection gap, with individuals lacking sufficient resources, including insurance coverage, to support their desired lifestyle due to declining individual savings rates, rising healthcare and nursing care costs and a shifting of the burden for funding protection needs from governments and employers to individuals.

Increasing opportunities for mortgage insurance internationally and in the U.S., resulting from increasing homeownership levels, expansion of low-down payment mortgage loan offerings, the potential for favorable legislative and regulatory policies, and expansion of secondary mortgage markets that require credit enhancements.

2

Table of Contents

Competitive Strengths

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

Leading positions in diversified targeted markets. We believe our leading positions in our targeted markets, including individual long-term care insurance, term life insurance and income annuities in the U.S., payment protection insurance in Europe and international mortgage insurance, provide us with the scale necessary to compete effectively in these markets as they grow. We also believe our strong presence in multiple markets provides balance to our business, reduces our exposure to adverse economic trends affecting any one market and provides stable cash flow to fund growth opportunities.

Product innovation and breadth. We offer a breadth of products that meet the needs of consumers throughout the various stages of their lives, thereby positioning us to benefit from the current trend among distributors to reduce the number of insurers with whom they maintain relationships. We are selective in the products we offer and strive to maintain appropriate return and risk thresholds when we expand the scope of our product offerings.

Extensive, multi-channel distribution network. We have extensive distribution reach and offer consumers access to our products through a broad network of financial intermediaries, independent producers and dedicated sales specialists. In addition, we maintain strong relationships with leading distributors by providing a high level of specialized and differentiated distribution support and through technology solutions that support the distributors sales efforts.

Technology-enhanced, scalable, low-cost operating platform. We have pursued an aggressive approach to cost-management and continuous process improvement. We also have developed sophisticated technology tools that enhance performance by automating key processes and reducing response times and process variations. In addition, we have centralized our operations and have established scalable, low-cost operating centers in Virginia, North Carolina and Ireland. Through an outsourcing provider that is 40% owned by GE, we also have a substantial team of professionals in India who provide us with a variety of support services.

Disciplined risk management with strong compliance practices. Risk management and regulatory compliance are critical parts of our business, and we are recognized in the insurance industry for our excellence in these areas. We employ comprehensive risk management processes in virtually every aspect of our operations, including product development, underwriting, investment management, asset-liability management and technology development programs. We have an experienced group of more than 150 professionals dedicated to supporting these efforts.

Strong balance sheet and high-quality investment portfolio. We believe our size, ratings and capital strength provide us with a significant competitive advantage. We have a diversified, high-quality investment portfolio with $65.7 billion of invested assets, as of December 31, 2004. Approximately 94% of our fixed maturities had ratings equivalent to investment-grade, and less than 1% of our total investment portfolio consisted of equity securities, as of December 31, 2004.

Experienced and deep management team. Our senior management team has an average of approximately 18 years of experience in the financial services industry. We have an established track record for successfully developing managerial talent at all levels of our organization and have instilled a performance- and execution-oriented corporate culture.

Table of Contents

Growth Strategies

Our objective is to increase operating earnings and enhance returns on equity. We intend to pursue this objective by focusing on the following strategies:

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

Retirement income, where we believe growth will be driven by a variety of favorable demographic trends and the approximately $4.4 trillion of invested financial assets in the U.S. that are held by people within 10 years of retirement and $3.3 trillion of invested assets that are held by individuals who are under age 70 and consider themselves retired, in each case according to SRI Consulting Business Intelligence. Our products are designed to enable the growing retired population to convert their accumulated assets into reliable retirement income throughout their retirement years.

Protection, particularly long-term care insurance and payment protection insurance. In long-term care insurance, we believe growth will be driven by the increasing protection needs of the expanding aging population and a shifting of the burden for funding these needs from governments and employers to individuals. For example, according to the American Society on Aging and Conning Research & Consulting, approximately 70% of individuals in the U.S. age 65 and older will require long-term care at some time in their lives, but in 2003, less than 10% of the individuals in the U.S. age 55 and older had long-term care insurance. In our payment protection insurance business, we believe market growth will result from the increase in consumer borrowing across Europe, the expansion of the European Union and reduced unemployment benefits in the European markets where we offer our products.

International mortgage insurance, where we continue to see attractive growth opportunities with the expansion of homeownership and low-down-payment loans. The net premiums written in our international mortgage insurance business have increased at a compound annual growth rate of 45% for the three years ended December 31, 2004.

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

Product and service innovations, as illustrated by new product introductions, such as the introduction of our Income Distribution Series of guaranteed income products and riders, our private mortgage insurance products in the European market, and our service innovations, which include programs such as our policyholder wellness initiatives in our long-term care insurance business and our automated underwriting platform in our mortgage insurance business.

Collaborative approach to key distributors, which includes our joint business improvement program and our tailored approach to our sales intermediaries addressing their unique service needs, which have benefited our distributors and helped strengthen our relationships with them.

Technology initiatives, such as our proprietary underwriting system, which has made it easier for distributors to do business with us, improved our term life and long-term care insurance underwriting speed and accuracy, and lowered our operating costs.

Enhance returns on capital and increase margins. We believe we will be able to enhance our returns on capital and increase our margins through the following means:

Adding new business layers at targeted returns and optimizing mix. We have introduced revised pricing and new products in a number of business lines, which we believe will increase our expected returns. In U.S. mortgage insurance, we are targeting market segments in which we can generate new business at higher returns and limiting our growth from segments that have lower returns. We have exited or placed in run-off certain product lines in blocks of business with low returns, including, for example, our older, fixed GICs, facility-only long-term care insurance policies and certain payment protection insurance contracts, mostly in the U.K. As these blocks decrease, we expect to release capital over time to deploy to higher-return products and/or businesses.

Capital efficiency and management. We continually seek opportunities to use our capital more efficiently, while maintaining our ratings and strong capital position. We have developed a capital markets solution to fund additional statutory reserves on our term life insurance policies related to Regulation XXX, and we are working to develop similar structures for other product lines, including universal life insurance. In addition, we intend to complement our core growth strategy through selective acquisitions designed to enhance product and distribution capabilities and returns, the breadth of our product portfolio, or our distribution reach. We have successfully completed the acquisition and integration of 13 key businesses since 1993. In addition to pursuing opportunities for core growth and accretive acquisitions, we also will consider making share repurchases and increasing dividends on our common stock.

Investment income enhancements. The yield on our investment portfolio is affected by the practice, prior to our separation from GE, of realizing investment gains through the sale of appreciated securities and other assets during a period of historically low interest rates. This strategy had been pursued to offset impairments in our investment portfolio, fund consolidations and restructurings in our business and provide current income. As an independent public company, our investment strategy is to optimize investment income without relying on realized investment gains. Although the interest-rate environment since our IPO in mid-2004 has been challenging, we expect over time that the yield on our investment portfolio will stabilize, with the potential for yield increases in a rising interest rate environment. We also will seek to improve our investment yield by continuously evaluating our asset class mix, pursuing additional investment classes and accepting additional credit risk when we believe that it is prudent to do so.

Ongoing operating cost reductions and efficiencies. We continually focus on reducing our cost base while maintaining strong service levels for our customers. We expect to accomplish this goal in each of our operating units through a wide range of cost management disciplines, including consolidating operations, using low-cost operating locations, reducing supplier costs, leveraging process improvement efforts, forming focused teams to identify opportunities for cost reductions and investing in new technology, particularly for web-based, digital end-to-end processes.

Formation of Genworth Financial, Inc.

We were incorporated in Delaware on October 23, 2003 in preparation for our corporate reorganization and IPO, which was completed on May 28, 2004. In connection with the IPO, we acquired substantially all of the assets and liabilities of GE Financial Assurance Holdings, Inc., or GEFAHI. GEFAHI is an indirect subsidiary of GE, and prior to the IPO was a holding company for a group of companies that provide life insurance, long-term care insurance, group life and health insurance, annuities and other investment products and U.S. mortgage insurance. We also acquired certain other insurance businesses that were owned by other GE subsidiaries but managed by members of the Genworth management team. These businesses include international mortgage insurance, payment protection insurance based in Europe, a Bermuda reinsurer and mortgage contract underwriting.

In consideration for the assets and liabilities that we acquired from GEFAHI, we issued to GEFAHI 489.5 million shares of our Class B Common Stock, $600 million of our 6.00% Equity Units (the Equity Units), $100 million of our 5.25% Series A Cumulative Preferred Stock (the Series A Preferred Stock), which is mandatorily redeemable, a $2.4 billion short-term note, and a $550 million contingent non-interest-bearing note (the Contingent Note). The liabilities we assumed included ¥60 billion aggregate principal amount of 1.6%

5

Table of Contents

notes due 2011 that had been issued by GEFAHI (the Yen Notes), ¥3 billion of which GEFAHI owned and transferred to us (and were subsequently retired). We refer to the transactions described above as our corporate reorganization.

GEFAHI sold 146.44 million shares of our Class A Common Stock (which were converted from an equal number of shares of Class B Common Stock) in the IPO. GEFAHI also sold all the Equity Units and the Series A Preferred Stock in public offerings concurrent with the IPO. Upon completion of the IPO, we repaid the $2.4 billion short-term note with borrowings under a short-term credit facility, and we repaid those borrowings shortly thereafter with proceeds from our offerings of $1.9 billion of senior notes and $500 million of commercial paper. We repaid the Contingent Note in December 2004.

In connection with our corporate reorganization and the IPO, we entered into a number of arrangements with GE governing our separation from GE and a variety of transition and other matters, including our relationship with GE while GE remains a significant stockholder in our company. These arrangements include several significant reinsurance transactions with Union Fidelity Life Insurance Company, or UFLIC, an indirect subsidiary of GE. As part of these transactions, effective as of January 1, 2004, we ceded to UFLIC all of our in-force structured settlement contracts, substantially all of our variable annuity contracts, and a block of long-term care insurance policies that we reinsured in 2000 from The Travelers Insurance Company, which we refer to in this prospectus as Travelers.

Risks Relating to Our Company

As part of your evaluation of our company, you should consider the risks associated with our business, our separation from GE and this offering. These risks include:

Risks relating to our businesses, including interest rate fluctuations, downturns and volatility in equity markets, defaults in portfolio securities, downgrades in our financial strength and credit ratings, insufficiency of reserves, legal constraints on dividend distributions by subsidiaries, illiquidity of investments, competition, inability to attract or retain independent sales intermediaries and dedicated sales specialists, defaults by counterparties, foreign exchange rate fluctuations, regulatory restrictions on our operations and changes in applicable laws and regulations, legal or regulatory actions or investigations, political or economic instability and the threat of terrorism and terrorist acts;

Risks relating to our Protection and Retirement Income and Investments segments, including unexpected changes in mortality, morbidity and unemployment rates, accelerated amortization of deferred acquisition costs and present value of future profits, goodwill impairments, medical advances such as genetic mapping research, unexpected changes in persistency rates, increases in statutory reserve requirements, the failure of demand for long-term care insurance to increase as we expect and changes in tax and securities laws;

Risks relating to our Mortgage Insurance segment, including the influence of Fannie Mae, Freddie Mac and a small number of large mortgage lenders and investors, increased regulatory scrutiny of Fannie Mae and Freddie Mac resulting in possible regulatory changes, decreases in the volume of high loan-to-value mortgage originations, increases in mortgage insurance cancellations, increases in the use of simultaneous second mortgages and other alternatives to private mortgage insurance and reductions by lenders in the level of coverage they select, unexpected increases in mortgage insurance default rates or severity of defaults, deterioration in economic conditions, insufficiency of premium rates to compensate us for risks associated with mortgage loans bearing high loan-to-value ratios, increases in the use of captive reinsurance in the mortgage insurance market, changes in the demand for mortgage insurance that could arise as a result of efforts of large mortgage investors, legal or regulatory actions or investigations under applicable laws and regulations, including the Real Estate Settlement Practices Act and the Federal Fair Credit Reporting Act, potential liabilities in connection with contract underwriting services and growth in the European mortgage insurance market that is lower than we expect;

Table of Contents

Risks relating to our separation from GE, including the loss of benefits associated with GE s brand and reputation, our need to establish our new Genworth brand identity quickly and effectively, the lack of comparability between our financial information for periods before the IPO and for periods after the IPO, the possibility that we will not be able to replace services previously provided by GE on terms that are at least as favorable, the possibility that in certain circumstances we will be obligated to make payments to GE under our tax matters agreement even if our corresponding tax savings either are delayed or never materialize, the possibility that in the event of a change in control of our company we would have insufficient funds to meet accelerated obligations under the tax matters agreement, GE s control over certain tax matters that could have an impact on us, potential conflicts of interest with GE and GE s engaging in the same type of business as we do in the future; and

Risks relating to this offering, including future sales of stock by GE that may depress the price of our shares, fluctuations in our share price and regulatory and statutory requirements and contractual arrangements that may delay or prevent a takeover of our business.

For a further discussion of these and other risks, see Risk Factors.

The Stock Repurchase

We have agreed to repurchase directly from the selling stockholder, concurrently with the closing of this offering, $500 million of our shares of Class B Common Stock at a price per share equal to the net proceeds per share that the selling stockholder will receive from the underwriters in this offering. The closing of the repurchase will be contingent on the closing of this offering. See Arrangements between GE and Our Company Relationship with GE Stock Purchase Agreement.

After completion of this offering and the stock repurchase, GE will own approximately 52% of our outstanding common stock.

Additional Information

Our principal executive offices are located at 6620 West Broad Street, Richmond, Virginia 23230. Our telephone number at that address is (804) 281-6000. We maintain a variety of websites to communicate with our distributors, customers and investors and to provide information about various insurance and investment products to the general public. None of the information on our websites is part of this prospectus.

Table of Contents

The Offering

Class A Common Stock offered by the selling stockholder	80,500,000 shares
Common stock to be outstanding immediately after this offering and the stock repurchase	
Class A	227,019,954 shares
Class B	243,216,559 shares (excluding 19,371,586 shares held in treasury)
Common stock to be held by the selling stockholder immediately after this offering and the stock repurchase	
Class B	243,216,559 shares
Voting rights	One vote per share for all matters on which stockholders are entitled to vote, except: holders of Class A Common Stock will have the right separately to elect and remove a specified number of directors, and holders of Class B Common Stock will have the right (1) separately to elect and remove a specified number of directors, and (2) to approve significant corporate actions, including mergers, acquisitions, dispositions and incurrences of debt. The specific number of directors that holders of the Class A Common Stock and the Class B Common Stock will have separate rights to elect and remove will vary, depending upon the percentage of our common stock owned by GE. See Description of Capital Stock Common Stock.
Use of proceeds	We will not receive any proceeds from the sale by the selling stockholder of Class A Common Stock in this offering.
Dividend policy	We currently pay quarterly cash dividends on our common stock at a rate of $0.065 per share. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our board of directors and will depend on many factors, including our

	financial condition, earnings, capital requirements of our subsidiaries, legal requirements, regulatory constraints and other factors as the board of directors deems relevant.
New York Stock Exchange symbol	Our Class A Common Stock is listed on the New York Stock Exchange under the symbol GNW.

Table of Contents

Summary Historical and Pro Forma Financial Information

The following table sets forth summary historical and pro forma financial information. You should read this information in conjunction with the information under Selected Historical and Pro Forma Financial Information, Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the related notes included elsewhere in this prospectus.

In connection with the IPO, we acquired substantially all of the assets and liabilities of GEFAHI. We also acquired certain other insurance businesses that were owned by other GE subsidiaries but managed by members of the Genworth management team. These businesses include international mortgage insurance, payment protection insurance based in Europe, a Bermuda reinsurer and mortgage contract underwriting. In consideration for the assets that we acquired and the liabilities that we assumed in connection with our corporate reorganization, we issued to GEFAHI 489.5 million shares of our Class B Common Stock, $600 million of our Equity Units, $100 million of our Series A Preferred Stock, a $2.4 billion note and the $550 million Contingent Note. Shortly after the completion of the IPO, we refinanced the $2.4 billion note with the proceeds of $1.9 billion of senior notes and $500 million of commercial paper.

We have prepared our financial statements as if Genworth had been in existence throughout all relevant periods. Our historical financial statements include all businesses that were owned by GEFAHI, including those that were not transferred to us, as well as the other insurance businesses that we acquired from other GE subsidiaries, each in connection with our corporate reorganization.

The unaudited pro forma financial information set forth below reflects our historical financial information, as adjusted to give effect to the transactions described under Selected Historical and Pro Forma Financial Information, as if each had occurred as of January 1, 2004. The following transactions are reflected in the pro forma financial information:

- the removal of certain businesses of GEFAHI that were not transferred to us in connection with our corporate reorganization;
- the reinsurance transactions with UFLIC, including a capital contribution of $1.836 billion to UFLIC;
- the issuance of equity and debt securities to GEFAHI in exchange for the assets that we acquired and the liabilities that we assumed in connection with our corporate reorganization;
- the issuance and sale of $1.9 billion aggregate principal amount of senior notes and $500 million of commercial paper; and
- the other adjustments described in the notes to the unaudited pro forma financial information under Selected Historical and Pro Forma Financial Information.

The unaudited pro forma financial information below is based upon available information and assumptions that we believe are reasonable. The unaudited pro forma financial information is for illustrative and informational purposes only and is not intended to represent or be indicative of what our results of operations would have been had the transactions described above occurred as of January 1, 2004. The unaudited pro forma financial information also should not be considered representative of our future results of operations.

In addition to the pro forma adjustments to our historical statement of earnings, various other factors will have an effect on our financial condition and results of operations, including those discussed under Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents

	Historical					Pro forma
	Years ended December 31,					Year ended December 31,
(Amounts in millions, except per share amounts)	2004	2003(1)	2002	2001	2000(2)	2004
Statement of Earnings Information						
Revenues:						
Premiums	$ 6,559	$ 6,707	$ 6,107	$ 6,012	$ 5,233	$ 6,388
Net investment income	3,648	4,051	3,979	3,895	3,678	3,160
Net realized investment gains	26	10	204	201	262	23
Policy fees and other income	824	915	939	993	1,053	664
Total revenues	11,057	11,683	11,229	11,101	10,226	10,235
Benefits and expenses:						
Benefits and other changes in policy reserves	4,804	5,270	4,640	4,474	3,586	4,340
Interest credited	1,432	1,624	1,645	1,620	1,456	1,319
Underwriting, acquisition, and insurance expenses, net of deferrals	1,812	1,916	1,808	1,823	1,813	1,657
Amortization of deferred acquisition costs and intangibles(3)	1,154	1,351	1,221	1,237	1,394	1,052
Interest expense	217	140	124	126	126	243
Total benefits and expenses	9,419	10,301	9,438	9,280	8,375	8,611
Earnings from continuing operations before income taxes	1,638	1,382	1,791	1,821	1,851	1,624
Provision for income taxes	493	413	411	590	576	494
Net earnings from continuing operations	$ 1,145	$ 969	$ 1,380	$ 1,231	$ 1,275	$ 1,130(4)
Net earnings from continuing operations per share(5):						
Basic	$ 2.34	$ 1.98	$ 2.82			$ 2.31
Diluted	$ 2.33	$ 1.98	$ 2.82			$ 2.30
Shares outstanding(5):						
Basic	489.5	489.5	489.5			489.5
Diluted	490.5	489.5	489.5			490.5
Selected Segment Information						
Total revenues:						
Protection	$ 6,064	$ 6,143	$ 5,605	$ 5,443	$ 4,917	$ 5,935
Retirement Income and Investments	3,361	3,803	3,756	3,721	3,137	2,891
Mortgage Insurance	1,090	982	946	965	895	1,090
Affinity(6)	218	566	588	687	817	
Corporate and Other	324	189	334	285	460	319
Total	$ 11,057	$ 11,683	$ 11,229	$ 11,101	$ 10,226	$ 10,235
Net earnings (loss) from continuing operations:						

Protection	$ 528	$ 487	$ 554	$ 538	$ 492	$ 527
Retirement Income and Investments	153	151	186	215	250	148
Mortgage Insurance	426	369	451	428	414	426
Affinity(6)	(14)	16	(3)	24	(13)	
Corporate and Other	52	(54)	192	26	132	29
Total	$ 1,145	$ 969	$ 1,380	$ 1,231	$ 1,275	$ 1,130

Table of Contents

(Dollar amounts in millions)	December 31, 2004	2003(1)	2002	2001	2000(2)
Statement of Financial Position Information					
Total investments	$ 65,747	$ 78,693	$ 72,080	$ 62,977	$ 54,978
All other assets	38,131	24,738	45,277	41,021	44,598
Total assets	$ 103,878	$ 103,431	$ 117,357	$ 103,998	$ 99,576
Policyholder liabilities	$ 69,262	$ 66,545	$ 63,195	$ 55,900	$ 48,291
Non-recourse funding obligations(7)	900	600			
Short-term borrowings	559	2,239	1,850	1,752	2,258
Long-term borrowings	2,442	529	472	622	175
All other liabilities	17,849	17,718	35,088	31,559	35,865
Total liabilities	$ 91,012	$ 87,631	$ 100,605	$ 89,833	$ 86,589
Accumulated nonowner changes in stockholders interest	$ 1,609	$ 1,672	$ 835	$ (664)	$ (424)
Total stockholders interest	12,866	15,800	16,752	14,165	12,987
U.S. Statutory Information(8)					
Statutory capital and surplus	6,439	7,021	7,207	7,940	7,119
Asset valuation reserve	427	413	390	477	497

(1) On August 29, 2003, we sold our Japanese life insurance and domestic auto and homeowners insurance businesses for aggregate cash proceeds of approximately $2.1 billion, consisting of $1.6 billion paid to us and $0.5 billion paid to other GE affiliates, plus pre-closing dividends. See note 5 to our financial statements, included elsewhere in this prospectus.

(2) During 2000, we consummated three significant business combinations:

In July 2000, we reinsured 90% of Travelers long-term care insurance portfolio and acquired certain related assets for $411 million;

In April 2000, we acquired Phoenix American Life Insurance Company for $284 million; and

Effective March 2000, we acquired the insurance policies and related assets of Toho Mutual Life Insurance Company. Our Japanese life insurance business assumed $21.6 billion of policyholder liabilities and $0.3 billion of accounts payable and accrued expenses and acquired $20.3 billion in cash, investments and other tangible assets through this transaction. We sold this business on August 29, 2003, and its results have been presented as discontinued operations.

(3) As of January 1, 2002, we adopted Statement of Financial Accounting Standards 142, *Goodwill and Other Intangible Assets,* and, in accordance with its provisions, discontinued amortization of goodwill. Goodwill amortization was $84 million and $70 million for the years ended December 31, 2001 and 2000, respectively, excluding goodwill amortization included in discontinued operations.

(4) Pro forma net operating earnings for the year ended December 31, 2004 were $1,044 million. We define pro forma net operating earnings as pro forma net earnings from continuing operations, excluding pro forma after-tax net realized investment gains and losses (which can fluctuate significantly from period to period), changes in accounting principles and non-recurring, infrequent or unusual items. There were no non-recurring, infrequent or unusual items excluded from pro forma net operating earnings for the year ended December 31, 2004, other than an IPO-related net tax benefit and a gain related to our waiver of contractual rights under an outsourcing services agreement with GE s global business processing operation, 60% of which was sold in the fourth quarter of 2004. We believe that analysis of pro forma net operating earnings enhances understanding and comparability of performance by highlighting underlying business activity and profitability drivers. However, pro forma net operating earnings should not be viewed as a substitute for GAAP net earnings. In addition, our definition of pro forma net operating earnings may differ from the definitions used by other companies. The following table provides a reconciliation of pro forma net operating earnings (as defined above) to pro forma net earnings from continuing operations:

(Dollar amounts in millions)	Year ended December 31, 2004
Pro forma net earnings from continuing operations	$ 1,130
Pro forma net realized (gains) on investments, net of taxes	(15)

Net tax benefit related to initial public offering		(46)
Gain on outsourcing services agreement, net of taxes		(25)
Pro forma net operating earnings	$	1,044

Table of Contents

(5) Basic and diluted net earnings from continuing operations per share for the year ended December 31, 2004 are calculated by dividing the net earnings from continuing operations by 489.5 million weighted average basic shares outstanding and by 490.5 million weighted average diluted shares outstanding, respectively. Basic and diluted net earnings from continuing operations per share for the years ending December 31, 2003 and 2002 were calculated by dividing net earnings from continuing operations by 489.5 million pro forma shares outstanding. The number of shares used in our calculation of diluted earnings per share increased in 2004 due to additional shares of Class A Common Stock issuable under stock options and restricted stock units and is calculated using the treasury method.

(6) Reflects the results of businesses that were owned by GEFAHI but were not transferred to us in connection with our corporate reorganization, including (a) the Partnership Marketing Group business, (b) an institutional asset management business, and (c) several other small businesses that were not part of our core ongoing business. See Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Our historical and pro forma financial information.

(7) For a description of the non-recourse funding obligations, see Description of Certain Indebtedness Non-recourse Funding Obligations.

(8) Includes statutory capital and surplus and statutorily required contingency reserves held by our U.S. mortgage insurance subsidiaries. In December 2004, our U.S. mortgage insurance business released $700 million of statutory contingency reserves and paid that amount as a dividend to the holding company of that business.

Table of Contents

Risk Factors

You should carefully consider the following risks before investing in our common stock. These risks could materially affect our business, results of operations or financial condition and cause the trading price of our common stock to decline. You could lose part or all of your investment.

Risks Relating to Our Businesses

Interest rate fluctuations could adversely affect our business and profitability.

Our insurance and investment products are sensitive to interest rate fluctuations and expose us to the risk that falling interest rates will reduce our spread, or the difference between the returns we earn on the investments that support our obligations under these products and the amounts that we must pay policyholders and contractholders. Because we may reduce the interest rates we credit on most of these products only at limited, pre-established intervals, and because some of them have guaranteed minimum crediting rates, declines in interest rates may adversely affect the profitability of those products. For example, interest rates declined to unusually low levels in 2002 and 2003. During this period, our net earnings from spread-based products, such as fixed and income annuities and guaranteed investment contracts, declined from $166 million for the year ended December 31, 2002 to $138 million for the year ended December 31, 2003. Although interest rates increased in 2004, they remain at low levels and limit our returns on our spread-based investment products.

During periods of increasing market interest rates, we may offer higher crediting rates on interest-sensitive products, such as universal life insurance and fixed annuities, and we may increase crediting rates on in-force products to keep these products competitive. In addition, rapidly rising interest rates may cause increased policy surrenders, withdrawals from life insurance policies and annuity contracts and requests for policy loans, as policyholders and contractholders shift assets into higher yielding investments. Increases in crediting rates, as well as surrenders and withdrawals, could have an adverse effect on our financial condition and results of operations.

Our term life and long-term care insurance products also expose us to the risk of interest rate fluctuations. The pricing and expected future profitability of these products are based in part on expected investment returns. Over time, term life and long-term care insurance products generally produce positive cash flows as customers pay periodic premiums, which we invest as we receive them. Low interest rates may reduce our ability to achieve our targeted investment margins and may adversely affect the profitability of our term life and long-term care insurance products.

In our mortgage insurance business, rising interest rates generally reduce the volume of new mortgage originations, resulting in a decrease in the volume of new insurance written. The level of new mortgage originations in the U.S. decreased to $2,810 billion for the year ended December 31, 2004 from $3,760 billion for the year ended December 31, 2003. This resulted in decreased levels of new mortgage insurance written. We believe the decrease in mortgage originations was due to two principal factors. First, increasing interest rates in 2004 made refinancings of existing mortgages less attractive to consumers than in recent years. Second, historically low interest rates in 2002 and 2003 contributed to substantial refinancing activity, which did not recur in 2004 because many mortgages for which refinancing would otherwise have been economically attractive were already refinanced prior to 2004. Further increases in interest rates could cause the volume of mortgage originations to decline further, which would have an adverse effect on our new mortgage insurance written.

Rising interest rates also can increase the monthly mortgage payments for insured homeowners with adjustable rate mortgages, or ARMs, which could have the effect of increasing default rates on ARM loans and thereby increasing our exposure on our mortgage insurance policies. This is particularly relevant in our non-U.S. mortgage insurance business, where ARMs are the predominant mortgage product.

Declining interest rates increase the rate at which insured borrowers refinance their existing mortgages, thereby resulting in cancellations of the mortgage insurance covering the refinanced loans. Declining interest rates also generally are associated with home price appreciation, which may provide insured borrowers in the U.S. with the option of canceling their mortgage insurance coverage earlier than we anticipated in pricing that coverage. These cancellations could have an adverse effect on our results from our mortgage insurance business.

Interest rate fluctuations also could have an adverse effect on the results of our investment portfolio. During periods of declining market interest rates, the interest we receive on variable interest rate investments decreases. In addition, during those periods, we are forced to reinvest the cash we receive as interest or return of principal on our investments in lower-yielding high-grade instruments or in lower-credit instruments to maintain comparable returns. Issuers of fixed-income securities also may decide to prepay their obligations in order to borrow at lower market rates, which exacerbates the risk that we may have to invest the cash proceeds of these securities in lower-yielding or lower-credit instruments. Declining interest rates from 2002 to 2004 contributed to a decrease in our weighted average investment yield from 6.0% for the year ended December 31, 2002 to 5.8% and 5.5% for the years ended December 31, 2003 and 2004, respectively. For additional information regarding our investment portfolio, see Business Investments. For additional information regarding the sensitivity of the fixed maturities in our investment portfolio to interest rate fluctuations, see Management s Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk Sensitivity analysis.

Downturns and volatility in equity markets could adversely affect our business and profitability.

Significant downturns and volatility in equity markets could have an adverse effect on our financial condition and results of operations in two principal ways. First, market downturns and volatility may discourage purchases of separate account products, such as variable annuities and variable life insurance, that have returns linked to the performance of the equity markets and may cause some existing customers to withdraw cash values or reduce investments in those products.

Second, downturns and volatility in equity markets can have an adverse effect on the revenues and returns from our separate account and private asset management products and services. Because these products and services depend on fees related primarily to the value of assets under management, a decline in the equity markets could reduce our revenues by reducing the value of the investment assets we manage.

Defaults in our fixed-income securities portfolio may reduce our earnings.

Issuers of the fixed-income securities that we own may default on principal and interest payments. As a result of the economic downturn and recent corporate malfeasance, the number of companies defaulting on their debt obligations has increased dramatically in recent years. As of December 31, 2004 and 2003, we had fixed maturities in or near default (where the issuer has missed payment of principal or interest or entered bankruptcy) with a fair value of $58 million and $190 million, respectively. An economic downturn, further events of corporate malfeasance or a variety of other factors could cause declines in the value of our fixed maturities portfolio and cause our net earnings to decline.

We recognized gross capital gains of $90 million, $473 million and $790 million for the years ended December 31, 2004, 2003 and 2002, respectively. We realized these capital gains in part to offset default-related losses during those periods. However, capital gains may not be available in the future, and if they are, we may elect not to recognize capital gains to offset losses.

A downgrade or a potential downgrade in our financial strength or credit ratings could result in a loss of business and adversely affect our financial condition and results of operations.

Financial strength ratings, which various ratings organizations publish as measures of an insurance company s ability to meet contractholder and policyholder obligations, are important to maintaining public

15

confidence in our products, the ability to market our products and our competitive position. Our principal life insurance companies currently have financial strength ratings of AA- (Very Strong) from S&P and Fitch and Aa3 (Excellent) from Moody s. Our mortgage insurance companies currently have financial strength ratings of AA (Very Strong) from S&P and Fitch and Aa2 (Excellent) from Moody s. The AA and AA- ratings are the third- and fourth-highest of S&P s 20 ratings categories, respectively. The Aa2 and Aa3 ratings are the third- and fourth-highest of Moody s 21 ratings categories, respectively. The AA and AA- ratings are the third- and fourth-highest of Fitch s 24 ratings categories.

A downgrade in our financial strength ratings, or the announced potential for a downgrade, could have a significant adverse effect on our financial condition and results of operations in many ways, including:

- reducing new sales of insurance products, annuities and other investment products;
- adversely affecting our relationships with independent sales intermediaries and our dedicated sales specialists;
- materially increasing the number or amount of policy surrenders and withdrawals by contractholders and policyholders;
- requiring us to reduce prices for many of our products and services to remain competitive; and
- adversely affecting our ability to obtain reinsurance or obtain reasonable pricing on reinsurance.

The charters of the Federal National Mortgage Corporation, or Fannie Mae, and the Federal Home Loan Mortgage Corporation, or Freddie Mac, only permit them to buy high loan-to-value mortgages that are insured by a qualified insurer, as determined by each of them. Their current rules effectively provide that they will accept mortgage insurance only from private mortgage insurers with financial strength ratings of at least AA- by S&P and Aa3 by Moody s. If our mortgage insurance companies financial strength ratings decrease below the thresholds established by Fannie Mae and Freddie Mac, we would not be able to insure mortgages purchased by Fannie Mae or Freddie Mac. Approximately 68% of the flow loans we insured in the U.S. during the year ended December 31, 2004 were sold to either Fannie Mae or Freddie Mac. An inability to insure mortgage loans sold to Fannie Mae or Freddie Mac, or their transfer of our existing policies to an alternative mortgage insurer, would have an adverse effect on our financial condition and results of operations.

In 2003, the U.S. Office of Federal Housing Enterprise Oversight announced a risk-based capital rule that treats credit enhancements issued by private mortgage insurers with financial strength ratings of AAA more favorably than those issued by AA rated insurers. Neither Fannie Mae nor Freddie Mac has adopted policies that distinguish between AA rated and AAA rated mortgage insurers. However, if Fannie Mae or Freddie Mac adopts policies that treat AAA rated insurers more favorably than AA rated insurers, our competitive position may suffer.

In addition to the financial strength ratings of our insurance subsidiaries, ratings agencies also publish credit ratings for our company. The credit ratings have an impact on the interest rates we pay on the money we borrow. Therefore, a downgrade in our credit ratings could increase our cost of borrowing and have an adverse effect on our financial condition and results of operations.

The ratings of our insurance subsidiaries are not evaluations directed to the protection of investors in our securities.

The ratings of our insurance subsidiaries described under Business Financial Strength Ratings reflect each rating agency s current opinion of each subsidiary s financial strength, operating performance and ability to meet obligations to policyholders and contractholders. These factors are of concern to policyholders, contractholders, agents, sales intermediaries and lenders. Ratings are not evaluations directed to the protection of investors in our securities. They are not ratings of our securities and should not be relied upon when making a decision to buy, hold or sell our securities, including the common stock offered in this offering. In addition, the standards used by rating agencies in determining financial strength are different from capital requirements set by state insurance regulators. We may need to take actions in response to changing standards set by any of the ratings agencies, as well as statutory capital requirements, which could cause our business and operations to suffer.

If our reserves for future policy benefits and claims are inadequate, we may be required to increase our reserve liabilities, which could adversely affect our results of operations and financial condition.

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

We continually monitor our reserves. If we conclude that our reserves are insufficient to cover actual or expected policy and contract benefits and claims payments, we would be required to increase our reserves and incur income statement charges for the period in which we make the determination, which could adversely affect our results of operations and financial condition. For more information on how we set our reserves, see Business Reserves.

As a holding company, we depend on the ability of our subsidiaries to transfer funds to us to pay dividends and to meet our obligations.

We act as a holding company for our insurance subsidiaries and do not have any significant operations of our own. Dividends from our subsidiaries and permitted payments to us under our tax sharing arrangements with our subsidiaries are our principal sources of cash to pay stockholder dividends and to meet our obligations. These obligations include our operating expenses, interest and principal on our borrowings and contract adjustment payments on our Equity Units. These obligations also include amounts we owe to GE under the tax matters agreement that we and GE entered into in connection with the IPO. If the cash we receive from our subsidiaries pursuant to dividend payment and tax sharing arrangements is insufficient for us to fund any of these obligations, we may be required to raise cash through the incurrence of debt, the issuance of additional equity or the sale of assets.

The payment of dividends and other distributions to us by our insurance subsidiaries is regulated by insurance laws and regulations. In general, dividends in excess of prescribed limits are deemed extraordinary and require insurance regulatory approval. In addition, insurance regulators may prohibit the payment of ordinary dividends or other payments by our insurance subsidiaries to us (such as a payment under a tax sharing agreement or for employee or other services) if they determine that such payment could be adverse to our policyholders or contractholders. See Regulation. During the years ended December 31, 2004, 2003 and 2002, we received dividends from our insurance subsidiaries of $2,111 million ($1,244 million of which were deemed extraordinary), $1,472 million ($1,400 million of which were deemed extraordinary) and $840 million ($375 million of which were deemed extraordinary), respectively. Based on statutory results as of December 31, 2004, our subsidiaries could pay dividends of $1,450 million to us in 2005 without obtaining regulatory approval. In addition, the ability of our insurance subsidiaries to pay dividends to us, and our ability to pay dividends to our stockholders, are subject to various conditions imposed by the rating agencies for us to maintain our ratings.

Some of our investments are relatively illiquid.

Our investments in privately placed fixed maturities, mortgage loans, policy loans, limited partnership interests and restricted investments held by securitization entities are relatively illiquid. These asset classes

17

represented 31% of the carrying value of our total cash and invested assets as of December 31, 2004. If we require significant amounts of cash on short notice in excess of our normal cash requirements, we may have difficulty selling these investments in a timely manner, be forced to sell them for less than we otherwise would have been able to realize, or both. For example, our floating-rate funding agreements generally contain put provisions, through which the contractholder may terminate the funding agreement for any reason after giving notice within the contract s specified notice period, which is generally 90 days. As of December 31, 2004, we had an aggregate of $2.8 billion of floating-rate funding agreements outstanding, compared to $2.9 billion as of December 31, 2003. Of the $2.8 billion aggregate amount outstanding as of December 31, 2004, $1.6 billion had put option features, including $1.5 billion with put option features of 90 days. If an unexpected number of contractholders exercise this right and we are unable to access other liquidity sources, we may have to liquidate assets quickly. Our inability to quickly dispose of illiquid investments could have an adverse effect on our financial condition and results of operations.

Intense competition could negatively affect our ability to maintain or increase our market share and profitability.

Our businesses are subject to intense competition. We believe the principal competitive factors in the sale of our products are product features, price, commission structure, marketing and distribution arrangements, brand, reputation, financial strength ratings and service.

Many other companies actively compete for sales in our protection and retirement income and investments markets, including other major insurers, banks, other financial institutions, mutual fund and money asset management firms and specialty providers. The principal direct and indirect competitors for our mortgage insurance business include other private mortgage insurers, as well as federal and state governmental and quasi-governmental agencies in the U.S., including the Federal Housing Administration, or FHA, and to a lesser degree, the Veterans Administration, or VA, Fannie Mae and Freddie Mac. We also compete in our mortgage insurance business with structured transactions in the capital markets and with other financial instruments designed to manage credit risk, such as credit default swaps and credit linked notes, with lenders who forego mortgage insurance, or self-insure, on loans held in their portfolios, and with lenders that provide mortgage reinsurance through captive mortgage reinsurance programs. In Canada and some European countries, our mortgage insurance business competes directly with government entities, which provide comparable mortgage insurance. Government entities with which we compete typically do not have the same capital requirements and do not have the same profit objectives as we do. Although private companies, such as our company, establish pricing terms for their products to achieve targeted returns, these government entities may offer products on terms designed to accomplish social or political objectives or reflect other non-economic goals.

In many of our product lines, we face competition from competitors that have greater market share or breadth of distribution, offer a broader range of products, services or features, assume a greater level of risk, have lower profitability expectations or have higher financial strength ratings than we do. Many competitors offer similar products and use similar distribution channels. The substantial expansion of banks and insurance companies distribution capacities and expansion of product features in recent years have intensified pressure on margins and production levels and have increased the level of competition in many of our business lines.

We may be unable to attract and retain independent sales intermediaries and dedicated sales specialists.

We distribute our products through financial intermediaries, independent producers and dedicated sales specialists. We compete with other financial institutions to attract and retain commercial relationships in each of these channels, and our success in competing for sales through these sales intermediaries depends upon factors such as the amount of sales commissions and fees we pay, the breadth of our product offerings, the strength of our brand, our perceived stability and our financial strength ratings, the marketing and services we provide to them and the strength of the relationships we maintain with individuals at those firms. From time to time, due to competitive forces, we have experienced unusually high attrition in particular sales channels for specific

products, including long-term care insurance. We believe the decline in long-term care insurance sales specialists was due in part to an intentional refocusing on more productive sales specialists and generally a more difficult environment for long-term care insurance sales. An inability to recruit productive independent sales intermediaries and dedicated sales specialists, or our inability to retain strong relationships with the individual agents at our independent sales intermediaries, could have an adverse effect on our financial condition and results of operations.

Reinsurance may not be available, affordable or adequate to protect us against losses.

As part of our overall risk and capacity management strategy, we purchase reinsurance for certain risks underwritten by our various business segments. Market conditions beyond our control determine the availability and cost of the reinsurance protection we purchase. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms which could adversely affect our ability to write future business.

If the counterparties to our reinsurance arrangements or to the derivative instruments we use to hedge our business risks default or fail to perform, we may be exposed to risks we had sought to mitigate, which could adversely affect our financial condition and results of operations.

We use reinsurance and derivative instruments to mitigate our risks in various circumstances. Reinsurance does not relieve us of our direct liability to our policyholders, even when the reinsurer is liable to us. Accordingly, we bear credit risk with respect to our reinsurers. We cannot assure you that our reinsurers will pay the reinsurance recoverable owed to us now or in the future or that they will pay these recoverables on a timely basis. A reinsurer s insolvency, inability or unwillingness to make payments under the terms of its reinsurance agreement with us could have an adverse effect on our financial condition and results of operations.

Prior to the completion of the IPO, we ceded to UFLIC, effective as of January 1, 2004, policy obligations under our structured settlement contracts, which had reserves of $12.0 billion, and our variable annuity contracts, which had general account reserves of $2.8 billion and separate account reserves of $7.9 billion, in each case as of December 31, 2003. These contracts represent substantially all of our contracts that were in force as of December 31, 2003 for these products. In addition, effective as of January 1, 2004, we ceded to UFLIC policy obligations under a block of long-term care insurance policies that we reinsured from Travelers, which had reserves of $1.5 billion as of December 31, 2003. UFLIC has established trust accounts for our benefit to secure its obligations under the reinsurance arrangements, and General Electric Capital Corporation, an indirect subsidiary of GE, or GE Capital, has agreed to maintain UFLIC s risk-based capital above a specified minimum level. If UFLIC becomes insolvent notwithstanding this agreement, and the amounts in the trust accounts are insufficient to pay UFLIC s obligations to us, our financial condition and results of operations could be materially adversely affected. See Arrangements between GE and our Company Reinsurance Transactions.

In addition, we use derivative instruments to hedge various business risks. We enter into a variety of derivative instruments, including options, forwards, interest rate and currency swaps and options to enter into interest rate and currency swaps with a number of counterparties. If our counterparties fail or refuse to honor their obligations under the derivative instruments, our hedges of the related risk will be ineffective. Such failure could have an adverse effect on our financial condition and results of operations.

Fluctuations in foreign currency exchange rates and international securities markets could negatively affect our profitability.

Our international operations generate revenues denominated in local currencies. For the years ended December 31, 2004, 2003 and 2002, 19%, 18% and 14% of our revenues, respectively, and 29%, 26% and 12% of our net earnings from continuing operations, respectively, were generated by our international operations. We generally invest cash generated by our international operations in securities denominated in local currencies. As of December 31, 2004 and 2003, approximately 8% and 5%, respectively, of our invested assets were held by our international operations and were invested primarily in non-U.S.-denominated securities. Although investing in securities denominated in local currencies limits the effect of currency exchange rate fluctuation on local operating results, we remain exposed to the impact of fluctuations in exchange rates as we translate the operating results of our foreign operations into our financial statements. We currently do not hedge this exposure, and as a result, period-to-period comparability of our results of operations is affected by fluctuations in exchange rates. For example, our net earnings for the year ended December 31, 2004, included approximately $31 million due to the favorable impact of changes in foreign exchange rates. In addition, because we derive a significant portion of our earnings from non-U.S.-denominated revenue, our results of operations could be adversely affected to the extent the dollar value of non-U.S.-denominated revenue is reduced due to a strengthening U.S. dollar.

Our investments in non-U.S.-denominated securities are subject to fluctuations in non-U.S. securities and currency markets, and those markets can be volatile. Non-U.S. currency fluctuations also affect the value of any dividends paid by our non-U.S. subsidiaries to their parent companies in the U.S. For additional information regarding the sensitivity of our net earnings to foreign currency exchange rate fluctuations, see Management s Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk Sensitivity analysis.

Our insurance businesses are heavily regulated, and changes in regulation may reduce our profitability and limit our growth.

Our insurance operations are subject to a wide variety of laws and regulations. State insurance laws regulate most aspects of our U.S. insurance businesses, and our insurance subsidiaries are regulated by the insurance departments of the states in which they are domiciled and licensed. Our non-U.S. insurance operations are principally regulated by insurance regulatory authorities in the jurisdictions in which they are domiciled.

State laws in the U.S. grant insurance regulatory authorities broad administrative powers with respect to, among other things:

- licensing companies and agents to transact business;
- calculating the value of assets to determine compliance with statutory requirements;
- mandating certain insurance benefits;
- regulating certain premium rates;
- reviewing and approving policy forms;
- regulating unfair trade and claims practices, including through the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements;
- establishing statutory capital and reserve requirements and solvency standards;

- fixing maximum interest rates on insurance policy loans and minimum rates for guaranteed crediting rates on life insurance policies and annuity contracts;

- approving changes in control of insurance companies;

- restricting the payment of dividends and other transactions between affiliates; and

- regulating the types, amounts and valuation of investments.

State insurance regulators and the National Association of Insurance Commissioners, or NAIC, regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer at the expense of the insurer and thus could have an adverse effect on our financial condition and results of operations.

In December 2004, the NAIC approved amendments to the NAIC s model Producer Licensing Act. The amendments contain new disclosure requirements for producers regarding compensation arrangements. If

20

Table of Contents

adopted, the NAIC amendments would require producers to disclose to customers, in certain circumstances, information concerning compensation arrangements. The NAIC also directed its Executive Task Force on Broker Activities to give further consideration to the development of additional requirements for recognition of a fiduciary responsibility on the part of producers, disclosure of all quotes received by a broker and disclosures relating to reinsurance arrangements between insurers and reinsurance companies affiliated with a producer. We cannot predict the effect that the NAIC s recent compensation disclosure amendments or anticipated future activities in this area, at the NAIC or state level, will have on influencing future legal actions, changes to business practices or regulatory requirements applicable to us.

Our mortgage insurance business is subject to additional laws and regulations. For a discussion of the risks associated with those laws and regulations, see Risks Relating to Our Mortgage Insurance Business Changes in regulations that affect the mortgage insurance business could affect our operations significantly and could reduce the demand for mortgage insurance.

Currently, the U.S. federal government does not regulate directly the business of insurance. However, federal legislation and administrative policies in several areas can significantly and adversely affect insurance companies. These areas include financial services regulation, securities regulation, pension regulation, privacy, tort reform legislation and taxation. In addition, various forms of direct federal regulation of insurance have been proposed. These proposals include The State Modernization and Regulatory Transparency Act, which would maintain state-based regulation of insurance but would affect state regulation of certain aspects of the business of insurance including rates, agent and company licensing, and market conduct examinations. We cannot predict whether this or other proposals will be adopted, or what impact, if any, such proposals or, if enacted, such laws may have on our business, financial condition or results of operation.

Our international operations are subject to regulation in the relevant jurisdictions in which they operate, which in many ways is similar to that of the state regulation outlined above. See Regulation International Regulation.

Many of our customers and independent sales intermediaries also operate in regulated environments. Changes in the regulations that affect their operations also may affect our business relationships with them and their ability to purchase or to distribute our products. Accordingly, these changes could have an adverse effect on our financial condition and results of operation.

Compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in these laws and regulations may increase materially our direct and indirect compliance and other expenses of doing business, thus having an adverse effect on our financial condition and results of operations. For a further discussion of the regulatory framework in which we operate, see Regulation.

Legal and regulatory investigations and actions are increasingly common in the insurance business and may result in financial losses and harm our reputation.

We face a significant risk of litigation and regulatory investigations and actions in the ordinary course of operating our businesses, including the risk of class action lawsuits. Our pending legal and regulatory actions include proceedings specific to us and others generally applicable to business practices in the industries in which we operate. In our insurance operations, we are or may become subject to class actions and individual suits alleging, among other things, issues relating to sales or underwriting practices, payment of contingent or other sales commissions, claims payments and procedures, product design, disclosure, administration, additional premium charges for premiums paid on a periodic basis, denial or delay of benefits and breaches of fiduciary or other duties to customers. Plaintiffs in class action and other lawsuits against us may seek very large or indeterminate amounts, including punitive and treble damages, which may remain unknown for substantial periods of time. We are also subject to various regulatory inquiries, such as information requests, subpoenas and books and record examinations, from state and federal regulators and other authorities. A substantial legal

liability or a significant regulatory action against us could have an adverse effect on our business, financial condition and results of operations. Moreover, even if we ultimately prevail in the litigation, regulatory action or investigation, we could suffer significant reputational harm, which could have an adverse effect on our business, financial condition and results of operations.

Recently, the insurance industry has become the focus of increased scrutiny by regulatory and law enforcement authorities concerning certain practices within the insurance industry. This scrutiny includes the commencement of investigations and other proceedings by the New York State Attorney General and other governmental authorities relating to allegations of improper conduct in connection with the payment of, and the failure to disclose, contingent commissions by insurance companies to insurance brokers and agents, the solicitation and provision of fictitious or inflated quotes, the use of inducements to brokers or companies in the sale of insurance products and the use of captive reinsurance arrangements. We have not received a subpoena or inquiry from the State of New York with respect to these matters. However, as part of industry-wide inquiries in this regard, we have received inquiries and informational requests with respect to some of these matters from other federal and state regulatory authorities. We have responded to these inquiries and informational requests and will continue to cooperate with these regulatory authorities.

Recent industry-wide inquiries also include those regarding market timing and late trading in variable annuity contracts, variable annuity sales practices/exchanges and electronic communication document retention practices. In this regard, we responded in late 2003 to a New York State Attorney General subpoena regarding market timing and late trading in variable products and mutual funds. We have not received any further inquiries from the New York State Attorney General regarding these matters, although we received inquiries and informational requests regarding these matters from other federal and state regulatory authorities. We have responded to these inquiries, follow-up inquiries and informational requests and will continue to cooperate with these regulatory authorities.

We cannot assure you that the current investigations and proceedings will not have a material adverse effect on our business, financial condition or results of operations. It is also possible that related investigations and proceedings may be commenced in the future, and we could become subject to further investigations and have lawsuits filed or enforcement actions initiated against us. In addition, increased regulatory scrutiny and any resulting investigations or proceedings could result in new legal actions or precedents and industry-wide regulations or practices that could adversely affect our business, financial condition and results of operation. For further details regarding the litigation in which we are involved, see Business Legal Proceedings.

We have significant operations in India that could be adversely affected by changes in the political or economic stability of India or government policies in India, the U.S. or Europe.

Through an arrangement with an outsourcing provider that is 40% owned by GE, we have a substantial team of professionals in India who provide a variety of services to our insurance operations, including customer service, transaction processing, and functional support including finance, investment research, actuarial, risk and marketing. See Arrangements Between GE and Our Company Relationship with GE Arrangements Regarding Our Operations in India. The development of an operations center in India has been facilitated partly by the liberalization policies pursued by the Indian government over the past decade. The current government of India, formed in October 1999, has announced policies and taken initiatives that support the continued economic liberalization policies that have been pursued by previous governments. However, we cannot assure you that these liberalization policies will continue in the future. The rate of economic liberalization could change, and specific laws and policies affecting our business could change as well. A significant change in India s economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally and our business in particular.

The political or regulatory climate in the U.S. or Europe also could change so that it would not be practical or legal for us to use international operations centers, such as call centers. For example, changes in privacy

22

Table of Contents

regulations, or more stringent interpretation or enforcement of these regulations, could require us to curtail our use of low-cost operations in India to service our businesses, which could reduce the cost benefits we currently realize from using these operations.

The continued threat of terrorism, the occurrence of terrorist acts and ongoing military actions could adversely affect our financial condition and results of operations.

The continued threat of terrorism and ongoing military actions, as well as heightened security measures in response to these threats and actions, may cause significant volatility in global financial markets, disruptions to commerce and reduced economic activity. These consequences could have an adverse effect on the value of the assets in our investment portfolio. We cannot predict whether, and the extent to which, companies in which we maintain investments may suffer losses as a result of financial, commercial or economic disruptions, or how any such disruptions might affect the ability of those companies to pay interest or principal on their securities. The continued threat of terrorism also could result in increased reinsurance prices and potentially cause us to retain more risk than we otherwise would retain if we were able to obtain reinsurance at lower prices. Terrorist actions also could disrupt our operations centers in the U.S. or abroad. In addition, the occurrence of terrorist actions could result in higher claims under our insurance policies than we had anticipated. For example, we incurred approximately $25 million in losses related to the terrorist events of September 11, 2001.

Risks Relating to Our Protection and Retirement Income and Investments Segments

We may face losses if morbidity rates, mortality rates or unemployment rates differ significantly from our pricing expectations.

We set prices for our insurance and some annuity products based upon expected claims and payment patterns, using assumptions for, among other things, morbidity rates, or likelihood of sickness, and mortality rates, or likelihood of death, of our policyholders and contractholders. The long-term profitability of these products depends upon how our actual experience compares with our pricing assumptions. For example, if morbidity rates are higher, or mortality rates are lower, than our pricing assumptions, we could be required to make greater payments under long-term care insurance policies and annuity contracts than we had projected. Conversely, if mortality rates are higher than our pricing assumptions, we could be required to make greater payments under our life and payment protection insurance policies and annuity contracts with guaranteed minimum death benefits than we had projected.

The risk that our claims experience may differ significantly from our pricing assumptions is particularly significant for our long-term care insurance products. Long-term care insurance policies provide for long-duration coverage and, therefore, our actual claims experience will emerge over many years after pricing assumptions have been established. Moreover, as a relatively new product in the market, long-term care insurance does not have the extensive claims experience history of life insurance, and as a result, our ability to forecast future claim rates for long-term care insurance is more limited than for life insurance.

In pricing our payment protection insurance, we also use assumptions regarding unemployment levels. If unemployment levels are higher than our pricing assumptions, the claims frequency could be higher for our payment protection insurance business than we had projected.

We may be required to accelerate the amortization of deferred acquisition costs and the present value of future profits, which would increase our expenses and reduce profitability.

Deferred acquisition costs, or DAC, represent costs which vary with and are primarily related to the sale and issuance of our insurance policies and investment contracts that are deferred and amortized over the estimated life of the related insurance policies. These costs include commissions in excess of ultimate renewal commissions, solicitation and printing costs, sales material and some support costs, such as underwriting and contract and policy issuance expenses. Under U.S. GAAP, DAC is subsequently amortized to income, over the lives of the underlying contracts, in relation to the anticipated recognition of premiums or gross profits. In addition, when we acquire a block of insurance policies or investment contracts, we assign a portion of the purchase price to the right to receive future net cash flows from existing insurance and investment contracts and policies. This intangible asset, called the present value of future profits, or PVFP, represents the actuarially estimated present value of future cash flows from the acquired policies. We amortize the value of this intangible asset in a manner similar to the amortization of DAC.

Our amortization of DAC and PVFP generally depends upon anticipated profits from investments, surrender and other policy and contract charges, mortality, morbidity and maintenance expense margins. Unfavorable experience with regard to expected expenses, investment returns, mortality, morbidity, withdrawals or lapses may cause us to increase the amortization of DAC or PVFP, or both, or to record a charge to increase benefit reserves.

We regularly review DAC and PVFP to determine if they are recoverable from future income. If these costs are not recoverable, they are charged to expenses in the financial period in which we make this determination. For example, if we determine that we are unable to recover DAC from profits over the life of a block of insurance policies or annuity contracts, or if withdrawals or surrender charges associated with early withdrawals do not fully offset the unamortized acquisition costs related to those policies or annuities, we would be required to recognize the additional DAC amortization as a current-period expense. As of December 31, 2004 and 2003, respectively, we had $5.0 billion and $5.8 billion of DAC, and $0.7 billion and $1.2 billion of PVFP. Our net amortization of DAC and PVFP was $1.1 billion, $1.3 billion and $1.2 billion of DAC and PVFP for the years ended December 31, 2004, 2003 and 2002, respectively.

We may be required to recognize impairment in the value of our goodwill, which would increase our expenses and reduce our profitability.

Goodwill represents the excess of the amount we paid to acquire our subsidiaries and other businesses over the fair value of their net assets at the date of the acquisition. Under U.S. GAAP, we test the carrying value of goodwill for impairment at least annually at the reporting unit level, which is either an operating segment or a business one level below the operating segment. Goodwill is impaired if the fair value of the reporting unit as a whole is less than the fair value of the identifiable assets and liabilities of the reporting unit, plus the carrying value of goodwill, at the date of the test. For example, goodwill may become impaired if the fair value of a reporting unit as a whole were to decline by an amount greater than the decline in the value of its individual identifiable assets and liabilities. This may occur for various reasons, including changes in actual or expected earnings or cash flows of a reporting unit, generation of earnings by a reporting unit at a lower rate of return than similar businesses or declines in market prices for publicly traded businesses similar to our reporting units. If any portion of our goodwill becomes impaired, we would be required to recognize the amount of the impairment as a current-period expense. When we adopted Statement of Financial Accounting Standards 142 with respect to recognizing impairment of goodwill, effective January 1, 2002, we recognized a $376 million impairment, net of tax, relating to our domestic auto and homeowners insurance business (included in discontinued operations), primarily as a result of heightened price competition in the auto insurance industry.

Our reputation in the long-term care insurance market may be adversely affected if we were to raise premiums on our in-force long-term care insurance products.

Unlike several of our competitors, we have never increased premiums on any in-force long-term care policies that we have issued. Although the terms of all our long-term care insurance policies permit us to increase premiums during the premium-paying period, any implementation of a premium increase could have an adverse effect on our reputation, our ability to market and sell new long-term care insurance products and our ability to retain existing policyholders.

Table of Contents

Medical advances, such as genetic research and diagnostic imaging, and related legislation could adversely affect the financial performance of our life insurance, long-term care insurance and annuities businesses.

Genetic research includes procedures focused on identifying key genes that render an individual predisposed to specific diseases, such as particular types of cancer and other diseases. Other medical advances, such as diagnostic imaging technologies, also may be used to detect the early onset of diseases such as cancer and cardiovascular disease. We believe that if individuals learn through medical advances that they are predisposed to particular conditions that may reduce life longevity or require long-term care, they will be more likely to purchase our life and long-term care insurance policies or not to permit existing polices to lapse. In contrast, if individuals learn that they lack the genetic predisposition to develop the conditions that reduce longevity or require long-term care, they will be less likely to purchase our life and long-term care insurance products but more likely to purchase certain annuity products. In addition, such individuals that are existing policyholders will be more likely to permit their policies to lapse.

If we were to gain access to the same genetic or medical information as our prospective policyholders and contractholders, then we would be able to take this information into account in pricing our life and long-term care insurance policies and annuity contracts. However, there are a number of regulatory proposals that would make genetic and other medical information confidential and unavailable to insurance companies. The U.S. Senate has approved a bill that would prohibit group health plans, health insurers and employers from making enrollment decisions or adjusting premiums on the basis of genetic testing information. This legislation is now pending before a committee at the House of Representatives. Legislators in certain states also have introduced similar legislation. If these regulatory proposals were enacted, prospective policyholders and contractholders would only disclose this information if they chose to do so voluntarily. These factors could lead us to reduce sales of products affected by these regulatory proposals and could result in a deterioration of the risk profile of our portfolio, which could lead to payments to our policyholders and contractholders that are higher than we anticipated.

Medical advances also could lead to new forms of preventative care. Preventative care could extend the life and improve the overall health of individuals. If this were to occur, the duration of payments under certain of our annuity products likely would increase, thereby reducing net earnings in that business.

We may face losses if there are significant deviations from our assumptions regarding the future persistency of our insurance policies and annuity contracts.

The prices and expected future profitability of our insurance and deferred annuity products are based in part upon expected patterns of premiums, expenses and benefits, using a number of assumptions, including those related to persistency, which is the probability that a policy or contract will remain in-force from one period to the next. The effect of persistency on profitability varies for different products. For most of our life insurance, group life and health insurance, and deferred annuity products, actual persistency that is lower than our persistency assumptions could have an adverse impact on profitability, especially in the early years of a policy or contract primarily because we would be required to accelerate the amortization of expenses we deferred in connection with the acquisition of the policy or contract. For the years ended December 31, 2004, 2003 and 2002, persistency in our life insurance and fixed annuity businesses has been slightly higher than assumed, while persistency in our variable annuity and certain group life and health insurance products has been slightly lower than we had assumed.

For our long-term care insurance and some other health insurance policies, actual persistency in later policy durations that is higher than our persistency assumptions could have a negative impact on profitability. If these policies remain in-force longer than we assumed, then we could be required to make greater benefit payments than we had anticipated when we priced these products. This risk is particularly significant in our long-term care insurance business because we do not have the experience history that we have in many of our other businesses. As a result, our ability to predict persistency for long-term care insurance is more limited than for many other products. Some of our long-term care insurance policies have experienced higher persistency than we had assumed, which has resulted in adverse claims experience.

Because our assumptions regarding persistency experience are inherently uncertain, reserves for future policy benefits and claims may prove to be inadequate if actual persistency experience is different from those assumptions. Although some of our products permit us to increase premiums during the life of the policy or contract, we cannot guarantee that these increases would be sufficient to maintain profitability. Moreover, many of our products do not permit us to increase premiums or limit those increases during the life of the policy or contract. Significant deviations in experience from pricing expectations regarding persistency could have an adverse effect on the profitability of our products.

Regulation XXX may have an adverse effect on our financial condition and results of operations by requiring us to increase our statutory reserves for term life and universal life insurance or incur higher operating costs.

The Model Regulation entitled Valuation of Life Insurance Policies, commonly known as Regulation XXX, requires insurers to establish additional statutory reserves for term and universal life insurance policies with long-term premium guarantees. Virtually all our newly issued term and universal life insurance business is now affected by Regulation XXX.

In response to this regulation, we have increased term and universal life insurance statutory reserves and changed our premium rates for term life insurance products. We also have implemented reinsurance and capital management actions to mitigate the impact of Regulation XXX. However, we cannot assure you that there will not be regulatory or other challenges to the actions we have taken to date. The result of those challenges could require us to increase statutory reserves or incur higher operating costs. Any change to or repeal of Regulation XXX could reduce the competitive advantage of our reinsurance and capital management actions in response to Regulation XXX and could adversely affect our market position in the life insurance market.

We also cannot assure you that we will be able to continue to implement actions to mitigate the impact of Regulation XXX on future sales of term and universal life insurance products. If we are unable to continue to implement those actions, we may be required to increase statutory reserves, incur higher operating costs than we currently anticipate, or reduce our sales of these products. We also may have to implement measures that may be disruptive to our business. For example, because term and universal life insurance are particularly price-sensitive products, any increase in premiums charged on these products in order to compensate us for the increased statutory reserve requirements or higher costs of reinsurance may result in a significant loss of volume and adversely affect our life insurance operations.

If demand for long-term care insurance continues to decline, we will not be able to execute our strategy to expand our business in this market.

We have devoted significant resources to developing our long-term care insurance business, and our growth strategy relies partly upon continued growth of this market. In recent years, however, sales of individual long- term care insurance have declined. Annualized first-year premiums for individual long-term care insurance peaked in 2002 at approximately $1.0 billion and decreased by 7% in 2003 and 25% in 2004, according to LIMRA International. We believe this decrease was due primarily to decisions by several providers to cease offering long-term care insurance, to raise premiums on in-force policies and/or to introduce new products with higher prices. These actions resulted in decreased purchases of long-term care insurance products and have caused some distributors to reduce their sales focus on these products. As a result, our annualized first-year premiums of long-term care insurance decreased from $257 million for the year ended December 31, 2002 to $240 million and $162 million for the years ended December 31, 2003 and 2004, respectively. If the market for long-term care insurance continues to decline, we may be unable to realize our growth strategy in this area and our financial condition and results of operations could be adversely affected.

Changes in tax laws could make some of our products less attractive to consumers.

Changes in tax laws could make some of our products less attractive to consumers. For example, in May 2003, U.S. President George Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003, which reduced the federal income tax that investors are required to pay on long-term capital gains and on some dividends paid on stock. This reduction may provide an incentive for some of our customers and potential customers to shift assets into mutual funds and away from products, including annuities, designed to defer taxes payable on investment returns. Because the income taxes payable on long-term capital gains and some dividends paid on stock have been reduced, investors may decide that the tax-deferral benefits of annuity contracts are less advantageous than the potential after-tax income benefits of mutual funds or other investment products that provide dividends and long-term capital gains. A shift away from annuity contracts and other tax-deferred products would reduce our income from sales of these products, as well as the assets upon which we earn investment income.

We cannot predict whether any other legislation will be enacted, what the specific terms of any such legislation will be or how, if at all, this legislation or any other legislation could have an adverse effect on our financial condition and results of operations.

Changes in U.S. federal and state securities laws may affect our operations and our profitability.

U.S. federal and state securities laws apply to investment products that are also securities, including variable annuities and variable life insurance policies. As a result, some of our subsidiaries and the policies and contracts they offer are subject to regulation under these federal and state securities laws. Our insurance subsidiaries separate accounts are registered as investment companies under the Investment Company Act of 1940. Some variable annuity contracts and variable life insurance policies issued by our insurance subsidiaries also are registered under the Securities Act of 1933. Other subsidiaries are registered as broker-dealers under the Securities Exchange Act of 1934 and are members of, and subject to, regulation by the National Association of Securities Dealers, Inc. In addition, some of our subsidiaries also are registered as investment advisers under the Investment Advisers Act of 1940.

Securities laws and regulations are primarily intended to ensure the integrity of the financial markets and to protect investors in the securities markets or investment advisory or brokerage clients. These laws and regulations generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the conduct of business for failure to comply with those laws and regulations. Changes to these laws or regulations that restrict the conduct of our business could have an adverse effect on our financial condition and results of operations.

Risks Relating to Our Mortgage Insurance Segment

Fannie Mae, Freddie Mac and a small number of large mortgage lenders exert significant influence over the U.S. mortgage insurance market.

Our mortgage insurance products protect mortgage lenders and investors from default-related losses on residential first mortgage loans made primarily to home buyers with high loan-to-value mortgages generally, those home buyers who make down payments of less than 20% of their home s purchase price. The largest purchasers and guarantors of mortgage loans in the U.S. are Fannie Mae and Freddie Mac, which were created by Congressional charter to ensure that mortgage lenders have sufficient funds to continue to finance home purchases. For the nine months ended September 30, 2004, Fannie Mae purchased approximately 21.3% of all the mortgage loans originated in the U.S., and Freddie Mac purchased approximately 14.8%, according to statistics published by *Inside the GSEs*. Fannie Mae s and Freddie Mac s charters generally prohibit them from purchasing any mortgage with a face amount that exceeds 80% of the home s value, unless that mortgage is insured by a qualified insurer or the mortgage seller retains at least a 10% participation in the loan or agrees to repurchase the loan in the event of default. As a result, high loan-to-value mortgages purchased by Fannie Mae or Freddie Mac generally are insured with private mortgage insurance. These provisions in Fannie Mae s and Freddie Mac s charters create much of the demand for private mortgage insurance in the U.S. For the year ended December 31, 2004, Fannie Mae and Freddie Mac purchased approximately 68% of the flow mortgage loans that we insured. As a result, a change in these provisions relating to their purchase or guarantee activity could have an adverse effect on our financial condition and results of operations.

Table of Contents

In addition, increasing consolidation among mortgage lenders in recent years has resulted in significant customer concentration for mortgage insurers. Ten mortgage lenders accounted for approximately 27% of our flow new insurance written for the year ended December 31, 2004.

As a result of the significant concentration in mortgage originators and purchasers, Fannie Mae, Freddie Mac and the largest mortgage lenders possess substantial market power which enables them to influence our business and the mortgage insurance industry in general. Although we actively monitor and develop our relationships with Fannie Mae, Freddie Mac and our largest mortgage lending customers, a deterioration in any of these relationships, or the loss of business from any of our key customers, could have an adverse effect on our financial condition and results of operations.

Our mortgage insurance business is one of the members of the Mortgage Insurance Companies of America, or MICA. In 1999, several large mortgage lenders and a coalition of financial services and housing-related trade associations, including MICA, formed FM Watch, now known as FM Policy Focus, a lobbying organization that supports expanded federal oversight and legislation relating to the role of Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac have criticized and lobbied against the positions taken by FM Policy Focus. These lobbying activities could, among other things, polarize Fannie Mae, Freddie Mac and members of FM Policy Focus. As a result of this possible polarization, our relationships with Fannie Mae and Freddie Mac may limit our opportunities to do business with some mortgage lenders, and our relationships with mortgage lenders who are members of FM Policy Focus may limit our ability to do business with Fannie Mae and Freddie Mac, as well as with mortgage lenders who are not members of FM Policy Focus and are opposed to these efforts. Any of these outcomes could have an adverse effect on our financial condition and results of operations.

Results from investigations into Fannie Mae s and Freddie Mac s accounting practices, disclosures and other matters may result in legislative or regulatory changes governing the operations of Freddie Mac, Fannie Mae and other government-sponsored enterprises, which could adversely affect the results of our U.S. mortgage insurance business.

Fannie Mae and Freddie Mac are subject to ongoing investigations regarding their accounting practices, disclosures and other matters. These investigations may contribute to changes in legislation and regulations governing their operations and the operations of other government-sponsored enterprises. We cannot predict whether any such legislation or regulations will be enacted or adopted, how they may affect the operations of Fannie Mae, Freddie Mac or other government-sponsored enterprises, or how they may affect our operations, financial condition and results of operations.

A decrease in the volume of high loan-to-value home mortgage originations or an increase in the volume of mortgage insurance cancellations could result in a decline in our revenue.

We provide mortgage insurance primarily for high loan-to-value mortgages. Factors that could lead to a decrease in the volume of high loan-to-value mortgage originations include:

- a change in the level of home mortgage interest rates;

- a decline in economic conditions generally, or in conditions in regional and local economies;

the level of consumer confidence, which may be adversely affected by economic instability, war or terrorist events;

declines in the price of homes;

adverse population trends, including lower homeownership rates;

high rates of home price appreciation, which in times of heavy refinancing affect whether refinanced loans have loan-to-value ratios that require mortgage insurance; and

changes in government housing policy encouraging loans to first-time homebuyers.

Table of Contents

A decline in the volume of high loan-to-value mortgage originations would reduce the demand for mortgage insurance and, therefore, could have an adverse effect on our financial condition and results of operations.

In addition, a significant percentage of the premiums we earn each year in our U.S. mortgage insurance business are renewal premiums from insurance policies written in previous years. We estimate that approximately 85% and 70% of our gross premiums written for the years ended December 31, 2004 and 2003, respectively, were renewal premiums. As a result, the length of time insurance remains in force is an important determinant of our mortgage insurance revenues. Fannie Mae, Freddie Mac and many other mortgage investors in the U.S. generally permit a homeowner to ask his loan servicer to cancel his mortgage insurance when the principal amount of the mortgage falls below 80% of the home s value. Factors that tend to reduce the length of time our mortgage insurance remains in force include:

- declining interest rates, which may result in the refinancing of the mortgages underlying our insurance policies with new mortgage loans that may not require mortgage insurance or that we do not insure;
- significant appreciation in the value of homes, which causes the size of the mortgage to decrease below 80% of the value of the home and enables the borrower to request cancellation of the mortgage insurance; and
- changes in mortgage insurance cancellation requirements under applicable federal law or mortgage insurance cancellation practices by mortgage lenders and investors.

These factors contributed to a decrease in our U.S. policy persistency rates from 57% for the year ended December 31, 2002 to 46% for the year ended December 31, 2003. Although U.S. policy persistency rates increased to 65% for the year ended December 31, 2004, a further increase in the volume of mortgage insurance cancellations in the U.S. generally would reduce the amount of our insurance in force and have an adverse effect on our financial condition and results of operations. These factors are less significant in our international mortgage insurance operations because we generally receive a single payment for mortgage insurance at the time a loan closes, and this premium typically is not refundable if the policy is canceled.

Continued increases in the volume of simultaneous second mortgages could have an adverse effect on the U.S. market for mortgage insurance.

High loan-to-value mortgages can consist of two simultaneous loans, known as simultaneous seconds, comprising a first mortgage with a loan-to-value ratio of 80% and a simultaneous second mortgage for the excess portion of the loan, instead of a single mortgage with a loan-to-value ratio of more than 80%. Simultaneous second loans are also often known as 80-10-10 loans because they often comprise a first mortgage with an 80% loan-to-value ratio, a second mortgage with a 10% loan-to-value ratio and the remaining 10% paid in cash by the buyer, rather than a single mortgage with a 90% loan-to-value ratio.

Over the past several years, the volume of simultaneous second loans as an alternative to loans requiring private mortgage insurance has increased substantially. We believe this recent increase reflects the following factors:

- the lower monthly cost of simultaneous second loans compared to the cost of mortgage insurance, due to of the current low-interest-rate environment and the emerging popularity of 15- and 30-year amortizing and adjustable rate simultaneous seconds;

- the tax deductibility in most cases of interest on a second mortgage, in contrast to the non-deductibility of mortgage insurance payments;

- negative consumer, broker and realtor perceptions about mortgage insurance; and

- the desire by some investors to hold second mortgages.

Further increases in the volume of simultaneous seconds may cause corresponding decreases in the use of mortgage insurance for high loan-to-value mortgages, which could have an adverse effect on our financial condition and results of operations.

Table of Contents

The amount of mortgage insurance we write could decline significantly if mortgage lenders and investors select other alternatives to private mortgage insurance to protect against default risk or if lenders select lower coverage levels of mortgage insurance.

Lenders may seek to mitigate their mortgage default risks through a variety of alternatives to private mortgage insurance other than simultaneous second mortgages. These alternatives include:

- using government mortgage insurance programs, including those of the FHA, the VA and Canada Mortgage and Housing Corporation, or CMHC;
- holding mortgages in their own loan portfolios and self-insuring;
- using programs, such as those offered by Fannie Mae and Freddie Mac, requiring lower mortgage insurance coverage levels;
- originating and securitizing loans in mortgage-backed securities whose underlying mortgages are not insured with private mortgage insurance or which are structured so that the risk of default lies with the investor, rather than a private mortgage insurer; and
- using credit default swaps or similar instruments, instead of private mortgage insurance, to transfer credit risk on mortgages.

A decline in the use of private mortgage insurance in connection with high loan-to-value home mortgages for any reason would reduce the size of the mortgage insurance market and could have an adverse effect on our financial condition and results of operations.

Our claims expenses would increase and our results of operations would suffer if the rate of defaults on mortgages covered by our mortgage insurance increases or the severity of such defaults exceeds our expectations.

Our premium rates vary with the perceived risk of a claim on the insured loan, which takes into account factors such as the loan-to-value ratio, our long-term historical loss experience, whether the mortgage provides for fixed payments or variable payments, the term of the mortgage, the borrower s credit history and the level of documentation and verification of the borrower s income and assets. We establish renewal premium rates for the life of a mortgage insurance policy upon issuance, and we cannot cancel the policy or adjust the premiums after the policy is issued. As a result, we cannot offset the impact of unanticipated claims with premium increases on policies in force, and we cannot refuse to renew mortgage insurance coverage. The premiums we agree to charge upon writing a mortgage insurance policy may not adequately compensate us for the risks and costs associated with the coverage we provide for the entire life of that policy.

The long-term profitability of our mortgage insurance business depends upon the accuracy of our pricing assumptions. If defaults on mortgages increase because of an economic downturn or for reasons we failed to take into account adequately, we would be required to make greater claim payments than we planned when we priced our policies. Future claims on our mortgage insurance policies may not match the assumptions made in our pricing. An increase in the amount or frequency of claims beyond the levels contemplated by our pricing assumptions could have an adverse effect on our financial condition and results of operations. In recent years, our results of operations have benefited from historically low loss ratios because of significant home price appreciation and low levels of defaults. Increases from these recent historic lows could have an adverse effect on our financial condition and results of operations.

As of December 31, 2004, approximately 80% of our U.S. mortgage insurance risk in force and 72% of our international mortgage insurance risk in force had not yet reached its anticipated highest claim frequency years, which are generally between the third and seventh year of the loan. As a result, we expect our loss experience on these loans will increase as policies continue to age. If the claim frequency on the risk in force significantly exceeds the claim frequency that was assumed in setting premium rates, our financial condition, results of operations and cash flows would be adversely affected.

We also provide mortgage insurance for Alt A loans, which are originated under programs in which there is a reduced level of verification or disclosure of the borrower s income or assets. Alt A loans represented 2.8%, 1.9% and 2.5% of our risk in force as of December 31, 2004, 2003 and 2002, respectively. Alt A loans typically have a higher default rate than fully documented loans, and we generally charge higher premiums for mortgage insurance on Alt A loans than on fully documented loans. If defaults on Alt A loans are higher than the assumptions we made in pricing our mortgage insurance on those loans, then we would be required to make greater claims payments than we had projected, which could have an adverse effect on our financial condition and results of operations.

A deterioration in economic conditions may adversely affect our loss experience in mortgage insurance.

Losses in our mortgage insurance business generally result from events, such as reduction of income, unemployment, divorce, illness and inability to manage credit and interest-rate levels that reduce a borrower s ability to continue to make mortgage payments. The amount of the loss we suffer, if any, depends in part on whether the home of a borrower who defaults on a mortgage can be sold for an amount that will cover unpaid principal and interest and the expenses of the sale. A deterioration in economic conditions generally increases the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect housing values, which increases our risk of loss.

A substantial economic downturn across the entire U.S. could have a significant adverse effect on our financial condition and results of operations. We also may be particularly affected by economic downturns in states where a large portion of our business is concentrated. As of December 31, 2004, approximately 50% of our risk in force was concentrated in 10 states, with 8% in Florida, 7% in Texas and 6% in New York. Similarly, our mortgage insurance operations in Canada, Australia and the U.K. are concentrated in the largest cities in those countries. Continued and prolonged adverse economic conditions in these states or cities could result in high levels of claims and losses, which could have an adverse effect on our financial condition and results of operations.

A significant portion of our risk in force consists of loans with high loan-to-value ratios, which generally result in more and larger claims than loans with lower loan-to-value ratios.

Mortgage loans with higher loan-to-value ratios typically have claim incidence rates substantially higher than mortgage loans with lower loan-to-value ratios. In our U.S. mortgage insurance business as of December 31, 2004:

- 16% of our risk in force consisted of mortgage loans with original loan-to-value ratios greater than 95%;
- 41% of our risk in force consisted of mortgage loans with original loan-to-value ratios greater than 90% but less than or equal to 95%;
- 41% of our risk in force consisted of mortgage loans with original loan-to-value ratios greater than 80% but less than or equal to 90%; and
- 2% of our risk in force consisted of mortgage loans with original loan-to-value ratios less than or equal to 80%.

In Canada, Australia and New Zealand, the risks of having a portfolio with a significant portion of high loan-to-value mortgages are greater than in the U.S. and Europe because we generally agree to cover 100% of the losses associated with mortgage defaults in those markets, compared to percentages in the U.S. and Europe that are typically 12% to 35% of the loan amount. In our non-U.S. mortgage insurance business as of December 31, 2004:

- less than 1% of our risk in force consisted of mortgage loans with original loan-to-value ratios greater than 95%;

- 24% of our risk in force consisted of mortgage loans with original loan-to-value ratios greater than 90% but less than or equal to 95%;

- 38% of our risk in force consisted of mortgage loans with original loan-to-value ratios greater than 80% but less than or equal to 90%; and

- 37% of our risk in force consisted of mortgage loans with original loan-to-value ratios less than or equal to 80%.

Although mortgage insurance premiums for higher loan-to-value ratio loans generally are higher than for loans with lower loan-to-value ratios, the difference in premium rates may not be sufficient to compensate us for the enhanced risks associated with mortgage loans bearing higher loan-to-value ratios.

We cede a portion of our U.S. mortgage insurance business to mortgage reinsurance companies affiliated with our mortgage lending customers, and this reduces our profitability.

We, like other mortgage insurers, offer opportunities to our mortgage lending customers that are designed to allow them to participate in the risks and rewards of the mortgage insurance business. Many of the major mortgage lenders with which we do business have established captive mortgage reinsurance subsidiaries. These reinsurance subsidiaries assume a portion of the risks associated with the lender s insured mortgage loans in exchange for a percentage of the premiums. In most cases, our reinsurance coverage is an excess of loss arrangement with a limited band of exposure for the reinsurer. This means that we are required to pay the first layer of losses arising from defaults in the covered mortgages, the reinsurer indemnifies us for the next layer of losses, and we pay any losses in excess of the reinsurer s obligations. The effect of these arrangements historically has been a reduction in the profitability and return on capital of this business to us. Approximately 70% of our primary new risk written as of December 31, 2004 was subject to captive mortgage reinsurance, compared to approximately 75% as of December 31, 2003. Premiums ceded to these reinsurers were approximately $143 million, $139 million and $113 million for the years ended December 31, 2004, 2003 and 2002, respectively. These premium cessions have adversely affected our profitability and could further reduce profitability if the terms of these arrangements require greater premium cessions.

If efforts by Fannie Mae and Freddie Mac to reduce the need for mortgage insurance are successful, they could adversely affect the results of our U.S. mortgage insurance business.

Freddie Mac has sought changes to the provisions of its Congressional charter that requires private mortgage insurance for low-down-payment mortgages and has lobbied the U.S. Congress for amendments that would permit Fannie Mae and Freddie Mac to use alternative forms of default loss protection or otherwise forego the use of private mortgage insurance. In October 1998, the U.S. Congress passed legislation to amend Freddie Mac s charter to give it flexibility to use credit enhancements other than private mortgage insurance for down-payment mortgages. Although this charter amendment was quickly repealed, we cannot predict whether similar legislation may be proposed or enacted in the future.

Fannie Mae and Freddie Mac have the ability to implement new eligibility requirements for mortgage insurers. They also have the authority to increase or reduce required mortgage insurance coverage percentages and to alter or liberalize underwriting standards on low-down-payment mortgages they purchase. We cannot predict the extent to which any new requirements may be enacted or how they may affect the operations of our mortgage insurance business, our capital requirements and our products.

Changes in the policies of the Federal Home Loan Banks could reduce the demand for U.S. mortgage insurance.

The Federal Home Loan Banks, or FHLBs, purchase single-family conforming mortgage loans originated by participating member institutions. Although the FHLBs are not required to purchase insurance for mortgage loans, they currently use mortgage insurance on substantially all mortgage loans with a loan-to-value ratio above 80% and have become a source of new business for us. If the FHLBs were to reduce their purchases of mortgage loans, purchase uninsured mortgage loans or increase the loan-to-value ratio threshold above which they require mortgage insurance, the market for mortgage insurance could decrease, and our mortgage insurance business could be adversely affected.

Table of Contents

We compete with government-owned and government-sponsored entities in our mortgage insurance business, and this may put us at a competitive disadvantage on pricing and other terms and conditions.

Our mortgage insurance business competes with many different government-owned and government-sponsored entities in the U.S., Canada and some European countries. In the U.S., these entities include principally the FHA and, to a lesser degree, the VA, Fannie Mae and Freddie Mac, as well as local and state housing finance agencies. In Canada, we compete with the CMHC, a Crown corporation owned by the Canadian government. In Europe, these entities include public mortgage guarantee facilities in a number of countries.

Those competitors may establish pricing terms and business practices that may be influenced by motives such as advancing social housing policy or stabilizing the mortgage lending industry, which may not be consistent with maximizing return on capital or other profitability measures. In addition, those governmental entities typically do not have the same capital requirements that we and other mortgage insurance companies have and therefore may have financial flexibility in their pricing and capacity that could put us at a competitive disadvantage in some respects. In the event that a government-owned or sponsored entity in one of our markets determines to reduce prices significantly or alter the terms and conditions of its mortgage insurance or other credit enhancement products in furtherance of social or other goals rather than a profit motive, we may be unable to compete in that market effectively, which could have an adverse effect on our financial condition and results of operations.

We compete in Canada with the CMHC, which is owned by the Canadian government and, as a sovereign entity, provides mortgage lenders with 100% capital relief from bank regulatory requirements on loans that it insures. In contrast, lenders receive only 90% capital relief on loans we insure. CMHC also operates the Canadian Mortgage Bond Program, which provides lenders the ability to efficiently guaranty and securitize their mortgage loan portfolios. If we are unable to effectively distinguish ourselves competitively with our Canadian mortgage lender customers, we may be unable to compete effectively with the CMHC as a result of the more favorable capital relief it can provide or the other products and incentives that it offers to lenders.

Changes in regulations that affect the mortgage insurance business could affect our operations significantly and could reduce the demand for mortgage insurance.

In addition to the general regulatory risks that are described above under Our insurance businesses are heavily regulated, and changes in regulation may reduce our profitability and limit our growth, we are also affected by various additional regulations relating particularly to our mortgage insurance operations.

U.S. federal and state regulations affect the scope of our competitors operations, which has an effect on the size of the mortgage insurance market and the intensity of the competition in our mortgage insurance business. This competition includes not only other private mortgage insurers, but also U.S. federal and state governmental and quasi-governmental agencies, principally the FHA, and to a lesser degree, the VA, which are governed by federal regulations. Increases in the maximum loan amount that the FHA can insure, and reductions in the mortgage insurance premiums the FHA charges, can reduce the demand for private mortgage insurance. The FHA has also streamlined its down-payment formula and made FHA insurance more competitive with private mortgage insurance in areas with higher home prices. These and other legislative and regulatory changes could cause demand for private mortgage insurance to decrease.

Our U.S. mortgage insurance business, as a credit enhancement provider in the residential mortgage lending industry, also is subject to compliance with various federal and state consumer protection and insurance laws, including the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Homeowners Protection Act, the Federal Fair Credit Reporting Act, the Fair Debt

Collection Practices Act and others. Among other things, these laws prohibit payments for referrals of settlement service business, require fairness and non-discrimination in granting or facilitating the granting of credit, require cancellation of insurance and refund of unearned premiums under certain circumstances, govern the circumstances under which companies may obtain and use consumer credit information, and define the manner in which companies may pursue collection activities. Changes in these laws or regulations could adversely affect the operations and profitability of our mortgage insurance business. For example, the Department of Housing and Urban Development is considering a rule that would exempt certain mortgages that provide a single price for a package of settlement services from the prohibition in the Real Estate Settlement Procedures Act, or RESPA, against payments for referrals of settlement service business. If mortgage insurance were included among the settlement services that, when offered as a package, would be exempt from this prohibition, then mortgage lenders would have greater leverage in obtaining business concessions from mortgage insurers.

The Office of Thrift Supervision recently amended its capital regulations to increase from 80% to 90% the loan-to-value threshold in the definition of a qualifying mortgage loan. The capital regulations assign a lower risk weight to qualifying mortgage loans than to non-qualifying loans. As a result, these new regulations no longer penalize mortgage lenders for retaining loans that have loan-to-value ratios between 80% and 90% without credit enhancements. Other regulators, including the U.S. Federal Deposit Insurance Corporation, also have raised corresponding loan-to-value thresholds for qualifying mortgage loans from 80% to 90%.

Lenders and loan aggregators also have faced new liabilities and compliance risks posed by state and local laws which have been enacted in recent years to combat predatory lending practices. In February 2003 and March 2004, the Ney-Lucas Responsible Lending Act of 2003 and the Prohibit Predatory Lending Act of 2004, respectively, were introduced in the U.S. House of Representatives but were not enacted into law. These or similar bills, if reintroduced and enacted, would, among other things, prohibit certain lending practices on high-cost mortgages and limit the liability of persons who comply with the law. It is unclear in what form, if any, such bills will be enacted or what impact they would have on our business and the mortgage lending, securitization, and insurance industries generally.

Regulations in Canada require the use of mortgage insurance for all mortgage loans extended by banks, trust companies and insurers with loan-to-value ratios greater than 75%. In February 2005, as part of a periodic review of the federal financial services regulatory framework, the Canadian Department of Finance issued a consultation document seeking comment on a wide variety of potential initiatives relating to the regulation of financial services, including whether to remove the statutory requirement for mortgage insurance on all loans with loan-to-value ratios greater than 75%. The removal of the statutory requirement for mortgage insurance, in whole or in part, may result in a reduction in the amount of business we write in future years in Canada. See Regulation Mortgage Insurance International Regulation Canada.

We have an agreement with the Canadian government under which it guarantees the benefits payable under a mortgage insurance policy, less 10% of the original principal amount of an insured loan, in the event that we fail to make claim payments with respect to that loan because of insolvency. This guarantee provides that the government has the right to review the terms of the guarantee in certain circumstances, including if GE s ownership of our Canadian mortgage insurance company decreases below 50%. After this offering and the stock repurchase, GE will beneficially own approximately 52% of our common stock. When GE reduces its equity ownership of us to below 50%, that reduction would permit the Canadian government to review the terms of its guarantee and could lead to a termination of the guarantee for any new insurance written after the termination. Although we believe the Canadian government will preserve the guarantee to maintain competition in the Canadian mortgage insurance industry, any adverse change in the guarantee s terms and conditions or termination of the guarantee could have an adverse effect on our ability to continue offering mortgage insurance products in Canada.

The Australian Prudential Regulatory Authority, or APRA, regulates all financial institutions in Australia, including general, life and mortgage insurance companies. APRA also determines the capital requirements for depository institutions and provides for reduced capital requirements for depository institutions that insure residential mortgages with loan-to-value ratios above 80% (in the case of standard loans) and, from October 1, 2004, with loan-to-value ratios above 60% (in the case of non-standard type loans). APRA s regulations currently

Table of Contents

require APRA-regulated lenders to determine the criteria for determining if a loan is a non-standard type loan. APRA currently is proposing to increase the capital requirements that govern mortgage insurers in Australia, particularly in the event of a severe recession accompanied by a significant decline in housing values. If, after completing its review process, APRA concludes that the capital requirements that currently govern mortgage insurers are not sufficient and decides to increase the amount of capital required for mortgage insurers, we may, depending on the amount of such increase, be required to increase the capital in our Australian mortgage insurance business. This would reduce our returns on capital from those operations.

We believe the revisions to a set of regulatory rules and procedures governing global bank capital standards that were introduced by the Basel Committee of the Bank for International Settlements, known as Basel II, may encourage growth of international mortgage insurance. Basel II has been designed to reward banks that have developed effective risk management systems by allowing them to hold less capital than banks with less effective systems. Basel II was finalized and issued in June 2004; however, its adoption by individual countries is ongoing. Therefore, we cannot predict the benefits that ultimately will be provided to lenders, or how any such benefits may affect the opportunities for the growth of mortgage insurance. If countries implement Basel II in a manner that does not reward lenders for using mortgage insurance as a credit risk mitigant on high loan-to-value mortgage loans, or if lenders conclude that mortgage insurance does not provide sufficient capital incentives, then we may have to revise our product offerings to meet the new requirements and our results of operations may be adversely affected.

Our U.S. mortgage insurance business could be adversely affected by legal actions under RESPA.

RESPA prohibits paying lenders for the referral of settlement services, including mortgage insurance. This precludes us from providing services to mortgage lenders free of charge, charging fees for services that are lower than their reasonable or fair market value, and paying fees for services that others provide that are higher than their reasonable or fair market value. In addition, RESPA prohibits persons from giving or accepting any portion or percentage of a charge for a real estate settlement service, other than for services actually performed. A number of lawsuits, including some that were class actions, have challenged the actions of private mortgage insurers, including our company, under RESPA, alleging that the insurers have provided or received products or services at improperly set prices in return for the referral of mortgage insurance. We and several other mortgage insurers, without admitting any wrongdoing, reached a settlement in these cases, which includes an injunction that prohibited certain specified practices and details the basis on which mortgage insurers may provide or receive agency pool insurance, captive mortgage reinsurance, contract underwriting and other products and services and be deemed to be in compliance with RESPA. The injunction expired on December 31, 2003, and it is possible that plaintiffs will institute new litigation against private mortgage insurers, including us, to renew the injunction or to seek damages under RESPA. We also cannot predict whether our competitors will change their pricing structure or business practices now that the injunction has expired, which could require us to alter our pricing structure or business practices in response to their actions or suffer a competitive disadvantage, or whether any services we or they provide to mortgage lenders could be found to violate RESPA or any future injunction that might be issued. In addition, U.S. federal and state officials are authorized to enforce RESPA and to seek civil and criminal penalties, and we cannot predict whether these proceedings might be brought against us or other mortgage insurers. Any such proceedings could have an adverse effect on our financial condition and results of operations.

Our U.S. mortgage insurance business could be adversely affected by legal actions under the Federal Fair Credit Reporting Act.

Two actions have been filed against us in Illinois, each seeking certification of a nationwide class of consumers who allegedly were required to pay for our private mortgage insurance at a rate higher than our lowest available rate, based upon credit information we obtained. Each action alleges that the Federal Fair Credit Reporting Act, or the FCRA, requires notice to such borrowers and that we violated the FCRA by failing to give such notice. The plaintiffs in one action allege in the complaint that they are entitled to actual damages and damages within the Court s discretion of not more than $1,000 for each separate violation of the FCRA. The plaintiffs in the other action allege that they are entitled to appropriate actual, punitive and statutory damages and such other or further relief as the Court deems proper. Similar cases also were filed against six other mortgage insurers. We intend to vigorously defend against the actions to which we are a party, but we cannot predict their outcome.

Potential liabilities in connection with our U.S. contract underwriting services could have an adverse effect on our financial condition and results of operations.

We offer contract underwriting services to many of our mortgage lenders in the U.S., pursuant to which our employees and contractors work directly with the lender to determine whether the data relating to a borrower and a proposed loan contained in a mortgage loan application file complies with the lender s loan underwriting guidelines or the investor s loan purchase requirements. In connection with that service, we also compile the application data and submit it to the automated underwriting systems of Fannie Mae and Freddie Mac, which independently analyze the data to determine if the proposed loan complies with their investor requirements.

Under the terms of our contract underwriting agreements, we agree to indemnify the lender against losses incurred in the event that we make material errors in determining whether loans processed by our contract underwriters meet specified underwriting or purchase criteria, subject to contractual limitations on liability. As a result, we assume credit and interest rate risk in connection with our contract underwriting services. Worsening economic conditions, a deterioration in the quality of our underwriting services or other factors could cause our contract underwriting liabilities to increase and have an adverse effect on our financial condition and results of operations. Although we have established reserves to provide for potential claims in connection with our contract underwriting services, we have limited historical experience that we can use to establish reserves for these potential liabilities, and these reserves may not be adequate to cover liabilities that may arise.

If the European mortgage insurance market does not grow as we expect, we will not be able to execute our strategy to expand our business into this market.

We have devoted resources to marketing our mortgage insurance products in Europe, and we plan to continue these efforts. Our growth strategy depends partly upon the development of favorable legislative and regulatory policies throughout Europe that support increased homeownership and provide capital relief for institutions that insure their mortgage loan portfolios with private mortgage insurance. In furtherance of these policies, we have collaborated with government agencies to develop bank regulatory capital requirements that provide incentives to lenders to implement risk transfer strategies such as mortgage insurance, as well as governmental policies that encourage homeownership as a wealth accumulation strategy for borrowers with limited resources to make large down payments. We have invested, and we will continue to invest, significant resources to advocate such a regulatory environment at the national and pan-European levels. However, if European legislative and regulatory agencies fail to adopt these policies, then the European markets for high loan-to-value lending and mortgage insurance may not expand as we currently anticipate, and our growth strategy in those markets may not be successful.

Risks Relating to Our Separation from GE

Our separation from GE could adversely affect our business and profitability due to GE s strong brand and reputation.

As a subsidiary of GE, our businesses have marketed many of their products using the GE brand name and logo, and we believe the association with GE has provided many benefits, including:

- a world-class brand associated with trust, integrity and longevity;
- perception of high-quality products and services;

- preferred status among our customers, independent sales intermediaries and employees;
- strong capital base and financial strength; and
- established relationships with U.S. federal and state and non-U.S. regulators.

Our separation from GE following our corporate reorganization and the IPO could adversely affect our ability to attract and retain highly qualified independent sales intermediaries and dedicated sales specialists for our products. In addition, because of our separation from GE, some of our existing policyholders, contractholders and other customers may choose to stop doing business with us, and this could increase our rate of surrenders and withdrawals in our policies and contracts. In addition, other potential policyholders and contractholders may decide not to purchase our products because of our separation from GE.

We cannot accurately predict the effect that our separation from GE will have on our sales intermediaries, customers or employees. The risks relating to our separation from GE could materialize at various times in the future, including:

- when GE reduces its ownership in our common stock to a level below 50%; and
- when we cease using the GE name and logo in our sales and marketing materials, particularly when we deliver notices to our distributors and customers that the names of some of our insurance subsidiaries will change.

We only have the right to use the GE brand name and logo for a limited period of time. If we fail to establish in a timely manner a new, independently recognized brand name with a strong reputation, our revenue and profitability could decline.

Since the completion of the IPO, our corporate name has been Genworth Financial, Inc. We and our insurance and other subsidiaries may use the GE brand name and logo in marketing our products and services for only a limited period of time. Pursuant to a transitional trademark license agreement, GE granted us the right to use the GE mark and the GE monogram for up to five years after the IPO in connection with our products and services. GE also granted us the right to use GE, General Electric and GE Capital in the corporate names of our subsidiaries until the earlier of twelve months after the date on which GE owns less than 20% of our outstanding common stock and May 24, 2009. When our right to use the GE brand name and logo expires, we may not be able to maintain or enjoy comparable name recognition or status under our new brand. In addition, insurance regulators in the U.S. and the other countries where we do business could require us to accelerate the transition to our independent brand. If we are unable to successfully manage the transition of our business to our new brand, our reputation among our independent sales intermediaries, customers and employees could be adversely affected.

Our historical and pro forma financial information is not necessarily representative of the results we would have achieved as a stand-alone company and may not be a reliable indicator of our future results.

The historical and pro forma financial information included in this prospectus does not reflect the financial condition, results of operations or cash flows we would have achieved as a stand-alone company during the periods presented or those we will achieve in the future. This is primarily a result of the following factors:

Our historical financial information reflects certain businesses that were not included in our company following the completion of our corporate organization and the IPO. For a description of the components of our historical financial information, see Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Our historical and pro forma financial information and our financial statements included elsewhere in this prospectus;

Our historical and pro forma financial results reflect allocations of corporate expenses from GE. Those allocations may be different from the comparable expenses we would have incurred had we operated as a stand-alone company;

Table of Contents

Significant changes in our cost structure, management, financing and business operations have occurred as a result of our separation from GE. As a result, the costs reflected in our historical and pro forma financial statements may not represent our costs in future periods with respect to reduced economies of scale; stand-alone costs for services currently provided by GE; marketing and legal entity transition expenses related to building a company brand identity separate from GE; the need for additional personnel to perform services previously provided by GE; and the legal, accounting, compliance and other costs associated with being a public company with listed equity. See The terms of our arrangements with GE may be more favorable than we would be able to obtain from an unaffiliated third party. We may be unable to replace the services GE provides us in a timely manner or on comparable terms;

Our separation from GE and the adoption of our new brand may have an adverse effect on our relationships with distributors, customers, employees and regulators and government officials, which could result in reduced sales, increased policyholder terminations and withdrawals, increased regulatory scrutiny and disruption to our business operations;

Under some of our agreements, our separation from GE allows the other party to the agreement to terminate the agreement pursuant to a change of control provision, which may be triggered when GE s ownership of our company decreases to less than 50%. If the other party to any of these agreements does not wish to continue the agreement, then we may be required to terminate or modify our existing agreement or seek alternative arrangements, which could result in reduced sales, increased costs or other disruptions to our business; and

The pro forma financial information presented in this prospectus gives effect to several significant transactions that we implemented prior to the completion of the IPO, including the reinsurance transactions with UFLIC, as if those transactions had already been consummated. The unaudited pro forma financial information gives effect to these transactions as if each had occurred as of January 1, 2004. This pro forma financial information is based upon available information and assumptions that we believe are reasonable. However, this pro forma financial information is for illustrative and informational purposes only and is not intended to represent or be indicative of what our results of operations would have been had those transactions occurred as of January 1, 2004, nor what they may be in the future.

The terms of our arrangements with GE may be more favorable than we would be able to obtain from an unaffiliated third party. We may be unable to replace the services GE provides us in a timely manner or on comparable terms.

We and GE entered into a transition services agreement and other agreements in connection with the IPO. Pursuant to these arrangements, GE and its affiliates agreed to provide us with a variety of services, including investment management, treasury, payroll and other financial services, human resources and employee benefit services, legal services, information systems and network services, and procurement and sourcing support.

We negotiated these arrangements with GE in the context of a parent-subsidiary relationship. Although GE is contractually obligated to provide us with services during the terms of these arrangements, we cannot assure you that these services will be sustained at the same level after the expiration of those arrangements, or that we will be able to replace these services in a timely manner or on comparable terms. Other agreements with GE also govern the relationship between us and GE and provide for the allocation of employee benefit, tax and other liabilities and obligations attributable or related to periods or events prior to the IPO. They also contain terms and provisions that may be more favorable than terms and provisions we might have obtained in arm s-length negotiations with unaffiliated third parties. When GE ceases to provide services pursuant to those arrangements, our costs of procuring those services from third parties may increase. See Arrangements Between GE and Our Company Relationship with GE.

In addition, under the transition services agreement and other agreements, GE is obligated to provide us with certain services only so long as GE owns more than 50% of our outstanding common stock. We have been

preparing for the transition of these services from GE to us or to third-party providers. However, we cannot assure you that we will be in position to complete the transition of those services by the time that GE ceases to own more than 50% of our outstanding common stock.

We have agreed to make payments to GE based on the projected amounts of certain tax savings, and these payments will remain fixed even if, because of insufficient taxable income or as a result of reduced tax rates, our actual tax savings are less than projected.

We entered into a tax matters agreement with GE in connection with the IPO. We refer to this agreement in this prospectus as the Tax Matters Agreement. Under the Tax Matters Agreement, we have an obligation to pay to GE a fixed amount over approximately 18 years. This fixed obligation equals 80% of the tax savings we are projected to realize (subject to a maximum amount) as a result of the tax elections made in connection with our separation from GE. The present value of our fixed obligations that we project would be approximately $389 million. Our obligation to GE could change, however, if the facts or assumptions on which we base our projections are not borne out, and the present value of our obligations may increase as a result. However, except for specified contingent benefits and excluding interest on payments we defer, our total payments to GE will not exceed $640 million. Although the Tax Matters Agreement generally provides for increases or reductions to our payment obligations if the current facts and assumptions underlying the projected tax savings prove inaccurate, it does not provide for reductions in our obligations if we fail to generate sufficient income to realize the projected tax savings or if our actual tax savings are reduced as a result of reduced tax rates. In these circumstances, we will remain obligated to pay to GE the fixed obligation, as initially projected or subsequently adjusted, even though it exceeds 80%, or even 100%, of the tax savings we actually realize. If the amounts we are obligated to pay to GE remain fixed while the tax savings we actually realize decline, there could be a material adverse effect on our financial condition and results of operations. See Arrangements Between GE and Our Company Relationship with GE Tax Matters Agreement.

In the event of a change in control of our company, our obligations under the Tax Matters Agreement could accelerate, and we cannot assure you that we will have sufficient funds to meet these obligations.

In some circumstances, such as a change in control over the management and policies of our company (other than through a sale of our stock by GE), the amounts we owe under the Tax Matters Agreement could accelerate, and the amounts then due and payable could be substantial. The acceleration of payments would be subject to the approval of certain state insurance regulators, and we are obligated to use our reasonable best efforts to seek these approvals. In the event these approvals are granted and the acceleration of payments does occur, we cannot assure you that we will have sufficient funds available to meet these accelerated obligations when due. If we do not have sufficient funds available, we may seek to fund these obligations from dividends or other payments from our subsidiaries, but we cannot be certain that they will have sufficient funds available or be permitted to transfer them to us. See As a holding company, we depend on the ability of our subsidiaries to transfer funds to us to pay dividends and to meet our obligations. We also may seek to fund these obligations from the proceeds of the issuance of debt or equity securities or the sale of assets, but we cannot assure you that we will be able to successfully issue any securities or consummate an asset sale.

Under the Tax Matters Agreement, GE controls certain tax returns and audits that can result in tax liability for us.

Under the Tax Matters Agreement, GE has retained control over the preparation and filing, as well as the contests, audits and amendments or other changes of certain pre-IPO federal income tax returns with respect to which we remain liable for taxes. In addition, determinations regarding the allocation to us of responsibility to pay taxes for pre-IPO periods will be made by GE in its reasonable discretion. Although the Tax Matters Agreement provides that we are not liable for taxes resulting from returns filed or matters settled by GE without our consent if the return or settlement position is found to be unreasonable, taking into account both the liability that we incur and any non-Genworth tax benefit, it is possible that we will pay more taxes than we would have paid if we were permitted to control such matters.

39

Table of Contents

GE has significant control over us and may not exercise its control in a way that benefits our public securityholders.

Upon the completion of this offering and the stock repurchase, GE will beneficially own approximately 52% of our outstanding common stock. GE has indicated that it expects, subject to market conditions, to reduce its ownership over the next two years as we transition to full independence. GE has also informed us that, in any event, it expects to reduce its interest in us to below 50% by value by May 27, 2006 (in satisfaction of a condition to a tax ruling secured in connection with the IPO). GE has adopted a formal Plan of Divestiture embodying this expectation to reduce its interest below 50% and has represented to the Internal Revenue Service, or IRS, that it will accomplish the divestiture. The adverse financial consequences to GE from a failure to effect the divestiture below 50% are significant. However, so long as GE continues to beneficially own more than 50% of our outstanding voting stock, GE generally will be able to determine the outcome of many corporate actions requiring stockholder approval. GE, in its capacity as the beneficial holder of all outstanding shares of our Class B Common Stock, also has the right to elect a majority of the members of our board of directors so long as it continues to beneficially own more than 50% of our outstanding common stock and will have the right to elect a decreasing percentage of the members of our board of directors as its beneficial ownership of our common stock decreases. In addition, until the first date on which GE owns less than 20% of our outstanding common stock, the prior affirmative vote or written consent of GE is required for the following actions (subject in each case to certain agreed exceptions):

- a merger involving us or any of our subsidiaries (other than mergers involving our subsidiaries to effect acquisitions for a price less than or equal to $700 million and acquisitions for a price less than or equal to $1 billion at any time that GEFAHI owns 45% or less of our outstanding common stock);

- acquisitions by us or our subsidiaries of the stock or assets of another business for a price (including assumed debt) in excess of $700 million (other than acquisitions for a price less than or equal to $1 billion at any time that GEFAHI owns 45% or less of our outstanding common stock);

- dispositions by us or our subsidiaries of assets in a single transaction or a series of related transactions for a price (including assumed debt) in excess of $700 million;

- incurrence or guarantee of debt by us or our subsidiaries in excess of $700 million outstanding at any one time or that would reasonably be expected to result in a negative change in any of our credit ratings, which does not apply to debt incurred in connection with our corporate reorganization, the $1.9 billion of senior notes issued in June 2004, $500 million of commercial paper, intercompany debt (within Genworth) or liabilities under certain agreed excluded transactions (provided that any debt (other than debt incurred under our five-year and 364-day revolving credit facilities to fund liabilities under funding agreements or guaranteed investment contracts issued by our subsidiaries that are regulated life insurance companies, or cash payments in connection with insurance policy surrenders and withdrawals) in excess of $500 million outstanding at any one time incurred under those credit facilities or our commercial paper program will be subject to the $700 million limitation described above);

- issuance by us or our subsidiaries of capital stock or other securities convertible into capital stock;

- dissolution, liquidation or winding up of our company; and

- alteration, amendment, termination or repeal, or adoption of any provision inconsistent with, certain provisions of our certificate of incorporation or our bylaws.

GE also can exercise control over our company in certain respects pursuant to contractual rights under the master agreement and other arrangements discussed under Arrangements Between GE and Our Company.

Because GE s interests may differ from your interests, actions GE takes with respect to us, as our controlling stockholder, and with respect to those corporate actions requiring its prior affirmative written consent described above, may not be favorable to you.

Table of Contents

We derive a significant portion of the premiums in our payment protection insurance business from transactions with GE.

For the years ended December 31, 2004, 2003 and 2002, GE s consumer finance division and other related GE entities accounted for 42%, 19% and 14% of our payment protection insurance gross written premiums, respectively. In early 2004, we entered into a five-year agreement, subject to certain early termination provisions, that extends our relationship with GE s consumer finance division and provides us with the right to be the exclusive provider of payment protection insurance in Europe for GE s consumer finance operations in jurisdictions where we offer these products. However, if GE determines not to offer payment protection insurance, we may not be able to replace those revenues on a timely basis, and our financial condition and results of operations could suffer. See Business Protection Products Payment protection insurance.

If GE engages in the same type of business we conduct, our ability to successfully operate and expand our business may be hampered.

Our certificate of incorporation provides that, subject to any contractual provision to the contrary, GE will have no obligation to refrain from:

- engaging in the same or similar business activities or lines of business as us; or
- doing business with, or in competition with, any of our clients, customers or vendors.

GE is a diversified technology and services company with significant financial services businesses, including consumer finance, asset management and insurance activities. GE is engaged in the marketing of supplemental life insurance, including accidental death and dismemberment coverage and in the marketing and underwriting of dental and vision insurance, medical stop-loss insurance and primary property and casualty insurance. In addition, GE operates a significant reinsurance business, including life reinsurance, a life insurance business in the U.K. and a savings and pension business in France. Because of GE s significant financial resources, GE could have a significant competitive advantage over us should it decide to engage in businesses that compete with any of the businesses we conduct.

GE has generally agreed not to use the GE mark or the GE monogram or the name General Electric until May 24, 2009 in connection with the marketing or underwriting on a primary basis of life insurance, long-term care insurance, annuities, or group life and health insurance in the U.S., or of auto insurance products in Mexico, and the underwriting or issuing of mortgage insurance products anywhere in the world. GE s agreement to restrict the use of its brand will terminate earlier upon the occurrence of certain events, including termination of our transitional trademark license agreement with GE and our discontinuation of the use of the GE mark or the GE monogram. In addition, GE Consumer Finance, the consumer finance division of GE, has generally agreed to distribute on an exclusive basis our payment protection insurance products in certain European countries for five years, unless earlier terminated. See Business Protection Products Payment protection insurance.

Conflicts of interest may arise between us and GE that could be resolved in a manner unfavorable to us.

Questions relating to conflicts of interest may arise between us and GE in a number of areas relating to our past and ongoing relationships. Five of our directors were designated to our board of directors by GE. One of these directors is both an officer and director of GE, and the other four of these directors are also officers of GE. These directors and a number of our officers own substantial amounts of GE stock and options to purchase GE stock, and all of them participate in GE pension plans. Ownership interests of our directors or officers in GE shares, or service as a director or officer of both our company and GE, could give rise to potential conflicts of interest when a director or officer is faced with a decision that could have different implications for the two companies. These potential conflicts could arise, for example, over matters such as the desirability of an acquisition opportunity, employee retention or recruiting, or our dividend policy.

Table of Contents

The corporate opportunity policy set forth in our certificate of incorporation addresses potential conflicts of interest between our company, on the one hand, and GE and its officers and directors who are directors of our company, on the other hand. Although these provisions are designed to resolve conflicts between us and GE fairly, we cannot assure you that any conflicts will be so resolved. The principles for resolving such potential conflicts of interest are described under Description of Capital Stock Provisions of Our Certificate of Incorporation Relating to Related-Party Transactions and Corporate Opportunities.

Risks Relating to This Offering

Future sales of a substantial number of shares of our common stock may depress the price of our shares.

If our stockholders sell a large number of shares of our common stock, or if we issue a large number of shares of our common stock in connection with future acquisitions, financings, or other circumstances, the market price of shares of our common stock could decline significantly. Moreover, the perception in the public market that our stockholders might sell shares of our common stock could depress the market price of those shares.

GE has indicated that it expects, subject to market conditions, to reduce its ownership in us over the next two years as we transition to full independence. As a result, subject to the lock-up arrangements described below, GE could sell all or a substantial portion of the remaining interest in our common stock in the near future. See Shares Eligible for Future Sale.

All the shares sold in this offering will be freely tradable without restriction, except for shares owned by any of our affiliates, including GE. Immediately after the completion of this offering and the stock repurchase, the public market for our common stock will include 227.0 million shares of Class A Common Stock. In addition, we have registered 38.0 million shares of Class A Common Stock, which are reserved for issuance under our employee benefit plans. These shares may be sold in the public market upon issuance, subject to restrictions under securities laws applicable to resales by affiliates. In addition, in connection with the IPO, we granted GE demand and piggyback registration rights with respect to the shares of our common stock it will continue to hold following completion of this offering. GE may exercise its demand and piggyback registration rights, and any shares so registered will be freely tradable in the public market, except for shares acquired by any of our affiliates. See Arrangements Between GE and Our Company Relationship with GE Registration Rights Agreement and Shares Eligible for Future Sale.

We, GEFAHI and our directors and executive officers have entered into lock-up agreements in which they have agreed that they will not sell, directly or indirectly, any common stock for a period of 180 days, in the case of GEFAHI, or 90 days, in the case of our directors and executive officers, from the date of this prospectus (subject to certain exceptions) without the prior written consent of Morgan Stanley & Co. Incorporated. See Shares Eligible for Future Sale.

The price of our common stock may be volatile and may be affected by market conditions beyond our control.

Our share price is likely to fluctuate in the future because of the volatility of the stock market in general and as a result of a variety of other factors, many of which are beyond our control, including:

quarterly variations in actual or anticipated results of our operations (including for individual products);

interest rate fluctuations;

changes in financial estimates by securities analysts, our failure to meet the expectations of securities analysts and investors or our failure to achieve any forward-looking expectations that we may have previously announced;

actions or announcements by our competitors;

- regulatory actions relating to our company, other insurance companies or the insurance industry generally;
- changes in the market outlook for the insurance industry;
- departure of our key personnel; and
- future sales of our common stock.

The stock market has recently experienced extreme price and volume fluctuations. The market prices of securities of insurance and financial services companies have experienced fluctuations that often have been unrelated or disproportionate to the operating results of these companies. These market fluctuations could result in extreme volatility in the price of shares of our common stock, which could cause a decline in the value of your investment. You should also be aware that price volatility may be greater if the public float and trading volume of shares of our common stock is low.

In addition, the price of our Class A Common Stock may be adversely affected by the market for the Equity Units. For example, the price of our Class A Common Stock may become volatile and depressed by investors anticipation of the potential distribution into the market of substantial additional amounts of our Class A Common Stock upon the maturity of the Equity Units, by those investors who view the Equity Units as a more attractive means of equity participation in our company and by hedging or arbitrage trading activity that may develop involving the Equity Units and/or our Class A Common Stock.

Applicable laws, provisions of our certificate of incorporation and by-laws and our Tax Matters Agreement with GE may discourage takeover attempts and business combinations that stockholders might consider in their best interests.

Applicable laws, provisions of our certificate of incorporation and by-laws and our Tax Matters Agreement may delay, deter, prevent or render more difficult a takeover attempt that our stockholders might consider in their best interests. For example, they may prevent our stockholders from receiving the benefit from any premium to the market price of our common stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging takeover attempts in the future.

Various states and non-U.S. jurisdictions in which our insurance companies are domiciled or deemed domiciled must approve any acquisition of or change in control of those insurance companies. Under most states statutes, an entity is presumed to have control of an insurance company if it owns, directly or indirectly, 10% or more of the voting stock of that insurance company. These regulatory restrictions may delay, deter or prevent a potential merger or sale of our company, even if our board of directors decides that it is in the best interests of stockholders for us to merge or be sold. These restrictions also may delay sales by us or acquisitions by third parties of our subsidiaries.

Section 203 of the Delaware General Corporation Law may affect the ability of an interested stockholder to engage in certain business combinations, including mergers, consolidation or acquisitions of additional shares, for a period of three years following the time that the stockholder becomes an interested stockholder. An interested stockholder is defined to include persons owning directly or indirectly 15% or more of the outstanding voting stock of a corporation. However, our certificate of incorporation provides that we will not be governed by Section 203 of the Delaware General Corporation Law until GE reduces its ownership interest in us to less than 15% of our outstanding common stock.

Our certificate of incorporation and by-laws include provisions that may have anti-takeover effects and may delay, deter or prevent a takeover attempt that our stockholders might consider in their best interests. For example, our certificate of incorporation and by-laws:

- permit our board of directors to issue one or more series of preferred stock;

- limit the ability of stockholders to remove directors;

- limit the ability of stockholders to fill vacancies on our board of directors;
- limit the ability of stockholders to call special meetings of stockholders and take action by written consent; and
- impose advance notice requirements for stockholder proposals and nominations of directors to be considered at stockholder meetings.

Under our Tax Matters Agreement with GE, if any person or group of persons other than GE or its affiliates gains the power to direct the management and policies of our company (other than through a sale of our stock by GE), we could become obligated immediately to pay to GE the total present value of all tax benefit payments due to GE under the agreement from the time of the change in control until the end of the 25-year term of the agreement. We currently project this amount to be $389 million. Similarly, if any person or group of persons other than us or our affiliates gains effective control of one of our subsidiaries (other than through a sale of our stock by GE), we could become obligated to pay to GE the total present value of all such payments due to GE allocable to that subsidiary, unless the subsidiary assumes the obligation to pay these future amounts under the Tax Matters Agreement and certain conditions are met. The acceleration of payments would be subject to the approval of certain state insurance regulators, and we are obligated to use our reasonable best efforts to seek these approvals. This feature of the agreement could adversely affect a potential merger or sale of our company. It could also limit our flexibility to dispose of one or more of our subsidiaries, with adverse implications for any business strategy dependent on such dispositions. See Arrangements Between GE and Our Company Relationship with GE Tax Matters Agreement.

Table of Contents

Forward-Looking Statements

Some of the statements under Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business and elsewhere in this prospectus include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as expects, intends, anticipates, plans, believes, seeks, estimates, will, or words of similar meaning and include, but are not limited to, statements regarding the outlook for our future business and financial performance. Forward-looking statements are based on management s current expectations and assumptions, which are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Actual outcomes and results may differ materially due to global political, economic, business, competitive, market, regulatory and other factors, many of which are beyond our control. We believe that these factors include, but are not limited to, those described under Risk Factors and elsewhere in this prospectus. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

Use of Proceeds

We will not receive any proceeds from the sale by the selling stockholder of Class A Common Stock in this offering.

Price Range of Common Stock

Our Class A Common Stock is listed on the New York Stock Exchange under the symbol GNW. The following table sets forth the high and low intraday sales prices per share of our Class A Common Stock, as reported by the New York Stock Exchange, since the IPO for the periods indicated.

	High	Low
2004		
Second Quarter (from May 25, 2004)	$ 23.04	$ 18.75
Third Quarter	23.99	20.75
Fourth Quarter	27.84	22.77
2005		
First Quarter (through March 23, 2005)	29.80	25.72

The last reported sale price of our Class A Common Stock on the New York Stock Exchange on March 23, 2005 was $26.75 per share.

As of March 1, 2005, we had 41 holders of record of our Class A Common Stock.

All the shares of Class B Common Stock are owned by GEFAHI, and there is no public market for these shares.

Dividend Policy

Since the IPO, we declared quarterly dividends of $0.065 per share of common stock on September 8, 2004 and December 1, 2004 and paid those dividends on October 27, 2004 and January 27, 2005, respectively. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our board of directors and will depend upon many factors, including our financial condition, earnings, capital requirements of our operating subsidiaries, legal requirements, regulatory constraints and other factors as the board of directors deems relevant.

We are a holding company and have no direct operations. As a result, our ability to pay dividends in the future will depend on receiving dividends from our subsidiaries. Our insurance subsidiaries are subject to the laws of the jurisdictions in which they are domiciled and licensed and consequently are limited in the amount of dividends that they can pay. See Regulation.

Table of Contents

Capitalization

The following table sets forth our cash and cash equivalents and capitalization as of December 31, 2004 on an actual basis and as adjusted to give effect to the repurchase of $500 million of our shares of Class B Common Stock concurrently with the closing of this offering. This offering will not have an impact on the amounts shown in this table (except for the reclassification of issued and outstanding shares from Class B Common Stock to Class A Common Stock).

You should read this information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the related notes included elsewhere in this prospectus.

	December 31, 2004	
(Dollar amounts in millions)	**Actual**	**As Adjusted**
Cash and cash equivalents	$ 1,392	$ 892
Borrowings and other obligations:		
Short-term borrowings	$ 559	$ 559
Long-term borrowings:		
Yen Notes	547	547
Senior Notes	1,895	1,895
Total long-term borrowings	2,442	2,442
Non-recourse funding obligations(1)	900	900
Borrowings related to securitization entities(2)	849	849
3.84% senior notes due 2009 underlying Equity Units(3)	600	600
Series A Preferred Stock, mandatorily redeemable, liquidation preference $50 per share	100	100
Total borrowings and other obligations	5,450	5,450
Stockholders interest:		
Class A Common Stock, $0.001 par value; 1.5 billion shares authorized; 146.5 million shares issued and outstanding, actual; 227.0 million shares issued and outstanding, as adjusted		
Class B Common Stock, $0.001 par value; 700 million shares authorized; 343.1 million shares issued and outstanding, actual; 262.6 million shares issued and outstanding (including 19.4 million shares held in treasury), as adjusted		
Additional paid-in capital	10,612	10,612
Total paid-in capital	10,612	10,612
Accumulated nonowner changes in stockholders interest	1,609	1,609
Retained earnings	645	645
Treasury stock, at cost		(500)
Total stockholders interest	12,866	12,366
Total capitalization	$ 18,316	$ 17,816

(1) For a description of the non-recourse funding obligations, see Description of Certain Indebtedness Non-recourse Funding Obligations.

(2) Reflects borrowings associated with certain securitization entities that we were required to include in our financial statements upon adoption of FASB Interpretation 46, *Consolidation of Variable Interest Entities.* Upon its adoption, GE Capital, of which we are an indirect subsidiary, was required to consolidate the funding conduit it sponsored. As a result, assets and liabilities of certain previously off-balance sheet securitization entities were required to be included in our financial statements because the funding conduit no longer qualified as a third party. For more information regarding these arrangements, see Management s Discussion and Analysis of Financial Condition and Results of Operations Off-balance Sheet Transactions.

(3) Represents notes forming part of the Equity Units. For a description of the terms of our Equity Units, see Description of Equity Units.

Table of Contents

Selected Historical and Pro Forma Financial Information

The following table sets forth selected historical and pro forma financial information. The selected historical financial information as of December 31, 2004 and 2003, and for the years ended December 31, 2004, 2003 and 2002 has been derived from our financial statements, which have been audited by KPMG LLP and are included elsewhere in this prospectus. The selected pro forma financial information for the year ended December 31, 2004 is unaudited and has been derived from our financial statements. You should read this information in conjunction with the information under Management s Discussion and Analysis of Financial Condition and Results of Operations, our financial statements, the related notes and the accompanying independent registered public accounting firm s report (which refers to a change in accounting for certain nontraditional long-duration contracts and for separate accounts in 2004, variable interest entities in 2003 and goodwill and other intangible assets in 2002), which are included elsewhere in this prospectus.

In connection with the IPO, we acquired substantially all of the assets and liabilities of GEFAHI. We also acquired certain other insurance businesses that were owned by other GE subsidiaries but managed by members of the Genworth management team. These businesses include international mortgage insurance, payment protection insurance based in Europe, a Bermuda reinsurer and mortgage contract underwriting. In consideration for the assets that we acquired and the liabilities that we assumed in connection with our corporate reorganization, we issued to GEFAHI 489.5 million shares of our Class B Common Stock, $600 million of our Equity Units, $100 million of our Series A Preferred Stock, a $2.4 billion note and the $550 million Contingent Note. Shortly after the completion of the IPO, we refinanced the $2.4 billion note with the proceeds of $1.9 billion of senior notes and $500 million of commercial paper.

We have prepared our financial statements as if Genworth had been in existence throughout all relevant periods. Our historical financial statements include all businesses that were owned by GEFAHI, including those that were not transferred to us, as well as the other insurance businesses that we acquired from other GE subsidiaries, each in connection with our corporate reorganization.

Prior to the completion of the IPO, we entered into several significant reinsurance transactions with UFLIC, an indirect, wholly-owned subsidiary of GE. As part of these transactions, we ceded to UFLIC, effective as of January 1, 2004, policy obligations under our structured settlement contracts, which had reserves of $12.0 billion, and our variable annuity contracts, which had general account reserves of $2.8 billion and separate account reserves of $7.9 billion, each as of December 31, 2003. These contracts represent substantially all of our contracts that were in force as of December 31, 2003 for these products. In addition, effective as of January 1, 2004, we ceded to UFLIC policy obligations under a block of long-term care insurance policies that we reinsured from Travelers, which had reserves of $1.5 billion, as of December 31, 2003. In the aggregate, these blocks of business did not meet our target return thresholds, and although we remain liable under these contracts and policies as the ceding insurer, the reinsurance transactions have the effect of transferring the financial results of the reinsured blocks to UFLIC. In addition, as part of the reinsurance transactions, UFLIC ceded to us substantially all of its in-force blocks of Medicare supplement insurance. As of December 31, 2003, these blocks of business had aggregate reserves of $19 million.

The unaudited pro forma financial information set forth below reflects our historical financial information, as adjusted to give effect to the transactions described below, as if each had occurred as of January 1, 2004. The following transactions are reflected in the pro forma financial information:

- the removal of certain businesses of GEFAHI that were not transferred to us in connection with our corporate reorganization;

- the reinsurance transactions with UFLIC, including a capital contribution of $1.836 billion to UFLIC;

the issuance of equity and debt securities to GEFAHI in exchange for the assets that we acquired and the liabilities that we assumed in connection with our corporate reorganization;

Table of Contents

the issuance and sale of $1.9 billion aggregate principal amount of senior notes and $500 million of commercial paper; and

the other adjustments described below in the notes to the unaudited pro forma financial information.

The unaudited pro forma financial information below is based upon available information and assumptions that we believe are reasonable. The unaudited pro forma financial information is for illustrative and informational purposes only and is not intended to represent or be indicative of what our results of operations would have been had the transactions described above occurred as of January 1, 2004. The unaudited pro forma financial information also should not be considered representative of our future results of operations.

In addition to the pro forma adjustments to our historical statement of earnings, various other factors will have an effect on our financial condition and results of operations, including those discussed under Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Historical					Pro forma
	Years ended December 31,					Year ended December 31,
(Amounts in millions, except per share amounts)	2004	2003(1)	2002	2001	2000(2)	2004
Statement of Earnings Information						
Revenues:						
Premiums	$ 6,559	$ 6,707	$ 6,107	$ 6,012	$ 5,233	$ 6,388
Net investment income	3,648	4,051	3,979	3,895	3,678	3,160
Net realized investment gains	26	10	204	201	262	23
Policy fees and other income	824	915	939	993	1,053	664
Total revenues	11,057	11,683	11,229	11,101	10,226	10,235
Benefits and expenses:						
Benefits and other changes in policy reserves	4,804	5,270	4,640	4,474	3,586	4,340
Interest credited	1,432	1,624	1,645	1,620	1,456	1,319
Underwriting, acquisition, and insurance expenses, net of deferrals	1,812	1,916	1,808	1,823	1,813	1,657
Amortization of deferred acquisition costs and intangibles(3)	1,154	1,351	1,221	1,237	1,394	1,052
Interest expense	217	140	124	126	126	243
Total benefits and expenses	9,419	10,301	9,438	9,280	8,375	8,611
Earnings from continuing operations before income taxes	1,638	1,382	1,791	1,821	1,851	1,624
Provision for income taxes	493	413	411	590	576	494
Net earnings from continuing operations	$ 1,145	$ 969	$ 1,380	$ 1,231	$ 1,275	$ 1,130(4)
Net earnings from continuing operations per share(5):						
Basic	$ 2.34	$ 1.98	$ 2.82			$ 2.31
Diluted	$ 2.33	$ 1.98	$ 2.82			$ 2.30

Shares outstanding(5):						
Basic	489.5	489.5	489.5			489.5
Diluted	490.5	489.5	489.5			490.5
Selected Segment Information						
Total revenues:						
Protection	$ 6,064	$ 6,143	$ 5,605	$ 5,443	$ 4,917	$ 5,935
Retirement Income and Investments	3,361	3,803	3,756	3,721	3,137	2,891
Mortgage Insurance	1,090	982	946	965	895	1,090
Affinity(6)	218	566	588	687	817	
Corporate and Other	324	189	334	285	460	319
Total	$ 11,057	$ 11,683	$ 11,229	$ 11,101	$ 10,226	$ 10,235
Net earnings (loss) from continuing operations:						
Protection	$ 528	$ 487	$ 554	$ 538	$ 492	$ 527
Retirement Income and Investments	153	151	186	215	250	148
Mortgage Insurance	426	369	451	428	414	426
Affinity(6)	(14)	16	(3)	24	(13)	
Corporate and Other	52	(54)	192	26	132	29
Total	$ 1,145	$ 969	$ 1,380	$ 1,231	$ 1,275	$ 1,130

Table of Contents

(Dollar amounts in millions)	December 31, 2004	2003(1)	2002	2001	2000(2)
Statement of Financial Position Information					
Total investments	$ 65,747	$ 78,693	$ 72,080	$ 62,977	$ 54,978
All other assets	38,131	24,738	45,277	41,021	44,598
Total assets	$ 103,878	$ 103,431	$ 117,357	$ 103,998	$ 99,576
Policyholder liabilities	$ 69,262	$ 66,545	$ 63,195	$ 55,900	$ 48,291
Non-recourse funding obligations(7)	900	600			
Short-term borrowings	559	2,239	1,850	1,752	2,258
Long-term borrowings	2,442	529	472	622	175
All other liabilities	17,849	17,718	35,088	31,559	35,865
Total liabilities	$ 91,012	$ 87,631	$ 100,605	$ 89,833	$ 86,589
Accumulated nonowner changes in stockholders interest	$ 1,609	$ 1,672	$ 835	$ (664)	$ (424)
Total stockholders interest	12,866	15,800	16,752	14,165	12,987
U.S. Statutory Information(8)					
Statutory capital and surplus	6,439	7,021	7,207	7,940	7,119
Asset valuation reserve	427	413	390	477	497

(1) On August 29, 2003, we sold our Japanese life insurance and domestic auto and homeowners insurance businesses for aggregate cash proceeds of approximately $2.1 billion, consisting of $1.6 billion paid to us and $0.5 billion paid to other GE affiliates, plus pre-closing dividends. See note 5 to our financial statements, included elsewhere in this prospectus.

(2) During 2000, we consummated three significant business combinations:

In July 2000, we reinsured 90% of Travelers long-term care insurance portfolio and acquired certain related assets for $411 million;

In April 2000, we acquired Phoenix American Life Insurance Company for $284 million; and

Effective March 2000, we acquired the insurance policies and related assets of Toho Mutual Life Insurance Company. Our Japanese life insurance business assumed $21.6 billion of policyholder liabilities and $0.3 billion of accounts payable and accrued expenses and acquired $20.3 billion in cash, investments and other tangible assets through this transaction. We sold this business on August 29, 2003, and its results have been presented as discontinued operations.

(3) As of January 1, 2002, we adopted Statement of Financial Accounting Standards 142, *Goodwill and Other Intangible Assets,* and, in accordance with its provisions, discontinued amortization of goodwill. Goodwill amortization was $84 million and $70 million for the years ended December 31, 2001 and 2000, respectively, excluding goodwill amortization included in discontinued operations.

(4) Pro forma net operating earnings for the year ended December 31, 2004 were $1,044 million. We define pro forma net operating earnings as pro forma net earnings from continuing operations, excluding pro forma after-tax net realized investment gains and losses (which can fluctuate significantly from period to period), changes in accounting principles and non-recurring, infrequent or unusual items. There were no non-recurring, infrequent or unusual items excluded from pro forma net operating earnings for the year ended December 31, 2004, other than an IPO-related net tax benefit and a gain related to our waiver of contractual rights under an outsourcing services agreement with GE s global business processing operation, 60% of which was sold in the fourth quarter of 2004. We believe that analysis of pro forma net operating earnings enhances understanding and comparability of performance by highlighting underlying business activity and profitability drivers. However, pro forma net operating earnings should not be viewed as a substitute for GAAP net earnings. In addition, our definition of pro forma net operating earnings may differ from the definitions used by other companies. The following table provides a reconciliation of pro forma net operating earnings (as defined above) to pro forma net earnings from continuing operations:

(Dollar amounts in millions)	Year ended December 31, 2004
Pro forma net earnings from continuing operations	$ 1,130
Pro forma net realized (gains) on investments, net of taxes	(15)

Net tax benefit related to initial public offering		(46)
Gain on outsourcing services agreement, net of taxes		(25)
Pro forma net operating earnings	$	1,044

(5) Basic and diluted net earnings from continuing operations per share for the year ended December 31, 2004 are calculated by dividing the net earnings from continuing operations by 489.5 million weighted average basic shares outstanding and by 490.5 million weighted average diluted shares outstanding, respectively. Basic and diluted net earnings from continuing operations per share for the years ending December 31, 2003 and 2002 were calculated by dividing net earnings from continuing operations by 489.5 million pro forma shares outstanding. The number of shares used in our calculation of diluted earnings per share increased in 2004 due to additional shares of Class A Common Stock issuable under stock options and restricted stock units and is calculated using the treasury method.

(6) Reflects the results of businesses that were owned by GEFAHI but were not transferred to us in connection with our corporate reorganization, including (a) the Partnership Marketing Group business, (b) an institutional asset management business, and (c) several other small businesses that were not part of our core ongoing business. See Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Our historical and pro forma financial information.

(7) For a description of the non-recourse funding obligations, see Description of Indebtedness Non-recourse Funding Obligations.

(8) Includes statutory capital and surplus and statutorily required contingency reserves held by our U.S. mortgage insurance subsidiaries. In December 2004, our U.S. mortgage insurance business released $700 million of statutory contingency reserves and paid that amount as a dividend to the holding company of that business.

Table of Contents

Pro Forma Financial Information

(Amounts in millions, except per share amounts)	Historical	Pro forma adjustments excluded assets and liabilities	Pro forma adjustments reinsurance transactions	Pro forma adjustments capital structure	Pro forma
	Year ended December 31, 2004				
Revenues:					
Premiums	$ 6,559	$ (80)(a)	$ (91)(d)	$	$ 6,388
Net investment income	3,648	(27)(a)	(431)(d)		3,160
		(1)(b)	(29)(e)		
Net realized investment gains	26	(3)(c)			23
Policy fees and other income	824	(103)(a)	(57)(d)		664
Total revenues	11,057	(214)	(608)		10,235
Benefits and expenses:					
Benefits and other changes in policy reserves	4,804	(71)(a)	(393)(d)		4,340
Interest credited	1,432		(113)(d)		1,319
Underwriting, acquisition, and insurance expenses, net of deferrals	1,812	(117)(a)	(38)(d)		1,657
Amortization of deferred acquisition costs and intangibles	1,154	(46)(a)	(56)(d)		1,052
Interest expense	217			(40)(f)	243
				12 (g)	
				9 (h)	
				45 (i)	
Total benefits and expenses	9,419	(234)	(600)	26	8,611
Earnings from continuing operations before income taxes	1,638	20	(8)	(26)	1,624
Provision for income taxes	493	14 (a)	(4)(d)	(8)(j)	494
		(1)(c)			
Net earnings from continuing operations	$ 1,145	$ 7	$ (4)	$ (18)	$ 1,130
Net earnings from continuing operations per share:					
Basic	$ 2.34				$ 2.31
Diluted	$ 2.33				$ 2.30
Number of shares outstanding:					

Basic	489.5	489.5
Diluted	490.5	490.5

Notes to unaudited pro forma financial information

(a) Reflects adjustments to exclude amounts included in our historical earnings relating to results of operations of businesses (formerly reported in our Affinity segment) that were not transferred to us. The exclusion of these businesses from our historical financial statements was accounted for as a pre-IPO dividend to GEFAHI in 2004.

(b) Reflects adjustments to exclude amounts included in our historical earnings relating to results of operations of certain investment partnerships that were not transferred to us. The exclusion of these partnerships from our historical financial statements was accounted for as a pre-IPO dividend to GEFAHI in 2004.

(c) Reflects adjustments to exclude amounts included in our historical earnings relating to net realized investment (gains) losses and related income tax benefits, attributable to sales of Affinity segment assets. In our historical financial statements, net realized (gains) losses are reflected in the Corporate and Other segment.

(d) Reflects adjustments to record the effects of the reinsurance transactions we entered into with, and the related contribution we made to, UFLIC, an indirect subsidiary of GE. As part of these transactions, effective as of January 1, 2004, we ceded to UFLIC policy obligations under our structured settlement contracts and our variable annuity contracts. In addition, effective as of January 1, 2004, we ceded to UFLIC policy obligations under a block of long-term care insurance policies. As part of the reinsurance transactions, UFLIC ceded to us substantially all of its in-force blocks of Medicare supplement insurance. Prior to the completion of our corporate reorganization on May 24, 2004, the results of operation of UFLIC were included in our historical results. The unaudited pro forma earnings information gives effect to the reinsurance transactions as if each occurred as of January 1, 2004 and excludes the effects of all ceded reinsured contracts that were issued before January 1, 2004. We have continued to sell variable annuities and structured settlements after completion of the reinsurance transactions and we are retaining that business for our own account, subject to third party reinsurance in the ordinary course of business.

Under the reinsurance transactions, we receive an expense allowance to reimburse us for costs we incur to service the reinsured blocks. Actual costs and expense allowance amounts will be determined by expense studies to be conducted periodically. The pro forma adjustments have been prepared assuming that actual costs incurred during the pro forma periods, as determined under our historical cost structure and allocation methods, were reimbursed by an expense allowance.

(e) Concurrently with the reinsurance transactions described in note (d), we contributed $1.836 billion of capital to UFLIC, which primarily represented the excess statutory capital in our insurance subsidiaries, after giving effect to the reinsurance transactions. Because a significant portion of the assets contributed to UFLIC were not owned for the entire period from January 1, 2004 until the date of the capital contribution, the pro forma adjustments to reduce net investment income and net realized investment gains related to the transferred assets were based upon a proportional allocation of investment income from the investment assets historically identified as (1) supporting the blocks of business reinsured in the reinsurance transactions, and (2) representing surplus of the subsidiaries providing assets that were contributed to UFLIC.

(f) Reflects adjustments to exclude the interest expense included in our historical earnings, adjusted for qualified hedge effects, on commercial paper issued by GEFAHI of $1,696 million and short-term borrowings from GE Capital of $800 million. The commercial paper, short-term borrowings and related derivative contracts liabilities were not transferred to us in connection with our corporate reorganization.

(g) Reflects adjustments to record (1) interest expense and contract adjustment payments on $600 million of our Equity Units and (2) dividends payable on $100 million of our mandatorily redeemable Series A Cumulative Preferred Stock. The senior notes forming part of the Equity Units accrue interest at the rate of 3.84% per year, and the purchase contracts forming part of the Equity Units accrue contract adjustment payments at the rate of 2.16% per year. The Series A Preferred Stock accrues dividends at the rate of 5.25% per year, which is recorded as interest expense. Both the Equity Units and the Series A Preferred Stock were issued to

Table of Contents

GEFAHI on May 24, 2004 in connection with our corporate reorganization, and the interest expense and contract adjustment payments on these securities are included in our historical financial results from that date. GEFAHI sold all the Equity Units and Series A Preferred Stock in public offerings concurrent with our IPO.

(h) Reflects adjustments to record interest expense on our obligation under the Tax Matters Agreement with GE. Interest accretion on the Tax Matters Agreement is reflected in our historical financial results from May 24, 2004, the date of our corporate reorganization, at the rate of 5.72% per year.

(i) Reflects adjustments to record interest expense, net of the impact of hedging arrangements, on long-term borrowings pursuant to $1.9 billion aggregate principal amount of senior notes and $500 million of commercial paper. The effective interest rates for the senior notes (giving effect to hedging arrangements) are as follows: 3.53% per year for the $500 million of 2007 notes, 4.48% per year for the $500 million of 2009 notes, 5.51% per year for the $600 million of 2014 notes, and 6.35% per year for the $300 million of 2034 notes. The weighted-average interest rate on commercial paper outstanding as of December 31, 2004 was 2.38%; the pro forma adjustments have been prepared using the rate assumed at the time of our corporate reorganization, which was 1.07%. Interest expense on these borrowings is included in our historical financial results from the issuance of the senior notes on June 15, 2004 and the commercial paper on June 9, 2004.

(j) Reflects an adjustment to record the tax impact on other pro forma earnings adjustments at a rate of 35%.

Table of Contents

Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited and unaudited historical financial statements and related notes as well as our unaudited pro forma financial statements included elsewhere in this prospectus. The discussion below contains forward-looking statements that are based upon our current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to changes in global political, economic, business, competitive, market and regulatory factors, many of which are beyond our control. See Forward-Looking Statements.

Overview

Our business

We are a leading insurance company in the U.S., with an expanding international presence. We have three operating segments: Protection, Retirement Income and Investments, and Mortgage Insurance.

Protection. We offer U.S. customers life insurance, long-term care insurance and, primarily for companies with fewer than 1,000 employees, group life and health insurance. In Europe, we offer payment protection insurance, which helps consumers meet their payment obligations in the event of illness, involuntary unemployment, disability or death. For the year ended December 31, 2004, our Protection segment had pro forma segment net earnings of $527 million.

Retirement Income and Investments. We offer U.S. customers fixed and variable deferred annuities, income annuities, variable life insurance, asset management and specialized products, including guaranteed investment contracts, funding agreements and structured settlements. For the year ended December 31, 2004, our Retirement Income and Investments segment had pro forma segment net earnings of $148 million.

Mortgage Insurance. In the U.S., Canada, Australia, New Zealand and Europe, we offer mortgage insurance products that facilitate homeownership by enabling borrowers to buy homes with low-down-payment mortgages. For the year ended December 31, 2004, our Mortgage Insurance segment had pro forma segment net earnings of $426 million.

We also have a Corporate and Other segment, which consists primarily of unallocated corporate income and expenses (including amounts accrued in settlement of class action lawsuits), the results of small, non-core businesses that are managed outside our operating segments, most of our interest and other financing expenses and net realized investment gains (losses). For the year ended December 31, 2004, our Corporate and Other segment had pro forma segment net earnings of $29 million.

Our corporate reorganization

We were incorporated in Delaware on October 23, 2003 in preparation for our corporate reorganization and the IPO. In connection with the IPO, we acquired substantially all of the assets and liabilities of GEFAHI. GEFAHI is an indirect subsidiary of GE and prior to the completion of the IPO, was a holding company for a group of companies that provide life insurance, long-term care insurance, group life and health insurance, annuities and other investment products and U.S. mortgage insurance. We also acquired certain other insurance businesses that were owned by other GE subsidiaries but managed by members of the Genworth management team. These businesses include international mortgage insurance, payment protection insurance based in Europe, a Bermuda reinsurer and mortgage contract underwriting. In consideration for the assets that we acquired and the liabilities that we assumed in connection with our corporate reorganization, we issued to GEFAHI 489.5 million shares of our Class B Common Stock, $600 million of our Equity Units, $100 million of our Series A Preferred Stock, a $2.4 billion short-term note and the $550 million Contingent Note. We refinanced the $2.4 billion note with $1.9 billion of senior notes and $500 million of commercial paper shortly after the IPO, and we repaid the Contingent Note in December 2004.

Table of Contents

Our historical and pro forma financial information

The historical financial information has been derived from our financial statements, which have been prepared as if Genworth had been in existence throughout all relevant periods. Our historical financial information and statements include all businesses that were owned by GEFAHI, including those that were not transferred to us in connection with our corporate reorganization, as well as the other insurance businesses that we acquired from other GE subsidiaries in connection with our corporate reorganization. In addition to our three operating segments and our Corporate and Other segment, our historical financial statements also include the results of (1) the Partnership Marketing Group business, which offers life and health insurance, auto club memberships and other financial products and services directly to consumers through affinity marketing arrangements with a variety of organizations, (2) an institutional asset management business owned by GEFAHI, and (3) several other small businesses owned by GEFAHI that are not part of our core ongoing business.

The Partnership Marketing Group historically included UFLIC, a subsidiary that offered life and health insurance products through affinity marketing arrangements. In connection with the IPO, GEFAHI transferred UFLIC to General Electric Capital Services, Inc., a direct wholly-owned subsidiary of GE. We did not acquire the Partnership Marketing Group business, the institutional asset management business or these other small businesses from GEFAHI, and their results are presented as a separate operating segment under the caption Affinity.

Our historical financial statements also include our Japanese life insurance and domestic auto and homeowners insurance businesses, which we sold on August 29, 2003, and which are presented in our historical financial statements as discontinued operations.

The unaudited pro forma information presented herein reflects our historical financial information, as adjusted to give effect to the transactions described under Selected Historical and Pro Forma Financial Information as if each had occurred as of January 1, 2004.

Revenues and expenses

Our revenues consist primarily of the following:

Protection. The revenues in our Protection segment consist primarily of:

- net premiums earned on individual life, individual long-term care, group life and health and payment protection insurance policies;

- net investment income on the separate investment portfolio held by our payment protection insurance business or allocated to this segment s other lines of business; and

- policy fees and other income, including fees for mortality and surrender charges primarily from universal life insurance policies, and other administrative charges.

Retirement Income and Investments. The revenues in our Retirement Income and Investments segment consist primarily of:

net premiums earned on income annuities and structured settlements with life contingencies;

net investment income allocated to this segment; and

policy fees and other income, including surrender charges, mortality and expense charges, investment management fees and commissions.

Mortgage Insurance. The revenues in our Mortgage Insurance segment consist primarily of:

net premiums earned on mortgage insurance policies;

net investment income on the segment s separate investment portfolio; and

policy fees and other income, including fees from contract underwriting services.

Corporate and Other. The revenues in our Corporate and Other segment consist primarily of:

- net premiums, policy fees and other income from the insurance businesses in this segment;
- unallocated net investment income; and
- net realized investment gains (losses).

We allocate net investment income from our Corporate and Other segment to our Protection (except payment protection insurance) and Retirement Income and Investments segments using an approach based principally upon the investment portfolio established to support each of those segments products and targeted capital levels. We do not allocate net investment income from our Corporate and Other segment to our Mortgage Insurance segment or to our payment protection insurance product within the Protection segment, because they have their own separate investment portfolios, and the net investment income from those portfolios is reflected in the Mortgage Insurance and Protection segment results. In our historical financial statements, we allocated net investment income to our Affinity segment in the same manner that we allocated these items to our Protection and Retirement Income and Investments segments.

All net realized investment gains (losses) are reflected in the Corporate and Other segment and are not reflected in the results of any of our other segments.

Our expenses consist primarily of the following:

- benefits provided to policyholders and contractholders and changes in reserves;
- interest credited on general account balances;
- underwriting, acquisition and insurance expenses, including commissions, marketing expenses, policy and contract servicing costs, overhead and other general expenses that are not capitalized (shown net of deferrals);
- amortization of deferred policy acquisition costs and other intangible assets;
- interest and other financing expenses; and
- income taxes.

We allocate corporate expenses to each of our operating segments based on the amount of capital allocated to that segment.

Business trends and conditions

In recent years, our business has been, and we expect will continue to be, influenced by a number of industry-wide and product-specific trends and conditions.

Market and economic environment

Aging U.S. population with growing retirement income needs. According to the U.S. Social Security Administration, from 1945 to 2003, U.S. life expectancy at birth increased from 62.9 years to 74.4 years for men and from 68.4 years to 79.5 years for women, respectively, and life expectancy is expected to increase further. In addition, increasing numbers of baby boomers are approaching retirement age. The U.S. Census Bureau projects that the percentage of the U.S. population aged 55 or older will increase from approximately 22% (65 million) in 2004 to more than 29% (97 million) in 2020. These increases in life expectancy and the average age of the U.S. population heighten the risk that individuals will outlive their retirement savings. In addition, approximately $4.4 trillion of invested financial assets (25% of all U.S. invested financial assets) are held by people within 10 years of retirement and will be available to be converted to income as those people retire, and approximately $3.3 trillion of invested financial assets are held by individuals who are under age 70 and consider themselves

Table of Contents

retired, in each case according to a survey conducted by SRI Consulting Business Intelligence in 2002. We believe these trends will lead to growing demand for retirement income and investment products, such as our annuities and other investment products, that help consumers accumulate assets and provide reliable retirement income.

Growing lifestyle protection gap. The aging U.S. population and a number of other factors are creating a significant lifestyle protection gap for a growing number of individuals. This gap is the result of individuals not having sufficient resources, including insurance coverage, to ensure that their future assets and income will be adequate to support their desired future lifestyle. Other factors contributing to this gap include declining individual savings rates, rising healthcare and nursing care costs, and a shifting of the burden for funding protection needs from governments and employers to individuals. Recent reductions in employer-paid benefits by many companies, coupled with uncertainty over the future of government benefit programs, underscore the potential for long-term benefit reductions from these traditional sources and the potential need for individuals to identify alternative sources of these benefits. At the same time, according to the U.S. Bureau of Economic Analysis, personal savings rates decreased from 10.8% in 1984 to 1.0% in 2004. Consumers are exposed to the rising costs of healthcare and nursing care during their retirement years, and some experts believe that many consumers are underinsured with respect to their protection needs. We expect these trends to result in increased demand for our life, long-term care and small group life and health insurance products.

Increasing opportunities for mortgage insurance internationally and in the U.S. We believe a number of factors have contributed and will contribute to the growth of mortgage insurance in Canada, Australia and the U.S., where we have significant mortgage insurance operations. These factors include increasing homeownership levels (spurred in part by government housing policies that favor homeownership and demographic factors driving demand for housing); expansion of low-down-payment mortgage loan offerings; legislative and regulatory policies that provide capital incentives for lenders to transfer the risks of low-down-payment mortgages to mortgage insurers; and expansion of secondary mortgage markets that require credit enhancements, such as mortgage insurance. We believe a number of these factors also are becoming evident in some European, Latin American, and Asian markets, where lenders increasingly are using mortgage insurance to manage the risks of their loan portfolios and to expand low-down-payment lending.

General conditions and trends affecting our businesses

Interest rate fluctuations. Fluctuations in market interest rates may have a significant effect on our sales of insurance and investment products and our margins on these products. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. In our Retirement Income and Investments and Protection segments, low market interest rates may reduce the spreads between the amounts we credit to policyholders and contractholders and the yield we earn on the investments that support these obligations. In response to the unusually low interest rates that have prevailed during the last several years, we have reduced the guaranteed minimum crediting rates on newly issued fixed annuity contracts and have reduced crediting rates on in-force contracts where permitted to do so. These actions have helped mitigate the adverse impact of low interest rates on our spreads and profitability on these products. A gradual increase in interest rates generally would have a favorable effect on the profitability of these products. However, rapidly rising interest rates also could result in reduced persistency in our spread-based retail products as contractholders shift assets into higher yielding investments.

In our Protection segment, the pricing and expected future profitability of our term life and long-term care insurance products are based in part on expected investment returns. Over time, term life and long-term care insurance products generally produce positive cash flows as customers pay periodic premiums, which we invest as we receive them. Low interest rates may reduce our ability to achieve our targeted investment margins and may adversely affect the profitability of our term life and long-term care insurance products. The impact of interest rate fluctuations on our universal life insurance products is similar to their impact on spread-based products in our Retirement Income and Investments segment.

In our Mortgage Insurance segment, increasing interest rates in 2004 have contributed to a decrease in new mortgage originations in the U.S. and a resulting decrease in new mortgage insurance written. Our U.S. new insurance written decreased by 58% from $67.4 billion for the year ended December 31, 2003 to $28.1 billion for the year ended December 31, 2004 primarily because of increased interest rates. Higher interest rates in 2004 and the significant refinancing activity in 2002 and 2003 also resulted in reduced refinancing activity in 2004, which had a positive impact on U.S. flow persistency. U.S. flow persistency rates increased from 46% for the year ended December 31, 2003 to 65% for the year ended December 31, 2004, excluding the effect of a periodic payoff reconciliation on one structured transaction involving single premium mortgage insurance that today would be classified as bulk insurance. We expect that continued interest rate increases will have a favorable impact on persistency and an adverse impact on new mortgage originations and new mortgage insurance written.

Volatile equity markets. Equity market volatility may discourage purchases of separate account products, such as variable annuities and variable life insurance, that have returns linked to the performance of the equity markets and may cause some existing customers to withdraw cash values or reduce investments in those products. Equity market volatility also affects the value of the assets in our separate accounts, which, in turn, affects our earnings from fee-based products. After several years of declines, equity markets increased in 2003 and 2004, and we expect that increases or relative stability in equity markets could have a favorable impact on our sales of variable products and our earnings from those products. The potential impact of volatile equity markets on our results has been significantly reduced as a result of our reinsurance arrangements with UFLIC, pursuant to which we reinsured, effective as of January 1, 2004, substantially all of our in-force blocks of variable annuities. We retain variable annuities sold after January 1, 2004 for our own account, subject to third-party reinsurance transactions in the ordinary course of business, and therefore we bear the risk of any adverse impact of future equity market fluctuations on those annuities. In addition, fluctuations in the equity markets may affect revenues and returns from our private asset management products and services, which depend on fees related primarily to the value of assets under management.

Credit default risk. As a result of the economic downturn in 2000 through 2002 and some high-profile corporate bankruptcies and scandals, the number of companies defaulting on their debt obligations increased dramatically in 2001 and 2002. These defaults and other declines in the value of some of our investments resulted in impairment charges. Credit defaults have decreased in recent years as the economy has improved. Charges associated with impairments of investments were $26 million, $224 million, and $343 million for the years ended December 31, 2004, 2003 and 2002, respectively. A weakening in the economic recovery could lead to increased credit defaults.

Investment portfolio. The yield on our investment portfolio is affected by the practice, prior to our separation from GE, of realizing investment gains through the sale of appreciated securities and other assets during a period of historically low interest rates. This strategy had been pursued to offset impairments and losses in our investment portfolio, fund consolidations and restructurings in our business and provide current income. Our gross realized gains were $473 million and $790 million for the years ended December 31, 2003 and 2002, respectively. This strategy has had an adverse impact on the yield on our investment portfolio and our net investment income as we typically sold higher-yielding securities and reinvested the proceeds in lower-yielding securities during periods of declining or low interest rates. The impact is most significant in the Retirement Income and Investments segment, which has a higher percentage of our fixed maturities allocated to it than to our other segments.

Since our separation from GE, our investment strategy has been to optimize investment income without relying on realized investment gains. As a result, our gross realized gains decreased to $90 million for the year ended December 31, 2004. We also are currently experiencing a challenging interest-rate environment in which the yields that we can achieve on new investments are lower than the aggregate yield on our existing portfolio. This environment has resulted in a decline in our overall investment yield, from 6.0% for the year ended December 31, 2002 to 5.8% and 5.5% for the years ended December 31, 2003 and 2004, respectively. We seek to mitigate this decline in investment yields by continuously evaluating our asset class mix, pursuing additional investment classes and accepting additional credit risk when we believe that it is prudent to do so. A continued increase in prevailing interest rates also will mitigate this decline, whereas a decrease in interest rates could lead to further declines.

Globalization. Historically, we have derived a majority of our revenues and profits from our operations in the U.S. However, in recent years, our international business has grown and has had an increasing impact on our financial condition and results of operations. For the years ended December 31, 2004, 2003 and 2002, 19%, 18% and 14% of our revenues, respectively, and 29%, 26% and 12% of our net earnings from continuing operations, respectively, were generated by our international operations. These increases were largely due to growth in our international mortgage insurance business. Our payment protection insurance business also derives revenues in the countries where it offers its products. We are exposed to the impact of fluctuations in exchange rates as we translate the operating results of our foreign operations into our financial statements. As a result, period-to-period comparability of our results of operations is affected by fluctuations in exchange rates. Our net earnings for the years ended December 31, 2004 and 2003 included approximately $31 million and $25 million, respectively, due to the favorable impact of changes in foreign exchange rates. Our four principal foreign currencies are the Canadian dollar, the Australian dollar, the British pound and the euro.

Ongoing operating cost reductions and efficiencies. Our underwriting, acquisition, and insurance expenses, net of deferrals, have decreased to 16% of our revenues in 2004 from 18% in 1999. We continually focus on reducing our cost base while maintaining strong service levels for our customers. We expect to accomplish this goal in each of our operating units through a wide range of cost management disciplines, including consolidating operations, using low-cost operating locations, reducing supplier costs, leveraging process improvement efforts, forming dedicated teams to identify opportunities for cost reductions and investing in new technology, particularly for web-based, digital end-to-end processes.

Developments affecting our product lines

The following business trends and conditions have had a significant impact on our products during the last three years:

Life insurance. Regulation XXX requires insurers to establish additional statutory reserves for term and universal life insurance policies with long-term premium guarantees. In response to this regulation, we increased term and universal life insurance statutory reserves, implemented reinsurance and capital management actions and increased our premium rates for term life insurance products in March 2003. This increase in premium rates has contributed to lower term life insurance sales in 2003 and 2004. Our annualized first-year premiums and deposits for term and universal life insurance products decreased by 16% from $195 million for the year ended December 31, 2002 to $163 million for the year ended December 31, 2003 and by 12% to $144 million for the year ended December 31, 2004. Our pricing, reinsurance and capital management actions in response to Regulation XXX have collectively enabled us to improve our new business returns on equity, and in October 2003 and June 2004, we decreased our premium rates for term life insurance products. This decrease has led to an increase in term life insurance sales at the end of 2004. Our annualized first-year premiums for term life insurance products increased by 42% from $19 million for the three months ended December 31, 2003 to $27 million for the three months ended December 31, 2004, and we further decreased our premium rates for term life insurance in January 2005. We believe our recent price reductions, together with ongoing service and distribution support initiatives, will continue to lead to increased term life insurance sales over time.

Long-term care insurance. Total individual long-term care insurance premiums for in-force policies in the U.S. increased from approximately $2.4 billion in 1997 to $6.8 billion in 2004, according to LIMRA International. Industry-wide sales of individual long-term care insurance peaked in 2002 at approximately $1.0 billion and decreased by 7% in 2003 and 25% in 2004. We believe this decrease was due primarily to decisions by several providers to cease offering long-term care insurance, to raise premiums on in force-policies, and/or to introduce new products with higher prices. These actions resulted in decreased purchases of long-term care insurance products and have caused some distributors to reduce their sales focus on these products. In addition,

Table of Contents

we have been experiencing lower lapse rates than we originally anticipated on long-term care insurance policies that we issued prior to the mid-1990s. This has adversely affected our overall claims experience on those policies. In the third quarter of 2003, we started selling our newest long-term care insurance products in selected states. These products were priced to achieve our target returns on capital and to reflect new features and benefits, trends in lapse rates, interest rates, morbidity and adverse claims experience in certain higher risk policyholder classes. Our pricing strategy for these products, along with declines in overall industry sales, have contributed to lower sales in recent periods. Our annualized first-year premiums for the long-term care business decreased by 33% from $240 million for the year ended December 31, 2003 to $162 million for the year ended December 31, 2004. In late fourth quarter of 2004, we began selling these products in the majority of the remaining states, and we expect there may be a similar adverse impact on sales in those states, potentially resulting in uneven sales in our long-term care business. We believe that our pricing strategy is appropriate and that over time, the long-term care insurance market will continue to expand as the result of aging demographics, increasing healthcare and nursing care costs, the uncertainty regarding government programs that currently cover these costs and the increasing public awareness of the benefits of private long-term care insurance.

On January 27, 2005 the NAIC Capital Adequacy Task Force recommended a new formula that ties the calculation of risk-based capital for long-term care insurance more closely to claims than to collected premiums, which is the current practice. The new formula is subject to approval by the NAIC. If approved, the new formula may enable us to release capital temporarily from our long-term care insurance business for use in other business lines in December 2005.

Payment protection insurance. Our payment protection insurance business has expanded as a result of our strategy to enter additional markets in Continental Europe and Ireland and to develop new relationships with distributors in those markets. However, the margins of our payment protection business in the U.K. have decreased in recent years as a result of increased pricing pressure and greater competition from captive insurance arrangements by distributors that provide payment protection insurance directly to their customers. As a result, in the third quarter of 2003, we evaluated our contractual relationships with our payment protection insurance distributors against our targeted return thresholds and decided to terminate or not to renew certain relationships that we refer to as run-off. In the aggregate, written premiums, gross of reinsurance and cancellations, in our payment protection insurance business decreased by 31% from $2,175 million for the year ended December 31, 2003 to $1,501 million for the year ended December 31, 2004. However, excluding run-off business, written premiums, gross of reinsurance and cancellations, increased by 21% from $1,191 million for the year ended December 31, 2003 to $1,441 million for the year ended December 31, 2004. Although we expect the total revenue from our payment protection business to continue to decline over the next few years as our run-off business diminishes, we believe this will not have a material impact on our operating earnings and will have a favorable effect on our returns as capital is released and redeployed into markets with potential for higher growth and returns.

Annuities. The results of our Retirement Income and Investments segment are affected primarily by interest rate fluctuations and volatile equity markets, as discussed above under Overview Business trends and conditions General conditions and trends affecting our businesses. In addition, our competitive position within many of our distribution channels depends significantly upon product features, including our crediting rates on spread-based products relative to our competitors, minimum guaranteed rates, surrender charge periods and agent commissions. We continually evaluate our competitive position based upon each of those features, and we make adjustments as appropriate to meet our target return thresholds. For example, our deposits in fixed annuities increased by 63% from $1,069 million for the twelve months ended December 31, 2003 to $1,741 million for the twelve months ended December 31, 2004 primarily as a result of our expanded distribution relationships with financial intermediaries and a new fixed annuity product we introduced in 2004 that incorporates flexible product features. We believe that a gradual increase in market interest rates will have a favorable impact on consumer demand for these products. We also recently introduced the Income Distribution Series of guaranteed income annuity products and riders that provide the contractholder with a guaranteed minimum income stream and an opportunity to participate in market appreciation but reduce some of the risks to insurers that generally accompany traditional products with guaranteed minimum income benefits. Sales of these products increased by 82% from $142 million for the year ended December 31, 2003 to $258 million for the year ended December 31, 2004.

Our new deposits in variable annuities decreased by 47% from $2,102 million for the year ended December 31, 2003 to $1,106 million for the year ended December 31, 2004. We believe this decline was primarily driven by a market shift to variable annuity products with certain guaranteed benefit features that we chose not to offer due to their risk profile.

Mortgage insurance. As discussed above under Overview Business trends and conditions General conditions and trends affecting our businesses, increasing interest rates in 2004 have contributed to a significant decrease in U.S. new mortgage insurance written. Our U.S. new insurance written also has been adversely affected by our actions in connection with our captive reinsurance arrangements. Starting in late 2003, we generally sought to exit or restructure a portion of our excess-of-loss risk sharing arrangements with premium cessions in excess of 25% to improve profitability. This resulted in a significant reduction in business from several of these lenders. We later re-evaluated these relationships on a case-by-case basis, assessing various factors, including ceding terms, attachment points and quality of portfolios. As a result, we reinstated or restructured some of these arrangements in a form that we believe allows us to achieve acceptable returns. For the foregoing reasons, as well as the continued popularity of simultaneous second, or 80-10-10, loans as an alternative to private mortgage insurance, our U.S. new insurance written decreased by 58% from $67.4 billion for the year ended December 31, 2003 to $28.1 billion for the year ended December 31, 2004. As a result of the significant U.S. refinancing activity in 2002 and 2003 and the significant expansion of our international business in recent years, as of December 31, 2004, approximately 80% of our U.S. risk in force and 72% of our international risk in force had not yet reached its anticipated highest claim frequency years, which are generally between the third and seventh year of the loan. We expect our loss experience on these loans will increase as policies continue to age.

Our international mortgage insurance business has continued to expand and has had a favorable impact on our results of operations. International new insurance written increased by 32% from $39.2 billion for the year ended December 31, 2003 to $51.8 billion for the year ended December 31, 2004. This increase was driven by a larger mortgage origination market in Canada and increased account penetration in both Canada and Australia, as well as growth in new insurance written in Europe and favorable foreign exchange rate movements, partially offset by a smaller mortgage origination market in Australia. We expect that the growth of our international mortgage insurance business will continue to contribute an increasing portion of this segment s total revenues and profits.

Separation from GE and related financial arrangements

GE historically has provided a variety of products and services to us, and we have provided various products and services to GE. In connection with the IPO, we entered into a transition services agreement and various other agreements with GE that, together with a number of agreements that were in effect before the IPO, govern the relationship between GE and us.

Services received from GE

Support services and corporate overhead. GE historically has provided a variety of support services for our businesses, including:

- customer service, transaction processing and a variety of functional support services provided by an outsourcing provider in India that was wholly owned by GE until December 2004 and is now 40% owned by GE;

employee benefit processing and payroll administration, including relocation, travel, credit card processing and related services;

- employee training programs, including access to GE training courses;
- insurance coverage under the GE insurance program;
- information systems, network and related services;
- leases for vehicles, equipment and facilities; and
- other financial advisory services such as tax consulting, capital markets services, research and development activities, and use of trademarks and licenses.

We have reimbursed GE for the costs of providing these services to us. We paid GE a total of $65 million, $87 million and $74 million for these services for the years ended December 31, 2004, 2003 and 2002, respectively.

In addition, GE historically has allocated to us a share of its corporate overhead expenses for certain services provided to us, which are not specifically billed to us, including public relations, investor relations, treasury, and internal audit services. Our total expense for this allocation was $14 million, $50 million and $49 million for the years ended December 31, 2004, 2003 and 2002, respectively. We have not reimbursed these amounts to GE, and have recorded them as a capital contribution in each year. Following the completion of the IPO, GE no longer allocates any of its corporate expenses to us.

GE continues to provide us with many of the corporate services described above on a transitional basis, and we are arranging to procure other services pursuant to arrangements with third parties or through our own employees. In the aggregate, we expect that our total costs for procuring corporate services that previously had been provided by GE will not materially exceed the amounts we historically have paid to GE for these services, including GE s allocation to us for its corporate overhead. However, we have incurred and expect to continue to incur incremental advertising, marketing, investor relations and legal entity transition expenses to establish a new brand identity. We also incurred compensation expense with respect to the establishment of our new equity plans. In addition, we have obtained direct access to a variety of third-party products and services, including technology licenses, as a result of GE s relationships with those third parties. We have negotiated and are continuing to negotiate our own arrangements with third-party providers for these products and services, and we do not believe these arrangements will result in materially increased costs in the aggregate.

Investment management services. We have received and will continue to receive investment management services from GE Asset Management Incorporated, or GEAM, a subsidiary of GE, pursuant to agreements that were, with limited exceptions, amended in connection with the IPO. We also entered into new agreements with GE Asset Management Limited, or GEAML, an affiliate of GEAM, for investment management services in the U.K. and Continental Europe. Pursuant to these agreements, the fees charged by GEAM and GEAML are based on a percentage of the value of the assets under management. This percentage is established annually by agreement between us and GEAM or GEAML and is intended to reflect the cost to GEAM or GEAML of providing its services and, for the agreements with GEAML, a premium of 5%. For the years ended December 31, 2004, 2003 and 2002, our aggregate costs for investment management and related administration services provided by GEAM and GEAML were approximately $33 million, $61 million and $39 million, respectively.

Reinsurance transactions. In addition to our arrangements with UFLIC, we have entered into reinsurance transactions with affiliates of GE, principally Employers Reassurance Company and ERC Life Reinsurance Corporation (formerly an affiliate of GE), which we refer to collectively as ERC, under which we have reinsured some of the risks of our insurance policies on terms comparable to those we could obtain from third parties. We have paid premiums to these affiliates of $39 million, $56 million and $60 million for the years ended December 31, 2004, 2003 and 2002, respectively. In addition, in 2002, one of our subsidiaries entered into a life reinsurance agreement with an affiliated company, GE Pensions Limited, to reinsure 95% of our liabilities under certain life insurance policies. We have paid premiums to this affiliate of $100 million and $94 million for the years ended December 31, 2003 and 2002, respectively. This agreement was terminated as of December 31, 2003.

Employee benefit plans. Historically, we have reimbursed GE for benefits it has provided to our employees under various employee benefit plans, including GE s retirement plan, retiree health and life insurance benefit plans, defined contribution savings plan and life and health insurance benefits through the GE benefit program. We incurred expenses associated with these plans of $108 million, $109 million and $112 million for the years ended December 31, 2004, 2003 and 2002, respectively. GE will continue to provide these benefits to our employees for so long as GE owns more than 50% of our outstanding common stock. See note 13 to our financial statements included elsewhere in this prospectus. In addition to these expenses for which we have reimbursed GE, we have incurred expenses of $2 million, $9 million and $6 million for certain GE stock option and restricted stock unit grants for the years ended December 31, 2004, 2003 and 2002, respectively. As in the case of the allocation of corporate overhead, we have not reimbursed these amounts with respect to stock options and restricted stock units to GE. In connection with the IPO, we established our own equity compensation plans. See Equity plans below.

Services provided to GE

We have provided various products and services to GE on terms comparable to those we provide to third-parties and we expect to continue to provide many of these products and services to GE.

In addition, in connection with the IPO, we entered into a series of arrangements with GE pursuant to which we will provide a variety of additional services to GE, including the arrangements discussed below. The following describes the principal impact of those service arrangements on our results of operations:

Transition services relating to GE and GEFAHI businesses not acquired by us. We provide services to certain of GE s insurance businesses that we did not acquire. These services include finance, information systems, network services and regulatory support. We continue to provide these services and will do so for a minimum of two years and a maximum of three years, in most cases, following the IPO. For the two years following the completion of the IPO, GE generally may not terminate any of the services we provide. GE has agreed to pay us $40 million in equal quarterly installments during each of the first two years following the completion of the IPO for our provision of the transition services to GE. The charges for the transition services generally are intended to allow the providing company to fully recover the allocated direct costs of providing the services, plus all out-of-pocket costs and expenses, generally without profit.

Management consulting services. We have agreed to provide certain management consulting services to GE for a period of five years following the IPO. These services include delivering training, providing consultation and strategic advice with respect to actuarial, regulatory and other emerging issues, planning and participating in meetings with rating agencies and regulators, participating in government relations activities and various other activities. In consideration for these services, GE will pay us a fee of $1 million per month during the first four years following the completion of the IPO and $0.5 million per month during the fifth year. GE cannot terminate this arrangement before the expiration of the five-year term.

GIC investment administration services. We entered into three agreements with affiliates of GE, effective as of January 1, 2004, to manage a pool of municipal guaranteed investment contracts, or GICs, issued by those affiliates. Pursuant to these agreements, we have agreed to originate GIC liabilities and advise the GE affiliates regarding the investment, administration and management of their assets that support those liabilities. Under two of those agreements, we receive an administration fee of 0.165% per annum of the maximum program size for those GE affiliates, which is $15 billion. The agreements also provide for termination fees in the event of early termination at the option of either affiliate. Under a third agreement with another affiliate, we receive a management fee of 0.10% per annum of the book value of the investment contracts or similar securities issued by this affiliate after January 1, 2003, which was $1.6 billion as of December 31, 2004. The fee we receive on the contracts issued by that affiliate before January 1, 2003 is based upon a pricing arrangement that varies depending upon the maturities of those contracts and that affiliate s cost of capital. The book value of the contracts issued before January 1, 2003 was $1.5 billion as of December 31, 2004 and is expected to generate a

weighted average fee of approximately 0.35% in 2005. We also will receive reimbursement of our operating expenses under each of the agreements. The initial term of each of the three agreements will expire December 31, 2006, and unless terminated at the option of either party, each agreement automatically will renew on January 1 of each year for successive terms of one year.

Institutional asset management services. Prior to the completion of the IPO, we offered a broad range of institutional asset management services to third parties. GEAM provided the portfolio management services for this business, and we provided marketing, sales and support services. We did not acquire the institutional asset management services business from GEFAHI, but we continue to provide services to GEAM and GEFAHI related to this asset management business, including client introduction services, asset retention services and compliance support. GEFAHI has agreed to pay us a fee of up to $10 million per year for four years following the completion of the IPO to provide these services. The fee will be determined based upon the level of third-party assets under management managed by GEAM over the four-year term. The agreement may not be terminated by GEAM or GEFAHI, except for non-performance or in the event that we commence a similar institutional asset management business.

Additional arrangements with GE

In addition to the arrangements described above pursuant to which we and GE will provide services to each other, we also entered into the following additional arrangements with GE:

Tax Matters Agreement. As a consequence of our separation from GE, and our election jointly made with GE to treat that separation as an asset sale under section 338 of the Internal Revenue Code, we expect to become entitled to additional tax deductions for periods after our corporate reorganization. We expect to realize tax savings from these deductions and have recorded our estimate of these tax savings on our statement of financial position as a $718 million reduction in net deferred income tax liabilities. We are obligated, pursuant to our Tax Matters Agreement with GE, to pay to GE, on an after-tax basis, 80% of the amount of tax we are projected to save for each tax period as a result of these increased tax benefits, up to a maximum of $640 million. We have recorded the $389 million present value of this obligation to GE as our estimate of this liability in our statement of financial position. Since our initial estimates recorded at the time of the IPO, our estimate of the expected tax savings has increased significantly, while the present value of our obligation to GE has increased slightly. This is because (1) a portion of the future savings now exceeds the $640 million maximum payment to GE, (2) the discount rate increased from that estimated at the time of the IPO, and (3) the average life of the obligation increased. Under the Tax Matters Agreement, we would also be required to pay to GE additional amounts in the event we realize certain other contingent benefits, or if we choose to defer certain payments and thereby incur interest on any such deferrals.

To the extent that we never realize the anticipated tax savings because we have insufficient taxable income of the appropriate character (or because of a reduction in tax rates), we may, at our option, defer payments until 2029. These deferred payments would bear interest over the term of the deferral at an interest rate of 5.72% per annum (estimated, in accordance with the Tax Matters Agreement, to be our cost of funds as of the date of our initial public offering for a borrowing of like duration) from the time that we were scheduled to make the payments.

In certain circumstances, we may realize tax savings later than projected in calculating the schedule of corresponding payments to GE pursuant to the Tax Matters Agreement, but our payment schedule to GE would not be changed. In these circumstances, we will remain obligated to pay amounts to GE even before we realize the corresponding tax savings, although we can choose to defer such payments. There are two categories of such circumstances. First, in certain limited instances the Tax Matters Agreement establishes binding factual assumptions pursuant to which we are scheduled to make payments to GE in advance of the time we anticipate realizing the corresponding tax savings. We estimate that the interest expense we will incur with respect to such advance payments over the entire life of the Tax Matters Agreement, if we choose to defer them, will be approximately $25 million. The second, broader category of these circumstances are those situations in which our actual tax savings are delayed beyond the time we currently project for any reason other than a change in the tax returns on which the section 338 sales are reported. In the case of either the first or second category, we may defer the scheduled payments to GE until we actually realize the corresponding tax savings or, alternatively, we may make the payments from sources other than the projected tax savings. Any deferred payments would bear interest until made at the rate of 5.72% per annum.

The $329 million difference between the $718 million benefit we have recorded as the expected future tax savings and the $389 million liability to GE we have recorded is part of our net stockholders interest. These amounts reflect considered judgments and assessments as to the underlying facts and assumptions. However, if and to the extent our final section 338 tax savings exceed (or fall short of) the amount of tax savings we currently project, our additional paid-in capital would increase (or decrease) accordingly. As our obligation to make payments under the Tax Matters Agreement accretes over time, we will record interest expense at a rate of 5.72% per annum. Under the Tax Matters Agreement, GE also is responsible for certain taxes of our legal entities, other than taxes in respect of the section 338 elections described above, resulting from the various transactions implemented in connection with our separation from GE (other than the reinsurance with UFLIC). We record (or will record) these non-recurring taxes as a current tax expense (or benefit) when incurred, and we record (or will record) GE s payment of the taxes (or receipt of the benefit) as an equity contribution (or dividend).

UFLIC reinsurance arrangements. Prior to the completion of the IPO, we entered into several significant reinsurance transactions with UFLIC, an indirect subsidiary of GE. Under the terms of the agreements governing these reinsurance transactions, we transferred to UFLIC assets equal to the policyholder liabilities related to the ceded blocks of business and recorded a reinsurance recoverable asset for the amount of the policyholder liabilities reinsured, except with respect to the in-force liabilities for the variable annuity separate accounts, for which there is no asset transfer. We will continue to have a separate account liability in the amount of the policyholder liabilities related to the separate account assets which we did not transfer to UFLIC. We remain liable under these contracts and policies as the ceding insurer and, as a result, will continue to carry insurance reserve liabilities for the reinsured policies on our balance sheet. In connection with the Medicare supplement insurance assumed by us, UFLIC transferred to us cash and other investments, and we recorded a reinsurance liability, equal to the policyholder liabilities related to this assumed block of business. As of December 31, 2004, our total reinsurance recoverable for all our reinsurance arrangements with UFLIC was $16.2 billion.

The reinsurance transactions have the effect of transferring the financial results of the reinsured blocks of business (except for Medicare supplement insurance) from us to UFLIC and the Medicare supplement insurance block of business from UFLIC to us. With respect to the long-term care insurance policies reinsured to UFLIC, we retained an interest in the future profitability of the block if it exceeds certain thresholds. We also are continuing to administer all the policies reinsured by UFLIC, and we will receive an expense allowance to reimburse us for the costs we incur to service these policies.

Equity plans

Prior to the IPO, our key employees participated in a number of GE s equity compensation plans. For grants issued prior to January 1, 2002, we recorded compensation expense related to our employees participation in those plans over the vesting period of the awards based upon their intrinsic value at the grant date. For grants issued after January 1, 2002, we recorded compensation expense for share-based compensation awards over the vesting period of the awards based upon their fair value at the grant date in accordance with SFAS 123, *Accounting for Stock-Based Compensation*.

In connection with the IPO, we established our own equity compensation plans. Under these plans, unvested GE stock options, vested stock options held by our Chairman, President and Chief Executive Officer, GE stock appreciation rights and GE restricted stock units were canceled and converted into awards of our company, and we also granted new stock options in our company in connection with our separation from GE and the IPO. The GE stock options, stock appreciation rights and restricted stock units were converted based upon a ratio equal to

66

Table of Contents

the initial offering price of our common stock in the IPO ($19.50), divided by the weighted average stock price of GE common stock for the trading day immediately preceding the pricing date of the IPO ($30.52). The converted securities, if unvested, generally continue to vest over their original vesting periods. The unvested converted awards had approximately the same fair value at the date of the conversion as the GE awards that were replaced.

We incurred compensation expense of $29 million and $9 million for the years ended December 31, 2004 and 2003, respectively, and expect to incur expenses of $41 million and $31 million in the years ended December 31, 2005 and 2006, respectively, for 2004 and prior awards to our employees under these plans.

Branding costs

We expect to incur aggregate expenses of approximately $35 million in each of the years ending December 31, 2005, 2006 and 2007 on marketing, advertising and legal entity transition expenses, relating to the costs of establishing our new brand throughout our business, including with sales intermediaries, employees, investors and consumers.

Critical accounting policies

The accounting policies discussed in this section are those that we consider to be particularly critical to an understanding of our financial statements because their application places the most significant demands on our ability to judge the effect of inherently uncertain matters on our financial results. For all of these policies, we caution that future events rarely develop exactly as forecast, and our management s best estimates may require adjustment.

Reserves. We calculate and maintain reserves for the estimated future payment of claims to our policyholders and contractholders based on actuarial assumptions and in accordance with industry practice and U.S. GAAP. Many factors can affect these reserves, including economic and social conditions, inflation, healthcare costs, changes in doctrines of legal liability and damage awards in litigation. Therefore, the reserves we establish are necessarily based on estimates, assumptions and our analysis of historical experience. Our results depend significantly upon the extent to which our actual claims experience is consistent with the assumptions we used in determining our reserves and pricing our products. Our reserve assumptions and estimates require significant judgment and, therefore, are inherently uncertain. We cannot determine with precision the ultimate amounts that we will pay for actual claims or the timing of those payments.

Insurance reserves differ for long- and short-duration insurance policies and annuity contracts. Measurement of long-duration insurance reserves (such as guaranteed renewable term life, whole life and long-term care insurance policies) is based on approved actuarial methods, but necessarily includes assumptions about expenses, mortality, morbidity, lapse rates and future yield on related investments. Short-duration contracts (such as payment protection insurance) are accounted for based on actuarial estimates of the amount of loss inherent in that period s claims, including losses incurred for which claims have not been reported. Short-duration contract loss estimates rely on actuarial observations of ultimate loss experience for similar historical events.

Estimates of mortgage insurance reserves for losses and loss adjustment expenses are based on notices of mortgage loan defaults and estimates of defaults that have been incurred but have not been reported by loan servicers, using assumptions of claim rates for loans in default and the average amount paid for loans that result in a claim. As is common accounting practice in the mortgage insurance industry and in accordance with U.S. GAAP, loss reserves are not established for future claims on insured loans that are not currently in default.

Deferred acquisition costs. Deferred acquisition costs, or DAC, represents costs which vary with and are primarily related to the sale and issuance of our insurance policies and investment contracts that are deferred and amortized over the estimated life of the related insurance policies. These costs include commissions in excess of ultimate renewal commissions, solicitation and printing costs, sales material and some support costs, such as underwriting and contract and policy issuance expenses. DAC is subsequently amortized to expense, over the lives of the underlying contracts, in relation to the anticipated recognition of premiums or gross profits.

Table of Contents

The amortization of DAC for traditional long-duration insurance products (including guaranteed renewable term life, life-contingent structured settlements and immediate annuities and long-term care insurance) is determined as a level proportion of premium based on commonly accepted actuarial methods and reasonable assumptions established when the contract or policy is issued about mortality, morbidity, lapse rates, expenses, and future yield on related investments. Amortization for annuity contracts without significant mortality risk and investment and universal life products is based on estimated gross profits and is adjusted as those estimates are revised. The DAC amortization methodology for our variable products (variable annuities and variable universal life insurance) includes a long-term equity market average appreciation assumption of 8.5%. When actual returns vary from the expected 8.5%, we assume a reversion to this mean over a 3- to 7-year period, subject to the imposition of ceilings and floors. The assumed returns over this reversion period are limited to the 85th percentile of historical market performance.

We regularly review all of these assumptions and periodically test DAC for recoverability. For deposit products, if the current present value of estimated future gross profits is less than the unamortized DAC for a line of business, a charge to income is recorded for additional DAC amortization. For other products, if the benefit reserves plus anticipated future premiums and interest earnings for a line of business are less than the current estimate of future benefits and expenses (including any unamortized DAC), a charge to income is recorded for additional DAC amortization or for increased benefit reserves.

Unfavorable experience with regard to expected expenses, investment returns, mortality, morbidity, withdrawals or lapses may cause us to increase the amortization of DAC or to record a charge to increase benefit reserves. In recent years, the portion of estimated product margins required to amortize DAC and PVFP has increased in most lines of our business, with the most significant impact on investment products, primarily as the result of lower investment returns.

Present value of future profits. In conjunction with the acquisition of a block of life insurance policies or investment contracts, a portion of the purchase price is assigned to the right to receive future gross profits arising from existing insurance and investment contracts. This intangible asset, called the present value of future profits, or PVFP, represents the actuarially estimated present value of future cash flows from the acquired policies. PVFP is amortized, net of accreted interest, in a manner similar to the amortization of DAC. We regularly review our assumptions and periodically test PVFP for recoverability in a manner similar to our treatment of DAC.

Goodwill impairment. Goodwill resulting from acquisitions is tested for impairment at least annually using a fair value approach, which requires the use of estimates and judgment. To the extent the carrying amount of goodwill exceeds its fair value, an impairment charge to income would be recorded.

Valuation of investment securities. We obtain values for actively traded securities from external pricing services. For infrequently traded securities, we obtain quotes from brokers or we estimate values using internally developed pricing models. These models are based upon common valuation techniques and require us to make assumptions regarding credit quality, liquidity and other factors that affect estimated values.

Impairment of investment securities. We regularly review investment securities for impairment in accordance with our impairment policy, which includes both quantitative and qualitative criteria. Quantitative criteria include length of time and amount that each security position is in an unrealized loss position, and for fixed maturities, whether the issuer is in compliance with terms and covenants of the security. Qualitative criteria include the financial strength and specific prospects for the issuer as well as our intent to hold the security until recovery. Our impairment reviews involve our finance, risk and asset management teams, as well as the portfolio management and research capabilities of GEAM and other third-party managers, as required. We actively perform comprehensive market research, monitor market conditions and segment our investments by credit risk in order to minimize impairment risks. See Liquidity and Capital Resources Impairments of investment securities and note 6 to our financial statements.

Table of Contents

Historical and Pro Forma Results of Operations

The following table sets forth our historical and pro forma results of operations. The pro forma financial information reflects our historical results of operations as adjusted to reflect the various adjustments described under Selected Historical and Pro Forma Financial Information. The pro forma financial information principally reflects the exclusion from our results of operations of the structured settlement, variable annuity and long-term care insurance in-force blocks that we ceded to UFLIC in connection with the reinsurance transactions; the exclusion from our results of operations of certain businesses, including the Affinity segment, and other assets and liabilities of GEFAHI that were not transferred to us in connection with our corporate reorganization; the inclusion in our results of operations of incremental interest expense associated with the consideration that we issued to GEFAHI in connection with our corporate reorganization, including $600 million of our Equity Units, $100 million of our Series A Preferred Stock and the $550 million Contingent Note; and the issuance of $1.9 billion of senior notes and $500 million of commercial paper.

Our historical results of operations include the results of operations of the Affinity segment and the blocks of business that we ceded to UFLIC through for all periods presented through May 24, 2004, the date of our corporate reorganization. Pro forma revenues and benefits and expenses (except interest expense) are lower than our historical revenues and benefits and expenses primarily as the results of the exclusion of revenues and benefits and expenses related to the reinsured blocks of business and the to the Affinity segment. Pro forma interest expense is higher than historical interest expense as the result of our revised capital structure following our corporate reorganization and the IPO.

	Historical			Pro forma
	Years ended December 31,			Year ended December 31,
(Dollar amounts in millions)	2004	2003	2002	2004
Revenues:				
Premiums	$ 6,559	$ 6,707	$ 6,107	$ 6,388
Net investment income	3,648	4,051	3,979	3,160
Net realized investment gains	26	10	204	23
Policy fees and other income	824	915	939	664
Total revenues	11,057	11,683	11,229	10,235
Benefits and expenses:				
Benefits and other changes in policy reserves	4,804	5,270	4,640	4,340
Interest credited	1,432	1,624	1,645	1,319
Underwriting, acquisition and insurance expenses, net of deferrals	1,812	1,916	1,808	1,657
Amortization of deferred acquisition costs and intangibles	1,154	1,351	1,221	1,052
Interest expense	217	140	124	243
Total benefits and expenses	9,419	10,301	9,438	8,611
Earnings from continuing operations before income taxes and accounting change	1,638	1,382	1,791	1,624
Provision for income taxes	493	413	411	494
Net earnings from continuing operations before accounting change	$ 1,145	$ 969	$ 1,380	$ 1,130

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Premiums. Our premiums consist primarily of premiums earned on individual life, long-term care, group life and health and payment protection insurance policies, income annuities and structured settlements with life contingencies and mortgage insurance policies. Premiums decreased $148 million, or 2%, to $6,559 million for the year ended December 31, 2004, compared to $6,707 million for the year ended December 31, 2003, primarily as the result of a $156 million decrease in our Affinity segment, a $107 million decrease in our Protection

Table of Contents

segment, partially offset by an $84 million increase in our Mortgage Insurance segment and a $45 million increase in our Retirement Income and Investment segment. The decrease in our Affinity segment relates to the exclusion of this segment as a result of our corporate reorganization. The decrease in our Protection segment was primarily attributable to a decrease in long-term care insurance premiums as the result of the reinsurance transactions with UFLIC, as well as a decrease in payment protection insurance premiums as the result of the continued run-off of low return books of business. The increase in our Mortgage Insurance segment was primarily attributable to an increase in international mortgage insurance premiums, attributable to the aging of our international in-force block, which resulted in increased earned premiums from prior-year new insurance written, offset in part by a decrease in U.S. mortgage insurance premiums, attributable to decreased demand for mortgage insurance as the result of a smaller U.S. market for mortgage originations. The increase in our Retirement Income and Investments segment was primarily attributable to an increase in premiums from life- contingent income annuities attributable to new distribution relationships in 2004, offset in part by a decrease in premiums from life- contingent structured settlements attributable to our decision to write those contracts only when we believe we will be able to achieve our targeted returns.

Net investment income. Net investment income represents the income earned on our investments. Net investment income decreased $403 million, or 10%, to $3,648 million for the year ended December 31, 2004 from $4,051 million for the year ended December 31, 2003. This decrease in net investment income was primarily the result of a decrease in average invested assets, primarily due to the transfer of assets to UFLIC in connection with the reinsurance transactions, partially offset by new asset purchases. The decrease in net investment income was also the result of a decrease in weighted average investment yields to 5.5% for the year ended December 31, 2004 from 5.8% for the year ended December 31, 2003. The decrease in weighted average investment yields was primarily attributable to purchases of new assets in an interest rate environment where current market yields are lower than existing portfolio yields.

Net realized investment gains. Net realized investment gains consist of gross realized investment gains and gross realized investment (losses), including charges related to impairments. Net realized investment gains increased $16 million to $26 million for the year ended December 31, 2004 from $10 million for the year ended December 31, 2003. For the year ended December 31, 2004, gross realized gains and (losses) were $90 million and $(64) million, respectively. Realized losses for the year ended December 31, 2004 included $26 million of impairments. These impairments were attributable to fixed maturities, equity securities and other investments ($17 million, $5 million and $4 million, respectively). The fixed maturities impairments primarily related to securities issued by companies in the timber products, healthcare, consumer products industries ($6 million, $4 million and $3 million, respectively). The equity securities impairments primarily related to mutual fund investments. The other investments impairments related to impairment of limited partnership investments. For the year ended December 31, 2003, gross realized gains and (losses) were $473 million and $(463) million, respectively. The realized gains for the year ended December 31, 2003 included a $43 million gain from a securitization of certain financial assets. Realized losses for the year ended December 31, 2003 included $224 million of impairments. These impairments were attributable to fixed maturities, equity securities and other investments ($126 million, $83 million and $15 million, respectively). The fixed maturities impairments primarily related to securities issued by companies in the transportation, mining and metals, utilities and energy and technology and communications industries ($36 million, $28 million, $12 million and $11 million, respectively). In addition, $30 million of fixed maturities impairments were realized on asset-backed securities. The equity securities impairments related to mutual fund and common stock investments ($37 million and $46 million, respectively). The other investments impairments primarily related to impairment of limited partnership investments.

Policy fees and other income. Policy fees and other income consist primarily of cost of insurance and surrender charges assessed on universal life insurance policies, fees assessed against policyholder and contractholder account values, and commission income. Policy fees and other income decreased $91 million, or 10%, to $824 million for the year ended December 31, 2004 from $915 million for the year ended December 31, 2003. This decrease was the result of a $156 million decrease in our Affinity segment and a $12 million decrease in our Mortgage Insurance segment. The decreases were partially offset by a $46 million increase in our Corporate and Other segment, and a $28 million increase in our Retirement Income and Investments segment. The decrease in our Affinity segment relates to the exclusion of this segment as a result of our corporate reorganization. The decrease in our Mortgage Insurance segment was primarily the result of a decrease in fees for contract underwriting services attributable to lower refinancing activity in the U.S. The increase in our Corporate and Other segment was primarily attributable to a gain related to our waiver of contractual rights under an outsourcing services agreement with GE s global outsourcing provider, 60% of which was sold in the fourth quarter. The increase in our Retirement Income and Investments segment was primarily attributable to an increase in commission income due to increased sales of third-party products and fee income earned in connection with investment and administrative services related to a pool of municipal GICs issued by affiliates of GE, offset by a decrease in fee income attributable to the reinsurance transactions with UFLIC.

Benefits and other changes in policy reserves. Benefits and other changes in policy reserves consist primarily of reserve activity related to current claims and future policy benefits on life, long-term care, group life and health and payment protection insurance policies, structured settlements and income annuities with life contingencies and claim costs incurred related to mortgage insurance products. Benefits and other changes in policy reserves decreased $466 million, or 9%, to $4,804 million for the year ended December 31, 2004 from $5,270 million for the year ended December 31, 2003. This decrease was primarily the result of a $253 million decrease in our Retirement Income and Investments segment, a $116 million decrease in our Affinity segment, a $107 million decrease in our Protection segment and a $40 million decrease in our Corporate and Other segment, offset partially by a $50 million increase in our Mortgage Insurance segment. The decrease in our Retirement Income and Investments segment was primarily attributable to a decrease related to the reinsurance transactions with UFLIC and a reclassification of variable annuity sales inducements paid to contractholders, which were classified as underwriting, acquisition and insurance expenses, net of deferrals, in 2003. The decrease in our Affinity segment relates to the exclusion of this segment as a result of our corporate reorganization. The decrease in our Protection segment was primarily related to a decrease in our payment protection insurance business attributable to the lower loss ratio in the payment protection insurance run-off block. The decrease in our Corporate and Other segment was primarily attributable to lower litigation expenses and higher reserves at our Bermuda reinsurer. The increase in our Mortgage Insurance segment was primarily attributable to an increase in paid claims as well as an increase in loans in default associated with higher insurance in-force in our international mortgage insurance business.

Interest credited. Interest credited represents interest credited on behalf of policyholder and contractholder general account balances. Interest credited decreased $192 million, or 12%, to $1,432 million for the year ended December 31, 2004 from $1,624 million for the year ended December 31, 2003. This decrease was primarily the result of a $189 million decrease in our Retirement Income and Investments segment that was primarily attributable to a decrease in interest credited associated with the reinsurance transactions with UFLIC. The decrease in interest credited was also the result of lower interest credited on institutional products due to a decrease in the average size of the in-force block.

Underwriting, acquisition and insurance expenses, net of deferrals. Underwriting, acquisition and insurance expenses, net of deferrals, represent costs and expenses related to the acquisition and ongoing maintenance of insurance and investment contracts, including commissions, policy issue expenses and other underwriting and general operating costs. These costs and expenses are net of amounts that are capitalized and deferred, which are primarily costs and expenses which vary with and are primarily related to the sale and issuance of our insurance policies and investment contracts, such as first year commissions in excess of ultimate renewal commissions and other policy issue expenses. These expenses decreased $104 million, or 5%, to $1,812 million for the year ended December 31, 2004, compared to $1,916 million for the year ended December 31, 2003, primarily as the result of a $121 million decrease in our Affinity segment, a $37 million decrease in our Mortgage Insurance segment and a $32 million decrease in our Corporate and Other Segment, partially offset by a $75 million increase in our Protection segment and a $11 million increase in our Retirement Income and Investments segment. The decrease in our Affinity segment relates to the exclusion of this segment as a result of our corporate reorganization. The

Table of Contents

decrease in our Mortgage Insurance segment was primarily attributable to a decrease in expenses primarily from lower underwriting expenses due to a decline in refinancing activity in the U.S., lower administrative costs and a decrease in the provision for indemnity liabilities related to a decline in mortgage loan origination. The decrease in our Corporate and Other segment was primarily attributable to a decrease in allocated expenses from GE as the result of our corporate reorganization and lower litigation expenses. The increase in our Protection segment was primarily attributable to an increase in our payment protection insurance business related primarily to an increase in commissions and other compensation arrangements in our run-off block, partially offset by decreased legal fees in our life insurance business following an agreement in principle to settle a class-action lawsuit in 2003 and lower other expenses and a decrease in the long-term care business primarily attributable to the reinsurance transactions with UFLIC. The increase in our Retirement Income and Investments segment was primarily attributable to an increase in commission and other expenses incurred in our fee-based products primarily due to increased sales.

Amortization of deferred acquisition costs and intangibles. Amortization of deferred acquisition costs and intangibles consists primarily of the amortization of acquisition costs that are capitalized and PVFP. Amortization of deferred acquisition costs and intangibles decreased $197 million, or 15%, to $1,154 million for the year ended December 31, 2004 from $1,351 million for the year ended December 31, 2003. This decrease was primarily the result of a $132 million decrease in our Protection segment, a $58 million decrease in our Affinity segment, and a $20 million decrease in our Retirement Income and Investments segment, partially offset by a $14 million increase in our Mortgage Insurance segment. The decrease in our Protection segment was primarily attributable to a decrease in payment protection insurance due to our decision not to renew certain distribution relationships, partially offset by the impact of favorable changes in foreign exchange rates. The decrease in our Affinity segment relates to the exclusion of this segment as a result of our corporate reorganization. The decrease in our Retirement Income and Investments segment was primarily attributable to the reinsurance transactions with UFLIC. The increase in the Mortgage Insurance segment was primarily attributable to accelerated amortization reflecting higher-than-expected early-year margins on recently written policies in the U.S. and the continued growth of our international business.

Interest expense. Interest expense increased $77 million, or 55%, to $217 million for the year ended December 31, 2004 from $140 million for the year ended December 31, 2003. This increase was primarily the result of a our revised debt structure following our corporate reorganization, as well as the full-year contribution of interest expense associated with securitization entities that were consolidated in our financial statements in connection with our adoption of FIN 46 on July 1, 2003 and interest paid on non-recourse funding obligations issued in the third and fourth quarters of 2003 and the fourth quarter of 2004.

Provision for income taxes. Provision for income taxes increased $80 million, or 19%, to $493 million for the year ended December 31, 2004 from $413 million for the year ended December 31, 2003. The effective tax rate increased to 30.1% for the year ended December 31, 2004 from 29.9% for the year ended December 31, 2003. The increase in effective tax rate was primarily due to the loss of foreign tax benefits as a result of the separation from GE, a decrease in benefits related to dividends received, and favorable examination developments in 2003, which did not recur in 2004, offset in part by tax benefits recognized in connection with our corporate reorganization.

Net earnings from continuing operations. Net earnings from continuing operations increased by $176 million, or 18%, to $1,145 million for the year ended December 31, 2004 from $969 million for the year ended December 31, 2003. The increase in net earnings from continuing operations reflects increases in segment net earnings in each of our segments, except for our Affinity segment, whose net earnings decreased as a result of its exclusion as a result of our corporate reorganization.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Premiums. Premiums increased $600 million, or 10%, to $6,707 million for the year ended December 31, 2003 from $6,107 million for the year ended December 31, 2002. This increase was primarily the result of a $500 million increase in our Protection segment, a $58 million increase in our Retirement Income and

Investments segment, and a $39 million increase in our Mortgage Insurance segment. The increase in our Protection segment was primarily attributable to increases in payment protection insurance premiums as a result of changes in foreign exchange rates and growth of the in-force block as well as growth in long-term care insurance premiums. The increase in our Retirement Income and Investments segment was primarily attributable to an increase in life- contingent structured settlement premiums, offset in part by a decrease in life-contingent income annuities. The increase in our Mortgage Insurance segment was primarily attributable to an increase in international mortgage insurance premiums, offset in part by a decrease in U.S. mortgage insurance premiums.

Net investment income. Net investment income increased $72 million, or 2%, to $4,051 million for the year ended December 31, 2003 from $3,979 million for the year ended December 31, 2002. This increase in net investment income was primarily the result of an increase in average invested assets. This increase was offset in part by a decrease in weighted average investment yields, primarily attributable to investments in the U.S., to 5.8% for the year ended December 31, 2003 from 6.0% for the year ended December 31, 2002.

Net realized investment gains. Net realized investment gains decreased $194 million to $10 million for the year ended December 31, 2003 from $204 million for the year ended December 31, 2002. For the year ended December 31, 2003, gross realized gains and (losses) were $473 million and $(463) million, respectively. The realized gains for the year ended December 31, 2003 included a $43 million gain from a securitization of certain financial assets. Realized losses for the year ended December 31, 2003 included $224 million of impairments. These impairments were attributable to fixed maturities, equity securities and other investments ($126 million, $83 million and $15 million, respectively). The fixed maturities impairments primarily related to securities issued by companies in the transportation, mining and metals, utilities and energy and technology and communications industries ($36 million, $28 million, $12 million and $11 million, respectively). In addition, $30 million of fixed maturities impairments were realized on asset-backed securities. The equity securities impairments related to mutual fund and common stock investments ($37 million and $46 million, respectively). The other investments impairments primarily related to impairment of limited partnership investments. For the year ended December 31, 2002, gross realized gains and (losses) were $790 million and $(586) million, respectively. The realized gains for the year ended December 31, 2002 included $29 million from a securitization of certain financial assets. Realized losses for the year ended December 31, 2002 included $343 million of impairments. These impairments were attributable to fixed maturities, equity securities and other investments ($193 million, $133 million and $17 million, respectively). The fixed maturities impairments primarily related to securities issued by companies in the technology and communications and airline industries ($131 million and $27 million, respectively). The technology and communication industry impairments include $83 million related to securities issued by WorldCom Inc. and its affiliates. The equity securities impairments related to mutual fund and common stock investments ($81 million and $52 million, respectively). The other investments impairments are related to impairment of limited partnership and other private equity investments.

Policy fees and other income. Policy fees and other income decreased $24 million to $915 million for the year ended December 31, 2003 from $939 million for the year ended December 31, 2002. This decrease was primarily the result of a $25 million decrease in our Protection segment and an $11 million decrease in our Affinity segment, partially offset by a $10 million increase in our Mortgage Insurance segment. The decrease in our Protection segment was primarily attributable to a decrease in administrative fees from our group life and health insurance business. The decrease in our Affinity segment was primarily attributable to the decision to discontinue certain products and distribution relationships that did not meet our target return thresholds. The increase in our Mortgage Insurance segment was primarily attributable to higher contract underwriting fees related to increased refinancing activity in the U.S. and higher fees from increased volume in our international mortgage insurance business.

Benefits and other changes in policy reserves. Benefits and other changes in policy reserves increased $630 million, or 14%, to $5,270 million for the year ended December 31, 2003 from $4,640 million for the year ended December 31, 2002. This increase was primarily the result of a $367 million increase in our Protection segment, a $117 million increase in our Retirement Income and Investments segment and a $69 million increase in our Mortgage Insurance segment. The increase in our Protection segment was primarily attributable to an increase in changes in policy reserves for long-term care insurance, payment protection insurance and life insurance. The increase in our Retirement Income and Investments segment was primarily attributable to an increase in changes in policy reserves for structured settlements. The increase in our Mortgage Insurance segment was primarily attributable to favorable loss development on prior year reserves.

Interest credited. Interest credited decreased $21 million, or 1%, to $1,624 million for the year ended December 31, 2003 from $1,645 million for the year ended December 31, 2002. This decrease was primarily the result of a $24 million decrease in our Retirement Income and Investments segment that was primarily attributable to lower credited rates on GICs and funding agreements, offset in part by an increase in interest credited resulting from more variable annuity policyholders selecting the fixed account option on their contracts, on which we credit interest. The decrease in interest credited was also the result of a reduction in our weighted average crediting rates to 3.3% for the year ended December 31, 2003 from 3.6% for the year ended December 31, 2002.

Underwriting, acquisition and insurance expenses, net of deferrals. Underwriting, acquisition and insurance expenses, net of deferrals, increased $108 million, or 6%, to $1,916 million for the year ended December 31, 2003 from $1,808 million for the year ended December 31, 2002. This increase was primarily the result of a $89 million increase in our Protection segment, a $66 million increase in our Mortgage Insurance segment, partially offset by a $68 million decrease in our Affinity segment. The increase in our Protection segment was primarily attributable to growth of the payment protection insurance in-force block. The increase in our Mortgage Insurance segment was primarily attributable to higher expenses associated with increased refinancing activity in the U.S., continued investment in our international mortgage insurance business and higher indemnity liabilities for U.S. contract underwriting claims, which are included as other liabilities in our statement of financial position. U.S contract underwriting indemnification claims arise out of our contract underwriting agreements, pursuant to which we agree to indemnify lenders against losses incurred in the event that we make material errors during the underwriting process. These claims are classified in this line item (and not in Benefits and other changes in policy reserves) because they do not relate to insured events. Our indemnification liabilities related to U.S. contract underwriting claims increased as the result of our updating the assumptions we used to calculate these indemnity liabilities to reflect recent underwriting experience and the increase in the volume of mortgage loans underwritten due to significant refinancing activity. The decrease in our Affinity segment was primarily attributable to cost saving initiatives that reduced compensation and benefits and other general expenses.

Amortization of deferred acquisition costs and intangibles. Amortization increased $130 million, or 11%, to $1,351 million for the year ended December 31, 2003 from $1,221 million for the year ended December 31, 2002. This increase was primarily the result of a $155 million increase in our Protection segment, partially offset by a $20 million decrease in our Retirement Income and Investments segment. The increase in our Protection segment was primarily attributable to growth of the payment protection insurance in-force block. The decrease in our Retirement Income and Investments segment was primarily attributable to the impact of additional amortization in 2002 due to lower equity valuations of assets in our variable annuity separate accounts.

Interest expense. Interest expense increased $16 million, or 13%, to $140 million for the year ended December 31, 2003 from $124 million for the year ended December 31, 2002. This increase was primarily the result of $27 million of interest expense associated with securitization entities that were consolidated in our financial statements in connection with our adoption of FIN 46 on July 1, 2003, and $3 million of interest paid on non-recourse funding obligations, issued in the third and fourth quarters of 2003, supporting certain term life insurance policies. These increases were partially offset by a $14 million decrease in interest expense that was primarily the result of lower average short-term borrowings and long-term borrowings.

Provision for income taxes. Provision for income taxes increased $2 million to $413 million for the year ended December 31, 2003 from $411 million for the year ended December 31, 2002. The effective tax rate increased to 29.9% for the year ended December 31, 2003 from 22.9% for the year ended December 31, 2002. This increase in effective tax rate was primarily the result of a $152 million decrease in income tax expense for

74

Table of Contents

the year ended December 31, 2002 that was attributable to a favorable settlement with the Internal Revenue Service related to the treatment of certain reserves for obligations to policyholders on life insurance contracts, partially offset by dividend received deduction benefits realized in 2003. Excluding the effect of the settlement, our effective tax rate would have been 29.9% and 31.4% for the years ended December 31, 2003 and 2002, respectively.

Net earnings from continuing operations. Net earnings from continuing operations decreased by $411 million, or 30%, to $969 million for the year ended December 31, 2003 from $1,380 million for the year ended December 31, 2002. This decrease was primarily the result of a reduction in net realized investment gains and the impact of a favorable settlement with the IRS in 2002. The decline in net earnings from continuing operations reflects decreases in segment net earnings in our Protection, Retirement Income and Investments, Mortgage Insurance and Corporate and Other segments, partially offset by increased segment net earnings in our Affinity segment.

Historical and Pro Forma Results of Operations by Segment

Set forth below is historical financial information for each of our operating segments (Protection, Retirement Income and Investments and Mortgage Insurance), together with our Corporate and Other segment and the Affinity segment. Set forth below also is pro forma financial information for our Protection, Retirement Income and Investments and Corporate and Other segments. There were no pro forma adjustments to the results of operations of our Mortgage Insurance segment, and pro forma financial information is not provided for the Affinity segment because we did not acquire that segment from GEFAHI. All pro forma segment information is prepared on the same basis as the segment information presented in our unaudited financial statements.

Management regularly reviews the performance of each of our operating segments based on the after-tax net earnings (loss) of the segment, which excludes: (1) net realized investment gains (losses), (2) most of our interest and other financing expenses, (3) amounts reserved for the settlement in principle of the class action litigation relating to sales practices in our life insurance business, and (4) advertising and marketing costs and severance and restructuring charges. Although these excluded items are significant to our consolidated financial performance, we believe that the presentation of segment net earnings (loss) enhances our understanding and assessment of the results of operations of our operating segments by highlighting net earnings (loss) attributable to the normal, recurring operations of our business. However, segment net earnings (loss) is not a substitute for net income determined in accordance with U.S. GAAP.

Table of Contents

(Dollar amounts in millions)	Historical — As of or for the years ended December 31, 2004	2003	2002	Pro forma — Year ended December 31, 2004
Revenues by segment:				
Protection	$ 6,064	$ 6,143	$ 5,605	$ 5,935
Retirement Income and Investments	3,361	3,803	3,756	2,891
Mortgage Insurance	1,090	982	946	1,090
Affinity	218	566	588	
Corporate and Other	324	189	334	319
Total revenues	$ 11,057	$ 11,683	$ 11,229	$ 10,235
Segment net earnings (loss) from continuing operations:				
Protection	$ 528	$ 487	$ 554	$ 527
Retirement Income and Investments	153	151	186	148
Mortgage Insurance	426	369	451	426
Affinity	(14)	16	(3)	
Corporate and Other	52	(54)	192	29
Total segment net earnings (loss) from continuing operations	$ 1,145	$ 969	$ 1,380	$ 1,130
Total assets by segment (as of the period ended):				
Protection	$ 31,806	$ 29,254		
Retirement Income and Investments	56,610	55,614		
Mortgage Insurance	6,428	6,110		
Affinity		2,315		
Corporate and Other	9,034	10,138		
Total assets	$ 103,878	$ 103,431		

Protection segment

The following table sets forth the historical and pro forma results of operations relating to our Protection segment. Prior to our corporate reorganization, we entered into several significant reinsurance transactions in which we ceded to UFLIC a block of long-term care insurance policies that we reinsured from Travelers in 2000, and we assumed from UFLIC in-force blocks of Medicare supplement insurance policies.

We ceded the Travelers long-term care block to UFLIC in connection with our corporate reorganization on May 24, 2004, and therefore its results are not included in our historical results after that date. Similarly, we assumed the Medicare supplement blocks from UFLIC in connection with our corporate reorganization on May 24, 2004, and therefore their results are included in our historical results after that date. As a result of the foregoing, our historical results of operations for the year ended December 31, 2004 are not comparable to our results of operations for the years ended December 31, 2003 and 2002. The pro forma earnings information below reflects adjustments to record the effects of the reinsurance transactions as if they had been effective as of January 1, 2004. There were no pro forma adjustments to interest credited or interest expense because the long-term care insurance policies we ceded to UFLIC, and the Medicare supplement insurance policies

UFLIC ceded to us, in connection with the reinsurance transactions do not generate such fees, interest credited or interest expense. Pro forma revenues and benefits and expenses are lower than our historical revenues and benefits and expenses primarily as the results of the exclusion of revenues and expenses related to the reinsured block of long-term care insurance.

Table of Contents

	Historical			Pro forma
	Years ended December 31,			Year ended December 31,
(Dollar amounts in millions)	**2004**	**2003**	**2002**	**2004**
Revenues:				
Premiums	$ 4,481	$ 4,588	$ 4,088	$ 4,398
Net investment income	1,224	1,199	1,136	1,178
Policy fees and other income	359	356	381	359
Total revenues	6,064	6,143	5,605	5,935
Benefits and expenses:				
Benefits and other changes in policy reserves	2,890	2,997	2,630	2,788
Interest credited	362	365	362	362
Underwriting, acquisition and insurance expenses, net of deferrals	1,094	1,019	930	1,077
Amortization of deferred acquisition costs and intangibles	869	1,001	846	861
Interest expense	15	3		15
Total benefits and expenses	5,230	5,385	4,768	5,103
Earnings before income taxes	834	758	837	832
Provision for income taxes	306	271	283	305
Segment net earnings	$ 528	$ 487	$ 554	$ 527

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Premiums. Premiums decreased $107 million, or 2%, to $4,481 million for the year ended December 31, 2004 from $4,588 million for the year ended December 31, 2003. This decrease was primarily the result of a $102 million decrease in long-term care insurance premiums, consisting of a $124 million decrease attributable to the reinsurance transactions with UFLIC, partially offset by a $22 million increase in premiums associated with the growth of the in-force block. The decrease was also the result of a $81 million decrease in payment protection insurance premiums, consisting of a $231 million decrease on a constant-currency basis, net of a $150 million increase attributable to changes in foreign exchange rates. The $231 million decrease consisted of a $393 million decrease in premiums in our run-off block, offset by a $162 million increase in our continuing business due to new distribution relationships and the growth of consumer lending in Continental Europe. These decreases were offset in part by a $61 million increase in life insurance premiums that was primarily attributable to growth of the term life insurance in-force block. The decreases were also offset in part by a $15 million increase in group life and health insurance premiums attributable to growth of the in-force block that was primarily attributable to an increase in sales of non-medical products as the result of enhancements in our life insurance and disability product offerings and the expansion of our dental network.

Net investment income. Net investment income increased $25 million, or 2%, to $1,224 million for the year ended December 31, 2004 from $1,199 million for the year ended December 31, 2003. This increase, which included $13 million due to changes in foreign exchange rates, was primarily the result of an increase in average invested assets, offset in part by declining yields on investments and by a decrease in invested capital allocated to this segment in preparation for our corporate reorganization and initial public offering.

Policy fees and other income. Policy fees and other income increased $3 million, or 1%, to $359 million for the year ended December 31, 2004 from $356 million for the year ended December 31, 2003. This increase was primarily the result of a $13 million increase in our life insurance business primarily attributable to an increase in policy fees and other income in our universal life insurance business. This increase was partially offset by a $9 million decrease in administrative fees from our group life and health insurance business that was primarily attributable to higher lapse rates in 2004.

Table of Contents

Benefits and other changes in policy reserves. Benefits and other changes in policy reserves decreased $107 million, or 4%, to $2,890 million for the year ended December 31, 2004 from $2,997 million for the year ended December 31, 2003. This decrease was primarily the result of a $113 million decrease in our payment protection insurance business attributable to the lower loss ratio in the payment protection insurance run-off block, $27 million of which was attributable to changes in foreign exchange rates. The decrease was also attributable to a $85 million decrease in long-term care benefits and other changes in policy reserves, consisting of a $150 million decrease primarily attributable to the reinsurance transactions with UFLIC, partially offset by a $65 million increase primarily attributable to increased reserves and benefit payments resulting from the normal, expected increases in claims volume associated with the aging and continued growth of the long-term care in-force block. The decrease was partially offset by a $71 million increase in our life insurance business attributable to growth of the in-force block and less favorable claim experience compared to 2003, as well as a $19 million increase in our group life and health insurance business primarily attributable to growth in the in-force block and loss ratios that were more in line with expectations after favorable results in 2003.

Interest credited. Interest credited decreased $3 million, or 1%, to $362 million for the year ended December 31, 2004 from $365 million for the year ended December 31, 2003. This decrease was primarily the result of decreased crediting rates for universal life insurance policies, offset in part by increased policyholder account balances on corporate owned life insurance policies.

Underwriting, acquisition, insurance and other expenses, net of deferrals. Underwriting, acquisition, insurance and other expenses, net of deferrals increased $75 million, or 7%, to $1,094 million for the year ended December 31, 2004 from $1,019 million for the year ended December 31, 2003. The increase was primarily attributable to a $118 million increase in our payment protection insurance business related primarily to an increase in commissions and other compensation arrangements in our run-off block. This increase was partially offset by a $26 million decrease in our life insurance business primarily attributable to decreased legal fees following the agreement in principle to settle a class action lawsuit in 2003 and lower other expenses. The increase was also partially offset by an $18 million decrease in our long-term care insurance business primarily attributable to the reinsurance transactions with UFLIC.

Amortization of deferred acquisition costs and intangibles. Amortization of deferred acquisition costs and intangibles decreased $132 million, or 13%, to $869 million for the year ended December 31, 2004 from $1,001 million for the year ended December 31, 2003. This decrease was primarily the result of a $184 million decrease in payment protection insurance due to our decision not to renew certain distribution relationships, partially offset by an increase of $69 million due to changes in foreign exchange rates. The decrease was also partially attributable to a $20 million decrease in our life insurance business due to lower 2004 lapses in our term life insurance block and lower amortization on our universal life insurance block due to additional investment income related to bond calls and favorable universal life insurance claims experience, both of which resulted in accelerated amortization in 2003 and did not recur in 2004. Long-term care amortization decreased $3 million primarily as a result of a $14 million decrease related to the reinsurance transactions with UFLIC, partially offset by an increase in our long-term care business due to growth in the in-force block.

Interest expense. Interest expense increased $12 million to $15 million for the year ended December 31, 2004 from $3 million for the year ended December 31, 2003. This increase was primarily the result of interest paid on non-recourse funding obligations, issued in the third and fourth quarters of 2003 and the fourth quarter of 2004, supporting certain term life insurance policies.

Provision for income taxes. Provision for income taxes increased $35 million, or 13%, to $306 million for the year ended December 31, 2004 from $271 million for the year ended December 31, 2003. The effective tax rate was 36.7% and 35.8% for the years ended December 31, 2004 and 2003, respectively. The increase in effective tax rate was primarily due to a loss of foreign tax benefits as a result of the separation from GE.

Table of Contents

Segment net earnings. Segment net earnings increased by $41 million, or 8%, to $528 million for the year ended December 31, 2004 from $487 million for the year ended December 31, 2003. The increase in segment net earnings primarily reflects increases in net earnings in our life, payment protection and long-term care insurance businesses, offset in part by a decrease in net earnings in our group life and health insurance business. The increase in life insurance was primarily attributable to growth of the in-force block and lower legal expenses following the agreement in principle to settle a class action lawsuit. The increase in payment protection insurance was primarily attributable to $10 million in one-time charges related to employee benefit costs, as well as an $8 million increase due to the favorable impact of foreign exchange rates and an increase due to growth in our continuing business, partially offset by the loss of certain foreign tax benefits. The increase in our long-term care insurance business was primarily attributable to the growth of the block, partially offset by a loss of earnings on invested capital attributable to a reallocation of capital to our Corporate and Other segment and decreased earnings as a result of the reinsurance transactions. The decrease in our group life and health insurance business was attributable to loss experience that was more in line with expectations after favorable results in 2003.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Premiums. Premiums increased $500 million, or 12%, to $4,588 million for the year ended December 31, 2003 from $4,088 million for the year ended December 31, 2002. This increase was primarily the result of a $265 million increase in payment protection insurance premiums, with $155 million of that increase attributable to changes in foreign exchange rates and $110 million of that increase attributable to growth of the in-force block. The increase was also the result of a $232 million increase in long-term care insurance premiums that was primarily attributable to growth of the in-force block.

Net investment income. Net investment income increased $63 million, or 6%, to $1,199 million for the year ended December 31, 2003 from $1,136 million for the year ended December 31, 2002. This increase was primarily the result of an increase in invested assets, offset in part by declining yields on investments in the lower interest rate environment.

Policy fees and other income. Policy fees and other income decreased $25 million, or 7%, to $356 million for the year ended December 31, 2003 from $381 million for the year ended December 31, 2002. This decrease was primarily the result of a $13 million decrease in administrative fees from our group life and health insurance business that was primarily attributable to higher lapse rates.

Benefits and other changes in policy reserves. Benefits and other changes in policy reserves increased $367 million, or 14%, to $2,997 million for the year ended December 31, 2003 from $2,630 million for the year ended December 31, 2002. This increase was primarily the result of a $267 million increase in changes in reserves and benefit payments resulting from the normal, expected increases in claims volume associated with the aging of the long-term care insurance in-force block. The increase was also the result of a $69 million increase in changes in policy reserves attributable to growth of the payment protection insurance in-force block, of which $34 million was attributable to a lower amount of favorable loss development on prior-year reserves, and a $38 million increase in life insurance reserves.

Interest credited. Interest credited increased $3 million, or 1%, to $365 million for the year ended December 31, 2003 from $362 million for the year ended December 31, 2002. This increase was primarily the result of increased policyholder account balances on corporate-owned life insurance policies, offset in part by decreased crediting rates for universal life insurance policies.

Underwriting, acquisition, insurance and other expenses, net of deferrals. Underwriting, acquisition, insurance and other expenses, net of deferrals increased $89 million, or 10%, to $1,019 million for the year ended December 31, 2003 from $930 million for the year ended December 31, 2002. This increase was primarily the result of an $83 million increase attributable to growth in the payment protection insurance in-force block that was primarily associated with an increase in net commission expense.

Amortization of deferred acquisition costs and intangibles. Amortization of deferred acquisition costs and intangibles increased $155 million, or 18%, to $1,001 million for the year ended December 31, 2003 from $846 million for the year ended December 31, 2002. This increase was primarily the result of a $96 million increase resulting from growth of the payment protection insurance in-force block. The increase was also the result of a $33 million increase primarily attributable to additional investment income due to early bond calls within the universal life insurance investment portfolio and to favorable universal life insurance claims experience, both of which accelerated amortization of deferred acquisition costs and intangibles. In addition, $19 million of the increase was the result of the impact of the amortization of PVFP in 2002 for the block of long-term care insurance reinsured from Travelers.

Interest expense. Interest expense increased $3 million for the year ended December 31, 2003 from $0 million for the year ended December 31, 2002. This increase was the result of interest paid on non-recourse funding obligations, issued in the third and fourth quarters of 2003, supporting certain term life insurance policies.

Provision for income taxes. Provision for income taxes decreased $12 million, or 4%, to $271 million for the year ended December 31, 2003 from $283 million for the year ended December 31, 2002. The effective tax rate increased to 35.8% for the year ended December 31, 2003 from 33.8% for the year ended December 31, 2002. This increase in effective tax rate was primarily the result of a decrease in certain foreign tax loss and dividend benefits.

Segment net earnings. Segment net earnings decreased by $67 million, or 12%, to $487 million for the year ended December 31, 2003 from $554 million for the year ended December 31, 2002. The decrease in segment net earnings primarily reflects decreases in net earnings for life, payment protection and group life and health insurance products, offset in part by increases in net earnings for long-term care insurance products. The decrease in life insurance was primarily attributable to an increase in life insurance reserves, as well as accelerated amortization of deferred acquisition costs and intangibles related to additional investment income resulting from early bond calls and favorable claims experience. The decrease in payment protection insurance was primarily attributable to higher underwriting, acquisition, insurance and other expenses, net of deferrals, and the impact of the recognition in 2002 of certain foreign tax loss benefits. The decrease in group life and health insurance was primarily attributable to lower administration fees due to higher lapse rates. The increase in long-term care insurance was primarily attributable to growth in the in-force blocks.

Retirement Income and Investments segment

The following table sets forth the historical and pro forma results of operations relating to our Retirement Income and Investments segment. Prior to our corporate reorganization, we entered into several significant reinsurance transactions in which we ceded to UFLIC all of our in-force structured settlements contracts and substantially all of our in-force variable annuity contracts.

We ceded these blocks of business to UFLIC in connection with our corporate reorganization on May 24, 2004, and therefore their results are not included in our historical results after that date. As a result of the foregoing, our historical results of operations for the year ended December 31, 2004 are not comparable to our results of operations for the years ended December 31, 2003 and 2002. The pro forma earnings information below reflects adjustments to record the effects of the reinsurance transactions as if they had been effective as of January 1, 2004. Pro forma revenues (except premiums) and benefits and expenses are lower than our historical revenues and benefits and expenses primarily as the results of the exclusion of revenues and expenses related to the reinsured block of long-term care insurance. There were no pro forma adjustments to premiums because the structured settlements we ceded are single premium products and do not have renewal premiums, and the variable annuity products we ceded are deposit contracts and their deposits are not recorded as premiums.

Table of Contents

	Historical			Pro forma
	Years ended December 31,			Year ended December 31,
(Dollar amounts in millions)	2004	2003	2002	2004
Revenues:				
Premiums	$ 1,094	$ 1,049	$ 991	$ 1,094
Net investment income	1,996	2,511	2,522	1,582
Policy fees and other income	271	243	243	215
Total revenues	3,361	3,803	3,756	2,891
Benefits and expenses:				
Benefits and other changes in policy reserves	1,633	1,886	1,769	1,352
Interest credited	1,070	1,259	1,283	957
Underwriting, acquisition and insurance expenses, net of deferrals	250	239	221	229
Amortization of deferred acquisition costs and intangibles	170	190	210	122
Interest expense	1			1
Total benefits and expenses	3,124	3,574	3,483	2,661
Earnings before income taxes	237	229	273	230
Provision for income taxes	84	78	87	82
Segment net earnings	$ 153	$ 151	$ 186	$ 148

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Premiums. Premiums increased $45 million, or 4%, to $1,094 million for the year ended December 31, 2004 from $1,049 million for the year ended December 31, 2003. This increase was primarily the result of a $68 million increase in premiums for life-contingent income annuities that was primarily attributable to new distribution relationships in 2004. The increase was partially offset by a $23 million decrease in premiums for life-contingent structured settlements that was primarily attributable to our decision to write those contracts only when we believe we will be able to achieve our targeted returns.

Net investment income. Net investment income decreased $515 million, or 21%, to $1,996 million for the year ended December 31, 2004 from $2,511 million for the year ended December 31, 2003. This decrease was the result of a decrease in average invested assets, primarily associated with assets transferred to UFLIC in connection with the reinsurance transactions, partially offset by new asset purchases. The decrease in net investment income also was the result of declining yields on investments.

Policy fees and other income. Policy fees and other income increased $28 million, or 12%, to $271 million for the year ended December 31, 2004 from $243 million for the year ended December 31, 2003. This increase was primarily attributable to a $38 million increase in commission income due to increased sales of third-party products. The increase was also attributable to $34 million of fee income earned pursuant to new arrangements we entered into, effective as of January 1, 2004, to provide investment and administrative services related to a pool of municipal GICs issued by affiliates of GE. The increase was also attributable to a $10 million increase in fee income attributable to increased assets under management and a $10 million increase in asset management service fees. These increases were partially offset by a $62 million decrease in fee income primarily attributable to the reinsurance transactions with UFLIC.

Benefits and other changes in policy reserves. Benefits and other changes in policy reserves decreased $253 million, or 13%, to $1,633 million for the year ended December 31, 2004 from $1,886 million for the year ended December 31, 2003. This decrease was primarily the result of a $341 million decrease related to the reinsurance transactions with UFLIC. The decrease was also partially attributable to a $34 million reclassification in variable annuity sales inducements paid to contractholders, which were classified as underwriting, acquisition and insurance expenses, net of deferrals, in 2003. This reclassification was the result of the adoption of SOP 03-1 on

January 1, 2004. The decrease was partially offset by a $69 million increase in reserves relating to life-contingent income annuities and a $17 million increase related to favorable mortality on income annuities in 2003 which did not recur in 2004. In addition, in the fourth quarter of 2004, we recorded a one-time charge of $49 million, $41 million of which was recorded in benefits and other changes in policy reserves. This charge related to a small run-off block of equity-indexed annuities and resulted from an adjustment of reserving processes.

Interest credited. Interest credited decreased $189 million, or 15%, to $1,070 million for the year ended December 31, 2004 from $1,259 million for the year ended December 31, 2003. This decrease was primarily attributable to a $172 million decrease in interest credited as the result of the reinsurance transactions with UFLIC. This decrease was also the result of a $16 million decrease relating to lower interest credited on institutional products due to a decrease in the average size of the in-force block, as well as lower average interest crediting rates.

Underwriting, acquisition and insurance expenses, net of deferrals. Underwriting, acquisition and insurance expenses, net of deferrals, increased by $11 million, or 5%, to $250 million for the year ended December 31, 2004 from $239 million for the year ended December 31, 2003. This increase was primarily the result of an increase of $32 million in commission and other expenses incurred in our fee-based products primarily due to increased sales. The increase was also the result of the reclassification of $33 million of variable annuity sales inducements paid to contractholders which were classified as deferred acquisition costs in the prior year. The increase was partially offset by a $45 million decrease in expenses associated with blocks of business ceded as part of the reinsurance transactions with UFLIC and an $7 million decrease in guarantee fund assessments.

Amortization of deferred acquisition costs and intangibles. Amortization of deferred acquisition costs and intangibles decreased $20 million, or 11%, to $170 million for the year ended December 31, 2004 from $190 million for the year ended December 31, 2003. This decrease was primarily the result of a $33 million decrease attributable to the reinsurance transactions with UFLIC. The decrease was partially offset by $8 million of accelerated amortization of deferred acquisition costs associated with variable life insurance.

Provision for income taxes. Provision for income taxes increased $6 million, or 8%, to $84 million for the year ended December 31, 2004 from $78 million for the year ended December 31, 2003. The effective tax rate increased to 35.4% for the year ended December 31, 2004 from 34.1% for the year ended December 31, 2003. The increase in effective tax rate was primarily the result of the impact of higher dividends received deduction benefits related to separate account annuity products in 2003.

Segment net earnings. Segment net earnings increased $2 million, or 1%, to $153 million for the year ended December 31, 2004 from $151 million for the year ended December 31, 2003. This increase was primarily the result of lower expenses due primarily to the reinsurance transactions with UFLIC, offset by declining yields on invested assets. The increase in segment net earnings also was attributable to an increase in fees received under new contracts with GE to manage its municipal GIC business, as well as growth in our asset management businesses, growth in assets under management overall, and improved spreads, offset by a one-time charge of $32 million (post-tax) related to an adjustment of reserving processes related to a small run-off block of equity-indexed annuities.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Premiums. Premiums increased $58 million, or 6%, to $1,049 million for the year ended December 31, 2003 from $991 million for the year ended December 31, 2002. This increase was primarily the result of a $92 million increase in premiums for life-contingent structured settlements that was attributable to higher sales of this product. This increase was offset in part by a $31 million decrease in premiums for life-contingent income annuities that was primarily attributable to lower sales of this product resulting from a reduction of crediting and payout rates in 2003 in the lower interest rate environment.

Net investment income. Net investment income decreased $11 million to $2,511 million for the year ended December 31, 2003 from $2,522 million for the year ended December 31, 2002. This decrease was primarily the result of declining yields on investments, which was offset in part by an increase in invested assets.

Table of Contents

Policy fees and other income. Policy fees and other income were unchanged at $243 million for the years ended December 31, 2003 and December 31, 2002.

Benefits and other changes in policy reserves. Benefits and other changes in policy reserves increased $117 million, or 7%, to $1,886 million for the year ended December 31, 2003 from $1,769 million for the year ended December 31, 2002. This increase was primarily the result of a $107 million increase in changes in policy reserves for structured settlements attributable to higher sales of this product.

Interest credited. Interest credited decreased $24 million, or 2%, to $1,259 million for the year ended December 31, 2003 from $1,283 million for the year ended December 31, 2002. This decrease was primarily the result of lower credited rates on GICs and funding agreements attributable to the lower interest rate environment, offset in part by an increase in interest credited attributable to more variable annuity policyholders selecting the fixed account option on their contracts, on which we credit interest.

Underwriting, acquisition, insurance and other expenses, net of deferrals. Underwriting, acquisition, insurance and other expenses, net of deferrals, increased by $18 million, or 8%, to $239 million for the year ended December 31, 2003 from $221 million for the year ended December 31, 2002. This increase was primarily the result of an increase in general operating expenses, offset in part by an increase in deferrals of acquisition costs resulting from increased sales of variable annuities with bonus features, for which a portion of the benefit expense is deferred and amortized over the life of the product.

Amortization of deferred acquisition costs and intangibles. Amortization of deferred acquisition costs and intangibles decreased $20 million, or 10%, to $190 million for the year ended December 31, 2003 from $210 million for the year ended December 31, 2002. This decrease was primarily the result of the impact of a $26 million increase in additional amortization of deferred acquisition costs in 2002 that was primarily attributable to lower equity valuations of assets in our variable annuity separate accounts.

Provision for income taxes. Provision for income taxes decreased $9 million, or 10%, to $78 million for the year ended December 31, 2003 from $87 million for the year ended December 31, 2002. The effective tax rate increased to 34.1% for the year ended December 31, 2003 from 31.9% for the year ended December 31, 2002. This increase in effective tax rate was primarily the result of the impact of higher dividends received deduction benefits related to separate account annuity products in 2002.

Segment net earnings. Segment net earnings decreased $35 million, or 19%, to $151 million for the year ended December 31, 2003 from $186 million for the year ended December 31, 2002. This decrease in segment net earnings was primarily the result of lower policy fees and other income and declining yields on invested assets. The decrease in segment net earnings reflects decreases in net earnings for structured settlement, fixed annuity and GIC products and an increase in net earnings for variable annuity products. The decrease in structured settlements and GICs was primarily attributable to lower reinvestment rates. The decrease in fixed annuities was primarily attributable to higher amortization of deferred acquisition costs. The increase in variable annuities was primarily attributable to tax benefits resulting from higher dividend deductions on our separate accounts.

Table of Contents

Mortgage Insurance segment

The following table sets forth the historical results of operations relating to our Mortgage Insurance segment. The Mortgage Insurance segment s results of operations are not affected by any of the pro forma adjustments.

	Years ended December 31,		
(Dollar amounts in millions)	**2004**	**2003**	**2002**
Revenues:			
Premiums	$ 800	$ 716	$ 677
Net investment income	254	218	231
Policy fees and other income	36	48	38
Total revenues	1,090	982	946
Benefits and expenses:			
Benefits and other changes in policy reserves	165	115	46
Underwriting, acquisition and insurance expenses, net of deferrals	262	299	233
Amortization of deferred acquisition costs and intangibles	51	37	39
Total benefits and expenses	478	451	318
Earnings before income taxes	612	531	628
Provision for income taxes	186	162	177
Segment net earnings	$ 426	$ 369	$ 451

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Premiums. Premiums increased $84 million, or 12%, to $800 million for the year ended December 31, 2004 from $716 million for the year ended December 31, 2003. This increase was primarily the result of a $125 million increase in premiums in our international mortgage insurance business, $35 million of which was attributable to favorable foreign exchange rates. The increase also was partially attributable to the aging of our international in-force block, which resulted in increased earned premiums from prior-year new insurance written. The increase in international premiums was partially offset by a $41 million decrease in our U.S. mortgage insurance premiums. This decrease in U.S. mortgage insurance premiums was primarily the result of the decline in our in-force block due to decreased demand for mortgage insurance as the result of a smaller market for mortgage originations, as well as a reduction in business from some mortgage lenders following our actions to restructure our captive reinsurance arrangements with premium risk cessions in excess of 25%.

Net investment income. Net investment income increased $36 million, or 17%, to $254 million for the year ended December 31, 2004 from $218 million for the year ended December 31, 2003. This increase was primarily the result of a $32 million increase in investment income in our international business, $13 million of which was attributable to changes in foreign exchange rates, related to the growth in invested assets.

Investment income in our U.S. mortgage insurance business increased $4 million due to increasing yields on invested assets. As discussed below under Liquidity and Capital Resources, our U.S. mortgage insurance business paid a $700 million dividend to our parent holding company in December 2004. This dividend reduced the invested assets in our U.S. mortgage insurance business at the end of 2004.

Policy fees and other income. Policy fees and other income decreased $12 million, or 25%, to $36 million for the year ended December 31, 2004 from $48 million for the year ended December 31, 2003. This decrease was primarily the result of a $19 million decrease in fees for contract underwriting services attributable to lower refinancing activity in the U.S. This decrease was offset in part by a $7 million increase in fees from increased volume in our international mortgage insurance business.

Table of Contents

Benefits and other changes in policy reserves. Benefits and other changes in policy reserves increased $50 million, or 43%, to $165 million for the year ended December 31, 2004 from $115 million for the year ended December 31, 2003. This increase was primarily the result of a $28 million increase in U.S. paid losses and a $22 million increase primarily attributable to an increase in claims and loans in default associated with higher insurance in-force in our international mortgage insurance business, $4 million of which was due to changes in foreign exchange rates.

Underwriting, acquisition, insurance and other expenses, net of deferrals. Underwriting, acquisition, insurance and other expenses, net of deferrals, decreased $37 million, or 12%, to $262 million for the year ended December 31, 2004 from $299 million for the year ended December 31, 2003. This decrease was primarily attributable to a $54 million decrease in expenses primarily attributable to lower underwriting expenses due to a decline in refinancing activity in the U.S. and lower administrative costs, and a $17 million decrease in the provision for indemnity liabilities related to a decline in mortgage loan origination primarily attributable to decreased mortgage refinancing activity. These declines were offset in part by a $34 million increase in expenses to support the expansion of our international mortgage insurance business, $8 million of which was attributable to changes in foreign exchange rates.

Amortization of deferred acquisition costs and intangibles. Amortization of deferred acquisition costs and intangibles increased $14 million, or 38%, to $51 million for the year ended December 31, 2004 from $37 million for the year ended December 31, 2003. The increase was partially attributable to a $6 million increase in mortgage insurance amortization in the U.S. primarily due to accelerated amortization reflecting higher-than-expected early-year margins on recently written policies. The increase was also attributable to an $8 million increase in international insurance amortization due primarily to the continued growth of our international business, $2 million of which was attributable to changes in foreign exchange rates.

Provision for income taxes. Provision for income taxes increased $24 million, or 15%, to $186 million for the year ended December 31, 2004 from $162 million for the year ended December 31, 2003. The effective tax rate was 30.4% and 30.5% for the years ended December 31, 2004 and 2003, respectively. The decrease in effective tax rate was primarily due to a decrease in state income taxes and an increase in the benefit of tax-exempt investment income, offset by the loss of foreign tax benefits as a result of the separation from GE. Our Mortgage Insurance segment s effective tax rate is below the statutory rate primarily as a result of tax-exempt investment income.

Segment net earnings. Segment net earnings increased $57 million, or 15%, to $426 million for the year ended December 31, 2004 from $369 million for the year ended December 31, 2003. This increase in segment net earnings was primarily attributable to a $58 million increase in net earnings attributable to continued growth in our international mortgage insurance business, $23 million of which was due to favorable foreign exchange rates. The relatively constant net earnings in our U.S. mortgage insurance business were primarily attributable to lower expenses, offset by a continued decrease in the in-force block and an increase in our paid claims.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Premiums. Premiums increased $39 million, or 6%, to $716 million for the year ended December 31, 2003 from $677 million for the year ended December 31, 2002. This increase was primarily the result of an $88 million increase in premiums in our international mortgage insurance business, $24 million of which was attributable to changes in foreign exchange rates. This increase in international premiums was offset in part by a $26 million decrease in premiums in our U.S. mortgage insurance business that was primarily attributable to higher premiums ceded in captive reinsurance transactions and a $23 million decrease in premiums that was primarily attributable to lower persistency resulting from increased refinancing activity.

Net investment income. Net investment income decreased $13 million, or 6%, to $218 million for the year ended December 31, 2003 from $231 million for the year ended December 31, 2002. This decrease was primarily the result of a $42 million decrease in net investment income that was primarily attributable to a decrease in invested assets resulting from the payment of dividends by the U.S. mortgage insurance business to our holding company. The decrease was also the result of declining yields on investments. These decreases were offset in part by a $29 million increase in net investment income resulting from additional invested assets in our international mortgage insurance business, $10 million of which was due to changes in foreign exchange rates.

Policy fees and other income. Policy fees and other income increased $10 million, or 26%, to $48 million for the year ended December 31, 2003 from $38 million for the year ended December 31, 2002. This increase was the result of a $5 million increase in fees for contract underwriting services attributable to higher refinancing activity in the U.S. and a $5 million increase in fees from increased volume in our international mortgage insurance business.

Benefits and other changes in policy reserves. Benefits and other changes in policy reserves increased $69 million, or 150%, to $115 million for the year ended December 31, 2003 from $46 million for the year ended December 31, 2002. This increase was the result of a $60 million increase primarily attributable to a lower amount of favorable loss development on prior year reserves and a $9 million increase in paid claims on U.S. flow mortgage insurance offset in part by a $4 million decrease primarily attributable to favorable loss development on U.S. bulk mortgage insurance, and a $4 million increase primarily attributable to an increase in loans in default associated with higher insurance in force levels in our international mortgage insurance business.

Underwriting, acquisition, insurance and other expenses, net of deferrals. Underwriting, acquisition, insurance and other expenses, net of deferrals, increased $66 million, or 28%, to $299 million for the year ended December 31, 2003 from $233 million for the year ended December 31, 2002. This increase was the result of a $37 million increase in expenses that was primarily attributable to a significant increase in underwriting volume associated with refinancing activity in the U.S., an $11 million increase attributable to higher indemnity liabilities for U.S. contract underwriting claims as the result of updating of the assumptions we used to calculate these indemnity liabilities to reflect recent underwriting experience and the increase in the volume of mortgage loans underwritten due to significant refinancing activity and an $18 million increase attributable to continued investment in our international mortgage insurance business.

Amortization of deferred acquisition costs and intangibles. Amortization of deferred acquisition costs and intangibles decreased $2 million, or 5%, to $37 million for the year ended December 31, 2003 from $39 million for the year ended December 31, 2002. This decrease was primarily the result of the amortization of a lower amount of U.S. deferred expenses, offset by the higher volume in our international mortgage insurance business.

Provision for income taxes. Provision for income taxes decreased $15 million, or 8%, to $162 million for the year ended December 31, 2003 from $177 million for the year ended December 31, 2002. The effective tax rate increased to 30.5% for the year ended December 31, 2003 from 28.2% for the year ended December 31, 2002. This increase in effective tax rate was primarily the result of a greater proportion of foreign income taxed at a higher rate than in the U.S. Our Mortgage Insurance segment s effective tax rate is significantly below the statutory rate primarily as the result of tax-exempt investment income.

Segment net earnings. Segment net earnings decreased $82 million, or 18%, to $369 million for the year ended December 31, 2003 from $451 million for the year ended December 31, 2002. This decrease was primarily the result of a $141 million decrease in U.S. net earnings, offset in part by a $59 million increase in international net earnings. The decrease in U.S. net earnings was primarily attributable to greater losses from less favorable loss development on prior year reserves, decreases in premiums from increased ceding and lower persistency, and increases in underwriting expenses from refinancing activity and contract underwriting indemnification liabilities as the result of our updating the assumptions used to calculate these indemnity liabilities to reflect recent underwriting experience and increased volume. The increase in international net earnings was primarily the result of growth in our international mortgage insurance business.

86

Table of Contents

Affinity segment

The following table sets forth the historical results of operations relating to the Affinity segment. Because we did not acquire any of the Affinity segment businesses from GEFAHI in our corporate reorganization, this segment s results of operations are included in our results of operations only for periods through May 24, 2004 and are not included in our pro forma financial information.

	Years ended December 31,		
(Dollar amounts in millions)	**2004**	**2003**	**2002**
Revenues:			
Premiums	$ 88	$ 244	$ 247
Net investment income	26	62	70
Policy fees and other income	104	260	271
Total revenues	218	566	588
Benefits and expenses:			
Benefits and other changes in policy reserves	80	196	180
Underwriting, acquisition and insurance expenses, net of deferrals	123	244	312
Amortization of deferred acquisition costs and intangibles	47	105	116
Total benefits and expenses	250	545	