GENWORTH FINANCIAL INC
Form 10-Q
July 30, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from to

Commission file number 001-32195

GENWORTH FINANCIAL, INC.

(Exact Name of Registrant as Specified in its Charter)

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

(804) 281-6000

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

As of July 24, 2014, 496,616,897 shares of Class A Common Stock, par value $0.001 per share, were outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except per share amounts)

	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	$ 62,360	$ 58,629
Equity securities available-for-sale, at fair value	320	341
Commercial mortgage loans	5,986	5,899
Restricted commercial mortgage loans related to securitization entities	217	233
Policy loans	1,514	1,434
Other invested assets	1,963	1,686
Restricted other invested assets related to securitization entities, at fair value	404	391
Total investments	72,764	68,613
Cash and cash equivalents	4,138	4,214
Accrued investment income	642	678
Deferred acquisition costs	5,085	5,278
Intangible assets	266	399
Goodwill	867	867
Reinsurance recoverable	17,276	17,219
Other assets	695	639
Separate account assets	9,911	10,138
Total assets	$ 111,644	$ 108,045
Liabilities and stockholders equity		
Liabilities:		
Future policy benefits	$ 34,497	$ 33,705
Policyholder account balances	25,834	25,528
Liability for policy and contract claims	7,223	7,204
Unearned premiums	4,191	4,107
Other liabilities ($40 and $50 other liabilities related to securitization entities)	3,702	4,096
Borrowings related to securitization entities ($83 and $75 at fair value)	233	242
Non-recourse funding obligations	2,024	2,038
Long-term borrowings	4,691	5,161

Deferred tax liability	1,074	206
Separate account liabilities	9,911	10,138
Total liabilities	93,380	92,425
Commitments and contingencies		
Stockholders equity:		
Class A common stock, $0.001 par value; 1.5 billion shares authorized; 585 million and 583 million shares issued as of June 30, 2014 and December 31, 2013, respectively; 497 million and 495 million shares outstanding as of June 30, 2014 and December 31, 2013, respectively	1	1
Additional paid-in capital	11,986	12,127
Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	2,109	914
Net unrealized gains (losses) on other-than-temporarily impaired securities	19	12
Net unrealized investment gains (losses)	2,128	926
Derivatives qualifying as hedges	1,652	1,319
Foreign currency translation and other adjustments	381	297
Total accumulated other comprehensive income (loss)	4,161	2,542
Retained earnings	2,783	2,423
Treasury stock, at cost (88 million shares as of June 30, 2014 and December 31, 2013)	(2,700)	(2,700)
Total Genworth Financial, Inc. s stockholders equity	16,231	14,393
Noncontrolling interests	2,033	1,227
Total stockholders equity	18,264	15,620
Total liabilities and stockholders equity	$ 111,644	$ 108,045

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in millions, except per share amounts)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenues:				
Premiums	$ 1,343	$ 1,286	$ 2,650	$ 2,547
Net investment income	813	821	1,618	1,635
Net investment gains (losses)	34	21	17	(40)
Insurance and investment product fees and other	225	243	452	532
Total revenues	2,415	2,371	4,737	4,674
Benefits and expenses:				
Benefits and other changes in policy reserves	1,256	1,269	2,450	2,470
Interest credited	184	184	367	368
Acquisition and operating expenses, net of deferrals	404	413	782	846
Amortization of deferred acquisition costs and intangibles	138	137	272	259
Interest expense	120	121	247	247
Total benefits and expenses	2,102	2,124	4,118	4,190
Income from continuing operations before income taxes	313	247	619	484
Provision for income taxes	85	73	172	149
Income from continuing operations	228	174	447	335
Income (loss) from discontinued operations, net of taxes		6		(14)
Net income	228	180	447	321
Less: net income attributable to noncontrolling interests	52	39	87	77
Net income available to Genworth Financial, Inc. s common stockholders	$ 176	$ 141	$ 360	$ 244
Income from continuing operations available to Genworth Financial, Inc. s common stockholders per common share:				
Basic	$ 0.35	$ 0.27	$ 0.73	$ 0.52
Diluted	$ 0.35	$ 0.27	$ 0.72	$ 0.52

Net income available to Genworth Financial, Inc. s common stockholders per common share:				
Basic	$ 0.35	$ 0.29	$ 0.73	$ 0.49
Diluted	$ 0.35	$ 0.28	$ 0.72	$ 0.49
Weighted-average common shares outstanding:				
Basic	496.6	493.4	496.2	492.9
Diluted	503.6	497.5	503.2	497.2
Supplemental disclosures:				
Total other-than-temporary impairments	$ (2)	$ (2)	$ (3)	$ (14)
Portion of other-than-temporary impairments included in other comprehensive income (loss)		(3)		(3)
Net other-than-temporary impairments	(2)	(5)	(3)	(17)
Other investments gains (losses)	36	26	20	(23)
Total net investment gains (losses)	$ 34	$ 21	$ 17	$ (40)

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in millions)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Net income	$ 228	$ 180	$ 447	$ 321
Other comprehensive income (loss), net of taxes:				
Net unrealized gains (losses) on securities not other-than-temporarily impaired	533	(1,216)	1,239	(1,433)
Net unrealized gains (losses) on other-than-temporarily impaired securities	1	26	7	52
Derivatives qualifying as hedges	114	(218)	333	(328)
Foreign currency translation and other adjustments	148	(353)	127	(457)
Total other comprehensive income (loss)	796	(1,761)	1,706	(2,166)
Total comprehensive income (loss)	1,024	(1,581)	2,153	(1,845)
Less: comprehensive income (loss) attributable to noncontrolling interests	113	(40)	117	(29)
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$ 911	$ (1,541)	$ 2,036	$ (1,816)

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Amounts in millions)

(Unaudited)

	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury stock, at cost	Total Genworth Financial, Inc. s stockholders equity	Noncontrolling interests	Total stockholders equity
Balances as of December 31, 2013	$ 1	$ 12,127	$ 2,542	$ 2,423	$ (2,700)	$ 14,393	$ 1,227	$ 15,620
Initial sale of subsidiary shares to noncontrolling interests		(145)	(57)			(202)	713	511
Comprehensive income (loss):								
Net income				360		360	87	447
Net unrealized gains (losses) on securities not other-than-temporarily impaired			1,217			1,217	22	1,239
Net unrealized gains (losses) on other-than-temporarily impaired securities			7			7		7
Derivatives qualifying as hedges			333			333		333
Foreign currency translation and other adjustments			119			119	8	127
Total comprehensive income (loss)						2,036	117	2,153
Dividends to noncontrolling interests							(27)	(27)
Stock-based compensation expense and exercises and other		4				4	3	7
Balances as of June 30, 2014	$ 1	$ 11,986	$ 4,161	$ 2,783	$ (2,700)	$ 16,231	$ 2,033	$ 18,264

Balances as of December 31, 2012	$ 1	$ 12,127	$ 5,202	$ 1,863	$ (2,700)	$ 16,493	$ 1,288	$ 17,781
Repurchase of subsidiary shares							(21)	(21)
Comprehensive income (loss):								
Net income				244		244	77	321
Net unrealized gains (losses) on securities not other-than-temporarily impaired			(1,396)			(1,396)	(37)	(1,433)
Net unrealized gains (losses) on other-than-temporarily impaired securities			52			52		52
Derivatives qualifying as hedges			(328)			(328)		(328)
Foreign currency translation and other adjustments			(388)			(388)	(69)	(457)
Total comprehensive income (loss)						(1,816)	(29)	(1,845)
Dividends to noncontrolling interests							(26)	(26)
Stock-based compensation expense and exercises and other		12				12	1	13
Balances as of June 30, 2013	$ 1	$ 12,139	$ 3,142	$ 2,107	$ (2,700)	$ 14,689	$ 1,213	$ 15,902

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Six months ended June 30, 2014	Six months ended June 30, 2013
Cash flows from operating activities:		
Net income	$ 447	$ 321
Less loss from discontinued operations, net of taxes		14
Adjustments to reconcile net income to net cash from operating activities:		
Amortization of fixed maturity securities discounts and premiums and limited partnerships	(69)	(40)
Net investment losses (gains)	(17)	40
Charges assessed to policyholders	(376)	(404)
Acquisition costs deferred	(239)	(212)
Amortization of deferred acquisition costs and intangibles	272	259
Deferred income taxes	28	(213)
Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments	79	35
Stock-based compensation expense	15	17
Change in certain assets and liabilities:		
Accrued investment income and other assets	(92)	21
Insurance reserves	1,102	1,183
Current tax liabilities	(164)	260
Other liabilities and other policy-related balances	(408)	(638)
Cash from operating activities discontinued operations		3
Net cash from operating activities	578	646
Cash flows from investing activities:		
Proceeds from maturities and repayments of investments:		
Fixed maturity securities	2,568	2,820
Commercial mortgage loans	262	474
Restricted commercial mortgage loans related to securitization entities	17	31
Proceeds from sales of investments:		
Fixed maturity and equity securities	1,256	2,245
Purchases and originations of investments:		
Fixed maturity and equity securities	(4,873)	(4,558)
Commercial mortgage loans	(347)	(431)
Other invested assets, net	175	113
Policy loans, net	4	(1)
Proceeds from sale of a subsidiary, net of cash transferred		25

Cash from investing activities discontinued operations		
Net cash from investing activities	(938)	718
Cash flows from financing activities:		
Deposits to universal life and investment contracts	1,548	920
Withdrawals from universal life and investment contracts	(1,270)	(2,059)
Redemption of non-recourse funding obligations	(14)	(12)
Proceeds from issuance of long-term debt	144	
Repayment and repurchase of long-term debt	(621)	(15)
Repayment of borrowings related to securitization entities	(17)	(32)
Proceeds from sale of subsidiary shares to noncontrolling interests	519	
Repurchase of subsidiary shares		(21)
Dividends paid to noncontrolling interests	(27)	(26)
Other, net	(32)	(17)
Cash from financing activities discontinued operations		
Net cash from financing activities	230	(1,262)
Effect of exchange rate changes on cash and cash equivalents	54	(118)
Net change in cash and cash equivalents	(76)	(16)
Cash and cash equivalents at beginning of period	4,214	3,653
Cash and cash equivalents at end of period	4,138	3,637
Less cash and cash equivalents of discontinued operations at end of period		24
Cash and cash equivalents of continuing operations at end of period	$ 4,138	$ 3,613

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Formation of Genworth and Basis of Presentation

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

References to Genworth, the Company, we or our in the accompanying unaudited condensed consolidated financial statements and these notes thereto have the following meanings, unless the context otherwise requires:

For periods prior to April 1, 2013: Genworth Holdings and its subsidiaries

For periods from and after April 1, 2013: Genworth Financial and its subsidiaries

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

We have the following operating segments:

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

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

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

International Protection. We are a leading provider of payment protection coverages (referred to as lifestyle protection) in multiple European countries and have operations in select other countries. Our lifestyle protection insurance products primarily help consumers meet specified payment obligations should they become unable to pay due to accident, illness, involuntary unemployment, disability or death.

Runoff. The Runoff segment includes the results of non-strategic products which are no longer actively sold. Our non-strategic products primarily include our variable annuity, variable life insurance, institutional, corporate-owned life insurance and other accident and health insurance products. Institutional products consist of funding agreements, funding agreements backing notes (FABNs)

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

and guaranteed investment contracts (GICs). In January 2011, we discontinued new sales of retail and group variable annuities while continuing to service our existing blocks of business.

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

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and rules and regulations of the U.S. Securities and Exchange Commission (SEC). Preparing financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. These unaudited condensed consolidated financial statements include all adjustments (including normal recurring adjustments) considered necessary by management to present a fair statement of the financial position, results of operations and cash flows for the periods presented. The results reported in these unaudited condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. The unaudited condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and related notes contained in our 2013 Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) Accounting Changes

Accounting Pronouncement Recently Adopted

On January 1, 2014, we adopted new accounting guidance on the scope, measurement and disclosure requirements for investment companies. The new guidance clarified the characteristics of an investment company, provided comprehensive guidance for assessing whether an entity is an investment company, required investment companies to measure noncontrolling ownership interest in other investment companies at fair value rather than using the equity method of accounting and required additional disclosures. The adoption of this accounting guidance did not have any impact on our consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

In June 2014, the Financial Accounting Standards Board (the FASB) issued new accounting guidance related to the accounting for repurchase-to-maturity transactions and repurchase financings, and added disclosure requirements for all repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. The new guidance changes the accounting for repurchase-to-maturity transactions and repurchase financing such that they will be consistent with secured borrowing accounting. In addition, the guidance requires new disclosures for all repurchase agreements and securities lending transactions. We do not have repurchase-to-maturity transactions but have repurchase agreements and securities lending transactions that will be subject to additional disclosures. These new requirements will be effective for us on January 1, 2015 and early adoption is not permitted. This new guidance will only impact our disclosures.

In May 2014, the FASB issued new accounting guidance related to revenue from contracts with customers. The key principle of the new guidance is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for such goods or services. The guidance also includes disclosure requirements that provide information about the nature, amount, timing and uncertainty of revenue and cash flows arising from

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

contracts with customers. The guidance is effective for us on January 1, 2017 and early adoption is not permitted. Although insurance contracts are specifically scoped out of this new guidance, we have minor services that may be subject to the new revenue recognition guidance and are still in the process of evaluating the impact, if any, the guidance may have on our consolidated financial statements.

(3) Earnings Per Share

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

(Amounts in millions, except per share amounts)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Weighted-average shares used in basic earnings per common share calculations	496.6	493.4	496.2	492.9
Potentially dilutive securities:				
Stock options, restricted stock units and stock appreciation rights	7.0	4.1	7.0	4.3
Weighted-average shares used in diluted earnings per common share calculations	503.6	497.5	503.2	497.2
Income from continuing operations:				
Income from continuing operations	$ 228	$ 174	$ 447	$ 335
Less: income from continuing operations attributable to noncontrolling interests	52	39	87	77
Income from continuing operations available to Genworth Financial, Inc. s common stockholders	$ 176	$ 135	$ 360	$ 258
Basic per common share	$ 0.35	$ 0.27	$ 0.73	$ 0.52
Diluted per common share	$ 0.35	$ 0.27	$ 0.72	$ 0.52
Income (loss) from discontinued operations:				
Income (loss) from discontinued operations, net of taxes	$	$ 6	$	$ (14)

Less: income from discontinued operations, net of taxes, attributable to noncontrolling interests				
Income (loss) from discontinued operations, net of taxes, available to Genworth Financial, Inc. s common stockholders	$	$ 6	$	$ (14)
Basic per common share	$	$ 0.01	$	$ (0.03)
Diluted per common share	$	$ 0.01	$	$ (0.03)
Net income:				
Income from continuing operations	$ 228	$ 174	$ 447	$ 335
Income (loss) from discontinued operations, net of taxes		6		(14)
Net income	228	180	447	321
Less: net income attributable to noncontrolling interests	52	39	87	77
Net income available to Genworth Financial, Inc. s common stockholders	$ 176	$ 141	$ 360	$ 244
Basic per common share	$ 0.35	$ 0.29	$ 0.73	$ 0.49
Diluted per common share	$ 0.35	$ 0.28	$ 0.72	$ 0.49

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(4) Investments

(a) Net Investment Income

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

(Amounts in millions)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Fixed maturity securities taxable	$ 666	$ 672	$ 1,314	$ 1,328
Fixed maturity securities non-taxable	3	2	6	4
Commercial mortgage loans	81	81	164	163
Restricted commercial mortgage loans related to securitization entities	4	7	8	14
Equity securities	4	6	8	10
Other invested assets	39	39	89	87
Restricted other invested assets related to securitization entities	1		2	
Policy loans	32	32	63	64
Cash, cash equivalents and short-term investments	7	5	12	12
Gross investment income before expenses and fees	837	844	1,666	1,682
Expenses and fees	(24)	(23)	(48)	(47)
Net investment income	$ 813	$ 821	$ 1,618	$ 1,635

(b) Net Investment Gains (Losses)

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

(Amounts in millions)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Available-for-sale securities:				

Realized gains	$ 38	$ 78	$ 45	$ 118
Realized losses	(14)	(47)	(37)	(113)
Net realized gains (losses) on available-for-sale securities	24	31	8	5
Impairments:				
Total other-than-temporary impairments	(2)	(2)	(3)	(14)
Portion of other-than-temporary impairments included in other comprehensive income (loss)		(3)		(3)
Net other-than-temporary impairments	(2)	(5)	(3)	(17)
Trading securities	8	(19)	20	(9)
Commercial mortgage loans	3	2	6	4
Net gains (losses) related to securitization entities	9	15	15	22
Derivative instruments [1]	(7)	(2)	(28)	(44)
Contingent consideration adjustment		(1)		
Other	(1)		(1)	(1)
Net investment gains (losses)	$ 34	$ 21	$ 17	$ (40)

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

We generally intend to hold securities in unrealized loss positions until they recover. However, from time to time, our intent on an individual security may change, based upon market or other unforeseen developments. In such instances, we sell securities in the ordinary course of managing our portfolio to meet diversification, credit quality, yield and liquidity requirements. If a loss is recognized from a sale subsequent to a balance sheet date due to these unexpected developments, the loss is recognized in the period in which we determined that we have the intent to sell the securities or it is more likely than not that we will be required to sell the securities prior to recovery. The aggregate fair value of securities sold at a loss during the three months ended June 30, 2014 and 2013 was $243 million and $308 million, respectively, which was approximately 95% and 87%, respectively, of book value. The aggregate fair value of securities sold at a loss during the six months ended June 30, 2014 and 2013 was $507 million and $885 million, respectively, which was approximately 93% and 89%, respectively, of book value.

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

	As of or for the three months ended June 30,		**As of or for the six months ended June 30,**	
(Amounts in millions)	**2014**	**2013**	**2014**	**2013**
Beginning balance	$ 99	$ 251	$ 101	$ 387
Additions:				
Other-than-temporary impairments not previously recognized	1		1	2
Increases related to other-than-temporary impairments previously recognized		3		7
Reductions:				
Securities sold, paid down or disposed	(5)	(75)	(7)	(217)
Ending balance	$ 95	$ 179	$ 95	$ 179

(c) Unrealized Investment Gains and Losses

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

(Amounts in millions)	June 30, 2014	December 31, 2013
Net unrealized gains (losses) on investment securities:		
Fixed maturity securities	$ 4,951	$ 2,346
Equity securities	36	23
Other invested assets	(3)	(4)
Subtotal	4,984	2,365
Adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves	(1,571)	(869)
Income taxes, net	(1,188)	(517)
Net unrealized investment gains (losses)	2,225	979
Less: net unrealized investment gains (losses) attributable to noncontrolling interests	97	53
Net unrealized investment gains (losses) attributable to Genworth Financial, Inc.	$ 2,128	$ 926

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	As of or for the three months ended June 30,	
(Amounts in millions)	**2014**	**2013**
Beginning balance	$ 1,624	$ 2,443
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	1,193	(2,510)
Adjustment to deferred acquisition costs	(96)	202
Adjustment to present value of future profits	(39)	70
Adjustment to sales inducements	(15)	41
Adjustment to benefit reserves	(200)	396
Provision for income taxes	(295)	628
Change in unrealized gains (losses) on investment securities	548	(1,173)
Reclassification adjustments to net investment (gains) losses, net of taxes of $8 and $9	(14)	(17)
Change in net unrealized investment gains (losses)	534	(1,190)
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	30	(41)
Ending balance	$ 2,128	$ 1,294

	As of or for the six months ended June 30,	
(Amounts in millions)	**2014**	**2013**
Beginning balance	$ 926	$ 2,638
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	2,624	(2,937)

Adjustment to deferred acquisition costs	(195)	218
Adjustment to present value of future profits	(91)	71
Adjustment to sales inducements	(28)	38
Adjustment to benefit reserves	(388)	487
Provision for income taxes	(673)	734
Change in unrealized gains (losses) on investment securities	1,249	(1,389)
Reclassification adjustments to net investment (gains) losses, net of taxes of $2 and $(4)	(3)	8
Change in net unrealized investment gains (losses)	1,246	(1,381)
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	44	(37)
Ending balance	$ 2,128	$ 1,294

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(d) Fixed Maturity and Equity Securities

As of June 30, 2014, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

		Gross unrealized gains		Gross unrealized losses		
(Amounts in millions)	**Amortized cost or cost**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Fair value**
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 4,894	$ 677	$	$ (88)	$	$ 5,483
Tax-exempt	353	21		(21)		353
Government non-U.S.	1,989	146		(3)		2,132
U.S. corporate	24,113	2,809	19	(94)		26,847
Corporate non-U.S.	14,695	1,087		(33)		15,749
Residential mortgage-backed	4,923	309	14	(33)	(1)	5,212
Commercial mortgage-backed	2,721	138	4	(17)	(1)	2,845
Other asset-backed	3,744	39		(44)		3,739
Total fixed maturity securities	57,432	5,226	37	(333)	(2)	62,360
Equity securities	284	40		(4)		320
Total available-for-sale securities	$ 57,716	$ 5,266	$ 37	$ (337)	$ (2)	$ 62,680

As of December 31, 2013, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

		Gross unrealized gains		Gross unrealized losses		
(Amounts in millions)	**Amortized cost or cost**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Fair value**

Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 4,710	$ 331	$	$ (231)	$	$ 4,810
Tax-exempt	324	7		(36)		295
Government non-U.S.	2,057	104		(15)		2,146
U.S. corporate	23,614	1,761	19	(359)		25,035
Corporate non-U.S.	14,489	738		(156)		15,071
Residential mortgage-backed	5,058	232	9	(70)	(4)	5,225
Commercial mortgage-backed	2,886	75	2	(62)	(3)	2,898
Other asset-backed	3,171	35		(57)		3,149
Total fixed maturity securities	56,309	3,283	30	(986)	(7)	58,629
Equity securities	318	36		(13)		341
Total available-for-sale securities	$ 56,627	$ 3,319	$ 30	$ (999)	$ (7)	$ 58,970

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GENWORTH FINANCIAL, INC.

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(Unaudited)

The following table presents the gross unrealized losses and fair values of our investment securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, as of June 30, 2014:

	Less than 12 months			12 months or more			Total		
(Dollar amounts in millions)	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses (1)	Number of securities	Fair value	Gross unrealized losses (1)	Number of securities
Description of Securities									
Fixed maturity securities:									
U.S. government, agencies and government-sponsored enterprises	$	$		$ 857	$ (88)	29	$ 857	$ (88)	29
Tax-exempt				110	(21)	13	110	(21)	13
Government non-U.S.	46	(1)	12	117	(2)	11	163	(3)	23
U.S. corporate	638	(6)	80	2,008	(88)	307	2,646	(94)	387
Corporate non-U.S.	437	(3)	91	821	(30)	99	1,258	(33)	190
Residential mortgage-backed	291	(5)	42	341	(29)	111	632	(34)	153
Commercial mortgage-backed				570	(18)	76	570	(18)	76
Other asset-backed	519	(2)	85	468	(42)	46	987	(44)	131
Subtotal, fixed maturity securities	1,931	(17)	310	5,292	(318)	692	7,223	(335)	1,002
Equity securities				51	(4)	6	51	(4)	6
Total for securities in an unrealized loss position	$ 1,931	$ (17)	310	$ 5,343	$ (322)	698	$ 7,274	$ (339)	1,008
% Below cost fixed maturity securities:									
<20% Below cost	$ 1,931	$ (17)	310	$ 5,171	$ (263)	658	$ 7,102	$ (280)	968
20%-50% Below cost				118	(51)	23	118	(51)	23
>50% Below cost				3	(4)	11	3	(4)	11
Total fixed maturity securities	1,931	(17)	310	5,292	(318)	692	7,223	(335)	1,002

% Below cost equity securities:									
<20% Below cost				51	(4)	6	51	(4)	6
Total equity securities				51	(4)	6	51	(4)	6
Total for securities in an unrealized loss position	$ 1,931	$ (17)	310	$ 5,343	$ (322)	698	$ 7,274	$ (339)	1,008
Investment grade	$ 1,861	$ (16)	300	$ 5,038	$ (294)	615	$ 6,899	$ (310)	915
Below investment grade (2)	70	(1)	10	305	(28)	83	375	(29)	93
Total for securities in an unrealized loss position	$ 1,931	$ (17)	310	$ 5,343	$ (322)	698	$ 7,274	$ (339)	1,008

(1) Amounts included $2 million of unrealized losses on other-than-temporarily impaired securities.

(2) Amounts that have been in a continuous loss position for 12 months or more included $2 million of unrealized losses on other-than-temporarily impaired securities.

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As indicated in the table above, the majority of the securities in a continuous unrealized loss position for less than 12 months were investment grade and less than 20% below cost. These unrealized losses were primarily attributable to lower credit ratings since acquisition for corporate securities across various industry sectors and an increase in U.S. Treasury yields since these securities were purchased. For securities that have been in a continuous unrealized loss position for less than 12 months, the average fair value percentage below cost was approximately 1% as of June 30, 2014.

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

Of the $263 million of unrealized losses on fixed maturity securities in a continuous unrealized loss for 12 months or more that were less than 20% below cost, the weighted-average rating was AA- and approximately 94% of the unrealized losses were related to investment grade securities as of June 30, 2014. These unrealized losses were attributable to the lower credit ratings for these securities since acquisition, primarily associated with corporate securities in the finance and insurance and utilities and energy sectors and structured securities, in addition to U.S. government, agencies and government-sponsored enterprises securities resulting from an increase in U.S. Treasury yields since these securities were purchased. The average fair value percentage below cost for these securities was approximately 5% as of June 30, 2014. See below for additional discussion related to fixed maturity securities that have been in a continuous loss position for 12 months or more with a fair value that was more than 20% below cost.

GENWORTH FINANCIAL, INC.

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(Unaudited)

The following tables present the concentration of gross unrealized losses and fair values of fixed maturity securities that were more than 20% below cost and in a continuous loss position for 12 months or more by asset class as of June 30, 2014:

	Investment Grade							
	20% to 50%				Greater than 50%			
(Dollar amounts in millions)	Fair value	Gross unrealized losses	% of total gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	% of total gross unrealized losses	Number of securities
Fixed maturity securities:								
Tax-exempt	$ 19	$ (7)	2%	2	$	$	%	
Corporate non-U.S.	1	(1)		2				
Structured securities:								
Residential mortgage-backed	6	(3)	1	3	3	(3)	1	4
Other asset-backed	71	(28)	8	4				
Total structured securities	77	(31)	9	7	3	(3)	1	4
Total	$ 97	$ (39)	11%	11	$ 3	$ (3)	1%	4

	Below Investment Grade							
	20% to 50%				Greater than 50%			
(Dollar amounts in millions)	Fair value	Gross unrealized losses	% of total gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	% of total gross unrealized losses	Number of securities
Fixed maturity securities:								
Structured securities:								
Residential mortgage-backed	$ 3	$ (2)	1%	6	$	$ (1)	%	7
Commercial mortgage-backed	10	(4)	1	5				
Other asset-backed	8	(6)	2	1				

Total structured securities	21	(12)	4	12		(1)		7
Total	$ 21	$ (12)	4%	12	$	$ (1)	%	7

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

Structured Securities

Of the $47 million of unrealized losses related to structured securities that have been in an unrealized loss position for 12 months or more and were more than 20% below cost, $1 million related to other-than-temporarily impaired securities where the unrealized losses represented the portion of the other-than-temporary impairment recognized in OCI. The extent and duration of the unrealized loss position on our structured securities was primarily due to credit spreads that have widened since acquisition. Additionally, the fair value of certain structured securities has been impacted from high risk premiums being incorporated into the valuation as a result of the amount of potential losses that may be absorbed by the security in the event of additional deterioration in the U.S. economy.

GENWORTH FINANCIAL, INC.

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

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

Based on this evaluation, the present value of expected cash flows was greater than or equal to the amortized cost for each security. Accordingly, we determined that the unrealized losses on each of our structured securities represented temporary impairments as of June 30, 2014.

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

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(Unaudited)

The following table presents the gross unrealized losses and fair values of our investment securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, as of December 31, 2013:

	Less than 12 months			12 months or more			Total		
(Dollar amounts in millions)	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses (1)	Number of securities	Fair value	Gross unrealized losses (1)	Number of securities
Description of Securities									
Fixed maturity securities:									
U.S. government, agencies and government-sponsored enterprises	$ 796	$ (109)	32	$ 335	$ (122)	13	$ 1,131	$ (231)	45
Tax-exempt	82	(3)	26	97	(33)	9	179	(36)	35
Government non-U.S.	479	(15)	60				479	(15)	60
U.S. corporate	4,774	(260)	707	663	(99)	82	5,437	(359)	789
Corporate non-U.S.	3,005	(127)	379	287	(29)	34	3,292	(156)	413
Residential mortgage-backed	1,052	(55)	139	157	(19)	92	1,209	(74)	231
Commercial mortgage-backed	967	(42)	107	370	(23)	62	1,337	(65)	169
Other asset-backed	1,089	(17)	133	145	(40)	17	1,234	(57)	150
Subtotal, fixed maturity securities	12,244	(628)	1,583	2,054	(365)	309	14,298	(993)	1,892
Equity securities	95	(13)	41				95	(13)	41
Total for securities in an unrealized loss position	$ 12,339	$ (641)	1,624	$ 2,054	$ (365)	309	$ 14,393	$ (1,006)	1,933
% Below cost fixed maturity securities:									
<20% Below cost	$ 12,009	$ (547)	1,571	$ 1,575	$ (163)	238	$ 13,584	$ (710)	1,809
20%-50% Below cost	235	(81)	12	466	(187)	51	701	(268)	63
>50% Below cost				13	(15)	20	13	(15)	20
Total fixed maturity securities	12,244	(628)	1,583	2,054	(365)	309	14,298	(993)	1,892

% Below cost equity securities:									
<20% Below cost	87	(11)	40				87	(11)	40
20%-50% Below cost	8	(2)	1				8	(2)	1
Total equity securities	95	(13)	41				95	(13)	41
Total for securities in an unrealized loss position	$ 12,339	$ (641)	1,624	$ 2,054	$ (365)	309	$ 14,393	$ (1,006)	1,933
Investment grade	$ 11,896	$ (616)	1,515	$ 1,631	$ (315)	208	$ 13,527	$ (931)	1,723
Below investment grade [2]	443	(25)	109	423	(50)	101	866	(75)	210
Total for securities in an unrealized loss position	$ 12,339	$ (641)	1,624	$ 2,054	$ (365)	309	$ 14,393	$ (1,006)	1,933

(1) Amounts included $7 million of unrealized losses on other-than-temporarily impaired securities.

(2) Amounts that have been in a continuous loss position for 12 months or more included $7 million of unrealized losses on other-than-temporarily impaired securities.

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GENWORTH FINANCIAL, INC.

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(Unaudited)

The scheduled maturity distribution of fixed maturity securities as of June 30, 2014 is set forth below. Actual maturities may differ from contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

(Amounts in millions)	**Amortized cost or cost**	**Fair value**
Due one year or less	$ 2,757	$ 2,784
Due after one year through five years	10,097	10,701
Due after five years through ten years	12,605	13,401
Due after ten years	20,585	23,678
Subtotal	46,044	50,564
Residential mortgage-backed	4,923	5,212
Commercial mortgage-backed	2,721	2,845
Other asset-backed	3,744	3,739
Total	$ 57,432	$ 62,360

As of June 30, 2014, $6,503 million of our investments (excluding mortgage-backed and asset-backed securities) were subject to certain call provisions.

As of June 30, 2014, securities issued by utilities and energy, finance and insurance, and consumer non-cyclical industry groups represented approximately 24%, 19% and 12%, respectively, of our domestic and foreign corporate fixed maturity securities portfolio. No other industry group comprised more than 10% of our investment portfolio. This portfolio is widely diversified among various geographic regions in the United States and internationally, and is not dependent on the economic stability of one particular region.

As of June 30, 2014, we did not hold any fixed maturity securities in any single issuer, other than securities issued or guaranteed by the U.S. government, which exceeded 10% of stockholders equity.

(e) Commercial Mortgage Loans

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(Amounts in millions)	June 30, 2014 Carrying value	June 30, 2014 % of total	December 31, 2013 Carrying value	December 31, 2013 % of total
Property type:				
Retail	$ 2,162	36%	$ 2,073	35%
Industrial	1,585	26	1,581	27
Office	1,533	26	1,558	26
Apartments	480	8	491	8
Mixed use/other	253	4	229	4
Subtotal	6,013	100%	5,932	100%
Allowance for losses	(27)		(33)	
Total	$ 5,986		$ 5,899	

(Amounts in millions)	June 30, 2014 Carrying value	June 30, 2014 % of total	December 31, 2013 Carrying value	December 31, 2013 % of total
Geographic region:				
Pacific	$ 1,607	27%	$ 1,590	27%
South Atlantic	1,565	26	1,535	26
Middle Atlantic	812	13	828	14
Mountain	514	9	478	8
East North Central	409	7	404	7
West North Central	366	6	377	6
New England	350	6	337	6
West South Central	254	4	241	4
East South Central	136	2	142	2

Subtotal	6,013	100%	5,932	100%
Allowance for losses	(27)		(33)	
Total	$ 5,986		$ 5,899	

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

	June 30, 2014					
(Amounts in millions)	**31 - 60 days past due**	**61 - 90 days past due**	**Greater than 90 days past due**	**Total past due**	**Current**	**Total**
Property type:						
Retail	$	$	$ 12	$ 12	$ 2,150	$ 2,162
Industrial			18	18	1,567	1,585
Office			6	6	1,527	1,533
Apartments					480	480
Mixed use/other					253	253
Total recorded investment	$	$	$ 36	$ 36	$ 5,977	$ 6,013
% of total commercial mortgage loans	%	%	1%	1%	99%	100%

	December 31, 2013					
(Amounts in millions)	**31 - 60 days past due**	**61 - 90 days past due**	**Greater than 90 days past due**	**Total past due**	**Current**	**Total**
Property type:						
Retail	$	$	$ 10	$ 10	$ 2,063	$ 2,073
Industrial	2	2	16	20	1,561	1,581
Office			6	6	1,552	1,558
Apartments					491	491
Mixed use/other	1			1	228	229
Total recorded investment	$ 3	$ 2	$ 32	$ 37	$ 5,895	$ 5,932
% of total commercial mortgage loans	%	%	1%	1%	99%	100%

As of June 30, 2014 and December 31, 2013, we had no commercial mortgage loans that were past due for more than 90 days and still accruing interest. We did not have any commercial mortgage loans that were past due for less than 90 days on non-accrual status as of June 30, 2014 and December 31, 2013.

We evaluate the impairment of commercial mortgage loans on an individual loan basis. As of June 30, 2014, our commercial mortgage loans greater than 90 days past due included loans with appraised values in excess of the recorded investment and the current recorded investment of these loans was expected to be recoverable.

During the six months ended June 30, 2014 and the year ended December 31, 2013, we modified or extended 15 and 33 commercial mortgage loans, respectively, with a total carrying value of $182 million and $165 million, respectively. All of these modifications or extensions were based on current market interest rates, did not result in any forgiveness in the outstanding principal amount owed by the borrower and were not considered troubled debt restructurings.

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(Unaudited)

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

	Three months ended June 30,		Six months ended June 30,	
(Amounts in millions)	**2014**	**2013**	**2014**	**2013**
Allowance for credit losses:				
Beginning balance	$ 30	$ 40	$ 33	$ 42
Charge-offs		(2)	(1)	(2)
Recoveries				
Provision	(3)		(5)	(2)
Ending balance	$ 27	$ 38	$ 27	$ 38
Ending allowance for individually impaired loans	$	$	$	$
Ending allowance for loans not individually impaired that were evaluated collectively for impairment	$ 27	$ 38	$ 27	$ 38
Recorded investment:				
Ending balance	$ 6,013	$ 5,868	$ 6,013	$ 5,868
Ending balance of individually impaired loans	$ 17	$ 1	$ 17	$ 1
Ending balance of loans not individually impaired that were evaluated collectively for impairment	$ 5,996	$ 5,867	$ 5,996	$ 5,867

As of June 30, 2014, we had individually impaired commercial mortgage loans included within the industrial property type with a recorded investment of $15 million, an unpaid principal balance of $16 million, charge-offs of $1 million and an average recorded investment of $15 million. As of June 30, 2014 and December 31, 2013, we had individually impaired commercial mortgage loans included within the retail property type with a recorded investment of $2 million, an unpaid principal balance of $3 million, charge-offs of $1 million, which were recorded in the second quarter of 2013, and an average recorded investment of $2 million.

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

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

	June 30, 2014					
(Amounts in millions)	**0% - 50%**	**51% - 60%**	**61% - 75%**	**76% - 100%**	**Greater than 100%** [(1)]	**Total**
Property type:						
Retail	$ 615	$ 436	$ 1,010	$ 79	$ 22	$ 2,162
Industrial	438	248	787	78	34	1,585
Office	399	169	773	129	63	1,533
Apartments	201	101	162	16		480
Mixed use/other	68	46	128	11		253
Total recorded investment	$ 1,721	$ 1,000	$ 2,860	$ 313	$ 119	$ 6,013
% of total	29%	17%	47%	5%	2%	100%
Weighted-average debt service coverage ratio	2.11	2.03	1.57	1.03	0.51	1.75

(1) Included $17 million of impaired loans, $6 million of loans past due and not individually impaired and $96 million of loans in good standing, where borrowers continued to make timely payments, with a total weighted-average loan-to-value of 120%.

	December 31, 2013					
(Amounts in millions)	**0% - 50%**	**51% - 60%**	**61% - 75%**	**76% - 100%**	**Greater than 100%** [(1)]	**Total**
Property type:						
Retail	$ 596	$ 336	$ 1,024	$ 95	$ 22	$ 2,073
Industrial	430	237	748	146	20	1,581
Office	397	191	716	191	63	1,558
Apartments	201	86	176	27	1	491
Mixed use/other	71	36	110	12		229

Total recorded investment	$ 1,695	$ 886	$ 2,774	$ 471	$ 106	$ 5,932
% of total	28%	15%	47%	8%	2%	100%
Weighted-average debt service coverage ratio	2.14	1.79	1.66	1.03	0.63	1.75

(1) Included $2 million of impaired loans, $5 million of delinquent loans and $99 million of loans in good standing, where borrowers continued to make timely payments, with a total weighted-average loan-to-value of 119%.

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

	June 30, 2014					
(Amounts in millions)	**Less than 1.00**	**1.00 - 1.25**	**1.26 - 1.50**	**1.51 - 2.00**	**Greater than 2.00**	**Total**
Property type:						
Retail	$ 101	$ 316	$ 477	$ 789	$ 379	$ 2,062
Industrial	183	105	287	727	283	1,585
Office	157	180	215	646	328	1,526
Apartments	2	37	115	181	145	480
Mixed use/other	20	8	34	127	64	253
Total recorded investment	$ 463	$ 646	$ 1,128	$ 2,470	$ 1,199	$ 5,906
% of total	8%	11%	19%	42%	20%	100%
Weighted-average loan-to-value	78%	67%	63%	60%	43%	59%

	December 31, 2013					
(Amounts in millions)	**Less than 1.00**	**1.00 - 1.25**	**1.26 - 1.50**	**1.51 - 2.00**	**Greater than 2.00**	**Total**
Property type:						
Retail	$ 106	$ 314	$ 374	$ 779	$ 399	$ 1,972
Industrial	195	100	270	721	295	1,581
Office	131	181	225	637	376	1,550
Apartments	3	31	107	187	163	491
Mixed use/other	16	9	32	106	66	229
Total recorded investment	$ 451	$ 635	$ 1,008	$ 2,430	$ 1,299	$ 5,823
% of total	8%	11%	17%	42%	22%	100%
Weighted-average loan-to-value	80%	68%	63%	60%	43%	59%

As of June 30, 2014 and December 31, 2013, we had floating rate commercial mortgage loans of $107 million and $109 million, respectively.

(f) Restricted Commercial Mortgage Loans Related To Securitization Entities

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

(g) Restricted Other Invested Assets Related To Securitization Entities

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

GENWORTH FINANCIAL, INC.

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(5) Derivative Instruments

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

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

	Derivative assets			Derivative liabilities		
		Fair value			Fair value	
(Amounts in millions)	**Balance sheet classification**	**June 30, 2014**	**December 31, 2013**	**Balance sheet classification**	**June 30, 2014**	**December 31, 2013**
Derivatives designated as hedges						
Cash flow hedges:						
Interest rate swaps	Other invested assets	$ 205	$ 121	Other liabilities	$ 118	$ 569
Inflation indexed swaps	Other invested assets			Other liabilities	90	60
Foreign currency swaps	Other invested assets	3	4	Other liabilities	1	2
Forward bond purchase commitments	Other invested assets	8		Other liabilities		13
Total cash flow hedges		216	125		209	644
Fair value hedges:						
Interest rate swaps	Other invested assets	1	1	Other liabilities		
Total fair value hedges		1	1			
Total derivatives designated as hedges		217	126		209	644

Derivatives not designated as hedges						
Interest rate swaps	Other invested assets	387	314	Other liabilities	99	6
Interest rate swaps related to securitization entities	Restricted other invested assets			Other liabilities	22	16
Credit default swaps	Other invested assets	7	11	Other liabilities		
Credit default swaps related to securitization entities	Restricted other invested assets			Other liabilities	16	32
Foreign currency swaps	Other invested assets	1		Other liabilities		
Equity index options	Other invested assets	4	12	Other liabilities		
Financial futures	Other invested assets			Other liabilities		
Equity return swaps	Other invested assets			Other liabilities	5	1
Other foreign currency contracts	Other invested assets	1	8	Other liabilities	7	4
GMWB embedded derivatives	Reinsurance recoverable (1)	3	(1)	Policyholder account balances (2)	146	96
Fixed index annuity embedded derivatives	Other assets			Policyholder account balances (3)	219	143
Indexed universal life embedded derivatives	Reinsurance recoverable			Policyholder account balances (4)	2	
Total derivatives not designated as hedges		403	344		516	298
Total derivatives		$ 620	$ 470		$ 725	$ 942

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

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

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

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

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The fair value of derivative positions presented above was not offset by the respective collateral amounts retained or provided under these agreements. The amounts recognized for derivative counterparty collateral retained by us was recorded in other invested assets with a corresponding amount recorded in other liabilities to represent our obligation to return the collateral retained by us.

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

(Notional in millions)	Measurement	December 31, 2013	Additions	Maturities/ terminations	June 30, 2014
Derivatives designated as hedges					
Cash flow hedges:					
Interest rate swaps	Notional	$ 13,926	$	$ (400)	$ 13,526
Inflation indexed swaps	Notional	561	10	(2)	569
Foreign currency swaps	Notional	35			35
Forward bond purchase commitments	Notional	237		(113)	124
Total cash flow hedges		14,759	10	(515)	14,254
Fair value hedges:					
Interest rate swaps	Notional	6		(1)	5
Total fair value hedges		6		(1)	5
Total derivatives designated as hedges		14,765	10	(516)	14,259
Derivatives not designated as hedges					
Interest rate swaps	Notional	4,822	2	(3)	4,821
Interest rate swaps related to securitization entities	Notional	91		(6)	85
Credit default swaps	Notional	639			639
Credit default swaps related to securitization entities	Notional	312			312
Equity index options	Notional	777	237	(254)	760

Financial futures	Notional	1,260	2,680	(2,620)	1,320
Equity return swaps	Notional	110	113	(110)	113
Foreign currency swaps	Notional		84		84
Other foreign currency contracts	Notional	487	670	(783)	374
Total derivatives not designated as hedges		8,498	3,786	(3,776)	8,508
Total derivatives		$ 23,263	$ 3,796	$ (4,292)	$ 22,767

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(Number of policies)	Measurement	December 31, 2013	Additions	Maturities/ terminations	June 30, 2014
Derivatives not designated as hedges					
GMWB embedded derivatives	Policies	42,045		(1,541)	40,504
Fixed index annuity embedded derivatives	Policies	7,705	3,767	(110)	11,362
Indexed universal life embedded derivatives	Policies	29	110		139

Cash Flow Hedges

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

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

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

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Forward bond purchase commitments				Net investment income		Net investment gains (losses)
Total	$	184	$	7	$	3

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

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The following table provides information about the pre-tax income (loss) effects of cash flow hedges for the three months ended June 30, 2013:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income from OCI	Classification of gain (loss) reclassified into net income	Gain (loss) recognized in net income [1]	Classification of gain (loss) recognized in net income
Interest rate swaps hedging assets	$ (350)	$ 10	Net investment income	$ (7)	Net investment gains (losses)
Interest rate swaps hedging assets		1	Net investment gains (losses)		Net investment gains (losses)
Interest rate swaps hedging liabilities	22		Interest expense		Net investment gains (losses)
Inflation indexed swaps	25	(5)	Net investment income		Net investment gains (losses)
Foreign currency swaps	(1)		Interest expense		Net investment gains (losses)
Forward bond purchase commitments	(25)		Net investment income		Net investment gains (losses)
Total	$ (329)	$ 6		$ (7)	

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

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

(Amounts in millions)	Gain (loss)	Gain (loss)	Classification of gain (loss) reclassified into	Gain (loss)	Classification of gain (loss) recognized in

	recognized in OCI	Reclassified into net income from OCI	net income	recognized in net income (1)	net income
Interest rate swaps hedging assets	$ 572	$ 28	Net investment income	$ 7	Net investment gains (losses)
Interest rate swaps hedging liabilities	(34)	1	Interest expense		Net investment gains (losses)
Inflation indexed swaps	(30)	(8)	Net investment income		Net investment gains (losses)
Forward bond purchase commitments	28		Net investment income		Net investment gains (losses)
Total	$ 536	$ 21		$ 7	

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

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The following table provides information about the pre-tax income (loss) effects of cash flow hedges for the six months ended June 30, 2013:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income from OCI	Classification of gain (loss) reclassified into net income	Gain (loss) recognized in net income [1]	Classification of gain (loss) recognized in net income
Interest rate swaps hedging assets	$ (503)	$ 19	Net investment income	$ (10)	Net investment gains (losses)
Interest rate swaps hedging assets		1	Net investment gains (losses)		Net investment gains (losses)
Interest rate swaps hedging liabilities	22	1	Interest expense		Net investment gains (losses)
Inflation indexed swaps	34	(2)	Net investment income		Net investment gains (losses)
Forward bond purchase commitments	(39)		Net investment income		Net investment gains (losses)
Total	$ (486)	$ 19		$ (10)	

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

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

(Amounts in millions)	Three months ended June 30, 2014	Three months ended June 30, 2013

Derivatives qualifying as effective accounting hedges as of April 1	$ 1,538	$ 1,799
Current period increases (decreases) in fair value, net of deferred taxes of $(65) and $116	119	(213)
Reclassification to net (income), net of deferred taxes of $2 and $1	(5)	(5)
Derivatives qualifying as effective accounting hedges as of June 30	$ 1,652	$ 1,581

	Six months ended June 30,	
(Amounts in millions)	**2014**	**2013**
Derivatives qualifying as effective accounting hedges as of January 1	$ 1,319	$ 1,909
Current period increases (decreases) in fair value, net of deferred taxes of $(189) and $171	347	(315)
Reclassification to net (income), net of deferred taxes of $7 and $6	(14)	(13)
Derivatives qualifying as effective accounting hedges as of June 30	$ 1,652	$ 1,581

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The total of derivatives designated as cash flow hedges of $1,652 million, net of taxes, recorded in stockholders equity as of June 30, 2014 is expected to be reclassified to net income in the future, concurrently with and primarily offsetting changes in interest expense and interest income on floating rate instruments and interest income on future fixed rate bond purchases. Of this amount, $46 million, net of taxes, is expected to be reclassified to net income in the next 12 months. Actual amounts may vary from this amount as a result of market conditions. All forecasted transactions associated with qualifying cash flow hedges are expected to occur by 2047. No amounts were reclassified to net income during the three months ended June 30, 2014 in connection with forecasted transactions that were no longer considered probable of occurring.

Fair Value Hedges

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

There were no pre-tax income (loss) effects of fair value hedges and related hedged items for the three months ended June 30, 2014. The following table provides information about the pre-tax income (loss) effects of fair value hedges and related hedged items for the three months ended June 30, 2013:

	Derivative instrument				Hedged item	
(Amounts in millions)	**Gain (loss) recognized in net income**	**Classification of gain (losses) recognized in net income**	**Other impacts to net income**	**Classification of other impacts to net income**	**Gain (loss) recognized in net income**	**Classification of gain (losses) recognized in net income**
Interest rate swaps hedging liabilities	$ (3)	Net investment gains (losses)	$ 4	Interest credited	$ 3	Net investment gains (losses)
Total	$ (3)		$ 4		$ 3	

There were no pre-tax income (loss) effects of fair value hedges and related hedged items for the six months ended June 30, 2014. The following table provides information about the pre-tax income (loss) effects of fair value hedges and related hedged items for the six months ended June 30, 2013:

	Derivative instrument				Hedged item	
(Amounts in millions)	Gain (loss) recognized in net income	Classification of gain (losses) recognized in net income	Other impacts to net income	Classification of other impacts to net income	Gain (loss) recognized in net income	Classification of gain (losses) recognized in net income
Interest rate swaps hedging liabilities	$ (11)	Net investment gains (losses)	$ 12	Interest credited	$ 11	Net investment gains (losses)
Foreign currency swaps	(31)	Net investment gains (losses)		Interest credited	31	Net investment gains (losses)
Total	$ (42)		$ 12		$ 42	

The difference between the gain (loss) recognized for the derivative instrument and the hedged item presented above represents the net ineffectiveness of the fair value hedging relationships. The other impacts presented above represent the net income effects of the derivative instruments that are presented in the same

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location as the income (loss) activity from the hedged item. There were no amounts excluded from the measurement of effectiveness.

Derivatives Not Designated As Hedges

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

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

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

	Three months ended June 30,		**Classification of gain (loss) recognized**
(Amounts in millions)	**2014**	**2013**	**in net income**
Interest rate swaps	$ (2)	$ (6)	Net investment gains (losses)
	(3)	7	Net investment gains (losses)

Interest rate swaps related to securitization entities			
Credit default swaps		2	Net investment gains (losses)
Credit default swaps related to securitization entities	11	17	Net investment gains (losses)
Equity index options	(11)	(2)	Net investment gains (losses)
Financial futures	17	(56)	Net investment gains (losses)
Equity return swaps	(4)	1	Net investment gains (losses)
Other foreign currency contracts	(2)	3	Net investment gains (losses)
Foreign currency swaps	1		Net investment gains (losses)
GMWB embedded derivatives	2	63	Net investment gains (losses)
Fixed index annuity embedded derivatives	(11)	(1)	Net investment gains (losses)
Total derivatives not designated as hedges	$ (2)	$ 28	

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

	Six months ended June 30,		Classification of gain (loss) recognized
(Amounts in millions)	**2014**	**2013**	**in net income**
Interest rate swaps	$ (5)	$ (5)	Net investment gains (losses)
Interest rate swaps related to securitization entities	(6)	9	Net investment gains (losses)
Credit default swaps		6	Net investment gains (losses)
Credit default swaps related to securitization entities	18	25	Net investment gains (losses)
Equity index options	(18)	(18)	Net investment gains (losses)
Financial futures	44	(153)	Net investment gains (losses)
Equity return swaps	(5)	(9)	Net investment gains (losses)
Other foreign currency contracts	(11)	3	Net investment gains (losses)
Foreign currency swaps	1		Net investment gains (losses)
GMWB embedded derivatives	(29)	145	Net investment gains (losses)
Fixed index annuity embedded derivatives	(12)	(4)	Net investment gains (losses)
Total derivatives not designated as hedges	$ (23)	$ (1)	

Derivative Counterparty Credit Risk

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

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

June 30, 2014

				Gross amounts not offset in the balance sheet			
(Amounts in millions)	**Gross amounts recognized**	**Gross amounts offset in the balance sheet**	**Net amounts presented in the balance sheet**	**Financial instruments** [3]	**Collateral pledged/ received**	**Over collateralization**	**Net amount**
Derivative assets [1]	$ 640	$	$ 640	$ (202)	$ (416)	$ 2	$ 24
Derivative liabilities [2]	325		325	(202)	(137)	17	3
Net derivatives	$ 315	$	$ 315	$	$ (279)	$ (15)	$ 21

(1) Included $25 million of accruals on derivatives classified as other assets and does not include amounts related to embedded derivatives.

(2) Included $7 million of accruals on derivatives classified as other liabilities and does not include amounts related to embedded derivatives and derivatives related to securitization entities.

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

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	December 31, 2013						
				Gross amounts not offset in the balance sheet			
(Amounts in millions)	Gross amounts recognized	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Financial instruments [3]	Collateral pledged/ received	Over collateralization	Net amount
Derivative assets [1]	$ 496	$	$ 496	$ (286)	$ (199)	$ 16	$ 27
Derivative liabilities [2]	662		662	(286)	(394)	23	5
Net derivatives	$ (166)	$	$ (166)	$	$ 195	$ (7)	$ 22

(1) Included $25 million of accruals on derivatives classified as other assets and does not include amounts related to embedded derivatives.

(2) Included $7 million of accruals on derivatives classified as other liabilities and does not include amounts related to embedded derivatives and derivatives related to securitization entities.

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

Except for derivatives related to securitization entities, almost all of our master swap agreements contain credit downgrade provisions that allow either party to assign or terminate derivative transactions if the other party s long-term unsecured debt rating or financial strength rating is below the limit defined in the applicable agreement. If the downgrade provisions had been triggered as of June 30, 2014 and December 31, 2013, we could have been allowed to claim or required to disburse up to the net amounts shown in the last column of the charts above. The charts above exclude embedded derivatives and derivatives related to securitization entities as those derivatives are not subject to master netting arrangements.

Credit Derivatives

We sell protection under single name credit default swaps and credit default swap index tranches in combination with purchasing securities to replicate characteristics of similar investments based on the credit quality and term of the credit default swap. Credit default triggers for both indexed reference entities and single name reference entities follow the Credit Derivatives Physical Settlement Matrix published by the International Swaps and Derivatives

Association. Under these terms, credit default triggers are defined as bankruptcy, failure to pay or restructuring, if applicable. Our maximum exposure to credit loss equals the notional value for credit default swaps. In the event of default for credit default swaps, we are typically required to pay the protection holder the full notional value less a recovery rate determined at auction.

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

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

	June 30, 2014			December 31, 2013		
(Amounts in millions)	**Notional value**	**Assets**	**Liabilities**	**Notional value**	**Assets**	**Liabilities**
Investment grade						
Matures in less than one year	$	$	$	$	$	$
Matures after one year through five years	39	1		39	1	
Total credit default swaps on single name reference entities	$ 39	$ 1	$	$ 39	$ 1	$

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

	June 30, 2014			December 31, 2013		
(Amounts in millions)	**Notional value**	**Assets**	**Liabilities**	**Notional value**	**Assets**	**Liabilities**
Original index tranche attachment/detachment point and maturity:						
7% - 15% matures after one year through five years (1)	$ 100	$ 2	$	$ 100	$ 3	$
9% - 12% matures after one year through five years (2)	250	3		250	5	
10% - 15% matures in less than one year (3)	250	1		250	2	
Total credit default swap index tranches	600	6		600	10	
Customized credit default swap index tranches related to securitization entities:						
Portion backing third-party borrowings maturing 2017 (4)	12			12		1
Portion backing our interest maturing 2017 (5)	300		16	300		31
Total customized credit default swap index tranches related to securitization entities	312		16	312		32

Total credit default swaps on index tranches	$ 912	$ 6	$ 16	$ 912	$ 10	$ 32

(1) The current attachment/detachment as of June 30, 2014 and December 31, 2013 was 7% 15%.
(2) The current attachment/detachment as of June 30, 2014 and December 31, 2013 was 9% 12%.
(3) The current attachment/detachment as of June 30, 2014 and December 31, 2013 was 10% 15%.
(4) Original notional value was $39 million.
(5) Original notional value was $300 million.

(6) Fair Value of Financial Instruments

Assets and liabilities that are reflected in the accompanying consolidated financial statements at fair value are not included in the following disclosure of fair value. Such items include cash and cash equivalents, investment securities, separate accounts, securities held as collateral and derivative instruments. Other financial assets and liabilities those not carried at fair value are discussed below. Apart from certain of our borrowings and certain marketable securities, few of the instruments discussed below are actively traded and their fair values must often be determined using models. The fair value estimates are made at a specific point in time, based upon

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available market information and judgments about the financial instruments, including estimates of the timing and amount of expected future cash flows and the credit standing of counterparties. Such estimates do not reflect any premium or discount that could result from offering for sale at one time our entire holdings of a particular financial instrument, nor do they consider the tax impact of the realization of unrealized gains or losses. In many cases, the fair value estimates cannot be substantiated by comparison to independent markets.

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

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

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

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

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

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

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

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

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

	June 30, 2014					
			Fair value			
(Amounts in millions)	Notional amount	Carrying amount	Total	Level 1	Level 2	Level 3
Assets:						
Commercial mortgage loans	$ (1)	$ 5,986	$ 6,364	$	$	$ 6,364
Restricted commercial mortgage loans	(1)	217	243			243
Other invested assets	(1)	160	167		82	85
Liabilities:						
Long-term borrowings	(1)	4,691	5,340		5,202	138
Non-recourse funding obligations	(1)	2,024	1,453			1,453
Borrowings related to securitization entities	(1)	150	166		166	
Investment contracts	(1)	17,458	18,112		19	18,093
Other firm commitments:						
Commitments to fund limited partnerships	62					
Ordinary course of business lending commitments	153					

	December 31, 2013					
			Fair value			
(Amounts in millions)	Notional amount	Carrying amount	Total	Level 1	Level 2	Level 3
Assets:						
Commercial mortgage loans	$ (1)	$ 5,899	$ 6,137	$	$	$ 6,137
Restricted commercial mortgage loans	(1)	233	258			258
Other invested assets	(1)	307	311		221	90
Liabilities:						
Long-term borrowings	(1)	5,161	5,590		5,460	130
Non-recourse funding obligations	(1)	2,038	1,459			1,459
Borrowings related to securitization entities	(1)	167	182		182	
Investment contracts	(1)	17,330	17,827		86	17,741
Other firm commitments:						

Commitments to fund limited partnerships	65
Ordinary course of business lending commitments	138

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

Recurring Fair Value Measurements

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

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Fixed maturity, equity and trading securities

The valuations of fixed maturity, equity and trading securities are determined using a market approach, income approach or a combination of the market and income approach depending on the type of instrument and availability of information. For all exchange-traded equity securities, the valuations are classified as Level 1.

We utilize certain third-party data providers when determining fair value. We consider information obtained from third-party pricing services (pricing services) as well as third-party broker provided prices, or broker quotes, in our determination of fair value. Additionally, we utilize internal models to determine the valuation of securities using an income approach where the inputs are based on third-party provided market inputs. While we consider the valuations provided by pricing services and broker quotes to be of high quality, management determines the fair value of our investment securities after considering all relevant and available information. We also use various methods to obtain an understanding of the valuation methodologies and procedures used by third-party data providers to ensure sufficient understanding to evaluate the valuation data received, including an understanding of the assumptions and inputs utilized to determine the appropriate fair value. For pricing services, we analyze the prices provided by our primary pricing services to other readily available pricing services and perform a detailed review of the assumptions and inputs from each pricing service to determine the appropriate fair value when pricing differences exceed certain thresholds. We also evaluate changes in fair value that are greater than 10% each month to further aid in our review of the accuracy of fair value measurements and our understanding of changes in fair value, with more detailed reviews performed by the asset managers responsible for the related asset class associated with the security being reviewed.

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

For pricing services, we obtain an understanding of the pricing methodologies and procedures for each type of instrument. Additionally, on a monthly basis we review a sample of securities, examining the pricing service s assumptions to determine if we agree with the service s derived price. In general, a pricing service does not provide a price for a security if sufficient information is not readily available to determine fair value or if such security is not in the specific sector or class covered by a particular pricing service. Given our understanding of the pricing methodologies and procedures of pricing services, the securities valued by pricing services are typically classified as Level 2 unless we determine the valuation process for a security or group of securities utilizes significant unobservable inputs, which would result in the valuation being classified as Level 3.

For private fixed maturity securities, we utilize an internal model to determine fair value and utilize public bond spreads by sector, rating and maturity to develop the market rate that would be utilized for a similar public bond. We then add an additional premium, which represents an unobservable input, to the public bond spread to adjust for the liquidity and other features of our private placements. We utilize the estimated market yield to discount the expected cash flows of the security to determine fair value. In certain instances, we utilize price caps for securities where the estimated market yield results in a valuation that may exceed the amount that would be received in a market transaction. When a security does not have an external rating, we assign the security an internal rating to determine the appropriate public bond spread that should be utilized in the valuation. While we

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generally consider the public bond spreads by sector and maturity to be observable inputs, we evaluate the similarities of our private placement with the public bonds, any price caps utilized, liquidity premiums applied, and whether external ratings are available for our private placements to determine whether the spreads utilized would be considered observable inputs. We classify private securities without an external rating and public bond spread as Level 3. In general, increases (decreases) in credit spreads will decrease (increase) the fair value for our fixed maturity securities.

For broker quotes, we consider the valuation methodology utilized by the third party, but the valuation typically includes significant unobservable inputs. Accordingly, we classify the securities where fair value is based on our consideration of broker quotes as Level 3 measurements.

For remaining securities priced using internal models, we maximize the use of observable inputs but typically utilize significant unobservable inputs to determine fair value. Accordingly, the valuations are typically classified as Level 3.

Restricted other invested assets related to securitization entities

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

Securities lending and derivative counterparty collateral

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

Contingent consideration

We have certain contingent purchase price payments and receivables related to acquisitions and sales that are recorded at fair value each period. Fair value is determined using an income approach whereby we project the expected performance of the business and compare our projections of the relevant performance metric to the thresholds established in the purchase or sale agreement to determine our expected payments or receipts. We then discount these expected amounts to calculate the fair value as of the valuation date. We evaluate the underlying projections used in determining fair value each period and update these underlying projections when there have been significant changes in our expectations of the future business performance. The inputs used to determine the discount rate and expected payments or receipts are primarily based on significant unobservable inputs and result in the fair value of the contingent consideration being classified as Level 3. An increase in the discount rate or a decrease in expected payments or receipts will result in a decrease in the fair value of contingent consideration.

Separate account assets

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

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Derivatives

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

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

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

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

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

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

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be absorbed by our tranche. Accordingly, the index tranche credit default swaps are classified as Level 3. As credit spreads widen for the underlying issuers comprising the index, the change in our valuation of these credit default swaps will be unfavorable.

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

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

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

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

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

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

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determined using an income approach. The primary inputs into the valuation represent the forward foreign currency exchange rates, which are generally considered observable inputs and results in the derivative being classified as Level 2.

GMWB embedded derivatives

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

For GMWB liabilities, non-performance risk is integrated into the discount rate. Our discount rate used to determine fair value of our GMWB liabilities includes market credit spreads above U.S. Treasury rates to reflect an adjustment for the non-performance risk of the GMWB liabilities. As of June 30, 2014 and December 31, 2013, the impact of non-performance risk resulted in a lower fair value of our GMWB liabilities of $55 million and $46 million, respectively.

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

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

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

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

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

Fixed index annuity embedded derivatives

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

Indexed universal life embedded derivatives

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

Borrowings related to securitization entities

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

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

	June 30, 2014			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 5,483	$	$ 5,479	$ 4
Tax-exempt	353		353	
Government non-U.S.	2,132		2,107	25
U.S. corporate	26,847		24,424	2,423
Corporate non-U.S.	15,749		13,895	1,854
Residential mortgage-backed	5,212		5,139	73
Commercial mortgage-backed	2,845		2,840	5
Other asset-backed	3,739		2,471	1,268
Total fixed maturity securities	62,360		56,708	5,652
Equity securities	320	243	10	67
Other invested assets:				
Trading securities	226		195	31
Derivative assets:				
Interest rate swaps	593		593	
Foreign currency swaps	4		4	
Credit default swaps	7		1	6
Equity index options	4			4
Forward bond purchase commitments	8		8	
Other foreign currency contracts	1		1	
Total derivative assets	617		607	10
Securities lending collateral	277		277	
Derivatives counterparty collateral	76		76	

Total other invested assets	1,196		1,155	41
Restricted other invested assets related to securitization entities	404		180	224
Reinsurance recoverable [1]	3			3
Separate account assets	9,911	9,911		
Total assets	$ 74,194	$ 10,154	$ 58,053	$ 5,987
Liabilities				
Policyholder account balances:				
GMWB embedded derivatives [2]	$ 146	$	$	$ 146
Fixed index annuity embedded derivatives	219			219
Indexed universal life embedded derivatives	2			2
Total policyholder account balances	367			367
Derivative liabilities:				
Interest rate swaps	217		217	
Interest rate swaps related to securitization entities	22		22	
Inflation indexed swaps	90		90	
Foreign currency swaps	1		1	
Credit default swaps related to securitization entities	16			16
Equity return swaps	5		5	
Other foreign currency contracts	7		7	
Total derivative liabilities	358		342	16
Borrowings related to securitization entities	83			83
Total liabilities	$ 808	$	$ 342	$ 466

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

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

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	December 31, 2013			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 4,810	$	$ 4,805	$ 5
Tax-exempt	295		295	
Government non-U.S.	2,146		2,123	23
U.S. corporate	25,035		22,635	2,400
Corporate non-U.S.	15,071		13,252	1,819
Residential mortgage-backed	5,225		5,120	105
Commercial mortgage-backed	2,898		2,892	6
Other asset-backed	3,149		1,983	1,166
Total fixed maturity securities	58,629		53,105	5,524
Equity securities	341	256	7	78
Other invested assets:				
Trading securities	239		205	34
Derivative assets:				
Interest rate swaps	436		436	
Foreign currency swaps	4		4	
Credit default swaps	11		1	10
Equity index options	12			12
Other foreign currency contracts	8		5	3
Total derivative assets	471		446	25
Securities lending collateral	187		187	
Derivatives counterparty collateral	70		70	
Total other invested assets	967		908	59
Restricted other invested assets related to securitization entities	391		180	211
Reinsurance recoverable [(1)]	(1)			(1)
Separate account assets	10,138	10,138		

Total assets	$ 70,465	$ 10,394	$ 54,200	$ 5,871
Liabilities				
Policyholder account balances:				
GMWB embedded derivatives [2]	$ 96	$	$	$ 96
Fixed index annuity embedded derivatives	143			143
Total policyholder account balances	239			239
Derivative liabilities:				
Interest rate swaps	575		575	
Interest rate swaps related to securitization entities	16		16	
Inflation indexed swaps	60		60	
Foreign currency swaps	2		2	
Credit default swaps related to securitization entities	32			32
Equity return swaps	1		1	
Forward bond purchase commitments	13		13	
Other foreign currency contracts	4		3	1
Total derivative liabilities	703		670	33
Borrowings related to securitization entities	75			75
Total liabilities	$ 1,017	$	$ 670	$ 347

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

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

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We review the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers between levels at the beginning fair value for the reporting period in which the changes occur. Given the types of assets classified as Level 1, which primarily represents mutual fund investments, we typically do not have any transfers between Level 1 and Level 2 measurement categories and did not have any such transfers during any period presented.

Our assessment of whether or not there were significant unobservable inputs related to fixed maturity securities was based on our observations obtained through the course of managing our investment portfolio, including interaction with other market participants, observations related to the availability and consistency of pricing and/or rating, and understanding of general market activity such as new issuance and the level of secondary market trading for a class of securities. Additionally, we considered data obtained from third-party pricing sources to determine whether our estimated values incorporate significant unobservable inputs that would result in the valuation being classified as Level 3.

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

(Amounts in millions)	Beginning balance as of April 1, 2014	Total realized and unrealized gains (losses) Included in net income	Included in OCI	Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance as of June 30, 2014	Total gains (losses) included in net income attributable to assets still held
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	$ 4	$	$	$	$	$	$	$	$	$ 4	$

Government non-U.S.	24			1						25	
U.S. corporate [1]	2,368	6	40	55	(39)		(58)	87	(36)	2,423	7
Corporate non-U.S.	1,798	1	39	132	(76)		(55)	15		1,854	1
Residential mortgage-backed	93		1				(2)	11	(30)	73	
Commercial mortgage-backed	13		1				(1)		(8)	5	
Other asset-backed [1]	1,153	2	11	195			(41)	22	(74)	1,268	
Total fixed maturity securities	5,453	9	92	383	(115)		(157)	135	(148)	5,652	8
Equity securities	78				(11)					67	
Other invested assets:											
Trading securities	31									31	
Derivative assets:											
Credit default swaps	8						(2)			6	
Equity index options	11	(11)		4						4	(11)
Other foreign currency contracts	1				(1)						
Total derivative assets	20	(11)		4	(1)		(2)			10	(11)
Total other invested assets	51	(11)		4	(1)		(2)			41	(11)
Restricted other invested assets related to securitization entities	218	6								224	6
Reinsurance recoverable [2]	2					1				3	
Total Level 3 assets	$ 5,802	$ 4	$ 92	$ 387	$ (127)	$ 1	$ (159)	$ 135	$ (148)	$ 5,987	$ 3

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

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

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in millions)	Beginning balance as of April 1, 2013	Total realized and unrealized gains (losses) Included in net income	Included in OCI	Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance as of June 30, 2013	Total gains (losses) included in net income attributable to assets still held
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	$ 5	$	$	$	$	$	$	$	$	$ 5	$
Government non-U.S.	8									8	
U.S. corporate [(1)]	2,644	6	(49)	37	(24)		(185)	50	(20)	2,459	5
Corporate non-U.S.	1,970		(37)	16	(19)		(84)			1,846	
Residential mortgage-backed	130	(1)			(5)		(8)			116	1
Commercial mortgage-backed	26	(2)	1				(16)	4		13	(1)
Other asset-backed [(1)]	951	4	4	59			(41)	44		1,021	3
Total fixed maturity securities	5,734	7	(81)	112	(48)		(334)	98	(20)	5,468	8
Equity securities	92	2	(1)	1	(6)					88	
Other invested assets:											
Trading securities	67	4			(29)		(8)			34	
Derivative assets:											
Interest rate swaps	1	(1)									(1)
Credit default swaps	7	1					(2)			6	1
Equity index options	17	(2)		7			(9)			13	(1)
Total derivative assets	25	(2)		7			(11)			19	(1)

Total other invested assets	92	2		7	(29)		(19)			53	(1)
Restricted other invested assets related to securitization entities	199	(6)								193	(6)
Other assets [2]	10	(1)					(9)				
Reinsurance recoverable [3]	6	(3)								3	(3)
Total Level 3 assets	$ 6,133	$ 1	$ (82)	$ 120	$ (83)	$	$ (362)	$ 98	$ (20)	$ 5,805	$ (2)

(1) The transfers into and out of Level 3 were primarily related to private fixed rate U.S. corporate and structured securities. For private fixed rate U.S. corporate securities, the transfers into and out of Level 3 resulted from a change in the observability of the additional premium to the public bond spread to adjust for the liquidity and other features of our private placements and resulted in unobservable inputs having a significant impact on certain valuations for transfers in or no longer having significant impact on certain valuations for transfers out. For structured securities, the transfers into and out of Level 3 were attributable to the changes in the observability of inputs used in the valuation as a result of liquidity or marketability of certain instruments that had a significant impact on the primary pricing source used to value the instruments.

(2) Represents contingent receivables associated with recent business dispositions.

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

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(Unaudited)

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

		Total realized and unrealized gains (losses)									
(Amounts in millions)	**Beginning balance as of January 1, 2014**	**Included in net income**	**Included in OCI**	**Purchases**	**Sales**	**Issuances**	**Settlements**	**Transfer into Level 3**	**Transfer out of Level 3**	**Ending balance as of June 30, 2014**	**Total gains (losses) included in net income attributable to assets still held**
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	$ 5	$	$	$	$	$	$ (1)	$	$	$ 4	$
Government non-U.S.	23			3			(1)			25	
U.S. corporate [(1)]	2,400	11	69	145	(39)		(100)	101	(164)	2,423	12
Corporate non-U.S.	1,819	2	48	168	(76)		(90)	15	(32)	1,854	2
Residential mortgage-backed	105		2		(23)		(5)	24	(30)	73	
Commercial mortgage-backed	6		3				(2)	6	(8)	5	
Other asset-backed [(1)]	1,166	3	7	211	(5)		(78)	58	(94)	1,268	1
Total fixed maturity securities	5,524	16	129	527	(143)		(277)	204	(328)	5,652	15
Equity securities	78				(11)					67	

Other invested assets:											
Trading securities	34						(3)			31	
Derivative assets:											
Credit default swaps	10						(4)			6	
Equity index options	12	(18)		10						4	(18)
Other foreign currency contracts	3	(2)			(1)						
Total derivative assets	25	(20)		10	(1)		(4)			10	(18)
Total other invested assets	59	(20)		10	(1)		(7)			41	(18)
Restricted other invested assets related to securitization entities	211	13								224	13
Reinsurance recoverable [(2)]	(1)	2				2				3	2
Total Level 3 assets	$ 5,871	$ 11	$ 129	$ 537	$ (155)	$ 2	$ (284)	$ 204	$ (328)	$ 5,987	$ 12

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

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

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(Unaudited)

(Amounts in millions)	Beginning balance as of January 1, 2013	Total realized and unrealized gains (losses) Included in net income	Included in OCI	Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance as of June 30, 2013	Total gains (losses) included in net income attributable to assets still held
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	$ 9	$	$	$	$	$	$ (4)	$	$	$ 5	$
Government non-U.S.	9						(1)			8	
U.S. corporate [1]	2,683	8	(31)	93	(121)		(236)	112	(49)	2,459	4
Corporate non-U.S. [1]	1,983	1	(28)	69	(19)		(107)		(53)	1,846	1
Residential mortgage-backed	157	(2)	1		(5)		(19)		(16)	116	
Commercial mortgage-backed	35	(4)	(1)				(26)	9		13	(3)
Other asset-backed [1]	864	3	15	124	(44)		(71)	130		1,021	3
Total fixed maturity securities	5,740	6	(44)	286	(189)		(464)	251	(118)	5,468	5
Equity securities	99	2	(1)	1	(13)					88	
Other invested assets:											
Trading securities	76	7			(40)		(9)			34	2
Derivative assets:											
Interest rate swaps	2	(1)					(1)				(1)
Credit default swaps	7	4					(5)			6	3
Equity index options	25	(17)		14			(9)			13	(16)
Total derivative assets	34	(14)		14			(15)			19	(14)

Total other invested assets	110	(7)		14	(40)		(24)			53	(12)
Restricted other invested assets related to securitization entities	194	(1)								193	(1)
Other assets [2]	9						(9)				
Reinsurance recoverable [3]	10	(8)				1				3	(8)
Total Level 3 assets	$ 6,162	$ (8)	$ (45)	$ 301	$ (242)	$ 1	$ (497)	$ 251	$ (118)	$ 5,805	$ (16)

(1) The transfers into and out of Level 3 were primarily related to private fixed rate U.S. corporate and corporate non-U.S. securities and structured securities. For private fixed rate U.S. corporate and corporate non-U.S. securities, the transfers into and out of Level 3 resulted from a change in the observability of the additional premium to the public bond spread to adjust for the liquidity and other features of our private placements and resulted in unobservable inputs having a significant impact on certain valuations for transfers in or no longer having significant impact on certain valuations for transfers out. For structured securities, the transfers into and out of Level 3 were attributable to the changes in the observability of inputs used in the valuation as a result of liquidity or marketability of certain instruments that had a significant impact on the primary pricing source used to value the instruments.

(2) Represents contingent receivables associated with recent business dispositions.

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the gains and losses included in net income from assets measured at fair value on a recurring basis and for which we have utilized significant unobservable (Level 3) inputs to determine fair value and the related income statement line item in which these gains and losses were presented for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
(Amounts in millions)	**2014**	**2013**	**2014**	**2013**
Total realized and unrealized gains (losses) included in net income:				
Net investment income	$ 13	$ 11	$ 21	$ 20
Net investment gains (losses)	(9)	(10)	(10)	(28)
Total	$ 4	$ 1	$ 11	$ (8)
Total gains (losses) included in net income attributable to assets still held:				
Net investment income	$ 9	$ 10	$ 17	$ 17
Net investment gains (losses)	(6)	(12)	(5)	(33)
Total	$ 3	$ (2)	$ 12	$ (16)

The amount presented for unrealized gains (losses) included in net income for available-for-sale securities represents impairments and accretion on certain fixed maturity securities.

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

	Beginning balance as of April 1, 2014	Total realized and unrealized (gains) losses	Ending balance as of June 30, 2014	Total (gains) losses included in net (income)

(Amounts in millions)		**Included in net (income)**	**Included in OCI**	**Purchases**	**Sales**	**Issuances**	**Settlements**	**Transfer into Level 3**	**Transfer out of Level 3**		**attributable to liabilities still held**
Policyholder account balances:											
GMWB embedded derivatives [1]	$ 138	$ (2)	$	$	$	$ 10	$	$	$	$ 146	$ (1)
Fixed index annuity embedded derivatives	180	10				29				219	10
Indexed universal life embedded derivatives						2				2	
Total policyholder account balances	318	8				41				367	9
Derivative liabilities:											
Credit default swaps related to securitization entities	25	(11)		2						16	(11)
Other foreign currency contracts	2				(2)						
Total derivative liabilities	27	(11)		2	(2)					16	(11)
Borrowings related to securitization entities	79	4								83	4
Total Level 3 liabilities	$ 424	$ 1	$	$ 2	$ (2)	$ 41	$	$	$	$ 466	$ 2

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in millions)	Beginning balance as of April 1, 2013	Total realized and unrealized (gains) losses Included in net (income)	Total realized and unrealized (gains) losses Included in OCI	Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance as of June 30, 2013	Total (gains) losses included in net (income) attributable to liabilities still held
Policyholder account balances:											
GMWB embedded derivatives [1]	$ 272	$ (66)	$	$	$	$ 9	$	$	$	$ 215	$ (68)
Fixed index annuity embedded derivatives	34	1				9				44	1
Total policyholder account balances	306	(65)				18				259	(67)
Derivative liabilities:											
Credit default swaps related to securitization entities	97	(18)		1						80	(18)
Equity index options	1									1	
Total derivative liabilities	98	(18)		1						81	(18)
Borrowings related to securitization entities	71	3								74	3
Total Level 3 liabilities	$ 475	$ (80)	$	$ 1	$	$ 18	$	$	$	$ 414	$ (82)

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

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

(Amounts in millions)	Beginning balance as of January 1, 2014	Total realized and unrealized (gains) losses: Included in net (income)	Total realized and unrealized (gains) losses: Included in OCI	Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance as of June 30, 2014	Total (gains) losses included in net (income) attributable to liabilities still held
Policyholder account balances:											
GMWB embedded derivatives [(1)]	$ 96	$ 31	$	$	$	$ 19	$	$	$	$ 146	$ 33
Fixed index annuity embedded derivatives	143	12				65	(1)			219	12
Indexed universal life embedded derivatives						2				2	
Total policyholder account balances	239	43				86	(1)			367	45
Derivative liabilities:											
Credit default swaps related to securitization entities	32	(18)		2						16	(18)
Other foreign currency contracts	1	1			(2)						
Total derivative liabilities	33	(17)		2	(2)					16	(18)
Borrowings related to securitization entities	75	8								83	8
Total Level 3 liabilities	$ 347	$ 34	$	$ 2	$ (2)	$ 86	$ (1)	$	$	$ 466	$ 35

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

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(Unaudited)

(Amounts in millions)	Beginning balance as of January 1, 2013	Total realized and unrealized (gains) losses: Included in net (income)	Total realized and unrealized (gains) losses: Included in OCI	Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance as of June 30, 2013	Total (gains) losses included in net (income) attributable to liabilities still held
Policyholder account balances:											
GMWB embedded derivatives [1]	$ 350	$ (153)	$	$	$	$ 18	$	$	$	$ 215	$ (151)
Fixed index annuity embedded derivatives	27	4				13				44	4
Total policyholder account balances	377	(149)				31				259	(147)
Derivative liabilities:											
Credit default swaps	1	(1)									(1)
Credit default swaps related to securitization entities	104	(26)		2						80	(26)
Equity index options		1								1	1
Total derivative liabilities	105	(26)		2						81	(26)
Borrowings related to securitization entities	62	12								74	12
Total Level 3 liabilities	$ 544	$ (163)	$	$ 2	$	$ 31	$	$	$	$ 414	$ (161)

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

The following table presents the gains and losses included in net (income) from liabilities measured at fair value on a recurring basis and for which we have utilized significant unobservable (Level 3) inputs to determine fair value and the related income statement line item in which these gains and losses were presented for the periods indicated:

(Amounts in millions)	**Three months ended June 30, 2014**	**Three months ended June 30, 2013**	**Six months ended June 30, 2014**	**Six months ended June 30, 2013**
Total realized and unrealized (gains) losses included in net (income):				
Net investment income	$	$	$	$
Net investment (gains) losses	1	(80)	34	(163)
Total	$ 1	$ (80)	$ 34	$ (163)
Total (gains) losses included in net (income) attributable to liabilities still held:				
Net investment income	$	$	$	$
Net investment (gains) losses	2	(82)	35	(161)
Total	$ 2	$ (82)	$ 35	$ (161)

Purchases, sales, issuances and settlements represent the activity that occurred during the period that results in a change of the asset or liability but does not represent changes in fair value for the instruments held at the beginning of the period. Such activity primarily consists of purchases, sales and settlements of fixed maturity, equity and trading securities and purchases, issuances and settlements of derivative instruments.

Issuances and settlements presented for policyholder account balances represent the issuances and settlements of embedded derivatives associated with our GMWB liabilities where: issuances are characterized as

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the change in fair value associated with the product fees recognized that are attributed to the embedded derivative to equal the expected future benefit costs upon issuance and settlements are characterized as the change in fair value upon exercising the embedded derivative instrument, effectively representing a settlement of the embedded derivative instrument. We have shown these changes in fair value separately based on the classification of this activity as effectively issuing and settling the embedded derivative instrument with all remaining changes in the fair value of these embedded derivative instruments being shown separately in the category labeled included in net (income) in the tables presented above.

Certain classes of instruments classified as Level 3 are excluded below as a result of not being material or due to limitations in being able to obtain the underlying inputs used by certain third-party sources, such as broker quotes, used as an input in determining fair value. The following table presents a summary of the significant unobservable inputs used for certain fair value measurements that are based on internal models and classified as Level 3 as of June 30, 2014:

(Amounts in millions)	**Valuation technique**	**Fair value**	**Unobservable input**	**Range (weighted-average)**
Assets				
Fixed maturity securities:				
U.S. corporate	Internal models	$ 2,217	Credit spreads	55bps - 425bps (157bps)
Corporate non-U.S.	Internal models	1,686	Credit spreads	64bps - 226bps (127bps)
Derivative assets:				
Credit default swaps	Discounted cash flows	6	Credit spreads	5bps - 29bps (13bps)
Equity index options	Discounted cash flows	4	Equity index volatility	14% - 22% (21%)
Liabilities				
Policyholder account balances:				
			Withdrawal utilization rate	% - 98%
			Lapse rate	% - 15%
			Non-performance risk (credit spreads)	35bps - 85bps (73bps)
GMWB embedded derivatives [1]	Stochastic cash flow model	146	Equity index volatility	14% - 24% (20%)
Fixed index annuity embedded	Option budget method	219	Expected future	% - 3% (2%)

derivatives			interest credited	
Indexed universal life embedded derivatives	Option budget method	2	Expected future interest credited	3% - 7% (5%)

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

(7) Commitments and Contingencies

(a) Litigation and Regulatory Matters

We face the risk of litigation and regulatory investigations and actions in the ordinary course of operating our businesses, including the risk of class action lawsuits. Our pending legal and regulatory actions include proceedings specific to us and others generally applicable to business practices in the industries in which we operate. In our insurance operations, we are, have been, or may become subject to class actions and individual suits alleging, among other things, issues relating to sales or underwriting practices, increases to in-force long-term care insurance premiums, payment of contingent or other sales commissions, claims payments and procedures, product design, product disclosure, administration, additional premium charges for premiums paid on a periodic basis, denial or delay of benefits, charging excessive or impermissible fees on products, recommending unsuitable products to customers, our pricing structures and business practices in our mortgage insurance businesses, such as captive reinsurance arrangements with lenders and contract underwriting services, violations of the Real Estate Settlement and Procedures Act of 1974 (RESPA) or related state anti-inducement laws, and mortgage insurance policy rescissions and curtailments, and breaching fiduciary or other duties to customers, including but not limited to breach of customer information. Plaintiffs in class action and other

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lawsuits against us may seek very large or indeterminate amounts which may remain unknown for substantial periods of time. In our investment-related operations, we are subject to litigation involving commercial disputes with counterparties. We are also subject to litigation arising out of our general business activities such as our contractual and employment relationships. In addition, we are also subject to various regulatory inquiries, such as information requests, subpoenas, books and record examinations and market conduct and financial examinations from state, federal and international regulators and other authorities. A substantial legal liability or a significant regulatory action against us could have an adverse effect on our business, financial condition and results of operations. Moreover, even if we ultimately prevail in the litigation, regulatory action or investigation, we could suffer significant reputational harm, which could have an adverse effect on our business, financial condition or results of operations.

In April 2014, Genworth Financial, Inc., and a former and current officer were named in a putative class action lawsuit captioned *City of Hialeah Employees Retirement System v. Genworth Financial, Inc.*, *et al*, in the United States District Court for the Southern District of New York. Plaintiff alleges securities law violations involving certain disclosures in 2012 concerning Genworth s Australian mortgage insurance business, including our plans for an initial public offering of the business. The lawsuit seeks unspecified damages, costs and attorneys fees and such equitable/injunctive relief as the court may deem proper. We intend to vigorously defend this action.

As previously disclosed, in December 2009, one of our former non-insurance subsidiaries, one of the former subsidiary s officers and Genworth Financial, Inc. (now known as Genworth Holdings, Inc.) were named in a putative class action lawsuit captioned *Michael J. Goodman and Linda Brown v. Genworth Financial Wealth Management, Inc. et al.*, in the United States District Court for the Eastern District of New York. Plaintiffs allege securities law and other violations involving the selection of mutual funds by our former subsidiary on behalf of certain of its Private Client Group clients. The lawsuit seeks unspecified monetary and other relief. Oral argument on plaintiffs motion to certify a class action was conducted on January 30, 2013. On April 15, 2014, the court issued its decision denying the plaintiffs motion to certify a class. On April 29, 2014 plaintiffs filed a motion with the Second Circuit Court of Appeals for leave to appeal the District Court s denial of their motion to certify a class, which we opposed. On July 9, 2014, the Second Circuit Court of Appeals denied plaintiffs motion.

As previously disclosed, in April 2012, two of our U.S. mortgage insurance subsidiaries were named as respondents in two arbitrations, one brought by Bank of America, N.A. and one brought by Countrywide Home Loans, Inc. and Bank of America, N.A. as claimants. Claimants alleged breach of contract and breach of the covenant of good faith and fair dealing and seek a declaratory judgment relating to our denial, curtailment and rescission of mortgage insurance coverage. In June 2012, our U.S. mortgage insurance subsidiaries responded to the arbitration demands and asserted numerous counterclaims against the claimants. On December 31, 2013, the parties reached an agreement to resolve that portion of both arbitrations involving rescission practices. The effectiveness of the agreement was conditioned upon consent by the government-sponsored enterprises (GSEs) to and the parties execution of a definitive agreement requiring submission of curtailment and denial disputes to a binding alternative dispute proceeding (Curtailment ADR Agreement). In March 2014, the parties executed the Curtailment ADR Agreement. In the second quarter of 2014, the

GSEs consented to the December 31, 2013 agreement, the final condition precedent to the effectiveness of the rescission settlement. The GSEs also consented to the Curtailment ADR Agreement during the second quarter of 2014. With the effectiveness of the rescission settlement, the parties have commenced the process necessary for a final dismissal of the arbitration demands and counterclaims related to that portion of both arbitrations involving rescission practices. That dismissal is expected to occur in the third quarter of 2014. Claims curtailments and denials are the only

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remaining areas of dispute under the arbitrations. The parties have selected an arbitration panel. The first phase of the arbitration hearing is scheduled to begin in March 2015. Claimants and our U.S. mortgage insurance subsidiaries are engaged in settlement negotiations regarding a potential resolution of the pending disputes related to claims curtailments or denials. In the event settlement is not reached, we intend to vigorously defend our practices in these arbitrations.

As previously disclosed, beginning in December 2011 and continuing through January 2013, one of our U.S. mortgage insurance subsidiaries was named along with several other mortgage insurers and mortgage lenders as a defendant in twelve putative class action lawsuits alleging that certain captive reinsurance arrangements were in violation of RESPA. On June 26, 2014, the court in the *Hill* action granted our motion for summary judgment. We intend to vigorously defend the remaining actions.

At this time, we cannot determine or predict the ultimate outcome of any of the pending legal and regulatory matters specifically identified above or the likelihood of potential future legal and regulatory matters against us. In light of the inherent uncertainties involved in these matters, no amounts have been accrued. We also are not able to provide an estimate or range of possible losses related to these matters.

(b) Commitments

As of June 30, 2014, we were committed to fund $62 million in limited partnership investments, $105 million in U.S. commercial mortgage loans and $48 million in private placement investments.

(c) Other

During the second quarter of 2014, we experienced meaningful increases in adverse claims experience for our long-term care insurance products, resulting in significant deterioration in operating income which included an increase to our prior year claim reserves of $39 million. As a result of recent experience, and in connection with our regular review of claims reserve assumptions for our long-term care insurance products, we are conducting a comprehensive review of our long-term care insurance claim reserves. The primary areas of focus in this review are: (i) an analysis of potential causes of the meaningful increase in adverse claims experience and (ii) an assessment of the assumptions and methodology underlying the associated reserves, including morbidity, mortality, interest rates and claim terminations. We intend to complete this review before the release of financial results for the third quarter of 2014. We continue to believe that the existing assumptions and methodology provide the most reliable best estimate. However, given the review underway that will include both long-term and recent experience, we will likely change some of our assumptions, which could increase our long-term care insurance claim reserves, and any increase may or may not be material.

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(8) Borrowings and Other Financings

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

(Amounts in millions)	June 30, 2014	December 31, 2013
5.75% Senior Notes, due 2014 (1)	$	$ 485
4.59% Senior Notes, due 2015 (2)		141
8.625% Senior Notes, due 2016 (1)	300	300
6.52% Senior Notes, due 2018 (1)	600	600
5.68% Senior Notes, due 2020 (2)	257	258
7.70% Senior Notes, due 2020 (1)	400	400
7.20% Senior Notes, due 2021 (1)	399	399
7.625% Senior Notes, due 2021 (1)	759	759
Floating Rate Junior Notes, due 2021 (3)	132	125
4.90% Senior Notes, due 2023 (1)	399	399
4.24% Senior Notes, due 2024 (2)	150	
4.80% Senior Notes, due 2024 (1)	400	400
6.50% Senior Notes, due 2034 (1)	297	297
6.15% Junior Notes, due 2066	598	598
Total	$ 4,691	$ 5,161

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

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

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

We repaid $485 million of our 5.75% senior notes that matured in June 2014.

On April 1, 2014, Genworth Canada, our majority-owned subsidiary, issued CAD$160 million of 4.24% senior notes due 2024. The senior notes are redeemable at the option of Genworth Canada, in whole or in part, at any time. The net proceeds of the offering were used to redeem, in full, its existing senior notes due December 2015 with a principal amount of CAD$150 million and bearing a fixed annual interest rate of 4.59%. In conjunction with the redemption, Genworth Canada made an early redemption payment to existing noteholders of approximately CAD$7 million and accrued interest of approximately CAD$2 million in the second quarter of 2014.

(9) Segment Information

We operate through three divisions: U.S. Life Insurance, Global Mortgage Insurance and Corporate and Other. Under these divisions, there are five operating business segments. The U.S. Life Insurance Division includes the U.S. Life Insurance segment. The Global Mortgage Insurance Division includes the International Mortgage Insurance and U.S. Mortgage Insurance segments. The Corporate and Other Division includes the International Protection and Runoff segments and Corporate and Other activities. Our operating business segments are as follows: (1) U.S. Life Insurance, which includes our life insurance, long-term care insurance and

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fixed annuities businesses; (2) International Mortgage Insurance, which includes mortgage insurance-related products and services; (3) U.S. Mortgage Insurance, which includes mortgage insurance-related products and services; (4) International Protection, which includes our lifestyle protection insurance business; and (5) Runoff, which includes the results of non-strategic products which are no longer actively sold. Our non-strategic products primarily include our variable annuity, variable life insurance, institutional, corporate-owned life insurance and other accident and health insurance products. Institutional products consist of: funding agreements, FABNs and GICs.

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

We use the same accounting policies and procedures to measure segment income (loss) and assets as our consolidated net income and assets. Our chief operating decision maker evaluates segment performance and allocates resources on the basis of net operating income (loss). We define net operating income (loss) as income (loss) from continuing operations excluding the after-tax effects of income attributable to noncontrolling interests, net investment gains (losses), goodwill impairments, gains (losses) on the sale of businesses, gains (losses) on the early extinguishment of debt, gains (losses) on insurance block transactions and infrequent or unusual non-operating items. Gains (losses) on insurance block transactions are defined as gains (losses) on the early extinguishment of non-recourse funding obligations, early termination fees for other financing restructuring and/or resulting gains (losses) on reinsurance restructuring for certain blocks of business. We exclude net investment gains (losses) and infrequent or unusual non-operating items because we do not consider them to be related to the operating performance of our segments and Corporate and Other activities. A component of our net investment gains (losses) is the result of impairments, the size and timing of which can vary significantly depending on market credit cycles. In addition, the size and timing of other investment gains (losses) can be subject to our discretion and are influenced by market opportunities, as well as asset-liability matching considerations. Goodwill impairments, gains (losses) on the sale of businesses, gains (losses) on the early extinguishment of debt and gains (losses) on insurance block transactions are also excluded from net operating income (loss) because, in our opinion, they are not indicative of overall operating trends. Other non-operating items are also excluded from net operating income (loss) if, in our opinion, they are not indicative of overall operating trends.

In the fourth quarter of 2013, we revised our definition of net operating income (loss) to exclude gains (losses) on the early extinguishment of debt and gains (losses) on insurance block transactions to better reflect the basis on which the performance of our business is internally assessed and to reflect management s opinion that they are not indicative of overall operating trends. All prior periods have been re-presented to reflect this new definition.

The following transaction was excluded from net operating income (loss) for the periods presented as it related to the loss on the early extinguishment of debt. In the second quarter of 2014, we paid an early redemption payment of approximately $2 million, net of taxes and portion attributable to noncontrolling interests, related to the early redemption of Genworth Canada s notes that were scheduled to mature in 2015.

There were no infrequent or unusual items excluded from net operating income (loss) during the periods presented other than a $13 million, net of taxes, expense recorded in the second quarter of 2013 related to restructuring costs.

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While some of these items may be significant components of net income (loss) available to Genworth Financial, Inc. s common stockholders in accordance with U.S. GAAP, we believe that net operating income (loss), and measures that are derived from or incorporate net operating income (loss), are appropriate measures that are useful to investors because they identify the income (loss) attributable to the ongoing operations of the business. Management also uses net operating income (loss) as a basis for determining awards and compensation for senior management and to evaluate performance on a basis comparable to that used by analysts. However, the items excluded from net operating income (loss) have occurred in the past and could, and in some cases will, recur in the future. Net operating income (loss) is not a substitute for net income (loss) available to Genworth Financial, Inc. s common stockholders determined in accordance with U.S. GAAP. In addition, our definition of net operating income (loss) may differ from the definitions used by other companies.

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

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

	Three months ended June 30,		Six months ended June 30,	
(Amounts in millions)	**2014**	**2013**	**2014**	**2013**
Revenues:				
U.S. Life Insurance segment:				
Life insurance	$ 504	$ 502	$ 984	$ 996
Long-term care insurance	872	826	1,728	1,601
Fixed annuities	257	275	514	527
U.S. Life Insurance segment s revenues	1,633	1,603	3,226	3,124
International Mortgage Insurance segment:				
Canada	180	194	348	386
Australia	134	144	265	287
Other Countries	6	11	15	21
International Mortgage Insurance segment s revenues	320	349	628	694
U.S. Mortgage Insurance segment s revenues	156	151	311	305

International Protection segment s revenues	223	202	430	407
Runoff segment s revenues	89	69	162	112
Corporate and Other s revenues	(6)	(3)	(20)	32
Total revenues	$ 2,415	$ 2,371	$ 4,737	$ 4,674

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The following is a summary of net operating income (loss) for our segments and Corporate and Other activities and a reconciliation of net operating income (loss) for our segments and Corporate and Other activities to net income for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
(Amounts in millions)	**2014**	**2013**	**2014**	**2013**
U.S. Life Insurance segment:				
Life insurance	$ 39	$ 27	$ 60	$ 63
Long-term care insurance	6	26	52	46
Fixed annuities	24	26	51	55
U.S. Life Insurance segment s net operating income	69	79	163	164
International Mortgage Insurance segment:				
Canada	47	43	88	85
Australia	57	55	119	101
Other Countries	(7)	(9)	(11)	(16)
International Mortgage Insurance segment s net operating income	97	89	196	170
U.S. Mortgage Insurance segment s net operating income	39	13	72	34
International Protection segment s net operating income	2	1	9	7
Runoff segment s net operating income	15	6	27	22
Corporate and Other s net operating loss	(64)	(55)	(115)	(113)
Net operating income	158	133	352	284
Net investment gains (losses), net	20	15	10	(13)
Gains (losses) on early extinguishment of debt, net	(2)		(2)	
Expenses related to restructuring, net		(13)		(13)
Income (loss) from discontinued operations, net of taxes		6		(14)

Net income available to Genworth Financial, Inc. s common stockholders	176	141	360	244
Add: net income attributable to noncontrolling interests	52	39	87	77
Net income	$ 228	$ 180	$ 447	$ 321

The following is a summary of total assets for our segments and Corporate and Other activities as of the dates indicated:

(Amounts in millions)	June 30, 2014	December 31, 2013
Assets:		
U.S. Life Insurance	$ 80,916	$ 77,261
International Mortgage Insurance	9,518	9,194
U.S. Mortgage Insurance	2,322	2,361
International Protection	2,116	2,061
Runoff	13,856	14,062
Corporate and Other	2,916	3,106
Total assets	$ 111,644	$ 108,045

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

The following tables show the changes in accumulated OCI, net of taxes, by component as of and for the periods indicated:

(Amounts in millions)	Net unrealized investment gains (losses) [1]	Derivatives qualifying as hedges [2]	Foreign currency translation and other adjustments	Total
Balances as of April 1, 2014	$ 1,624	$ 1,538	$ 321	$ 3,483
OCI before reclassifications	548	119	148	815
Amounts reclassified from (to) OCI	(14)	(5)		(19)
Current period OCI	534	114	148	796
Balances as of June 30, 2014 before noncontrolling interests	2,158	1,652	469	4,279
Less: change in OCI attributable to noncontrolling interests	30		88	118
Balances as of June 30, 2014	$ 2,128	$ 1,652	$ 381	$ 4,161

(1) Net of adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves. See note 4 for additional information.

(2) See note 5 for additional information.

(Amounts in millions)	Net unrealized investment gains	Derivatives qualifying as hedges [2]	Foreign currency translation and	Total

	(losses) (1)		other adjustments	
Balances as of April 1, 2013	$ 2,443	$ 1,799	$ 582	$ 4,824
OCI before reclassifications	(1,173)	(213)	(353)	(1,739)
Amounts reclassified from (to) OCI	(17)	(5)		(22)
Current period OCI	(1,190)	(218)	(353)	(1,761)
Balances as of June 30, 2013 before noncontrolling interests	1,253	1,581	229	3,063
Less: change in OCI attributable to noncontrolling interests	(41)		(38)	(79)
Balances as of June 30, 2013	$ 1,294	$ 1,581	$ 267	$ 3,142

(1) Net of adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves. See note 4 for additional information.

(2) See note 5 for additional information.

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(Amounts in millions)	Net unrealized investment gains (losses) (1)	Derivatives qualifying as hedges (2)	Foreign currency translation and other adjustments	Total
Balances as of January 1, 2014	$ 926	$ 1,319	$ 297	$ 2,542
OCI before reclassifications	1,249	347	127	1,723
Amounts reclassified from (to) OCI	(3)	(14)		(17)
Current period OCI	1,246	333	127	1,706
Balances as of June 30, 2014 before noncontrolling interests	2,172	1,652	424	4,248
Less: change in OCI attributable to noncontrolling interests	44		43	87
Balances as of June 30, 2014	$ 2,128	$ 1,652	$ 381	$ 4,161

(1) Net of adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves. See note 4 for additional information.

(2) See note 5 for additional information.

(Amounts in millions)	Net unrealized investment gains (losses) (1)	Derivatives qualifying as hedges (2)	Foreign currency translation and other adjustments	Total
Balances as of January 1, 2013	$ 2,638	$ 1,909	$ 655	$ 5,202
OCI before reclassifications	(1,389)	(315)	(457)	(2,161)
Amounts reclassified from (to) OCI	8	(13)		(5)
Current period OCI	(1,381)	(328)	(457)	(2,166)

Balances as of June 30, 2013 before noncontrolling interests	1,257	1,581	198	3,036
Less: change in OCI attributable to noncontrolling interests	(37)		(69)	(106)
Balances as of June 30, 2013	$ 1,294	$ 1,581	$ 267	$ 3,142

(1) Net of adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves. See note 4 for additional information.

(2) See note 5 for additional information.

The foreign currency translation and other adjustments balance included $6 million and $26 million, respectively, net of taxes of $1 million and $13 million, respectively, related to a net unrecognized postretirement benefit obligation as of June 30, 2014 and 2013. Amount also included taxes of $35 million and $42 million, respectively, related to foreign currency translation adjustments as of June 30, 2014 and 2013.

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

	Amount reclassified from accumulated other comprehensive income				Affected line item in the
	Three months ended June 30,		Six months ended June 30,		consolidated statements
(Amounts in millions)	**2014**	**2013**	**2014**	**2013**	**of income**
Net unrealized investment (gains) losses:					
Unrealized (gains) losses on investments [1]	$ (22)	$ (26)	$ (5)	$ 12	Net investment (gains) losses
Provision for income taxes	8	9	2	(4)	Provision for income taxes
Total	$ (14)	$ (17)	$ (3)	$ 8	
Derivatives qualifying as hedges:					
Interest rate swaps hedging assets	$ (13)	$ (10)	$ (28)	$ (19)	Net investment income
Interest rate swaps hedging assets		(1)		(1)	Net investment (gains) losses
Interest rate swaps hedging liabilities	(1)		(1)	(1)	Interest expense
Inflation indexed swaps	7	5	8	2	Net investment income
Provision for income taxes	2	1	7	6	Provision for income taxes
Total	$ (5)	$ (5)	$ (14)	$ (13)	

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

(11) Noncontrolling Interests

On May 15, 2014, Genworth Mortgage Insurance Australia Limited (Genworth Australia), a holding company for Genworth s Australian mortgage insurance business, priced its initial public offering of 220,000,000 of its ordinary shares at an initial public offering price of AUD$2.65 per ordinary share. The offering closed on May 21,

2014. Following completion of the offering, Genworth Financial beneficially owns 66.2% of the ordinary shares of Genworth Australia.

The net proceeds of the offering were used by Genworth Australia to repay a portion of certain intercompany funding arrangements with our subsidiaries and those funds were then be distributed to Genworth Holdings. The gross proceeds of the offering (before payment of fees and expenses) were approximately $541 million. Fees and expenses in connection with the offering were approximately $27 million, including approximately $3 million paid in 2013.

Consistent with applicable accounting guidance, changes in noncontrolling interests that do not result in a change of control are accounted for as equity transactions. When there are changes in noncontrolling interests of a subsidiary that do not result in a change of control, any difference between carrying value and fair value related to the change in ownership is recorded as an adjustment to stockholders equity. A summary of these changes in

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ownership interests and the effect on stockholders equity for the periods presented was as follows for the periods presented:

(Amounts in millions)	Three months ended June 30, 2014	Six months ended June 30, 2014
Net income available to Genworth Financial, Inc. s common stockholders	$ 176	$ 360
Transfers to the noncontrolling interests:		
Decrease in Genworth Financial, Inc. s additional paid-in capital for initial sale of Genworth Australia to noncontrolling interests	(145)	(145)
Net transfers to noncontrolling interests	(145)	(145)
Change from net income available to Genworth Financial, Inc. s common stockholders and transfers to noncontrolling interests	$ 31	$ 215

(12) Condensed Consolidating Financial Information

Genworth Financial provides a full and unconditional guarantee to the trustee of Genworth Holdings outstanding senior notes and the holders of the senior notes, on an unsecured unsubordinated basis, of the full and punctual payment of the principal of, premium, if any and interest on, and all other amounts payable under, each outstanding series of senior notes, and the full and punctual payment of all other amounts payable by Genworth Holdings under the senior notes indenture in respect of such senior notes. Genworth Financial also provides a full and unconditional guarantee to the trustee of Genworth Holdings outstanding subordinated notes and the holders of the subordinated notes, on an unsecured subordinated basis, of the full and punctual payment of the principal of, premium, if any and interest on, and all other amounts payable under, the outstanding subordinated notes, and the full and punctual payment of all other amounts payable by Genworth Holdings under the subordinated notes indenture in respect of the subordinated notes.

The following condensed consolidating financial information of Genworth Financial and its direct and indirect subsidiaries have been prepared pursuant to rules regarding the preparation of consolidating financial information of Regulation S-X. The condensed consolidating financial information has been prepared as if the guarantee had been in place during the periods presented herein.

The condensed consolidating financial information presents the condensed consolidating balance sheet information as of June 30, 2014 and December 31, 2013, the condensed consolidating income statement information and the condensed consolidating comprehensive income statement information for the three and six months ended June 30, 2014 and 2013 and the condensed consolidating cash flow statement information for the six months ended June 30, 2014 and 2013.

The condensed consolidating financial information reflects Genworth Financial (Parent Guarantor), Genworth Holdings (Issuer) and each of Genworth Financial s other direct and indirect subsidiaries (the All Other Subsidiaries) on a combined basis, none of which guarantee the senior notes or subordinated notes, as well as the eliminations necessary to present Genworth Financial s financial information on a consolidated basis and total consolidated amounts.

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The accompanying condensed consolidating financial information is presented based on the equity method of accounting for all periods presented. Under this method, investments in subsidiaries are recorded at cost and adjusted for the subsidiaries cumulative results of operations, capital contributions and distributions, and other changes in equity. Elimination entries include consolidating and eliminating entries for investments in subsidiaries and intercompany activity.

The following table presents the condensed consolidating balance sheet information as of June 30, 2014:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Assets					
Investments:					
Fixed maturity securities available-for-sale, at fair value	$	$ 151	$ 62,409	$ (200)	$ 62,360
Equity securities available-for-sale, at fair value			320		320
Commercial mortgage loans			5,986		5,986
Restricted commercial mortgage loans related to securitization entities			217		217
Policy loans			1,514		1,514
Other invested assets		17	1,946		1,963
Restricted other invested assets related to securitization entities, at fair value			404		404
Investments in subsidiaries	16,214	16,239		(32,453)	
Total investments	16,214	16,407	72,796	(32,653)	72,764
Cash and cash equivalents		1,073	3,065		4,138
Accrued investment income			646	(4)	642
Deferred acquisition costs			5,085		5,085
Intangible assets			266		266
Goodwill			867		867
Reinsurance recoverable			17,276		17,276
Other assets	2	198	497	(2)	695
Intercompany notes receivable		260	365	(625)	
Separate account assets			9,911		9,911

Total assets	$ 16,216	$ 17,938	$ 110,774	$ (33,284)	$ 111,644
Liabilities and stockholders equity					
Liabilities:					
Future policy benefits	$	$	$ 34,497	$	$ 34,497
Policyholder account balances			25,834		25,834
Liability for policy and contract claims			7,223		7,223
Unearned premiums			4,191		4,191
Other liabilities	(2)	303	3,406	(5)	3,702
Intercompany notes payable	3	566	256	(825)	
Borrowings related to securitization entities			233		233
Non-recourse funding obligations			2,024		2,024
Long-term borrowings		4,151	540		4,691
Deferred tax liability	(16)	(927)	2,017		1,074
Separate account liabilities			9,911		9,911
Total liabilities	(15)	4,093	90,132	(830)	93,380
Stockholders equity:					
Common stock	1				1
Additional paid-in capital	11,986	9,162	17,080	(26,242)	11,986
Accumulated other comprehensive income (loss)	4,161	4,099	4,152	(8,251)	4,161
Retained earnings	2,783	584	(2,628)	2,044	2,783
Treasury stock, at cost	(2,700)				(2,700)
Total Genworth Financial, Inc. s stockholders equity	16,231	13,845	18,604	(32,449)	16,231
Noncontrolling interests			2,038	(5)	2,033
Total stockholders equity	16,231	13,845	20,642	(32,454)	18,264
Total liabilities and stockholders equity	$ 16,216	$ 17,938	$ 110,774	$ (33,284)	$ 111,644

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The following table presents the condensed consolidating balance sheet information as of December 31, 2013:

(Amounts in millions)	**Parent Guarantor**	**Issuer**	**All Other Subsidiaries**	**Eliminations**	**Consolidated**
Assets					
Investments:					
Fixed maturity securities available-for-sale, at fair value	$	$ 150	$ 58,679	$ (200)	$ 58,629
Equity securities available-for-sale, at fair value			341		341
Commercial mortgage loans			5,899		5,899
Restricted commercial mortgage loans related to securitization entities			233		233
Policy loans			1,434		1,434
Other invested assets		91	1,595		1,686
Restricted other invested assets related to securitization entities, at fair value			391		391
Investments in subsidiaries	14,358	14,929		(29,287)	
Total investments	14,358	15,170	68,572	(29,487)	68,613
Cash and cash equivalents		1,219	2,995		4,214
Accrued investment income			682	(4)	678
Deferred acquisition costs			5,278		5,278
Intangible assets			399		399
Goodwill			867		867
Reinsurance recoverable			17,219		17,219
Other assets	(2)	276	367	(2)	639
Intercompany notes receivable	8	248	393	(649)	
Separate account assets			10,138		10,138
Total assets	$ 14,364	$ 16,913	$ 106,910	$ (30,142)	$ 108,045
Liabilities and stockholders equity					
Liabilities:					
Future policy benefits	$	$	$ 33,705	$	$ 33,705

Policyholder account balances			25,528		25,528
Liability for policy and contract claims			7,204		7,204
Unearned premiums			4,107		4,107
Other liabilities	(3)	365	3,739	(5)	4,096
Intercompany notes payable		601	248	(849)	
Borrowings related to securitization entities			242		242
Non-recourse funding obligations			2,038		2,038
Long-term borrowings		4,636	525		5,161
Deferred tax liability	(26)	(796)	1,028		206
Separate account liabilities			10,138		10,138
Total liabilities	(29)	4,806	88,502	(854)	92,425
Stockholders equity:					
Common stock	1				1
Additional paid-in capital	12,127	9,297	17,215	(26,512)	12,127
Accumulated other comprehensive income (loss)	2,542	2,507	2,512	(5,019)	2,542
Retained earnings	2,423	303	(2,551)	2,248	2,423
Treasury stock, at cost	(2,700)				(2,700)
Total Genworth Financial, Inc. s stockholders equity	14,393	12,107	17,176	(29,283)	14,393
Noncontrolling interests			1,232	(5)	1,227
Total stockholders equity	14,393	12,107	18,408	(29,288)	15,620
Total liabilities and stockholders equity	$ 14,364	$ 16,913	$ 106,910	$ (30,142)	$ 108,045

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The following table presents the condensed consolidating income statement information for the three months ended June 30, 2014:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Revenues:					
Premiums	$	$	$ 1,343	$	$ 1,343
Net investment income			816	(3)	813
Net investment gains (losses)		(5)	39		34
Insurance and investment product fees and other		(3)	229	(1)	225
Total revenues		(8)	2,427	(4)	2,415
Benefits and expenses:					
Benefits and other changes in policy reserves			1,256		1,256
Interest credited			184		184
Acquisition and operating expenses, net of deferrals	3		401		404
Amortization of deferred acquisition costs and intangibles			138		138
Interest expense		83	41	(4)	120
Total benefits and expenses	3	83	2,020	(4)	2,102

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(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Income (loss) from continuing operations before income taxes and equity in income of subsidiaries	(3)	(91)	407		313
Provision (benefit) for income taxes	(5)	(18)	112	(4)	85
Equity in income of subsidiaries	174	194		(368)	
Income from continuing operations	176	121	295	(364)	228
Income from discontinued operations, net of taxes					
Net income	176	121	295	(364)	228
Less: net income attributable to noncontrolling interests			52		52
Net income available to Genworth Financial, Inc. s common stockholders	$ 176	$ 121	$ 243	$ (364)	$ 176

The following table presents the condensed consolidating income statement information for the three months ended June 30, 2013:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Revenues:					
Premiums	$	$	$ 1,286	$	$ 1,286
Net investment income	(1)	1	824	(3)	821
Net investment gains (losses)		7	14		21
Insurance and investment product fees and other			245	(2)	243
Total revenues	(1)	8	2,369	(5)	2,371
Benefits and expenses:					
Benefits and other changes in policy reserves			1,269		1,269

Interest credited			184		184
Acquisition and operating expenses, net of deferrals	10	1	402		413
Amortization of deferred acquisition costs and intangibles			137		137
Interest expense		79	47	(5)	121
Total benefits and expenses	10	80	2,039	(5)	2,124
Income (loss) from continuing operations before income taxes and equity in income of subsidiaries	(11)	(72)	330		247
Provision (benefit) for income taxes	(5)	(14)	92		73
Equity in income of subsidiaries	147	194		(341)	
Income from continuing operations	141	136	238	(341)	174
Income (loss) from discontinued operations, net of taxes		(9)	15		6
Net income	141	127	253	(341)	180
Less: net income attributable to noncontrolling interests			39		39
Net income available to Genworth Financial, Inc. s common stockholders	$ 141	$ 127	$ 214	$ (341)	$ 141

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating income statement information for the six months ended June 30, 2014:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Revenues:					
Premiums	$	$	$ 2,650	$	$ 2,650
Net investment income			1,625	(7)	1,618
Net investment gains (losses)		(9)	26		17
Insurance and investment product fees and other		(3)	456	(1)	452
Total revenues		(12)	4,757	(8)	4,737
Benefits and expenses:					
Benefits and other changes in policy reserves			2,450		2,450
Interest credited			367		367
Acquisition and operating expenses, net of deferrals	10		772		782
Amortization of deferred acquisition costs and intangibles			272		272
Interest expense		167	88	(8)	247
Total benefits and expenses	10	167	3,949	(8)	4,118
Income (loss) from continuing operations before income taxes and equity in income of subsidiaries	(10)	(179)	808		619
Provision (benefit) for income taxes	5	(64)	235	(4)	172
Equity in income of subsidiaries	375	396		(771)	
Income from continuing operations	360	281	573	(767)	447
Income from discontinued operations, net of taxes					

Net income		360		281		573		(767)		447
Less: net income attributable to noncontrolling interests						87				87
Net income available to Genworth Financial, Inc. s common stockholders	$	360	$	281	$	486	$	(767)	$	360

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating income statement information for the six months ended June 30, 2013:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Revenues:					
Premiums	$	$	$ 2,547	$	$ 2,547
Net investment income	(1)	1	1,642	(7)	1,635
Net investment gains (losses)		3	(43)		(40)
Insurance and investment product fees and other			535	(3)	532
Total revenues	(1)	4	4,681	(10)	4,674
Benefits and expenses:					
Benefits and other changes in policy reserves			2,470		2,470
Interest credited			368		368
Acquisition and operating expenses, net of deferrals	10	1	835		846
Amortization of deferred acquisition costs and intangibles			259		259
Interest expense		159	98	(10)	247
Total benefits and expenses	10	160	4,030	(10)	4,190
Income (loss) from continuing operations before income taxes and equity in income of subsidiaries	(11)	(156)	651		484
Provision (benefit) for income taxes	(5)	(53)	207		149
Equity in income of subsidiaries	250	316		(566)	
Income from continuing operations, net of taxes	244	213	444	(566)	335
Loss from discontinued operations, net of taxes		(14)			(14)

Net income		244		199		444		(566)		321
Less: net income attributable to noncontrolling interests						77				77
Net income available to Genworth Financial, Inc. s common stockholders	$	244	$	199	$	367	$	(566)	$	244

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating comprehensive income statement information for the three months ended June 30, 2014:

(Amounts in millions)	**Parent Guarantor**	**Issuer**	**All Other Subsidiaries**	**Eliminations**	**Consolidated**
Net income	$ 176	$ 121	$ 295	$ (364)	$ 228
Other comprehensive income (loss):					
Net unrealized gains (losses) on securities not other-than-temporarily impaired	525	514	531	(1,037)	533
Net unrealized gains (losses) on other-than-temporarily impaired securities	1	1	1	(2)	1
Derivatives qualifying as hedges	114	114	123	(237)	114
Foreign currency translation and other adjustments	95	80	148	(175)	148
Total other comprehensive income (loss)	735	709	803	(1,451)	796
Total comprehensive income (loss)	911	830	1,098	(1,815)	1,024
Less: comprehensive income attributable to noncontrolling interests			113		113
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$ 911	$ 830	$ 985	$ (1,815)	$ 911

The following table presents the condensed consolidating comprehensive income statement information for the three months ended June 30, 2013:

(Amounts in millions)	**Parent Guarantor**	**Issuer**	**All Other Subsidiaries**	**Eliminations**	**Consolidated**
Net income	$ 141	$ 127	$ 253	$ (341)	$ 180
Other comprehensive income (loss):					
Net unrealized gains (losses) on securities not other-than-temporarily impaired	(1,175)	(1,136)	(1,212)	2,307	(1,216)

Net unrealized gains (losses) on other-than-temporarily impaired securities	26	26	26	(52)	26
Derivatives qualifying as hedges	(218)	(218)	(230)	448	(218)
Foreign currency translation and other adjustments	(315)	(303)	(352)	617	(353)
Total other comprehensive income (loss)	(1,682)	(1,631)	(1,768)	3,320	(1,761)
Total comprehensive income (loss)	(1,541)	(1,504)	(1,515)	2,979	(1,581)
Less: comprehensive income attributable to noncontrolling interests			(40)		(40)
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$ (1,541)	$ (1,504)	$ (1,475)	$ 2,979	$ (1,541)

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating comprehensive income statement information for the six months ended June 30, 2014:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Net income	$ 360	$ 281	$ 573	$ (767)	$ 447
Other comprehensive income (loss):					
Net unrealized gains (losses) on securities not other-than-temporarily impaired	1,217	1,189	1,238	(2,405)	1,239
Net unrealized gains (losses) on other-than-temporarily impaired securities	7	7	7	(14)	7
Derivatives qualifying as hedges	333	333	355	(688)	333
Foreign currency translation and other adjustments	119	120	127	(239)	127
Total other comprehensive income (loss)	1,676	1,649	1,727	(3,346)	1,706
Total comprehensive income (loss)	2,036	1,930	2,300	(4,113)	2,153
Less: comprehensive income attributable to noncontrolling interests			117		117
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$ 2,036	$ 1,930	$ 2,183	$ (4,113)	$ 2,036

The following table presents the condensed consolidating comprehensive income statement information for the six months ended June 30, 2013:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Net income	$ 244	$ 199	$ 444	$ (566)	$ 321
Other comprehensive income (loss):					
Net unrealized gains (losses) on securities not other-than-temporarily impaired	(1,396)	(1,363)	(1,429)	2,755	(1,433)

Net unrealized gains (losses) on other-than-temporarily impaired securities	52	52	52	(104)	52
Derivatives qualifying as hedges	(328)	(328)	(340)	668	(328)
Foreign currency translation and other adjustments	(388)	(358)	(456)	745	(457)
Total other comprehensive income (loss)	(2,060)	(1,997)	(2,173)	4,064	(2,166)
Total comprehensive income (loss)	(1,816)	(1,798)	(1,729)	3,498	(1,845)
Less: comprehensive income attributable to noncontrolling interests			(29)		(29)
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$ (1,816)	$ (1,798)	$ (1,700)	$ 3,498	$ (1,816)

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating cash flow statement information for the six months ended June 30, 2014:

	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income	$ 360	$ 281	$ 573	$ (767)	$ 447
Adjustments to reconcile net income to net cash from operating activities:					
Equity in income from subsidiaries	(375)	(396)		771	
Dividends from subsidiaries		563	(563)		
Amortization of fixed maturity discounts and premiums and limited partnerships			(69)		(69)
Net investment losses (gains)		9	(26)		(17)
Charges assessed to policyholders			(376)		(376)
Acquisition costs deferred			(239)		(239)
Amortization of deferred acquisition costs and intangibles			272		272
Deferred income taxes	10	(117)	139	(4)	28
Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments			79		79
Stock-based compensation expense	10		5		15
Change in certain assets and liabilities:					
Accrued investment income and other assets	(3)	59	(148)		(92)
Insurance reserves			1,102		1,102
Current tax liabilities	(12)	(19)	(133)		(164)
Other liabilities and other policy-related balances	13	27	(448)		(408)
Net cash from operating activities	3	407	168		578
Cash flows from investing activities:					

Proceeds from maturities and repayments of investments:					
Fixed maturity securities			2,568		2,568
Commercial mortgage loans			262		262
Restricted commercial mortgage loans related to securitization entities			17		17
Proceeds from sales of investments:					
Fixed maturity and equity securities			1,256		1,256
Purchases and originations of investments:					
Fixed maturity and equity securities			(4,873)		(4,873)
Commercial mortgage loans			(347)		(347)
Other invested assets, net			175		175
Policy loans, net			4		4
Intercompany notes receivable	8	(12)	28	(24)	
Capital contributions to subsidiaries	(12)		12		
Net cash from investing activities	(4)	(12)	(898)	(24)	(938)
Cash flows from financing activities:					
Deposits to universal life and investment contracts			1,548		1,548
Withdrawals from universal life and investment contracts			(1,270)		(1,270)
Redemption and repurchase of non-recourse funding obligations			(14)		(14)
Proceeds from the issuance of long-term debt			144		144
Repayment and repurchase of long-term debt		(485)	(136)		(621)
Repayment of borrowings related to securitization entities			(17)		(17)
Proceeds from sale of subsidiary shares to noncontrolling interests			519		519
Dividends paid to noncontrolling interests			(27)		(27)
Proceeds from intercompany notes payable	3	(35)	8	24	
Other, net	(2)	(21)	(9)		(32)
Net cash from financing activities	1	(541)	746	24	230
Effect of exchange rate changes on cash and cash equivalents			54		54
Net change in cash and cash equivalents		(146)	70		(76)
Cash and cash equivalents at beginning of period		1,219	2,995		4,214
Cash and cash equivalents at end of period	$	$ 1,073	$ 3,065	$	$ 4,138

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating cash flow statement information for the six months ended June 30, 2013:

	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income	$ 244	$ 199	$ 444	$ (566)	$ 321
Less loss from discontinued operations, net of taxes		14			14
Adjustments to reconcile net income to net cash from operating activities:					
Equity in income from subsidiaries	(250)	(316)		566	
Dividends from subsidiaries	135	150	(285)		
Amortization of fixed maturity discounts and premiums and limited partnerships			(40)		(40)
Net investment losses (gains)		(3)	43		40
Charges assessed to policyholders		(3)	(401)		(404)
Acquisition costs deferred			(212)		(212)
Amortization of deferred acquisition costs and intangibles			259		259
Deferred income taxes	(3)	(46)	(164)		(213)
Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments			35		35
Stock-based compensation expense	11		6		17
Change in certain assets and liabilities:					
Accrued investment income and other assets	(1)	68	(46)		21
Insurance reserves			1,183		1,183
Current tax liabilities		(7)	267		260
Other liabilities and other policy-related balances	(4)	26	(660)		(638)
Cash from operating activities discontinued operations		(14)	17		3
Net cash from operating activities	132	68	446		646

Cash flows from investing activities:					
Proceeds from maturities and repayments of investments:					
Fixed maturity securities			2,820		2,820
Commercial mortgage loans			474		474
Restricted commercial mortgage loans related to securitization entities			31		31
Proceeds from sales of investments:					
Fixed maturity and equity securities			2,245		2,245
Purchases and originations of investments:					
Fixed maturity and equity securities			(4,558)		(4,558)
Commercial mortgage loans			(431)		(431)
Other invested assets, net			113		113
Policy loans, net			(1)		(1)
Intercompany notes receivable	(1)	15	30	(44)	
Capital contributions to subsidiaries	(131)	(1)	132		
Proceeds from sale of a subsidiary, net of cash transferred			25		25
Cash from investing activities discontinued operations					
Net cash from investing activities	(132)	14	880	(44)	718
Cash flows from financing activities:					
Deposits to universal life and investment contracts			920		920
Withdrawals from universal life and investment contracts			(2,059)		(2,059)
Redemption and repurchase of non-recourse funding obligations			(12)		(12)
Repayment and repurchase of long-term debt		(15)			(15)
Repayment of borrowings related to securitization entities			(32)		(32)
Repurchase of subsidiary shares			(21)		(21)
Dividends paid to noncontrolling interests			(26)		(26)
Proceeds from intercompany notes payable		(30)	(14)	44	
Other, net		(24)	7		(17)
Cash from financing activities discontinued operations					
Net cash from financing activities		(69)	(1,237)	44	(1,262)
Effect of exchange rate changes on cash and cash equivalents			(118)		(118)
Net change in cash and cash equivalents		13	(29)		(16)
Cash and cash equivalents at beginning of period		843	2,810		3,653
Cash and cash equivalents at end of period		856	2,781		3,637
			24		24

Less cash and cash equivalents of discontinued operations at end of period					
Cash and cash equivalents of continuing operations at end of period	$	$ 856	$ 2,757	$	$ 3,613

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Our insurance company subsidiaries are restricted by state and foreign laws and regulations as to the amount of dividends they may pay to their parent without regulatory approval in any year, the purpose of which is to protect affected insurance policyholders and contractholders, not stockholders. Any dividends in excess of limits are deemed extraordinary and require approval. Based on estimated statutory results as of December 31, 2013, in accordance with applicable dividend restrictions, our subsidiaries could pay dividends of approximately $1.0 billion to us in 2014 without obtaining regulatory approval, and the remaining net assets are considered restricted. While the $1.0 billion is unrestricted, we do not expect our insurance subsidiaries to pay dividends to us in 2014 at this level as they retain capital for growth and to meet capital requirements and desired thresholds. As of June 30, 2014, both Genworth Financial s and Genworth Holdings subsidiaries had restricted net assets of $15.2 billion.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included herein and with our 2013 Annual Report on Form 10-K.

Cautionary note regarding forward-looking statements

This report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as expects, intends, anticipates, plans, believes, seeks, estimates, will or words of similar meaning and include, but are not limited to, statements regarding the outlook for our future business and financial performance. Forward-looking statements are based on management s current expectations and assumptions, which are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Actual outcomes and results may differ materially due to global political, economic, business, competitive, market, regulatory and other factors and risks, including, but not limited to, the following:

Risks relating to our businesses, including downturns and volatility in global economies and equity and credit markets; downgrades or potential downgrades in our financial strength or credit ratings; interest rate fluctuations and levels; adverse capital and credit market conditions; the valuation of fixed maturity, equity and trading securities; defaults or other events impacting the value of our fixed maturity securities portfolio; defaults on our commercial mortgage loans or the mortgage loans underlying our investments in commercial mortgage-backed securities and volatility in performance; availability, affordability and adequacy of reinsurance; defaults by counterparties to reinsurance arrangements or derivative instruments; an adverse change in risk-based capital and other regulatory requirements; insufficiency of reserves and required increases to reserve liabilities; legal and regulatory constraints on dividend distributions by our subsidiaries; competition, including from government-owned and government-sponsored enterprises (GSEs) offering mortgage insurance; loss of key distribution partners; regulatory restrictions on our operations and changes in applicable laws and regulations; legal or regulatory investigations or actions; the failure of or any compromise of the security of our computer systems and confidential information contained therein; the occurrence of natural or man-made disasters or a pandemic; the effect of the Dodd-Frank Wall Street Reform and Consumer Protection Act; ineffective or inadequate risk management program; changes in accounting and reporting standards; goodwill impairments; impairments of or valuation allowances against our deferred tax assets; significant deviations from our assumptions in our insurance policies and annuity contracts; accelerated amortization of deferred acquisition costs and present value of future profits; ability to increase premiums on in-force and future long-term care insurance products, including any current rate actions and any future rate actions; the failure of demand for life insurance, long-term care insurance and fixed annuity products to increase; medical advances, such as genetic research and diagnostic imaging, and related legislation; ability to continue to implement actions to mitigate the impact of statutory reserve requirements; political and economic instability or changes in government policies; fluctuations in foreign currency exchange rates and international securities markets; the significant portion of our international mortgage insurance risk in-force with high loan-to-value ratios; increases in U.S. mortgage insurance default rates; failure to meet, or have waived to the extent needed, our U.S. mortgage insurance subsidiaries minimum statutory capital requirements and hazardous financial condition standards; the influence of Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) and a small number of large mortgage lenders and investors and changes to the role or structure of Fannie Mae and Freddie Mac; failure to meet the revised GSE eligibility standards (the MI Eligibility Standards) or the capital required to meet the revised standards may be higher than anticipated; ability to realize the benefits of our rescissions and curtailments; the extent to which loan modifications and other similar programs may provide benefits to us; deterioration in economic conditions or a decline in home prices in the United States; problems associated with foreclosure process defects in the United States that may defer claim payments; decreases in the volume of high loan-to-value mortgage originations or increases in mortgage insurance cancellations in the United States; increases in the use of alternatives to private mortgage insurance in the United States and reductions by lenders in the level of coverage they select; the impact of the use of reinsurance with reinsurance companies affiliated with our U.S. mortgage lending customers; and potential liabilities in connection with our U.S. contract underwriting services;

Other risks, including the risk that the anticipated benefits of the announced expense reduction are not realized and we may lose key personnel related to actions like this as well as general uncertainty in the timing of our turnaround; the possibility that in certain circumstances we will be obligated to make payments to General Electric Company (GE) under the tax matters agreement with GE even if our corresponding tax savings are never realized and payments could be accelerated in the event of certain changes in control; and provisions of our certificate of incorporation and bylaws and the tax matters agreement with GE may discourage takeover attempts and business combinations that stockholders might consider in their best interests; and

Risks relating to our common stock, including the suspension of dividends and stock price fluctuations.

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

Overview

Our business

We are a leading financial services company dedicated to providing insurance, investment and financial solutions to our customers, with a presence in more than 25 countries. We operate through three divisions: U.S. Life Insurance, Global Mortgage Insurance and Corporate and Other. Under these divisions, there are five operating business segments. The U.S. Life Insurance Division includes the U.S. Life Insurance segment. The Global Mortgage Insurance Division includes the International Mortgage Insurance and U.S. Mortgage Insurance segments. The Corporate and Other Division includes the International Protection and Runoff segments and Corporate and Other activities. We have the following operating segments:

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

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

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

International Protection. We are a leading provider of payment protection coverages (referred to as lifestyle protection) in multiple European countries and have operations in select other countries. Our lifestyle protection insurance products primarily help consumers meet specified payment obligations should they become unable to pay due to accident, illness, involuntary unemployment, disability or death.

Runoff. The Runoff segment includes the results of non-strategic products which are no longer actively sold. Our non-strategic products primarily include our variable annuity, variable life insurance, institutional, corporate-owned life insurance and other accident and health insurance products. Institutional products consist of funding agreements, funding agreements backing notes (FABNs) and guaranteed investment contracts (GICs). In January 2011, we discontinued new sales of retail and group variable annuities while continuing to service our existing blocks of business.

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

Business trends and conditions

Our business is, and we expect will continue to be, influenced by a number of industry-wide and product-specific trends and conditions.

General conditions and trends affecting our businesses

Financial and economic environment. The stability of both the financial markets and global economies in which we operate impacts the sales, revenue growth and profitability trends of our businesses. While equity and credit markets generally improved during 2013, credit market volatility continued into the first half of 2014 and credit spreads continued to further compress during the first half of 2014. Although the U.S. and several international financial markets experienced improvement during 2013 and into the first half of 2014, there are still concerns regarding global economies and the rate and strength of recovery, particularly given recent geographical events in Eastern Europe and the Middle East.

The U.S. housing market showed signs of recovery during 2012 and 2013 with home prices rising in a number of regions and cities, but ongoing weakness in the U.S. economy continued to impact the rate of recovery. Unemployment and underemployment levels in the United States remained elevated in 2013. The June 2014 unemployment rate in the United States declined from the March 2014 and December 2013 unemployment rates. We expect unemployment and underemployment levels in the United States to remain elevated relative to those levels prevailing before 2009 and gradually decrease over time. In Canada, stable economic conditions have persisted with housing affordability benefiting from low interest rates and employment growth and average home prices increased modestly during 2013 and into the first half of 2014. While the unemployment rate in Canada decreased slightly during 2013 and into the first quarter of 2014, it increased slightly during the second quarter of 2014 but remained near its lowest level since December 2008. In Australia, the overall housing market generally improved as modest economic growth and low interest rates persisted, coupled with average home prices increasing across most regions during 2013 and into the first half of 2014. Unemployment in Australia increased slightly during 2013, remaining close to its highest level in three years. It remained consistent through March 2014 and increased in June 2014. The Chinese economy had experienced significant growth over the past decade. This growth slowed during 2013 and into the first half of 2014 and the new Chinese administration began to implement economic and credit market reforms. Gross domestic product growth in China in 2013 and the first half of 2014 was close to that of 2012, but significantly lower from growth over the last decade even with improvement in the second quarter of 2014. Given the relative size of the Chinese economy, the impact of a significant change in the pace of economic expansion in China could impact global economies, partly as a result of lower commodity imports, particularly those from the Asia Pacific region, including Australia. Europe remained a challenging region with slow growth or a declining economic environment with lower lending activity and reduced consumer spending, particularly in Greece, Spain, Portugal, Ireland and Italy, in part as a result of actual or anticipated austerity measures, but certain areas within Europe have shown a modest level of improvement during the second half of 2013 and into the first half of 2014. See Trends and conditions affecting our segments below for a discussion regarding the impacts the financial markets and global economies have on our businesses.

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Slow or varied levels of economic growth, coupled with uncertain financial markets and economic outlooks, changes in government policy, regulatory reforms and other changes in market conditions, influenced, and we believe will continue to influence, investment and spending decisions by consumers and businesses as they adjust their consumption, debt, capital and risk profiles in response to these conditions. These trends change as investor confidence in the markets and the outlook for some consumers and businesses shift. As a result, our sales, revenues and profitability trends of certain insurance and investment products have been and could be further impacted negatively or positively going forward. In particular, factors such as government spending, monetary policies, the volatility and strength of the capital markets, anticipated tax policy changes and the impact of global financial regulation reform will continue to affect economic and business outlooks and consumer behaviors moving forward.

The U.S. and international governments, Federal Reserve, other central banks and other legislative and regulatory bodies have taken certain actions to support the economy and capital markets, influence interest rates, influence housing markets and mortgage servicing and provide liquidity to promote economic growth. These include various mortgage restructuring programs implemented or under consideration by the GSEs, lenders, servicers and the U.S. government. Outside of the United States, various governments and central banks have taken and continue to take actions to stimulate economies, stabilize financial systems and improve market liquidity. In aggregate, these actions had a positive effect in the short term on these countries and their markets; however, there can be no assurance as to the future level of impact these types of actions may have on the economic and financial markets, including levels of volatility. A delayed economic recovery period, a U.S. or global recession or regional or global financial crisis could materially and adversely affect our business, financial condition and results of operations.

We manage our product offerings, liquidity, capital, investment and asset-liability management strategies to moderate risk especially during periods of strained economic and financial market conditions. In addition, we continue to review our product and distribution management strategies to align with our strengths, profitability targets and risk tolerance.

Credit and investment markets. The Federal Reserve continued to reduce its asset purchases to $35.0 billion per month in July, down $10.0 billion at each Federal Reserve meeting since December 2013 from the originally announced $85.0 billion per month, and could end its Long-Term Securities Asset Purchases Program by October 2014. Despite the Federal Reserve withdrawing stimulus and normalizing monetary policy, global interest rates continued to fall, driven primarily by mixed U.S. economic data, sluggish growth concerns and further easing measures initiated by the European Central Bank.

Credit spreads for most fixed income asset classes continued to compress further throughout the first half of 2014 driven by global liquidity and strong demand. The performance was further supported by stable credit fundamentals and demand for fixed income products. The environment of continued accommodative policy stance from global central banks, along with historic lows in rate and equity volatility was beneficial for riskier assets, despite certain geopolitical concerns.

We recorded net other-than-temporary impairments of $3 million during the six months ended June 30, 2014 compared to $17 million during the six months ended June 30, 2013. Impairments have decreased across all asset classes due to improving economic conditions. Declines in interest rates and credit spreads have increased the value of our investments and derivatives, resulting in increases in net unrealized investment gains on securities of $1,246 million and derivatives qualifying as hedges of $333 million in other comprehensive income (loss) for the six months ended June 30, 2014. Economic conditions will continue to impact the valuation of our investment portfolios and the amount of other-than-temporary impairments.

Looking ahead, while we view the current credit environment as stable and corporate defaults are expected to remain low, company-specific spread widening could occur given an environment in which companies are rewarded to increase debt and return funds to shareholders. In addition, uncertainty relating to developments in emerging markets could continue to result in spread volatility in emerging market bonds. We believe the current credit environment provides us with opportunities to invest across a variety of asset classes, but our returns will continue to be pressured because of low interest rates. The current environment will also provide opportunities to continue execution of various risk management disciplines involving further diversification within the investment portfolio. See Investments and Derivative Instruments for additional information on our investment portfolio.

Trends and conditions affecting our segments

U.S. Life Insurance

Life insurance. Results of our life insurance business are impacted by sales, competitor actions, mortality, persistency, investment yields, expenses, reinsurance and statutory reserve requirements. Additionally, sales of our products and persistency of our insurance in-force are dependent on competitive product features and pricing, underwriting, distribution and customer service. Shifts in consumer demand, competitors actions, relative pricing, return on capital or reinsurance decisions and other factors, such as regulatory matters affecting life insurance policy reserve levels, can also affect our sales levels.

In 2013, we experienced favorable mortality results in our universal life, term universal life and term life insurance products as compared to priced mortality assumptions. In the second quarter of 2014, we experienced improved mortality results for our universal life and term life insurance products compared to the first quarter of 2014. Mortality levels may deviate each period from historical trends. As our 15-year term life insurance policies written in 1999 and 2000 approach their post-level rate period, we have experienced lower persistency compared to pricing. Due to the relatively small number of policies currently approaching their post-level rate period and the small difference between actual and priced for persistency, the impact on our financial statements has not been material. As more policies approach their post-level rate period, we would expect amortization of deferred acquisition costs to accelerate and lower profitability in our term life insurance products if persistency is lower compared to pricing.

Life insurance sales increased 68% during the six months ended June 30, 2014 compared to the six months ended June 30, 2013 largely attributable to our term life insurance products. Sales of our term life insurance products increased from competitive pricing and improved service platforms. Sales levels were in line with expected results as the business is transitioning to a broader set of competitive permanent life product offerings, including indexed universal life and linked benefits, and growth in sales on these products is expected to continue.

Regulations XXX and AXXX require insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and for certain universal life insurance policies with secondary guarantees. This increases the capital required to write these products. We have committed funding sources for approximately 95% of our anticipated peak level reserves currently required under Regulations XXX and AXXX. The National Association of Insurance Commissioners (NAIC) adopted revised statutory reserving requirements for new and in-force secondary guarantee universal life business subject to Actuarial Guideline 38 (AG 38) provisions, which became effective December 31, 2012. These requirements reflected an agreement reached and developed by a NAIC Joint Working Group which included regulators from several states, including New York. The financial impact related to the revised statutory reserving requirements on our in-force reserves subject to the new guidance was not significant as of December 31, 2012. On September 11, 2013, the New York Department of Financial Services (the NYDFS) announced that it no longer supported the agreement reached by the NAIC Working Group and that it would require New York licensed companies, including our New York domiciled insurance subsidiary, to use an alternative interpretation of AG 38 for universal life insurance products with secondary guarantees. We have been in discussions with the NYDFS about its alternative interpretation and recorded $80 million of additional statutory reserves as of December 31, 2013. We continue to work with the NYDFS to determine potential future impacts. The NYDFS has not finalized a permanent update to the regulation. Depending on the final regulation, our New York domiciled insurance subsidiary s statutory reserves could increase significantly over time.

Uncertainties associated with our continued use of U.S.-domiciled captive life reinsurance subsidiaries are primarily related to potential regulatory changes. During 2012, the NAIC began a review of the insurance industry s use of captive life reinsurance subsidiaries and is considering changes to its model regulations. We are currently unable to predict the ultimate outcome of the NAIC s review.

Although we do not believe it to be likely, and the conceptual framework currently being considered by the NAIC allows for their continued use, a potential outcome of the NAIC review is that the life insurance industry may be prohibited from continuing to use captive life reinsurance subsidiaries. The expected effect of such prohibition would depend on the specific changes to state regulations that are adopted as a result of the NAIC review, including whether current captive life reinsurance structures would be allowed to continue in existence or, if not, the method and timing of their dissolution, as well as the cost and availability of alternative financing. At this time, given the uncertainty around these matters, we are unable to estimate the expected effects on our consolidated operations and financial position of the discontinuance of the use of captive life reinsurance subsidiaries to finance statutory reserves subject to Regulations XXX and AXXX and AG 38 in the future. If we were to discontinue our use of captive life reinsurance subsidiaries to finance statutory reserves in response to regulatory changes on a prospective basis, the reasonably likely impact would be increased costs related to alternative financing, such as third-party reinsurance, and potential reductions in or discontinuance of new term life or universal life with secondary guarantees insurance sales, all of which would adversely impact our consolidated results of operations and financial condition. In addition, we cannot be certain that affordable alternative financing would be available.

Long-term care insurance. Results of our long-term care insurance business are influenced by sales, competitor actions, morbidity, mortality, persistency, investment yields, expenses, changes in regulations and reinsurance. Additionally, sales of our products are impacted by the relative competitiveness of our offerings based on product features, pricing and commission levels, including the impact of in-force rate actions on distribution and consumer demand. Changes in regulations or government programs, including long-term care insurance rate action legislation, could impact our long-term care insurance business positively or negatively.

During the second quarter of 2014, we experienced meaningful increases in adverse claims experience for our long-term care insurance products, resulting in significant deterioration in operating income. The adverse claims experience in the second quarter of 2014 was due primarily to higher severity on both new and existing claims compared to the first quarter of 2014 and the second quarter of 2013, as well as an increase in new claims compared to the second quarter of 2013. As a result of recent experience, and in connection with our regular review of claims reserve assumptions for our long-term care insurance products, we are conducting a comprehensive review of our long-term care insurance claim reserves. The primary areas of focus in this review are: (i) an analysis of potential causes of the meaningful increases in adverse claims experience and (ii) an assessment of the assumptions and methodology underlying the associated reserves, including morbidity, mortality, interest rates and claim terminations. We intend to complete this review before the release of financial results for the third quarter of 2014. We continue to believe that the existing assumptions and methodology provide the most reliable best estimate. However, given the review underway that will consider both long-term and recent experience, we will likely change some of our assumptions, which could increase our long-term care insurance claim reserves, and any increase may or may not be material.

The results in the second quarter of 2014 were impacted by higher incurred losses due to higher severity on new and existing claims as compared to the first quarter of 2014. While the number of new claims in the second quarter of 2014 was slightly lower than in the first quarter of 2014, the new claims had higher average claim reserves as a result of a shift to policies with higher daily benefits, as well as policies with lifetime benefits, for which claims are expected to be paid for a longer period of time. Severity of existing claims was also higher in the second quarter of 2014 compared to the first quarter of 2014 as fewer claims were closed during the second quarter of 2014, which contributed to higher paid claims and a higher ending claim reserve.

We expect to complete our 2014 annual U.S. GAAP margin analysis during the fourth quarter of 2014. Currently, the assumptions that have the most significant impact on our margins are morbidity, lapse rates, in-force rate increases and discount rate. To the extent we change some of our assumptions as part of the comprehensive review of our long-term care insurance claim reserves, these changes could have a significant impact on our margins on this business.

The annual loss ratios of our long-term care insurance business have ranged from 62% to 68% over the last five years and have been increasing over the past several years. We experience volatility in our loss ratios on a quarterly basis, which has produced loss ratios outside of the annual range, from period-to-period caused by variances in terminations, claim severity and changes in claim counts. Our rate actions may cause fluctuations in our loss ratios mainly when policyholders choose a reduced benefit option and reserves are adjusted during the period to reflect the policy modification. In addition, we evaluate claim reserves (including the underlying assumptions, e.g., morbidity) and refine our estimates from time to time which may also cause volatility in our operating results and loss ratios.

Our long-term care insurance sales decreased 42% during the six months ended June 30, 2014 compared to the six months ended June 30, 2013 and increased 18% in the second quarter of 2014 from the first quarter of 2014. The lower sales in part reflected changes to our ability to generate consumer leads through affinity relationships, including the fact that effective June 1, 2013, we no longer offer AARP-branded long-term care insurance products. We have also been affected by the long-term care insurance industry trends in sales which were down approximately 30% year over year as companies have introduced price increases and product changes coupled with consumer concern tied to industry rate actions. In 2013, we also took steps to improve our profit and risk profile with the introduction of a product that included gender distinct pricing for single applicants and blood and lab underwriting requirements for all applicants. That product has been launched and is currently being sold in 47 states. In addition, in the fourth quarter of 2013, we began filing for regulatory approval of a new product which gives consumers the flexibility to choose the right fit for their long-term care needs, combined with the simplicity of prepackaged benefits. As of June 30, 2014, this new product had been filed in 50 states and approved in 45 states, and was launched in 42 states on July 21, 2014. In support of these products, we are continuing to invest in distribution and marketing to increase long-term care insurance sales over time and expect to see some impact from these actions during the second half of 2014.

We also manage risk and limit capital allocated to our long-term care insurance business through utilization of internal and external reinsurance in the form of coinsurance. We have a portion of our long-term care insurance business reinsured internally by one of our Bermuda-domiciled captive life reinsurance subsidiaries. One of our strategic priorities is to repatriate our long-term care insurance business into our U.S.-domiciled life insurance company which we will likely complete in 2015. There will be no impact on our U.S. generally accepted accounting principles (U.S. GAAP) consolidated results of operations and financial condition as the financial impact of this reinsurance eliminates in consolidation and we anticipate a modest impact on our U.S. life insurance company risk-based capital ratio. In the first quarter of 2014, we executed an external reinsurance agreement reinsuring 20% of all sales of the product introduced in early 2013. In July 2014, we executed an external reinsurance agreement reinsuring 20% of all sales of the product launched in July 2014. External new business reinsurance levels vary and are dependent on a number of factors, including price, risk tolerance and capital levels. Over time, there can be no assurance that affordable, or any, reinsurance will continue to be available.

As a result of ongoing challenges in our long-term care insurance business, we continue pursuing initiatives to improve the risk and profitability profile of our business including: price increases on our in-force liabilities; product refinements; changes to our current product offerings in certain states; investing in care coordination capabilities and service offerings; refining underwriting requirements; maintaining tight expense management; actively exploring additional reinsurance strategies; executing effective investment strategies; and considering other actions to improve the performance of the overall block. These efforts have included evaluating the need for future in-force premium rate increases on issued policies. In the third quarter of 2012, we initiated a round of long-term care insurance in-force premium rate increases with an expectation of achieving an average premium increase in excess of 50% on the older generation policies and an average premium increase in excess of 25% on an earlier series of new generation policies.

Subject to regulatory approval, this premium rate increase is expected to generate approximately $250 million to $300 million of additional annual premiums when fully implemented over the next several years. We also expect our reserve levels, and thus our expected profitability, to be impacted by policyholder behavior which could include taking reduced benefits or non-forfeiture options within their policy coverage. The goal of our rate actions is to mitigate losses on the older generation products and help offset higher than priced-for loss ratios due to unfavorable business mix and lower lapse rates than expected on certain newer generation products which remain profitable but with returns lower than original expectations. As of June 30, 2014, this round of rate actions had been approved in 43 states. After refining our net premium projections, our revised estimate of the net premiums increase from these 43 state approvals is approximately $190 million to $200 million when fully implemented by 2017. In the third quarter of 2013, we began filing for regulatory approval for premium rate increases ranging between 6% and 13% on more than $800 million in annualized in-force premiums on another series of new generation policies. As of June 30, 2014, we have received approvals in 18 states. The premium rate increases on these policies will help offset higher than priced-for loss ratios, which have been caused by lower than anticipated lapse rates and improvements in life expectancy. The approval process of an in-force rate increase and the amount and timing of the rate increase approved varies by state. In certain states, the decision to approve or disapprove a rate increase can take several years. Upon approval, insureds are provided with written notice of the increase and increases are generally applied on the insured s policy anniversary date. Therefore, the benefits of any rate increase are not fully realized until the implementation cycle is complete.

Continued low interest rates have put pressure on the profitability and returns of our long-term care insurance business as higher yielding investments have matured and been replaced with lower yielding investments. We seek to manage the impact of low interest rates through asset-liability management combined with hedging strategies for our long-term care insurance product cash flows.

Fixed annuities. Results of our fixed annuities business are affected by investment performance, interest rate levels, slope of the interest rate yield curve, net interest spreads, equity market conditions, mortality, policyholder surrenders, expense and commission levels, new product sales, competitor actions and competitiveness of our offerings. Our competitive position within many of our distribution channels and our ability to grow this business depends on many factors, including product offerings and relative pricing.

In fixed annuities, sales may fluctuate as a result of consumer demand, competitor actions, changes in interest rates, credit spreads, relative pricing, return on capital decisions and our approach to managing risk. We monitor and change prices and crediting rates on fixed annuities to maintain spreads and targeted returns. We have targeted distributors and producers and maintained sales capabilities that align with our strategy. We expect to continue to manage these distribution relationships while selectively adding or shifting towards other product offerings, including fixed indexed annuities.

In December 2011, we introduced new fixed indexed annuities to our product offering. Equity market performance and volatility could result in additional gains or losses, although associated hedging activities are expected to mitigate these impacts.

Refinements of product offerings and related pricing, including ongoing evaluation of commission structures and changes in investment strategies, support our objective of achieving appropriate risk-adjusted returns. Sales of fixed annuities increased $630 million during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase in sales was a function of increased penetration in the indexed annuity market, higher overall interest rate environment in the current year compared to the first half of 2013, and relatively low sales in the first half of 2013 due to price competition.

International Mortgage Insurance

Results of our international mortgage insurance business are affected by changes in regulatory environments, employment levels, consumer borrowing behavior, lender mortgage-related strategies, including lender servicing practices, and other economic and housing market influences, including interest rate trends, home price appreciation or depreciation, mortgage origination volume, levels and aging of mortgage delinquencies and movements in foreign currency exchange rates.

Canada and Australia comprise approximately 98% of our international mortgage insurance primary risk in-force. These established markets will continue to be key drivers of revenues and earnings in our international mortgage insurance business. During 2013 and the first quarter of 2014, foreign currencies continued weakening against the U.S. dollar, which negatively impacted the underlying reported results of our international mortgage insurance business. However, during the second quarter of 2014, many foreign currencies, including the Canadian dollar and the Australian dollar strengthened relative to the U.S. dollar. Any future movement in foreign exchange rates could impact future results.

In Canada, stable economic conditions have persisted with housing affordability benefiting from low interest rates and employment growth. While the unemployment rate decreased slightly during 2013 and into the first quarter of 2014, it increased slightly during the second quarter of 2014 but remained near its lowest level since December 2008. We expect the unemployment rate to stay near current levels throughout 2014. Additionally, average home prices increased modestly during 2013 and into the first half of 2014 and we expect home prices to remain flat or increase modestly in 2014, as a balanced housing market persists. However, some market observers have expressed concerns about the strength of the Canadian housing market, and we will continue to closely monitor the market. The Bank of Canada has maintained the overnight rate at 1.0% during recent years and we expect this rate to be maintained at or near this level in 2014.

We believe the favorable macroeconomic factors in Canada are supportive of a relatively stable housing market, including the high loan-to-value mortgage market. Going forward, we expect the growth rate of the high loan-to-value market to keep pace with growth in the overall housing resale market and home price appreciation. We expect that the 2014 residential mortgage insurance premium opportunity for high loan-to-value mortgages will be modestly higher than in 2013, in line with the expected increase in housing resale activity and an increase in mortgage insurance premium rates by an average of 15%, which became effective May 1, 2014 for new business.

In the 2013 federal budget, the Canadian government proposed to gradually limit the insurance of low loan-to-value mortgages to only those mortgages that will be used in the Canada Mortgage and Housing Corporation (CMHC) securitization programs. In addition, the Canadian government intends to prohibit the use of any taxpayer-backed insured mortgage, both high and low loan-to-value, as collateral in securitization vehicles that are not sponsored by CMHC. We are in ongoing discussions with the Canadian government as it designs the structure to implement the proposed changes. It is difficult to determine the impact of the changes on the business until all the related legislation has been introduced. We anticipate the proposed changes will be implemented in 2014. Flow new insurance written in Canada in 2013 decreased modestly primarily due to a smaller mortgage origination market, particularly for high loan-to-value refinance transactions, as a result of recent revisions to mortgage insurance eligibility rules. During the second quarter of 2014, flow new insurance written increased compared to the first quarter of 2014 primarily from a harsh and prolonged winter that we believe delayed home sales in the first quarter of 2014. Flow new insurance written in the second quarter of 2014 was lower than the second quarter of 2013 primarily due to foreign exchange rate fluctuations. As our large 2007 and 2008 book years are mostly past their peak earnings period, earned premiums in Canada declined in 2013 and into the first half of 2014.

During 2013, losses in Canada decreased from previous levels as the total number of delinquencies and the proportion of new higher severity delinquencies declined, and we continued to realize benefits from our loss mitigation activities. Losses decreased sequentially during each of the four quarters of 2013 and into the first half of 2014 due to fewer new delinquencies as a result of strong credit quality of recent books and a stable economic environment, and a lower average reserve per delinquency due to a higher proportion of delinquencies in provinces where severity has been lower and home prices have appreciated.

In Australia, the overall economy continued to expand during 2013 and into the first half of 2014, though at a more modest pace than in prior years, with ongoing evidence of variation in economic activity across sectors and regions. At the same time, housing activity improved primarily from sustained low interest rates. The unemployment rate increased slightly during 2013, remaining close to its highest level in three years. It remained consistent through March 2014 and increased in June 2014. The unemployment rate is expected to increase modestly from current levels through 2014. The overall housing market in Australia improved during 2013 and through the first half of 2014. During 2013, average home prices improved across all regions and during the first half of 2014 grew at the highest rate since early 2010. We expect average national home prices to increase modestly throughout the remainder of 2014. During recent years, the Reserve Bank of Australia has gradually lowered the official cash rate to 2.50%, with the latest interest rate cut occurring in August 2013, as Australian and global economic conditions were somewhat weaker than expected. This historically low level of interest rates is now below the low point reached during the global financial crisis when rates were lowered to 3.00%. While we do not expect cash rates to be reduced significantly from the current level in 2014, the Reserve Bank of Australia has indicated that it will continue to monitor the outlook and adjust monetary policy as needed to support the broader economy.

Total mortgage market activity in Australia improved during 2013 as consumer confidence improved and affordability rose to its highest level in recent years. In the first half of 2014, although home price appreciation reduced housing affordability, demand for housing activity was driven by low interest rates, limited new supply and population growth. This growth was also reflected in the higher loan-to-value mortgage origination market, and has underpinned improving levels of flow new insurance written throughout 2013. Earned premiums in Australia increased during 2013 and the first half of 2014 (excluding foreign exchange impacts) as a result of higher written premiums and the seasoning of our in-force block of business.

The overall delinquency rate continued to decrease during 2013 and the first quarter of 2014, with an expected minor seasonal increase occurring in the second quarter of 2014. The level and number of paid claims in 2013 and the first half of 2014 continued to decline due to increased borrower sales activity as well as improved severity. Losses declined sequentially throughout 2013 driven by fewer claims paid, increased borrower sales activity and improved severity. During the second quarter of 2014, losses were lower compared to the second quarter of 2013 due to a strong housing market driven by lower interest rates and stable macroeconomic conditions.

On May 15, 2014, Genworth Mortgage Insurance Australia Limited (Genworth Australia), a holding company for Genworth s Australian mortgage insurance business, priced its initial public offering (IPO) of 220,000,000 of its ordinary shares at an initial public offering price of AUD$2.65 per ordinary share. The offering closed on May 21, 2014. Following completion of the offering, Genworth Financial beneficially owns 66.2% of the ordinary shares of Genworth Australia.

The overall economic environment in Europe began recovering in the second quarter of 2013 and is expected to continue to improve in 2014, but remains fragile. As a result of the lingering economic recession, we have seen an elevated number of delinquencies and lower cures, most notably in Ireland, contributing to losses in our European mortgage insurance business. In Ireland, we experienced increased delinquencies and reserves at the beginning of 2013 but more recently have observed a moderate improvement primarily driven by our loss mitigation efforts and lower number of new delinquencies. In the fourth quarter of 2013, lender settlements, primarily in Ireland, reduced delinquencies by approximately 2,400 and the outstanding risk in-force in Ireland by approximately 50%. For the remainder of 2014, we expect to continue our strategy of only writing new business in Italy, Finland, Germany and the United Kingdom.

U.S. Mortgage Insurance

Results of our U.S. mortgage insurance business are affected by the following factors: competitor actions; unemployment; underemployment; other economic and housing market trends, including interest rates, home prices, mortgage origination volume mix and practices; the levels and aging of mortgage delinquencies, which may be affected by seasonal variations, the inventory of unsold homes, lender modification and other servicing efforts; and resolution of pending or any future litigation among other items. The impact of prior years weakness and uncertainty in the domestic economy, related levels of unemployment and underemployment and resulting increase in foreclosures, the number of borrowers seeking loan modifications and the level of housing inventories with the related impact on home values, all combined to contribute adversely to the performance of our insured portfolio relating to our 2005 through 2008 book years. Going forward, we expect moderate economic growth characterized by ongoing modest improvement in home values coupled with an expectation that unemployment and underemployment levels will continue to gradually decrease over time. Our profitability expectations are subject to the continued recovery of the U.S. housing market, the extent of seasonality that has been historically experienced in the second half of the year, and certain other items such as the cost of resolution of pending litigation.

Prior to 2012, the convergence of a weak housing market, tightened lending standards, the lack of consumer confidence and the lack of liquidity in some mortgage securitization markets, along with volatility in mortgage interest rates, came together to drive a smaller mortgage origination market. During this same period, the private mortgage insurance penetration rate was driven down by growth in the Federal Housing Administration (FHA) originations, associated with multiple pricing, underwriting and loan size factors, and the negative impact of GSE guarantee fees and loan level pricing which made private mortgage insurance solutions less competitive with FHA solutions. Driven by lower interest rates and a strong refinancing market, the mortgage originations market recovered and strengthened during 2012 and 2013. During this same period, the private mortgage insurance industry saw its market penetration rate improve as the private mortgage insurance industry became more competitive versus the FHA alternative driven in part by FHA price, risk management and cancelability actions. In the first quarter of 2014, mortgage originations were lower than those in the prior quarter as a result of expected seasonal trends, lower refinance activity and adverse weather conditions throughout much of the United States, while the private mortgage insurance penetration rate was flat quarter over quarter. In the second quarter, the mortgage originations market rebounded due to expected seasonal improvement and from the weather related lows experienced in the first quarter. Purchase originations, which grew faster than refinancing activities over this same period, drove an increase in the private mortgage insurance penetration rate from the prior quarter. As the mortgage originations market moves from a higher level of refinancing activities to that of a higher purchase origination market, we continue to believe the private mortgage insurance industry is likely to regain market share over time absent any other market forces. While tightened credit standards for mortgage originations remain in place, we are seeing a modest easing of lender credit policy standards for loans that fall within our own credit guidelines. In December 2013, the acting director of the Federal Housing Finance Agency (FHFA) published a proposal to increase GSE loan fees. In January 2014, the newly appointed director of the FHFA suspended implementation of the proposed increases. FHFA subsequently published a request for input on a series of questions related to GSE fee policy and implementation. Responses to the request are due August 4, 2014. Changes to the existing GSE fees could have an impact on mortgage originations and on the competitiveness of private mortgage insurance versus that of FHA insurance.

In late 2013, we announced reduced pricing and expanded underwriting guidelines that are more in line with industry prices and guideline standards, which we believe over time will increase our competitiveness in the mortgage insurance market while maintaining what we believe will be a profitable book of business. As a result, our U.S. mortgage insurance market share in the second quarter of 2014 is up slightly compared with the first quarter of 2014 driven in part by the impact of favorable pricing over prior periods and our differentiated service offering. Our recent principal sources of competition include other private mortgage guaranty insurers, but we cannot predict the impact on our business of the change in the mix of private mortgage guaranty insurer competition following the financial crisis when certain legacy competitors ceased writing new business while other new entrants began writing business in recent periods. Even though home affordability is above historical levels in certain regions of the United States, an ongoing rise in interest rates may slow the housing recovery. Conversely, rising interest rates and resulting slowing down of refinance activity levels improves the persistency levels of our insured portfolio as fewer loans pay off and corresponding mortgage insurance coverage remains in force. Meanwhile, we continue to manage the quality of new business through prudent underwriting guidelines, which we modify from time to time when circumstances warrant in a manner we expect will limit the amount of coverage we write on riskier loans. As of June 30, 2014, loans modified through the Home Affordable Refinance

Program (HARP), accounted for approximately $0.4 billion of insurance in the second quarter of 2014, and approximately $19.2 billion of insurance for the ever to-date period through June 30, 2014. For financial reporting purposes, we report HARP modified loans as a modification of the coverage on existing insurance in-force rather than new insurance written. Loans modified through HARP have extended amortization periods and reduced interest rates, which reduce borrower s monthly payments. Over time, these modified loans are expected to result in extended premium streams and a lower incidence of default. The government has recently extended HARP through the year ending December 31, 2016.

In June 2013, the FHFA announced strategic priorities for the GSEs and indicated that there could be changes to the guidelines contained within the private mortgage insurer eligibility requirements (the PMIERs). On July 10, 2014, at the direction of the FHFA each GSE released publicly a draft of their respective revised PMIERs. These guidelines, as drafted, contemplate an effective date for compliance 180 days after the final publication date, which final publication is anticipated to be on or about year-end 2014. In addition, the guidelines permit a transition period, subject to GSE approval, of two years from the publication date to meet the required capital levels. We will provide comments, which are due September 8, 2014, pursuant to the request for input and we will continue to work with the FHFA and GSEs over the 60-day public comment period in an effort to make appropriate refinements before the new guidelines are finalized.

The FHFA and the GSEs have stated that the revised PMIERs are primarily intended to strengthen counterparty operational and financial requirements for qualified mortgage insurers. More specifically, these guidelines establish performance monitoring policies and procedures as well as define claim remediation options for mortgage insurers. The operational requirements contained within the revised guidelines update existing requirements regarding operational standards and practices and impose strict control over master policy terms, claims processing routines and claim loss mitigation activities. There is also a strong focus within the operational requirements guidelines on mortgage insurers quality control requirements and lender/servicer performance monitoring practices. In addition, the requirements include an operational scorecard reporting mechanism. The revised financial requirements within the guidelines include the establishment of a new risk-based sources and uses capital adequacy test for qualified mortgage insurers, which includes a minimum available asset requirement of $400 million and a risk-based required available asset amount of not less that 5.6% of a qualified insurer s performing risk in-force. Asset restrictions within the guidelines limit available assets to highly liquid securities, including cash, bonds and publicly traded common and preferred stock, which are to be recorded as available assets at market capitalization value discounted by 25%. Capital requirements within the guidelines also vary by the attributes associated with the underlying insured loans. For example, capital requirements are higher for a non-performing insured in-force portfolio or one comprised of lower credit quality insured loans, such as those with low Fair Isaac Company credit scores or higher loan-to-value attributes. Conversely, capital requirements within the guidelines are lower for a performing in-force portfolio or a portfolio comprised of loans with higher credit quality attributes.

Based on our current views of the U.S. housing market, expected earnings and capital generation from our U.S. mortgage insurance business, anticipated prepayment of our in-force portfolio in the ordinary course, the amount and loan characteristics of new U.S. mortgage insurance business anticipated to be written and the $300 million contributed in the second quarter of 2014, which had been previously set aside, our preliminary estimate of the additional capital required to be fully compliant, assuming an effective date of June 30, 2015, will be between $450 million to $550 million and will decrease to less than $175 million by December 31, 2016. We have a variety of capital resources that could be utilized to satisfy capital requirements, and initially intend to utilize reinsurance transactions, and if needed, cash available at the holding company, which includes the proceeds of the completed Australian IPO, to fund them. Other potential sources include, but are not limited to, continued earnings from the business, available deferred tax assets, and proceeds from the issuance of securities at Genworth Financial or Genworth Holdings.

It is our intent that our U.S. mortgage insurance business will meet the additional capital requirements contained within the guidelines of the revised PMIERs by the anticipated effective date of June 30, 2015, depending upon the availability of the capital and reinsurance markets, the performance of our businesses and absent any unforeseen developments. We will seek to utilize the transition period as approved by the FHFA and

GSEs if we do not comply by the anticipated effective date. We believe that our U.S. mortgage insurance business is well positioned to meet the draft version of the operational and financial requirements contained in the revised guidelines within the prescribed transition period and expect the business to maintain its strong presence in the private mortgage insurance market.

In December 2013, Genworth Holdings issued $400 million of senior notes in anticipation of increased capital requirements then expected to be imposed by the GSEs in connection with their revised PMIERs. Following the issuance of the senior notes in December 2013, Genworth Financial contributed $100 million of the proceeds to Genworth Mortgage Insurance Corporation (GEMICO), our primary U.S. mortgage insurance subsidiary, with an additional $300 million contributed to Genworth Mortgage Holdings, LLC, a U.S. mortgage holding company. In advance of the release of the draft PMIERs, in May 2014, we contributed the $300 million that was being held at the U.S. mortgage holding company to GEMICO.

As of June 30, 2014, reflecting the favorable impact of the above-referenced $300 million capital contribution in May 2014, GEMICO s risk-to-capital ratio under the current regulatory framework as established under North Carolina law and enforced by the North Carolina Department of Insurance (NCDOI), GEMICO s domestic insurance regulator, was approximately 14.0:1, compared with a risk-to-capital ratio of approximately 18.4:1 as of March 31, 2014. This risk-to-capital ratio remains below the NCDOI s maximum risk-to-capital ratio of 25:1. The NCDOI s current regulatory framework by which GEMICO s risk-to-capital ratio is calculated differs from the draft capital requirement methodology that is intended to be effective under the new PMIERs once those new regulations are implemented. GEMICO s ongoing risk-to-capital ratio will depend principally on the magnitude of future losses incurred by GEMICO, the effectiveness of ongoing loss mitigation activities, new business volume and profitability, as well as the amount of policy lapses and the amount of additional capital that is generated within the business or capital support (if any) that we provide. Our estimate of the amount and timing of future losses is inherently uncertain, requires significant judgment and may change significantly over time.

The NAIC is reviewing the current Mortgage Guaranty Model Act, including minimum capital and surplus requirements for mortgage insurers through the Mortgage Guaranty Insurance Working Group (the MGIWG). The MGIWG has not established a date by which it must make proposals to change such requirements. However, as we learn more specific information about these NAIC activities, we continue to assess the potential impact, if any, that these new requirements may have on our U.S. mortgage insurance business and evaluate the options potentially available to meet any legislative or regulatory measures adopted as a result of the NAIC recommendations.

Effective July 2013, Fannie Mae no longer purchases loans with down payments of less than 5% (subject to certain limited exceptions). Freddie Mac has had a similar policy in place since June 2011. We believe this will limit the demand for private mortgage insurance on loans with down payments below 5%. In addition, FHFA issued for comment a proposal to reduce GSE loan limits. Comments on that proposal were due in March 2014 and the FHFA has not yet issued a final determination. If implemented, these actions could also limit demand for mortgage loans with private mortgage insurance coverage. In August 2013, U.S. federal regulators issued a notice of revised proposed rules to implement the credit risk retention provision under the Dodd-Frank Wall Street Reform and Consumer Protection Act. The revised rules propose to define qualified residential mortgages to include low-down-payment mortgage loans, which is consistent with the definition of qualified mortgages that is already adopted by the Consumer Financial Protection Bureau (CFPB). If finalized, this rule would have the effect of including many low-down-payment mortgage loans within the definition of qualified residential mortgage, which could increase the demand for mortgage loans with private mortgage insurance coverage. We also continue to believe that the mortgage insurance industry level of market penetration and eventual market size will continue to be affected by any actions taken by the GSEs, the FHA or the U.S. government impacting housing or housing finance policy, underwriting standards, loan limits or related reforms.

While we continue to experience an ongoing decrease in the level of new delinquencies, the performance of our portfolio continues to be adversely affected by our 2005 through 2008 book years, although we believe these loans peaked in their delinquency development during the first quarter of 2010. While this amount has declined from prior years, delinquencies for these book years continue as the principal source of new delinquencies reported to us. Beginning in mid-2010, we saw an increase in foreclosure starts as well as an increase in our paid claims as late stage delinquency loans go through foreclosure. While foreclosure starts continue at a pace higher than foreclosure start levels in periods before mid-2010, we are seeing a decline in the number of foreclosure starts currently, which we believe is in part a result of the implementation of a new CFPB mortgage servicing rule (the CFPB Rule) that requires lenders and servicers to defer foreclosure starts until a borrower is at least 120-days delinquent to permit possible loan modification or workout solutions. We believe the deferral of the foreclosure start date, coupled with the CFPB Rule s early intervention provisions that require a lender or servicer to utilize good faith efforts to establish live contact with delinquent borrowers and provide written notice of available loss mitigation options, may result in additional loan workout or modification solutions that would ultimately reduce the number of foreclosure actions from these early stage delinquencies. This decrease in the number of foreclosure starts, along with the declining rate at which foreclosures are initiated, were consistent with the current lower level of early stage or pre-foreclosure delinquencies within our delinquency inventory. In addition, we saw differences in performance among loan servicers regarding the ability to modify loans and avoid foreclosure. Moreover, a lengthening of the foreclosure process itself particularly in judicial foreclosure states has led to increased claims expense relative to foreclosures conducted in the pre-financial crisis environment. Depending on how experience evolves, we may need to adjust our reserve frequency or severity assumptions which could either increase or decrease reserves over time as experience from these programs emerges.

Expanded efforts in the mortgage servicing market to modify loans and improved performance of our 2009 through 2013 book years compared with the performance of prior book years, coupled with the diminished impact of our 2005 through 2008 book years as those loans are resolved, resulted in continued reductions in overall delinquency levels through 2013 and through the first half of 2014. As the aging of delinquencies continued to increase through the first half of 2014, loan modification efforts have continued to remain more difficult to complete. Both foreclosures and liquidations remained elevated through the same period, thereby resulting in ongoing elevated levels of loss reserves and claims. We believe that the ability to cure delinquent loans is dependent upon such things as employment levels, home values and mortgage interest rates. In addition, while we continue to execute on our loan modification strategy, which cures the underlying delinquencies and improves the ability of borrowers to meet the debt service on the mortgage loans going forward, we have seen the level of ongoing loan modification actions moderating during 2011 through the first half of 2014 compared with the levels we experienced during preceding periods. We expect our level of loan modifications to continue to decline going forward in line with the expected reduction in delinquent loans and because of the continuing aging of delinquencies. However, we further expect the rate at which we modify delinquent loans to remain steady as new programs take effect and the overall economy continues improving over time.

Our loss mitigation activities, including those relating to workouts, loan modifications, pre-sales, rescissions, claims administration (including curtailment of claim amounts) and targeted settlements, net of reinstatements or adjustments, resulted in an estimated reduction of expected losses of $216 million and $303 million, respectively, including $156 million and $175 million, respectively, from workouts and loan modifications during the six months ended June 30, 2014 and 2013.

Since 2010, benefits from loss mitigation activities have shifted from rescissions to loan modification activities and reviews of loan servicing and claims administration compliance from which we expect a majority of our loss mitigation benefits to arise going forward. While we expect to continue evaluating compliance of the insured or its loan servicer with respect to its servicing obligations under our master policy for loans insured thereunder and may curtail claim amounts payable based on our evaluations of such compliance, we cannot give assurance on the extent or level at which such claim curtailments will continue. Although loan servicers continue to pursue a wide range of approaches to execute appropriate loan modifications, government-sponsored programs such as Home Affordable Modification Program (HAMP) continue to result in fewer modifications as alternative programs have gained momentum. With lower benefits from government-sponsored programs and the impact from alternative programs to date, we have experienced higher levels of loss reserves and/or paid claims. Recently, the Obama Administration announced that it would extend HAMP through December 31, 2015, and expand borrower eligibility by adjusting certain underwriting requirements. In addition, incentives paid to the owner of a loan that qualifies for principal reduction under HAMP are being increased and, for the first time, will be offered to the GSEs. However, to date, the GSEs are not participating in this program. While the impact of the these program extensions to date has remained positive, there can be no assurance that the increase in the number of loans that are modified under HAMP, including mortgage loans we insure currently, is sustainable over time or that any such modifications will succeed in avoiding foreclosure. In addition, while borrowers who benefitted from loan modifications under HAMP were provided mortgage payment relief through substantial interest rate reductions, beginning in the third quarter of 2014, those same borrowers will begin to experience a gradual interest rate increase of up to 1% a year until their mortgage interest rate adjusts to the market rate at the time of their loan modification. These interest rate resets are in accordance with the terms and conditions agreed to at the time of the underlying HAMP loan modification. While the government and the mortgage services industry remain committed to working with borrowers under this program, we cannot predict how these HAMP interest rate resets will affect the successes achieved under this program or if the resulting effect of avoiding foreclosure is sustainable over time once the impact of the rate reset process evolves. Depending upon the mix of loss mitigation activity, market trends, employment levels in future periods and other general economic impacts which influence the U.S. residential housing market, we could see additional adverse loss reserve development going forward. We expect the primary source of new reserves and losses to come from new delinquencies.

We have lender captive reinsurance programs in place in which we share portions of our premiums associated with flow insurance written on loans originated or purchased by lenders with captive insurance entities of these lenders in exchange for an agreed upon level of loss coverage above a specified attachment point. We have exhausted certain captive reinsurance tiers for our 2004 through 2008 book years based on loss development trends. While we continue to receive cash benefits from these captive arrangements at the time of claim payment, the level of benefit is expected to continue to decline going forward due to exhaustion of reinsurance as more reinsurers satisfy their contractual obligations such that remaining risk is borne by GEMICO. All of our captive reinsurance arrangements are in runoff with no new books of business being added going forward. However, while we have no plans currently to expand our lender captive reinsurance program, we will continue to consider appropriate new third-party reinsurance arrangements as potential available sources of capital for our U.S. mortgage insurance business.

International Protection

Growth and performance of our lifestyle protection insurance business is dependent in part on economic conditions and other factors, including competitor actions, consumer lending and spending levels, unemployment trends, client account penetration and mortality and morbidity trends. Additionally, the types and mix of our products will vary based on regulatory and consumer acceptance of our products.

Although consumer lending levels in Europe have stabilized, they remain challenged particularly given concerns regarding various European economies and the lingering effect of the European debt crisis. Unemployment rates in the second quarter of 2014 remained at levels experienced in the first quarter of 2014 with regional variation; however, in aggregate, European gross domestic product continued to grow in the first half of 2014, building on the growth in the second half of 2013 and reversing the negative trend experienced in the first half of 2013.

Net operating income of our lifestyle protection insurance business for the six months ended June 30, 2014 increased slightly from the six months ended June 30, 2013 as higher premiums and favorable taxes were mostly offset by higher losses and lower net investment income. New claim registrations decreased 16% in the six months ended June 30, 2014 from 2013 levels. We could experience higher losses if claim registrations increase, particularly with continued high unemployment in Europe. Our loss ratio for the six months ended June 30, 2014 was 27% compared to 25% for six months ended June 30, 2013 as losses increased, partially offset by higher premiums in the current year.

In Southern Europe, stressed economies have resulted in a decline in consumer lending where most of our insurance coverages attach as banks tightened lending criteria and consumer demand declined, while in Northern Europe consumer lending levels have stabilized. We have strengthened our focus in Europe on key strategic client relationships and are de-emphasizing our distribution with some other distributors where we are not expect to achieve desired sales and profitability levels. This focus should enable us to better serve our strategic clients and promote improved profitability and a lower cost structure over time. Additionally, we continue to pursue expanding our geographical distribution into Latin America and China and have secured agreements with large insurance partners in both of these regions. We are currently working with these partners to establish product, distribution and servicing capabilities and are now actively selling products in Peru, Colombia and Mexico.

Assuming the economies and lending environment in Europe are stable and do not improve in the near term, we expect our lifestyle protection insurance business to produce only slightly positive earnings in 2014. With our focus on enhanced distribution capabilities in Europe and growth in select new markets, we anticipate these efforts, coupled with sound risk and cost management disciplines, should, over time, improve profitability and help offset the impact of economic or employment pressures as well as lower levels of consumer lending in Europe. However, depending on the economic situation in Europe, we could experience declines in sales and operating results.

Distributor conduct associated with the sale of payment protection insurance products is currently under regulatory scrutiny in Ireland and Italy. While the outcome of these reviews is unknown at this time and our distributors are not Genworth employees, the outcome could impact how the product is distributed and could have a negative impact on our sales.

Runoff

Results of our Runoff segment are affected by investment performance, interest rate levels, net interest spreads, equity market conditions, mortality, policyholder loan activity, policyholder surrenders and scheduled maturities. In addition, the results of our Runoff segment can significantly impact our operating performance, regulatory capital requirements, distributable earnings and liquidity.

In January 2011, we discontinued sales of our individual and group variable annuities; however, we continue to service our existing block of business and accept additional deposits on existing contracts. Since then, equity market volatility has caused fluctuations in the results of our variable annuity products and regulatory capital requirements. In the future, equity and interest rate market performance and volatility could result in additional gains or losses in our variable annuity products although associated hedging activities are expected to partially mitigate these impacts. Volatility in the results of our variable annuity products can result in favorable or unfavorable impacts on earnings and statutory capital. In addition to the use of hedging activities to help mitigate impacts related to equity market volatility and interest rate risks, in the future, we may pursue reinsurance opportunities to further mitigate volatility in results and manage capital.

The results of our institutional products are impacted by scheduled maturities, as well as liquidity levels. However, we believe our liquidity planning and our asset-liability management will mitigate this risk. While we do not actively sell institutional products, we may periodically issue funding agreements for asset-liability matching purposes.

We expect to manage our runoff products for at least the next several years. Several factors may impact the time period for these products to runoff including the specific policy types, economic conditions and management strategies.

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Consolidated Results of Operations

The following is a discussion of our consolidated results of operations and should be read in conjunction with Business trends and conditions. For a discussion of our segment results, see Results of Operations and Selected Financial and Operating Performance Measures by Segment.

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

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

(Amounts in millions)	Three months ended June 30, 2014	Three months ended June 30, 2013	Increase (decrease) and percentage change 2014 vs. 2013	
Revenues:				
Premiums	$ 1,343	$ 1,286	$ 57	4%
Net investment income	813	821	(8)	(1)%
Net investment gains (losses)	34	21	13	62%
Insurance and investment product fees and other	225	243	(18)	(7)%
Total revenues	2,415	2,371	44	2%
Benefits and expenses:				
Benefits and other changes in policy reserves	1,256	1,269	(13)	(1)%
Interest credited	184	184		%
Acquisition and operating expenses, net of deferrals	404	413	(9)	(2)%
Amortization of deferred acquisition costs and intangibles	138	137	1	1%
Interest expense	120	121	(1)	(1)%
Total benefits and expenses	2,102	2,124	(22)	(1)%
Income from continuing operations before income taxes	313	247	66	27%
Provision for income taxes	85	73	12	16%
Income from continuing operations	228	174	54	31%
Income from discontinued operations, net of taxes		6	(6)	(100)%
Net income	228	180	48	27%
Less: net income attributable to noncontrolling interests	52	39	13	33%
Net income available to Genworth Financial, Inc. s common stockholders	$ 176	$ 141	$ 35	25%

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

Our International Protection segment increased $45 million, including an increase of $10 million attributable to changes in foreign exchange rates, primarily due to $27 million of premiums driven by an amendment to a reinsurance agreement in the current year retroactive to January 1, 2014 that was previously accounted for under the deposit method of accounting and higher volume driven by growth in France from a new client in the current year. These increases were partially offset by lower premiums from our runoff clients.

Our U.S. Life Insurance segment increased $24 million mainly related to our long-term care insurance business from $25 million of increased premiums from in-force rate actions and growth of our in-force block from new sales in the current year.

Our International Mortgage Insurance segment decreased $14 million, including a decrease of $21 million attributable to changes in foreign exchange rates. Excluding the effects of foreign exchange, premiums increased driven by Australia primarily as a result of the seasoning of our in-force block of business as larger, newer books reach their peak earnings period and higher premiums resulting from policy cancellations and new insurance written, partially offset by higher ceded reinsurance premiums in the current year. This increase was partially offset by $13 million of lower premiums in Canada primarily driven by changes in foreign exchange rates and the seasoning of our larger 2007 and 2008 in-force blocks of business, which are past their peak earnings period. Other Countries also decreased $2 million primarily as a result of lower premiums attributable to lender settlements in the prior year and higher ceded reinsurance premiums in the current year.

Net investment income. Net investment income represents the income earned on our investments.

Annualized weighted-average investment yields were 4.6% and 4.8% for the three months ended June 30, 2014 and 2013, respectively. Annualized weighted-average investment yields decreased primarily attributable to lower reinvestment yields on higher average invested assets in the current year.

The three months ended June 30, 2014 included a decrease of $5 million attributable to changes in foreign exchange rates.

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

We recorded $2 million of net other-than-temporary impairments during the three months ended June 30, 2014 compared to $5 million during the three months ended June 30, 2013. Of total impairments during the three months ended June 30, 2014 and 2013, $1 million and $3 million, respectively, related to structured securities, including $1 million related to sub-prime and Alt-A residential mortgage-backed and asset-backed securities for both periods. During the three months ended June 30, 2014 and 2013, we also recorded $1 million and $2 million, respectively, of impairments related to commercial mortgage loans.

Net investment losses related to derivatives of $7 million during the three months ended June 30, 2014 were primarily associated with guaranteed minimum withdrawal benefit (GMWB) losses, including decreases in the values of instruments used to protect statutory surplus from equity market fluctuation. We also had losses related to derivatives used to hedge foreign currency risk associated with expected dividend payments from certain foreign subsidiaries, as well as losses related to a non-qualified derivative strategy to mitigate interest rate risk with our statutory capital positions. These losses were partially offset by gains related to derivatives used to hedge foreign currency risk of assets held and proceeds from the IPO of our Australian mortgage insurance business. In addition, there were gains related to our hedge ineffectiveness from our cash flow hedge programs for our long-term care insurance business due to a decrease in long-term interest rates. Net investment losses related to derivatives of $2 million during the three months ended June 30, 2013 were primarily associated with GMWB losses due to decreases in the values of instruments used to protect statutory surplus from declines in the Standard & Poor s Financial Services, LLC (S&P) index and policyholder funds underperforming as compared to market indices. In addition, there were losses related to our hedge ineffectiveness from our cash flow hedge programs for our long-term care insurance business due to an increase in long-term interest rates. These losses were partially offset by gains related to a non-qualified derivative strategy to mitigate interest rate risk with our statutory capital positions and gains related to derivatives used to hedge foreign currency risk associated with near-term expected dividend payments from certain subsidiaries.

We recorded lower net gains related to the sale of available-for-sale securities during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. Net gains during the three months ended June 30, 2014 included a gain on a previously impaired financial hybrid security that was called by the issuer. We recorded $8 million of gains related to trading securities during the three months ended June 30, 2014 compared to $19 million of losses during the three months ended June 30, 2013 due to higher unrealized gains resulting from changes in the long-term interest rate environment. We also recorded $6 million of lower net gains related to securitization entities during the three months ended June 30, 2014 compared to the three months ended June 30, 2013 primarily associated with derivatives.

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

Our U.S. Life Insurance segment decreased $15 million predominately from our life insurance business largely related to mortality experience in our universal life insurance products and a $4 million unfavorable correction in the current year, as well as a decrease from our term universal life insurance product that we no longer offer.

Our International Mortgage Insurance segment decreased $4 million primarily due to non-functional currency transactions attributable to changes in foreign exchange rates on partial payments of intercompany loans related to our Australian mortgage insurance business in the current year.

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

Our International Mortgage Insurance segment decreased $35 million, including a decrease of $3 million attributable to changes in foreign exchange rates. In Canada, losses decreased $20 million primarily driven by lower losses incurred as a result of improved performance of our newer in-force blocks of business in the current year and lower severity of claims due to a higher proportion of delinquencies in provinces where severity has been lower and home price appreciation has been higher. In Australia, losses decreased $12 million primarily driven by improved aging on our existing delinquencies from higher home price appreciation and a lower volume of existing delinquencies converting to mortgages in possession in the current year. Paid claims also decreased in the current year as a result of a decrease in both the number of claims and the average claim payment. These decreases were partially offset by a lower cure rate in the current year. Other Countries decreased $3 million primarily from lower new delinquencies, net of cures, and improved aging on our existing delinquencies in the current year. The decrease was also attributable to lender settlements in the prior year.

Our U.S. Mortgage Insurance segment decreased $35 million primarily driven by fewer new delinquencies, as well as lower reserves on new delinquencies, and improvements in net cures and aging on existing delinquencies in the current year. Reserves for prior year delinquencies benefitted $15 million during the current year from improvements in net cures and aging.

Our Runoff segment decreased $4 million primarily attributable to a decrease in our guaranteed minimum death benefit (GMDB) reserves in our variable annuity products due to favorable equity market performance in the current year.

Our U.S. Life Insurance segment increased $46 million. Our long-term care insurance business increased $72 million from the aging and growth of our in-force block and higher severity and frequency of new and existing claims in the current year. These increases were partially offset by reduced benefits of $30 million from in-force rate actions and a $4 million unfavorable adjustment in the prior year that did not recur. Reserves for prior year claims increased $39 million mainly from higher severity of existing claims in the current year. Our life insurance business decreased $23 million primarily related to slower reserve growth resulting from a favorable correction to our term universal life insurance reserves and unlocking of mortality and interest assumptions in the third quarter of 2013. This decrease was partially offset by higher claims in our term and term universal life insurance products in the current year. Our fixed annuities business decreased $3 million largely attributable to lower interest credited on reserves in the current year.

Our International Protection segment increased $15 million, including an increase of $3 million attributable to changes in foreign exchange rates, primarily driven by $8 million of higher benefits related to an amendment to a reinsurance agreement in the current year retroactive to January 1, 2014 that was previously accounted for under the deposit method of accounting. The increase was also driven by higher reserves in France from a new client and higher claims of $3 million related to the ferry disaster in Korea, partially offset by a decline in new claim registrations in the current year.

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

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

Our U.S. Life Insurance segment decreased $21 million primarily attributable to a decrease in our long-term care insurance business of $10 million predominately related to a $7 million restructuring charge in the prior year that did not recur and from lower production in the current year. Our fixed annuities business decreased $6 million primarily from a favorable adjustment related to guarantee funds in the current year and a restructuring charge in the prior year that did not recur. Our life insurance business decreased $5 million largely from a restructuring charge of $3 million in the prior year that did not recur.

Our International Protection segment increased $16 million, including an increase of $7 million attributable to changes in foreign exchange rates, due to higher commissions of $17 million related to an amendment to a reinsurance agreement in the current year retroactive to January 1, 2014 that was previously accounted for under the deposit method of accounting. This increase was partially offset by lower operating and profit sharing expenses in the current year and a restructuring charge of $4 million in the prior year that did not recur.

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, present value of future profits and capitalized software.

Our International Protection segment increased $4 million, including an increase of $2 million attributable to changes in foreign exchange rates, as a result of higher premium volume in the current year.

Corporate and Other activities decreased $4 million mainly related to higher software allocations to our operating segments in the current year.

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

Provision for income taxes. The effective tax rate decreased to 27.2% for the three months ended June 30, 2014 from 29.6% for the three months ended June 30, 2013. The decrease in the effective tax rate was primarily attributable to increased tax benefits on lower taxed foreign income, partially offset by the tax effects of stock-based compensation expense and lower benefits from tax favored investments in the current year. The three months ended June 30, 2014 included a decrease of $5 million attributable to changes in foreign exchange rates.

Net income attributable to noncontrolling interests. Net income attributable to noncontrolling interests represents the portion of income in a subsidiary attributable to third parties. The increase primarily related to the IPO of our Australian mortgage insurance business in May 2014, which reduced our ownership percentage to 66.2%, resulting in lower net income of $11 million in the current year.

Net income available to Genworth Financial, Inc. s common stockholders. We had higher net income available to Genworth Financial, Inc. s common stockholders in the current year primarily related to lower losses in our international mortgage and U.S. mortgage insurance businesses from lower new delinquencies. The increase was also attributable to lower net investment losses, higher tax benefits and $34 million of increased premiums and reduced benefits from in-force rate actions in our long-term care insurance business in the current year. These increases were partially offset by higher severity and frequency on new and existing claims in our long-term care insurance business and overall lower net investment income in the current year. The current year also included a decrease of $11 million attributable to the IPO of 33.8% of our Australian mortgage insurance business. The prior year also included $6 million of income from discontinued operations, net of taxes, related to the sale of our wealth management business that was sold in August 2013. For a discussion of each of our segments and Corporate and Other activities, see the Results of Operations and Selected Financial and Operating Performance Measures by Segment. Included in net income available to Genworth Financial, Inc. s common stockholders for the three months ended June 30, 2014 was a decrease of $11 million, net of taxes, attributable to changes in foreign exchange rates.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

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

(Amounts in millions)	Six months ended June 30, 2014	Six months ended June 30, 2013	Increase (decrease) and percentage change 2014 vs. 2013	
Revenues:				
Premiums	$ 2,650	$ 2,547	$ 103	4%
Net investment income	1,618	1,635	(17)	(1)%
Net investment gains (losses)	17	(40)	57	143%
Insurance and investment product fees and other	452	532	(80)	(15)%
Total revenues	4,737	4,674	63	1%
Benefits and expenses:				
Benefits and other changes in policy reserves	2,450	2,470	(20)	(1)%
Interest credited	367	368	(1)	%
Acquisition and operating expenses, net of deferrals	782	846	(64)	(8)%
Amortization of deferred acquisition costs and intangibles	272	259	13	5%
Interest expense	247	247		%

Total benefits and expenses	4,118	4,190	(72)	(2)%
Income from continuing operations before income taxes	619	484	135	28%
Provision for income taxes	172	149	23	15%
Income from continuing operations	447	335	112	33%
Loss from discontinued operations, net of taxes		(14)	14	100%
Net income	447	321	126	39%
Less: net income attributable to noncontrolling interests	87	77	10	13%
Net income available to Genworth Financial, Inc. s common stockholders	$ 360	$ 244	$ 116	48%

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Premiums

Our U.S. Life Insurance segment increased $76 million primarily related to our long-term care insurance business from $47 million of increased premiums from in-force rate actions, $14 million of unfavorable adjustments in the prior year that did not recur and growth of our in-force block from new sales in the current year.

Our International Protection segment increased $55 million, including an increase of $13 million attributable to changes in foreign exchange rates, from $27 million of higher premiums primarily driven by an amendment to a reinsurance agreement in the current year retroactive to January 1, 2014 that was previously accounted for under the deposit method of accounting. The increase in the current year was also attributable to higher volume driven by a new client in France and a favorable adjustment of $4 million related to German premium taxes, partially offset by lower premiums from our runoff clients.

Our U.S. Mortgage Insurance segment increased $6 million mainly attributable to higher average flow insurance in-force and lower ceded reinsurance premiums in the current year.

Our International Mortgage Insurance segment decreased $33 million, including a decrease of $48 million attributable to changes in foreign exchange rates. Excluding the effects of foreign exchange, premiums increased in Australia primarily as a result of the seasoning of our in-force block of business as larger, newer books reach their peak earnings period and higher premiums resulting from policy cancellations and new insurance written, partially offset by higher ceded reinsurance premiums in the current year. This increase was partially offset by a $27 million decrease in Canada primarily driven by changes in foreign exchange rates and the seasoning of our larger 2007 and 2008 in-force blocks of business, which are past their peak earnings period. In Other Countries, premiums decreased $3 million primarily as a result of lower premiums attributable to lender settlements in the prior year and higher ceded reinsurance premiums in the current year.

Net investment income

Annualized weighted-average investment yields were 4.6% and 4.7% for the six months ended June 30, 2014 and 2013, respectively. The annualized weighted-average investment yields decreased primarily attributable to lower reinvestment yields on higher average invested assets and $7 million of lower gains related to bond calls and mortgage loan prepayments, partially offset by $16 million of higher gains related to limited partnerships in the current year.

The six months ended June 30, 2014 included a decrease of $15 million attributable to changes in foreign exchange rates.

Net investment gains (losses). For further discussion of the change in net investment gains (losses), see the comparison for this line item under Investments and Derivative Instruments.

We recorded $3 million of net other-than-temporary impairments during the six months ended June 30, 2014 compared to $17 million during the six months ended June 30, 2013. Of total impairments during the six months ended June 30, 2014 and 2013, $1 million and $9 million, respectively, related to structured securities, including $1 million and $4 million, respectively, related to sub-prime and Alt-A residential mortgage-backed and asset-backed securities. Impairments related to corporate securities as a result of bankruptcies, receivership or concerns about the issuer s ability to continue to make contractual payments or where we have intent to sell were $6 million during the six months ended June 30, 2013.

Net investment losses related to derivatives of $28 million during the six months ended June 30, 2014 were primarily associated with GMWB losses, including decreases in the values of instruments used to protect statutory surplus from equity market fluctuation. We also had losses related to a non-qualified derivative strategy to mitigate interest rate risk with our statutory capital positions, in addition to losses related to derivatives used to hedge foreign currency risk associated with expected dividend payments from certain foreign subsidiaries, proceeds from the IPO of our Australian mortgage insurance business and assets held. These losses were partially offset by gains related to our hedge ineffectiveness from our cash flow hedge programs for our long-term care insurance business due to a decrease in long-term interest rates. Net investment losses related to derivatives of $44 million during the six months ended June 30, 2013 were primarily associated with GMWB losses due to decreases in the values of instruments used to protect statutory surplus from declines in the S&P index and policyholder funds underperforming as compared to market indices. In addition, there were losses related to our hedge ineffectiveness from our cash flow hedge programs for our long-term care insurance business due to an increase in long-term interest rates. These losses were partially offset by gains related to a non-qualified derivative strategy to mitigate interest rate risk with our statutory capital positions. Additionally, there were gains on credit default swaps where we sold protection to improve diversification and portfolio yield from narrowing credit spreads.

We recorded higher net gains related to the sale of available-for-sale securities during the six months ended June 30, 2014 compared to the six months ended June 30, 2013, including a gain on a previously impaired financial hybrid security that was called by the issuer during the six months ended June 30, 2014. We recorded $20 million of gains related to trading securities during the six months ended June 30, 2014 compared to $9 million of losses during the six months ended June 30, 2013 due to higher unrealized gains resulting from changes in the long-term interest rate environment. We recorded $7 million of lower net gains related to securitization entities during the six months ended June 30, 2014 compared to the six months ended June 30, 2013 primarily related to lower gains on derivatives, partially offset by gains on trading securities in the current year compared to losses in the prior year.

Insurance and investment product fees and other

Corporate and Other activities decreased $43 million attributable to the sale of our reverse mortgage business on April 1, 2013.

Our U.S. Life Insurance segment decreased $32 million predominately from our life insurance business related to mortality experience in our universal life insurance products and a $4 million unfavorable correction in the current year, as well as a decrease in our term universal life insurance product that we no longer offer.

Benefits and other changes in policy reserves

Our International Mortgage Insurance segment decreased $88 million, including a decrease of $8 million attributable to changes in foreign exchange rates. In Australia, losses decreased $43 million primarily driven by improved aging on our existing delinquencies from higher home price appreciation and a lower volume of existing delinquencies converting to mortgages in possession in the current year. Paid claims also decreased in the current year as a result of a decrease in both the number of claims and the average claim payment. In Canada, losses decreased $38 million primarily driven by lower severity of claims due to a higher proportion of delinquencies in provinces where severity has been lower and home price appreciation has been higher and lower losses incurred as a result of improved performance of our newer in-force blocks of business in the current year. In Other Countries, losses decreased $7 million primarily from lower new delinquencies, net of cures, and improved aging on our existing delinquencies in the current year. The decrease was also attributable to lender settlements in the prior year.

Our U.S. Mortgage Insurance segment decreased $56 million primarily driven by fewer new delinquencies, as well as lower reserves on new delinquencies, and improvements in net cures and aging on existing delinquencies in the current year, partially offset by a net reserve strengthening of

$17 million in the current year. In the first quarter of 2014, we strengthened reserves to reflect the expectation in future periods of increased claim severity primarily for late-stage delinquencies, partially offset by lower claim rates for early-stage delinquencies. Reserves for prior year delinquencies benefitted $26 million during the current year from improvements in net cures and aging.

Our U.S. Life Insurance segment increased $102 million. Our long-term care insurance business increased $108 million primarily from the aging and growth of our in-force block, higher severity and frequency of new and existing claims and $21 million of net favorable adjustments in the prior year that did not recur. These increases were partially offset by reduced benefits of $72 million from in-force rate actions in the current year. Reserves for prior year claims increased $47 million mainly from higher severity of existing claims in the current year. Our life insurance business decreased $6 million primarily related to slower reserve growth resulting from a favorable correction to our term universal life insurance reserves and unlocking of mortality and interest assumptions in the third quarter of 2013. This decrease was largely offset by higher claims in the current year.

Our International Protection segment increased $22 million, including an increase of $4 million attributable to changes in foreign exchange rates, primarily driven by $8 million of higher benefits related to an amendment to a reinsurance agreement in the current year retroactive to January 1, 2014 that was previously accounted for under the deposit method of accounting. The increase was also driven by higher reserves in France from a new client and higher claims of $3 million related to the ferry disaster in Korea, partially offset by a decline in new claim registrations in the current year.

Acquisition and operating expenses, net of deferrals

Corporate and Other activities decreased $42 million primarily as a result of a decrease of $46 million associated with our reverse mortgage business which was sold on April 1, 2013, partially offset by higher net expenses after allocations to our operating segments in the current year.

Our U.S. Life Insurance segment decreased $23 million from a decrease in our long-term care insurance business of $11 million predominately from a $7 million restructuring charge in the prior year that did not recur and lower production in the current year. Our fixed annuities business decreased $7 million largely from favorable adjustment related to guarantee funds in the current year and a restructuring charge in the prior year that did not recur. Our life insurance business decreased $5 million mainly from a restructuring charge of $3 million in the prior year that did not recur.

Our U.S. Mortgage Insurance segment decreased $7 million decreased primarily from a settlement of approximately $4 million with the CFPB to end its review of industry captive reinsurance arrangements in the prior year that did not recur and lower operating expenses in the current year.

Our International Mortgage Insurance segment decreased $5 million, including a decrease of $7 million attributable to changes in foreign exchange rates. Excluding the effects of foreign exchange, acquisition and operating expenses, net of deferrals, increased from an $8 million increase in Canada primarily from an early redemption payment of $6 million in May 2014 related to the redemption of Genworth MI Canada Inc. s (Genworth Canada) senior notes that were scheduled to mature in 2015 and higher expenses related to stock options from an increase in the share price in the current year. This increase was partially offset by a $9 million decrease in Australia primarily from lower operating expenses related to contract fees. Other Countries decreased $4 million from lower operating expenses in the current year and a $1 million restructuring charge in the prior year that did not recur.

Our International Protection segment increased $15 million, including an increase of $9 million attributable to changes in foreign exchange rates, driven by higher commissions of $17 million related to an amendment to a reinsurance agreement in the current year retroactive to January 1, 2014 that was previously accounted for under the deposit method of accounting. This increase was partially offset by lower operating and profit sharing expenses in the current year and a restructuring charge of $4 million in the prior year that did not recur.

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Amortization of deferred acquisition costs and intangibles

- Our Runoff segment increased $26 million related to our variable annuity products primarily from lower net investment losses and a change in lapse assumptions in the current year.

- Our International Protection segment increased $6 million, including an increase of $2 million attributable to changes in foreign exchange rates, mainly as a result of higher premium volume in the current year.

- Our U.S. Life Insurance segment decreased $11 million. Our life insurance business decreased $15 million primarily related to unfavorable mortality in our universal life insurance products in the current year. Our long-term care insurance business increased $4 million largely related to growth of our in-force block, partially offset by the write-off of computer software included in a restructuring charge in the prior year that did not recur.

- Corporate and Other activities decreased $6 million mainly related to higher software allocations to our operating segments in the current year.

Provision for income taxes. The effective tax rate decreased to 27.8% for the six months ended June 30, 2014 from 30.8% for the six months ended June 30, 2013. The decrease in the effective tax rate was primarily attributable to increased tax benefits on lower taxed foreign income, prior year favorable tax adjustments of $15 million recorded in the current year and changes in valuation allowances, partially offset by the tax effects of stock-based compensation expense and a decrease in benefits from tax favored investments in the current year. The six months ended June 30, 2014 included a decrease of $11 million attributable to changes in foreign exchange rates.

Net income attributable to noncontrolling interests. The increase primarily related to the IPO of our Australian mortgage insurance business in May 2014, which reduced our ownership percentage to 66.2%, resulting in lower net income of $11 million in the current year.

Net income available to Genworth Financial, Inc. s common stockholders. We had higher net income available to Genworth Financial, Inc. s common stockholders in the current year primarily related to significantly lower losses in our U.S. mortgage insurance business. The increase was also attributable to $75 million of increased premiums and reduced benefits from in-force rate actions in our long-term care insurance business in the current year and a $13 million restructuring charge in the prior year that did not recur. These increases were partially offset by higher severity and frequency on new and existing claims in our long-term care insurance business in the current year. The current year also included a decrease of $11 million attributable to the IPO of 33.8% of our Australian mortgage insurance business. The prior year also included a loss of $14 million from discontinued operations, net of taxes, related to the sale of our wealth management business that was sold in August 2013. For a discussion of each of our segments and Corporate and Other activities, see the Results of Operations and Selected Financial and Operating Performance Measures by Segment. Included in net income available to Genworth Financial, Inc. s common stockholders for the six months ended June 30, 2014 was a decrease of $27 million, net of taxes, attributable to changes in foreign exchange rates.

Reconciliation of net income to net operating income

Net operating income for the three months ended June 30, 2014 was $158 million compared to $133 million for the three months ended June 30, 2013. Net operating income for the six months ended June 30, 2014 was $352 million compared to $284 million for the six months ended June 30, 2013. We define net operating income (loss) as income (loss) from continuing operations excluding the after-tax effects of income attributable to noncontrolling interests, net investment gains (losses), goodwill impairments, gains (losses) on the sale of businesses, gains (losses) on the early extinguishment of debt, gains (losses) on insurance block transactions and infrequent or unusual non-operating items. Gains (losses) on insurance block transactions are defined as gains (losses) on the early extinguishment of non-recourse funding obligations, early termination fees for other financing restructuring and/or resulting gains (losses) on reinsurance restructuring for certain blocks of business. We exclude net investment gains (losses) and infrequent or unusual non-operating items because we do not consider them to be related to the operating performance of our segments and Corporate and Other activities. A component of our net investment gains (losses) is the result of impairments, the size and timing of which can vary significantly depending on market credit cycles. In addition, the size and timing of other investment gains (losses) can be subject to our discretion and are influenced by market opportunities, as well as asset-liability matching considerations. Goodwill impairments, gains (losses) on the sale of businesses, gains (losses) on the early extinguishment of debt and gains (losses) on insurance block transactions are also excluded from net operating income (loss) because, in our opinion, they are not indicative of overall operating trends. Other non-operating items are also excluded from net operating income (loss) if, in our opinion, they are not indicative of overall operating trends.

In the fourth quarter of 2013, we revised our definition of net operating income (loss) to exclude gains (losses) on the early extinguishment of debt and gains (losses) on insurance block transactions to better reflect the basis on which the performance of our business is internally assessed and to reflect management s opinion that they are not indicative of overall operating trends. All prior periods have been re-presented to reflect this new definition.

The following transaction was excluded from net operating income (loss) for the periods presented as it related to the loss on the early extinguishment of debt. In the second quarter of 2014, we paid an early redemption payment of approximately $2 million, net of taxes and portion attributable to noncontrolling interests, related to the early redemption of Genworth Canada s notes that were scheduled to mature in 2015.

There were no infrequent or unusual items excluded from net operating income (loss) during the periods presented other than a $13 million, net of taxes, expense recorded in the second quarter of 2013 related to restructuring costs.

While some of these items may be significant components of net income available to Genworth Financial, Inc. s common stockholders in accordance with U.S. GAAP, we believe that net operating income, and measures that are derived from or incorporate net operating income, are appropriate measures that are useful to investors because they identify the income (loss) attributable to the ongoing operations of the business. Management also uses net operating income as a basis for determining awards and compensation for senior management and to evaluate performance on a basis comparable to that used by analysts. However, the items excluded from net operating income have occurred in the past and could, and in some cases will, recur in the future. Net operating income is not a substitute for net income available to Genworth Financial, Inc. s common stockholders determined in accordance with U.S. GAAP. In addition, our definition of net operating income may differ from the definitions used by other companies.

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

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The following table includes a reconciliation of net income to net operating income for the periods indicated:

(Amounts in millions)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Net income	$ 228	$ 180	$ 447	$ 321
Less: net income attributable to noncontrolling interests	52	39	87	77
Net income available to Genworth Financial, Inc. s common stockholders	176	141	360	244
Adjustments to net income available to Genworth Financial, Inc. s common stockholders:				
Net investment (gains) losses, net	(20)	(15)	(10)	13
(Gains) losses on early extinguishment of debt, net	2		2	
Expenses related to restructuring, net		13		13
(Income) loss from discontinued operations, net of taxes		(6)		14
Net operating income	$ 158	$ 133	$ 352	$ 284

Earnings per share

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

(Amounts in millions, except per share amounts)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Income from continuing operations available to Genworth Financial, Inc. s common stockholders per common share:				
Basic	$ 0.35	$ 0.27	$ 0.73	$ 0.52
Diluted	$ 0.35	$ 0.27	$ 0.72	$ 0.52
Net income available to Genworth Financial, Inc. s common stockholders per common share:				
Basic	$ 0.35	$ 0.29	$ 0.73	$ 0.49
Diluted	$ 0.35	$ 0.28	$ 0.72	$ 0.49
Net operating income per common share:				
Basic	$ 0.32	$ 0.27	$ 0.71	$ 0.58
Diluted	$ 0.31	$ 0.27	$ 0.70	$ 0.57

Weighted-average common shares outstanding:				
Basic	496.6	493.4	496.2	492.9
Diluted	503.6	497.5	503.2	497.2

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

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

Our chief operating decision maker evaluates segment performance and allocates resources on the basis of net operating income (loss). See note 9 in our Notes to Condensed Consolidated Financial Statements for a reconciliation of net operating income (loss) of our segments and Corporate and Other activities to net income available to Genworth Financial, Inc. s common stockholders.

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

Management regularly monitors and reports sales metrics as a measure of volume of new and renewal business generated in a period. Sales refer to: (1) annualized first-year premiums for term life and long-term care insurance products; (2) annualized first-year deposits plus 5% of excess deposits for universal and term universal life insurance products; (3) 10% of premium deposits for linked-benefits products; (4) new and additional premiums/deposits for fixed annuities; (5) new insurance written for mortgage insurance; and (6) net premiums written for our lifestyle protection insurance business. Sales do not include renewal premiums on policies or contracts written during prior periods. We consider annualized first-year premiums/deposits, premium equivalents, new premiums/deposits, new insurance written and net premiums written to be a measure of our operating performance because they represent a measure of new sales of insurance policies or contracts during a specified period, rather than a measure of our revenues or profitability during that period.

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

We also include information related to loss mitigation activities for our U.S. mortgage insurance business. We define loss mitigation activities as rescissions, cancellations, borrower loan modifications, repayment plans, lender- and borrower-titled pre-sales, claims administration and other loan workouts. Estimated savings related to rescissions are the reduction in carried loss reserves, net of premium refunds and reinstatement of prior rescissions. Estimated savings related to loan modifications and other cure-related loss mitigation actions represent the reduction in carried loss reserves. Estimated savings related to claims mitigation activities represent amounts deducted or curtailed from claims due to acts or omissions by the insured or the servicer with respect to the servicing of an insured loan that is not in compliance with obligations under our master policy. For non-cure related actions, including pre-sales, the estimated savings represent the difference between the full claim obligation and the actual amount paid. Loans subject to our loss mitigation actions, the results of which have been included in our reported estimated loss mitigation savings, are subject to re-default and may result in a potential claim in future periods, as well as potential future loss mitigation savings depending on the resolution of the re-defaulted loan. We believe that this information helps to enhance the understanding of the operating performance of our U.S. mortgage insurance business as loss mitigation activities specifically impact current and future loss reserves and level of claim payments.

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

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

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

The following discussions of our segment results of operations should be read in conjunction with the Business trends and conditions.

U.S. Life Insurance Division

Division results of operations

The following table sets forth the results of operations relating to our U.S. Life Insurance Division for the periods indicated. See below for a discussion by segment.

(Amounts in millions)	**Three months ended June 30, 2014**	**Three months ended June 30, 2013**	**Increase (decrease) and percentage change 2014 vs. 2013**		**Six months ended June 30, 2014**	**Six months ended June 30, 2013**	**Increase (decrease) and percentage change 2014 vs. 2013**	
Net operating income:								
U.S. Life Insurance segment:								
Life insurance	$ 39	$ 27	$ 12	44%	$ 60	$ 63	$ (3)	(5)%
Long-term care insurance	6	26	(20)	(77)%	52	46	6	13%
Fixed annuities	24	26	(2)	(8)%	51	55	(4)	(7)%
U.S. Life Insurance segment	69	79	(10)	(13)%	163	164	(1)	(1)%
Total net operating income	69	79	(10)	(13)%	163	164	(1)	(1)%
Adjustments to net operating income:								
Net investment gains (losses), net	17	10	7	70%	18	2	16	NM[(1)]
Expenses related to restructuring, net		(9)	9	100%		(9)	9	100%
Net income available to Genworth Financial, Inc. s common stockholders	$ 86	$ 80	$ 6	8%	$ 181	$ 157	$ 24	15%

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

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U.S. Life Insurance segment

Segment results of operations

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

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

(Amounts in millions)	Three months ended June 30, 2014	Three months ended June 30, 2013	Increase (decrease) and percentage change 2014 vs. 2013	
Revenues:				
Premiums	$ 762	$ 738	$ 24	3%
Net investment income	671	658	13	2%
Net investment gains (losses)	25	17	8	47%
Insurance and investment product fees and other	175	190	(15)	(8)%
Total revenues	1,633	1,603	30	2%
Benefits and expenses:				
Benefits and other changes in policy reserves	1,087	1,041	46	4%
Interest credited	155	155		%
Acquisition and operating expenses, net of deferrals	156	177	(21)	(12)%
Amortization of deferred acquisition costs and intangibles	81	80	1	1%
Interest expense	21	24	(3)	(13)%
Total benefits and expenses	1,500	1,477	23	2%
Income from continuing operations before income taxes	133	126	7	6%
Provision for income taxes	47	46	1	2%
Income from continuing operations	86	80	6	8%
Adjustments to income from continuing operations:				
Net investment (gains) losses, net	(17)	(10)	(7)	(70)%
Expenses related to restructuring, net		9	(9)	(100)%
Net operating income	$ 69	$ 79	$ (10)	(13)%

The following table sets forth net operating income for the businesses included in our U.S. Life Insurance segment for the periods indicated:

(Amounts in millions)	Three months ended June 30, 2014	Three months ended June 30, 2013	Increase (decrease) and percentage change 2014 vs. 2013	
Net operating income:				
Life insurance	$ 39	$ 27	$ 12	44%
Long-term care insurance	6	26	(20)	(77)%
Fixed annuities	24	26	(2)	(8)%
Total net operating income	$ 69	$ 79	$ (10)	(13)%

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Net operating income

Our life insurance business increased $12 million principally as a result of slower reserve growth resulting from a favorable correction to our term universal life insurance reserves and unlocking of mortality and interest assumptions in the third quarter of 2013. The increase was also attributable to mortality, which improved modestly in the current year.

Our long-term care insurance business decreased $20 million largely attributable to higher severity and frequency on new and existing claims in the current year. These decreases were partially offset by $34 million of increased premiums and reduced benefits from in-force rate actions in the current year.

Our fixed annuities business decreased $2 million primarily related to lower investment income and unfavorable mortality, partially offset by a favorable adjustment related to guarantee funds in the current year.

Revenues

Premiums. The increase was mainly attributable to our long-term care insurance business largely related to $25 million of increased premiums from in-force rate actions and growth of our in-force block from new sales in the current year.

Net investment income

Our life insurance business increased $4 million primarily due to higher average invested assets in the current year.

Our long-term care insurance business increased $15 million largely from an increase in average invested assets due to growth of our in-force block in the current year.

Our fixed annuities business decreased $6 million principally from $8 million of lower bond calls and mortgage loan prepayments in the current year.

Net investment gains (losses). For further discussion of the change in net investment gains (losses), see the comparison for this line item under Investments and Derivative Instruments.

Net investment gains in our life insurance business increased $14 million largely from a gain on a previously impaired financial hybrid security that was called by the issuer in the current year.

Our long-term care insurance business had $3 million of net investment gains in the current year primarily from net gains from the sale of investment securities and derivative gains. Net investment losses of $2 million in the prior year were mainly from impairments and net losses from the sale of investment securities.

Our fixed annuities business had $1 million of net investment losses in the current year largely from net losses from the sale of investment securities which were mostly offset by derivative gains. Net investment gains of $10 million in the prior year were primarily from a call of an investment security.

Insurance and investment product fees and other. The decrease was primarily attributable to our life insurance business largely related to mortality experience in our universal life insurance products and a $4 million unfavorable correction in the current year, as well as a decrease from our term universal life insurance product that we no longer offer.

Benefits and expenses

Benefits and other changes in policy reserves

Our life insurance business decreased $23 million primarily related to slower reserve growth resulting from a favorable correction to our term universal life insurance reserves and unlocking of mortality and interest assumptions in the third quarter of 2013. This decrease was partially offset by higher claims in our term and term universal life insurance products in the current year.

Our long-term care insurance business increased $72 million primarily from the aging and growth of our in-force block and higher severity and frequency of new and existing claims in the current year. These increases were partially offset by reduced benefits of $30 million from in-force rate actions and a $4 million unfavorable adjustment in the prior year that did not recur. Reserves for prior year claims increased $39 million mainly from higher severity of existing claims in the current year.

Our fixed annuities business decreased $3 million largely attributable to lower interest credited on reserves in the current year.

Acquisition and operating expenses, net of deferrals

Our life insurance business decreased $5 million largely from a restructuring charge of $3 million in the prior year that did not recur.

Our long-term care insurance business decreased $10 million primarily related to a $7 million restructuring charge in the prior year that did not recur and from lower production in the current year.

Our fixed annuities business decreased $6 million largely attributable to a favorable adjustment related to guarantee funds in the current year and a restructuring charge in the prior year that did not recur.

Amortization of deferred acquisition costs and intangibles. The increase was primarily related to our long-term care insurance business mostly attributable to growth of our in-force block, partially offset by the write-off of computer software included in a restructuring charge in the prior year that did not recur.

Interest expense. Interest expense decreased driven by our life insurance business principally related to lower letter of credit fees in the current year.

Provision for income taxes. The effective tax rate decreased to 35.3% for the three months ended June 30, 2014 from 36.5% for the three months ended June 30, 2013. The decrease in the effective tax rate was primarily attributable to state income taxes.

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Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

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

(Amounts in millions)	Six months ended June 30, 2014	Six months ended June 30, 2013	Increase (decrease) and percentage change 2014 vs. 2013	
Revenues:				
Premiums	$ 1,521	$ 1,445	$ 76	5%
Net investment income	1,331	1,296	35	3%
Net investment gains (losses)	28	5	23	NM[(1)]
Insurance and investment product fees and other	346	378	(32)	(8)%
Total revenues	3,226	3,124	102	3%
Benefits and expenses:				
Benefits and other changes in policy reserves	2,117	2,015	102	5%
Interest credited	309	307	2	1%
Acquisition and operating expenses, net of deferrals	317	340	(23)	(7)%
Amortization of deferred acquisition costs and intangibles	156	167	(11)	(7)%
Interest expense	42	47	(5)	(11)%
Total benefits and expenses	2,941	2,876	65	2%
Income from continuing operations before income taxes	285	248	37	15%
Provision for income taxes	104	91	13	14%
Income from continuing operations	181	157	24	15%
Adjustments to income from continuing operations:				
Net investment (gains) losses, net	(18)	(2)	(16)	NM[(1)]
Expenses related to restructuring, net		9	(9)	(100)%
Net operating income	$ 163	$ 164	$ (1)	(1)%

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

The following table sets forth net operating income for the businesses included in our U.S. Life Insurance segment for the periods indicated:

(Amounts in millions)	Six months ended June 30, 2014	2013	Increase (decrease) and percentage change 2014 vs. 2013	
Net operating income:				
Life insurance	$ 60	$ 63	$ (3)	(5)%
Long-term care insurance	52	46	6	13%
Fixed annuities	51	55	(4)	(7)%
Total net operating income	$ 163	$ 164	$ (1)	(1)%

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Net operating income

Our life insurance business decreased $3 million principally due to higher mortality experience in the first quarter of 2014, partially offset by slower reserve growth resulting from a favorable correction in our term universal life insurance reserves and unlocking of mortality and interest assumptions in the third quarter of 2013.

Our long-term care insurance business increased $6 million largely attributable to $75 million of increased premiums and reduced benefits from in-force rate actions in the current year. This increase was largely offset by higher severity and frequency on new and existing claims in the current year.

Our fixed annuities business decreased $4 million primarily related to unfavorable mortality and lower investment income, partially offset by a favorable adjustment related to guarantee funds in the current year.

Revenues

Premiums. The increase was attributable to our long-term care insurance business largely related to $47 million of increased premiums from in-force rate actions, $14 million of unfavorable adjustments in the prior year that did not recur and growth of our in-force block from new sales in the current year.

Net investment income

Our long-term care insurance business increased $41 million largely from an increase in average invested assets due to growth of our in-force block and an $8 million favorable correction to investment amortization for preferred stock in the current year. Net investment income also included $4 million of higher gains from limited partnerships in the current year.

Our fixed annuities business decreased $7 million principally from $6 million of lower bond calls and mortgage loan prepayments in the current year.

Net investment gains (losses). For further discussion of the change in net investment gains (losses), see the comparison for this line item under Investments and Derivative Instruments.

Net investment gains in our life insurance business increased $19 million largely from a gain on a previously impaired financial hybrid security that was called by the issuer and lower impairments in the current year.

Our long-term care insurance business had $3 million of net investment gains in the current year primarily from derivative gains and net gains from the sale of investment securities. Net investment losses of $5 million in the prior year were mainly from impairments and net losses from the sale of investment securities, partially offset by derivative gains.

Net investment gains in our fixed annuities business decreased $4 million principally related to a gain on a call of an investment security in the prior year, partially offset by higher derivative gains and lower impairments in the current year.

Insurance and investment product fees and other. The decrease was primarily attributable to our life insurance business largely related to mortality experience in our universal life insurance products and a $4 million unfavorable correction in the current year, as well as a decrease from our term universal life insurance product that we no longer offer.

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Benefits and expenses

Benefits and other changes in policy reserves

Our life insurance business decreased $6 million primarily related to slower reserve growth resulting from a favorable correction to our term universal life insurance reserves and unlocking of mortality and interest assumptions in the third quarter of 2013. This decrease was largely offset by higher claims in the current year.

Our long-term care insurance business increased $108 million primarily from the aging and growth of our in-force block, higher severity and frequency of new and existing claims and $21 million of net favorable adjustments in the prior year that did not recur. These increases were partially offset by reduced benefits of $72 million from in-force rate actions in the current year. Reserves for prior year claims increased $47 million mainly from higher severity of existing claims in the current year.

Acquisition and operating expenses, net of deferrals

Our life insurance business decreased $5 million largely from a restructuring charge of $3 million in the prior year that did not recur.

Our long-term care insurance business decreased $11 million primarily related to a $7 million restructuring charge in the prior year that did not recur and from lower production in the current year.

Our fixed annuities business decreased $7 million predominately from a favorable adjustment related to guarantee funds in the current year and a restructuring charge in the prior year that did not recur.

Amortization of deferred acquisition costs and intangibles

Our life insurance business decreased $15 million primarily related to mortality experience in our universal life insurance products in the current year.

Our long-term care insurance business increased $4 million largely related to growth of our in-force block, partially offset by the write-off of computer software included in a restructuring charge in the prior year that did not recur.

Interest expense. Interest expense decreased driven by our life insurance business principally related to lower letter of credit fees in the current year.

Provision for income taxes. The effective tax rate decreased to 36.5% for the six months ended June 30, 2014 from 36.7% for the six months ended June 30, 2013. The decrease in the effective tax rate was primarily attributable to state taxes.

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U.S. Life Insurance selected operating performance measures

Life insurance

The following tables set forth selected operating performance measures regarding our life insurance business as of or for the dates indicated:

(Amounts in millions)	Three months ended June 30, 2014	2013	Increase (decrease) and percentage change 2014 vs. 2013		Six months ended June 30, 2014	2013	Increase (decrease) and percentage change 2014 vs. 2013	
Term and whole life insurance								
Net earned premiums	$ 171	$ 173	$ (2)	(1)%	$ 354	$ 354	$	%
Sales	14	4	10	NM[1]	27	8	19	NM[1]
Term universal life insurance								
Net deposits	$ 70	$ 73	$ (3)	(4)%	$ 139	$ 143	$ (4)	(3)%
Sales				%		1	(1)	(100)%
Universal life insurance								
Net deposits	$ 140	$ 127	$ 13	10%	$ 268	$ 272	$ (4)	(1)%
Sales:								
Universal life insurance	7	5	2	40%	13	14	(1)	(7)%
Linked-benefits	5	3	2	67%	7	5	2	40%
Total life insurance								
Net earned premiums and deposits	$ 381	$ 373	$ 8	2%	$ 761	$ 769	$ (8)	(1)%
Sales:								
Term life insurance	14	4	10	NM[1]	27	8	19	NM[1]
Term universal life insurance				%		1	(1)	(100)%
Universal life insurance	7	5	2	40%	13	14	(1)	(7)%
Linked-benefits	5	3	2	67%	7	5	2	40%

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

(Amounts in millions)	As of June 30, 2014	2013	Percentage change 2014 vs. 2013
Term and whole life insurance			
Life insurance in-force, net of reinsurance	$ 341,383	$ 336,008	2%
Life insurance in-force before reinsurance	524,743	528,874	(1)%
Term universal life insurance			
Life insurance in-force, net of reinsurance	$ 130,270	$ 134,868	(3)%
Life insurance in-force before reinsurance	131,296	135,937	(3)%
Universal life insurance			
Life insurance in-force, net of reinsurance	$ 42,454	$ 43,773	(3)%

Life insurance in-force before reinsurance	49,004	50,558	(3)%
Total life insurance			
Life insurance in-force, net of reinsurance	$ 514,107	$ 514,649	%
Life insurance in-force before reinsurance	705,043	715,369	(1)%

Term and whole life insurance

Sales of our term life insurance product have increased in the current year from pricing decreases and improved service platforms. Our life insurance in-force, net of reinsurance, increased primarily from sales growth of our term life insurance products and lower ceded reinsurance in the current year. Our life insurance in-force before reinsurance decreased from the runoff of our term life insurance products issued prior to resuming sales of these products and the runoff of our whole life insurance products.

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Term universal life insurance

We no longer solicit sales of term universal life insurance products; however, we continue to service our existing block of business.

Universal life insurance

Net deposits and sales increased during the three months ended June 30, 2014 compared to the three months ended June 30, 2013 as we transitioned to a new universal life insurance product offering. Our life insurance in-force decreased primarily from lower deposits and sales for the six months ended June 30, 2014. Net deposits and sales decreased during the six months ended June 30, 2013 compared to the six months ended June 30, 2013 from our modification and re-pricing of certain product offerings in response to regulatory changes.

Long-term care insurance

The following table sets forth selected operating performance measures regarding our individual and group long-term care insurance products for the periods indicated:

(Amounts in millions)	**Three months ended June 30, 2014**	**Three months ended June 30, 2013**	**Increase (decrease) and percentage change 2014 vs. 2013**		**Six months ended June 30, 2014**	**Six months ended June 30, 2013**	**Increase (decrease) and percentage change 2014 vs. 2013**	
Net earned premiums:								
Individual long-term care insurance	$ 553	$ 529	$ 24	5%	$ 1,092	$ 1,019	$ 73	7%
Group long-term care insurance	24	21	3	14%	50	44	6	14%
Total	$ 577	$ 550	$ 27	5%	$ 1,142	$ 1,063	$ 79	7%
Annualized first-year premiums and deposits:								
Individual long-term care insurance	$ 24	$ 38	$ (14)	(37)%	$ 45	$ 73	$ (28)	(38)%
Group long-term care insurance	2	5	(3)	(60)%	3	10	(7)	(70)%
Total	$ 26	$ 43	$ (17)	(40)%	$ 48	$ 83	$ (35)	(42)%
Loss ratio	73%	67%	6%		68%	67%	1%	

The loss ratio is the ratio of benefits and other changes in reserves less tabular interest on reserves less loss adjustment expenses to net earned premiums.

Net earned premiums increased for the three and six months ended June 30, 2014 mainly attributable to increased premiums from in-force rate actions of $25 million and $47 million, respectively, and from growth of our in-force block from new sales in the current year. The six months ended June 30, 2013 also included $14 million of net unfavorable adjustments that did not recur.

Annualized first-year premiums and deposits decreased principally from changes in pricing and product options previously announced.

The loss ratio increased for the three months ended June 30, 2014 largely attributable to higher severity and frequency of new and existing claims, partially offset by $55 million of increased premiums and reduced benefits from in-force rate actions and a $4 million unfavorable adjustment in the prior year that did not recur. Reserves for prior year claims increased $39 million during the three months ended June 30, 2014 mainly from higher severity of existing claims in the current year.

The loss ratio increased for the six months ended June 30, 2014 largely attributable to higher severity and frequency of new and existing claims and $7 million of net favorable adjustments in the prior year that did not recur. These increases were mostly offset by $119 million of increased premiums and reduced benefits from in-force rate actions in the current year. Reserves for prior year claims increased $47 million during the six months ended June 30, 2014 mainly from higher severity of existing claims in the current year.

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Fixed annuities

The following table sets forth selected operating performance measures regarding our fixed annuities as of or for the dates indicated:

(Amounts in millions)	As of or for the three months ended June 30, 2014	2013	As of or for the six months ended June 30, 2014	2013
Single Premium Deferred Annuities				
Account value, beginning of period	$ 12,070	$ 10,881	$ 11,807	$ 11,038
Deposits	404	166	900	234
Surrenders, benefits and product charges	(320)	(281)	(632)	(583)
Net flows	84	(115)	268	(349)
Interest credited	79	76	158	153
Account value, end of period	$ 12,233	$ 10,842	$ 12,233	$ 10,842
Single Premium Immediate Annuities				
Account value, beginning of period	$ 5,875	$ 6,319	$ 5,837	$ 6,442
Premiums and deposits	59	71	108	136
Surrenders, benefits and product charges	(213)	(228)	(428)	(463)
Net flows	(154)	(157)	(320)	(327)
Interest credited	67	72	135	145
Effect of accumulated net unrealized investment gains (losses)	103	(224)	239	(250)
Account value, end of period	$ 5,891	$ 6,010	$ 5,891	$ 6,010
Structured Settlements				
Account value, net of reinsurance, beginning of period	$ 1,092	$ 1,101	$ 1,093	$ 1,101
Surrenders, benefits and product charges	(21)	(18)	(36)	(33)
Net flows	(21)	(18)	(36)	(33)
Interest credited	14	14	28	29
Account value, net of reinsurance, end of period	$ 1,085	$ 1,097	$ 1,085	$ 1,097
Total premiums from fixed annuities	$ 14	$ 15	$ 25	$ 28
Total deposits from fixed annuities	$ 449	$ 222	$ 983	$ 342

Single Premium Deferred Annuities

Account value of our single premium deferred annuities increased as deposits and interest credited outpaced surrenders. Sales have increased driven by competitive pricing while maintaining targeted returns.

Single Premium Immediate Annuities

Account value of our single premium immediate annuities increased compared to March 31, 2014 and December 31, 2013 as unrealized gains, interest credited and premiums and deposits exceeded benefits. Sales continued to be pressured under current market conditions and from continued low interest rates.

Structured Settlements

We no longer solicit sales of structured settlements; however, we continue to service our existing block of business.

Valuation systems and processes

Our U.S. Life Insurance segment will continue to migrate to a new valuation and projection platform for certain lines of business, while we upgrade platforms for other lines of business. The migration and upgrades are part of our ongoing efforts to improve the infrastructure and capabilities of our information systems and our routine assessment and refinement of financial, actuarial, investment and risk management capabilities enterprise wide. These efforts will also provide our U.S. Life Insurance segment with improved platforms to support emerging accounting guidance and ongoing changes in capital regulations. Concurrently, valuation processes and methodologies will be reviewed. Any material changes in balances, margins or income trends that may result from these activities will be disclosed accordingly.

Global Mortgage Insurance Division

Division results of operations

The following table sets forth the results of operations relating to our Global Mortgage Insurance Division for the periods indicated. See below for a discussion by segment.

(Amounts in millions)	Three months ended June 30, 2014	2013	Increase (decrease) and percentage change 2014 vs. 2013		Six months ended June 30, 2014	2013	Increase (decrease) and percentage change 2014 vs. 2013	
Net operating income (loss):								
International Mortgage Insurance segment:								
Canada	$ 47	$ 43	$ 4	9%	$ 88	$ 85	$ 3	4%
Australia	57	55	2	4%	119	101	18	18%
Other Countries	(7)	(9)	2	22%	(11)	(16)	5	31%
International Mortgage Insurance segment	97	89	8	9%	196	170	26	15%
U.S. Mortgage Insurance segment	39	13	26	200%	72	34	38	112%
Total net operating income	136	102	34	33%	268	204	64	31%
Adjustments to net operating income:								
Net investment gains (losses), net	4	5	(1)	(20)%	3	6	(3)	(50)%
Gains (losses) on early extinguishment of debt, net	(2)		(2)	NM[(1)]	(2)		(2)	NM[(1)]
Expenses related to restructuring, net		(1)	1	100%		(1)	1	100%
Net income available to Genworth Financial, Inc. s common stockholders	$ 138	$ 106	$ 32	30%	$ 269	$ 209	$ 60	29%

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

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International Mortgage Insurance segment

Segment results of operations

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

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

(Amounts in millions)	Three months ended June 30, 2014	2013	Increase (decrease) and percentage change 2014 vs. 2013	
Revenues:				
Premiums	$ 237	$ 251	$ (14)	(6)%
Net investment income	75	85	(10)	(12)%
Net investment gains (losses)	12	13	(1)	(8)%
Insurance and investment product fees and other	(4)		(4)	NM[(1)]
Total revenues	320	349	(29)	(8)%
Benefits and expenses:				
Benefits and other changes in policy reserves	45	80	(35)	(44)%
Acquisition and operating expenses, net of deferrals	59	61	(2)	(3)%
Amortization of deferred acquisition costs and intangibles	15	17	(2)	(12)%
Interest expense	8	8		%
Total benefits and expenses	127	166	(39)	(23)%
Income from continuing operation before income taxes	193	183	10	5%
Provision for income taxes	42	51	(9)	(18)%
Income from continuing operations	151	132	19	14%
Less: net income attributable to noncontrolling interests	52	39	13	33%
Income from continuing operations available to Genworth Financial, Inc. s common stockholders	99	93	6	6%
Adjustments to income from continuing operations available to Genworth Financial, Inc. s common stockholders:				
Net investment (gains) losses, net	(4)	(5)	1	20%
(Gains) losses on early extinguishment of debt, net	2		2	NM[(1)]
Expenses related to restructuring, net		1	(1)	(100)%

Net operating income	$ 97	$ 89	$ 8	9%

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

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The following table sets forth net operating income (loss) for the businesses included in our International Mortgage Insurance segment for the periods indicated:

(Amounts in millions)	Three months ended June 30, 2014	Three months ended June 30, 2013	Increase (decrease) and percentage change 2014 vs. 2013	
Net operating income:				
Canada	$ 47	$ 43	$ 4	9%
Australia	57	55	2	4%
Other Countries	(7)	(9)	2	22%
Total net operating income	$ 97	$ 89	$ 8	9%

Net operating income

Our Canadian mortgage insurance business increased $4 million, including a decrease of $4 million attributable to changes in foreign exchange rates, primarily attributable to lower losses, partially offset by higher operating expenses and lower premiums in the current year.

Our Australian mortgage insurance business increased $2 million, including a decrease of $6 million attributable to changes in foreign exchange rates, primarily from higher premiums and lower losses. Additionally, the IPO of our Australian mortgage insurance in May 2014 reduced our ownership percentage to 66.2%, resulting in lower net operating income of $11 million in the current year.

Other Countries net operating loss decreased $2 million, including a decrease of $1 million attributable to changes in foreign exchange rates, primarily from lower operating expenses and losses, partially offset by lower premiums in the current year.

Revenues

Premiums

Our Canadian mortgage insurance business decreased $13 million, including a decrease of $10 million attributable to changes in foreign exchange rates, primarily driven by the seasoning of our larger 2007 and 2008 in-force blocks of business, which are past their peak earnings period.

Our Australian mortgage insurance business increased $1 million, including a decrease of $11 million attributable to changes in foreign exchange rates, primarily as a result of the seasoning of our in-force block of business as larger, newer books reach their peak earnings period and higher premiums resulting from policy cancellations and new insurance written, partially offset by higher ceded reinsurance premiums in the current year.

Other Countries decreased $2 million primarily as a result of lower premiums attributable to lender settlements in the prior year and higher ceded reinsurance premiums in the current year.

Net investment income. Net investment income decreased $10 million, including a decrease of $7 million attributable to changes in foreign exchange rates. The decrease was also related to lower reinvestment yields during the current year, mainly in Australia.

Insurance and investment product fees and other. The decrease was primarily due to non-functional currency transactions attributable to changes in foreign exchange rates on partial payments of intercompany loans related to our Australian mortgage insurance business in the current year.

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Benefits and expenses

Benefits and other changes in policy reserves

Our Canadian mortgage insurance business decreased $20 million, including a decrease of $1 million attributable to changes in foreign exchange rates, primarily driven by lower losses incurred as a result of improved performance of our newer in-force blocks of business in the current year and lower severity of claims due to a higher proportion of delinquencies in provinces where severity has been lower and home price appreciation has been higher.

Our Australian mortgage insurance business decreased $12 million, including a decrease of $2 million attributable to changes in foreign exchange rates, primarily driven by improved aging on our existing delinquencies from higher home price appreciation and a lower volume of existing delinquencies converting to mortgages in possession in the current year. Paid claims also decreased in the current year as a result of a decrease in both the number of claims and the average claim payment. These decreases were partially offset by a lower cure rate in the current year.

Other Countries decreased $3 million primarily from lower new delinquencies, net of cures, and improved aging on our existing delinquencies in the current year. The decrease was also attributable to lender settlements in the prior year.

Acquisition and operating expenses, net of deferrals

Our Canadian mortgage insurance business increased $6 million, including a decrease of $2 million attributable to changes in foreign exchange rates, primarily from an early redemption payment of $6 million in May 2014 related to the redemption of Genworth Canada s senior notes that were scheduled to mature in 2015 and higher expenses related to stock options from an increase in the share price in the current year.

Our Australian mortgage insurance business decreased $4 million, including a decrease of $2 million attributable to changes in foreign exchange rates, primarily associated with lower operating expenses related to contract fees, partially offset by higher employee compensation and benefit expenses in the current year.

Other Countries decreased $4 million, including an increase of $1 million attributable to changes in foreign exchange rates, primarily from lower operating expenses in the current year. The prior year also included a $1 million restructuring charge that did not recur.

Provision for income taxes. The effective tax rate decreased to 21.8% for the three months ended June 30, 2014 from 27.9% for the three months ended June 30, 2013. The decrease in the effective tax rate was primarily attributable to increased tax benefits from lower taxed foreign income. The three months ended June 30, 2014 included a decrease of $5 million attributable to changes in foreign exchange rates.

Net income attributable to noncontrolling interests. The increase primarily related to the IPO of our Australian mortgage insurance business in May 2014, which reduced our ownership percentage to 66.2%, resulting in lower net income of $11 million in the current year.

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Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

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

(Amounts in millions)	**Six months ended June 30, 2014**	**Six months ended June 30, 2013**	**Increase (decrease) and percentage change 2014 vs. 2013**	
Revenues:				
Premiums	$ 472	$ 505	$ (33)	(7)%
Net investment income	149	173	(24)	(14)%
Net investment gains (losses)	9	16	(7)	(44)%
Insurance and investment product fees and other	(2)		(2)	NM[1]
Total revenues	628	694	(66)	(10)%
Benefits and expenses:				
Benefits and other changes in policy reserves	92	180	(88)	(49)%
Acquisition and operating expenses, net of deferrals	108	113	(5)	(4)%
Amortization of deferred acquisition costs and intangibles	30	33	(3)	(9)%
Interest expense	16	17	(1)	(6)%
Total benefits and expenses	246	343	(97)	(28)%
Income from continuing operations before income taxes	382	351	31	9%
Provision for income taxes	98	99	(1)	(1)%
Income from continuing operations	284	252	32	13%
Less: net income attributable to noncontrolling interests	87	77	10	13%
Income from continuing operations available to Genworth Financial, Inc. s common stockholders	197	175	22	13%
Adjustments to income from continuing operations available to Genworth Financial, Inc. s common stockholders:				
Net investment (gains) losses, net	(3)	(6)	3	50%
(Gains) losses on early extinguishment of debt, net	2		2	NM[1]
Expenses related to restructuring, net		1	(1)	(100)%
Net operating income	$ 196	$ 170	$ 26	15%

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

The following table sets forth net operating income for the businesses included in our International Mortgage Insurance segment for the periods indicated:

(Amounts in millions)	Six months ended June 30, 2014	Six months ended June 30, 2013	Increase (decrease) and percentage change 2014 vs. 2013	
Net operating income:				
Canada	$ 88	$ 85	$ 3	4%
Australia	119	101	18	18%
Other Countries	(11)	(16)	5	31%
Total net operating income	$ 196	$ 170	$ 26	15%

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Net operating income

- Our Canadian mortgage insurance business increased $3 million, including decrease of $8 million attributable to changes in foreign exchange rates, primarily from lower losses in the current year. This increase was partially offset by higher operating expenses and lower premiums in the current year.

- Our Australian mortgage insurance business increased $18 million, including a decrease of $18 million attributable to changes in foreign exchange rates, primarily from lower losses and higher premiums. Additionally, the IPO of our Australian mortgage insurance in May 2014 reduced our ownership percentage to 66.2%, resulting in lower net operating income of $11 million in the current year.

- Other Countries net operating loss decreased $5 million, including a decrease of $1 million attributable to changes in foreign exchange rates, primarily from lower losses and operating expenses, partially offset by lower premiums in the current year.

Revenues

Premiums

- Our Canadian mortgage insurance business decreased $27 million, including a decrease of $21 million attributable to changes in foreign exchange rates, primarily driven by the seasoning of our larger 2007 and 2008 in-force blocks of business, which are past their peak earnings period.

- Our Australian mortgage insurance business decreased $3 million, including a decrease of $27 million attributable to changes in foreign exchange rates. Excluding the effects of foreign exchange, premiums increased primarily as a result of the seasoning of our in-force block of business as larger, newer books reach their peak earnings period and higher premiums resulting from policy cancellations and new insurance written, partially offset by higher ceded reinsurance premiums in the current year.

- Other Countries decreased $3 million primarily as a result of lower premiums attributable to lender settlements in the prior year and higher ceded reinsurance premiums in the current year.

Net investment income. Net investment income decreased $24 million, including a decrease of $17 million attributable to changes in foreign exchange rates. The decrease was also primarily due to lower reinvestment yields during the current year, mainly in Australia.

Net investment gains (losses). For further discussion of the change in net investment gains (losses), see the comparison for this line item under Investments and Derivative Instruments. The decrease was primarily from lower net investment gains related to sales of securities in Canada in the current year.

Insurance and investment product fees and other. The decrease was primarily due to non-functional currency transactions attributable to changes in foreign exchange rates on partial payments of intercompany loans related to our

Australian mortgage insurance business in the current year.

Benefits and expenses

Benefits and other changes in policy reserves

Our Canadian mortgage insurance business decreased $38 million, including a decrease of $3 million attributable to changes in foreign exchange rates, primarily driven by lower severity of claims due to a higher proportion of delinquencies in provinces where severity has been lower and home price appreciation has been higher and lower losses incurred as a result of improved performance of our newer in-force blocks of business in the current year.

Our Australian mortgage insurance business decreased $43 million, including a decrease of $5 million attributable to changes in foreign exchange rates, primarily driven by improved aging on our existing delinquencies from higher home price appreciation and a lower volume of existing delinquencies converting to mortgages in possession in the current year. Paid claims also decreased in the current year as a result of a decrease in both the number of claims and the average claim payment.

Other Countries decreased $7 million primarily from lower new delinquencies, net of cures, and improved aging on our existing delinquencies in the current year. The decrease was also attributable to lender settlements in the prior year.

Acquisition and operating expenses, net of deferrals

Our Canadian mortgage insurance business increased $8 million, including a decrease of $3 million attributable to changes in foreign exchange rates, primarily from an early redemption payment of $6 million in May 2014 related to the redemption of Genworth Canada s senior notes that were scheduled to mature in 2015 and higher expenses related to stock options from an increase in the share price in the current year.

Our Australian mortgage insurance business decreased $9 million, including a decrease of $5 million attributable to changes in foreign exchange rates, primarily from lower operating expenses related to contract fees.

Other Countries decreased $4 million, including an increase of $1 million attributable to changes in foreign exchange rates, primarily from lower operating expenses in the current year. The prior year also included a $1 million restructuring charge that did not recur.

Amortization of deferred acquisition costs and intangibles. The decrease was largely driven by changes in foreign exchange rates.

Provision for income taxes. The effective tax rate decreased to 25.7% for the six months ended June 30, 2014 from 28.2% for the six months ended June 30, 2013. The decrease in the effective tax rate was primarily attributable to increased tax benefits from lower taxed foreign income. The six months ended June 30, 2014 included a decrease of $11 million attributable to changes in foreign exchange rates.

Net income attributable to noncontrolling interests. The increase primarily related to the IPO of our Australian mortgage insurance business in May 2014, which reduced our ownership percentage to 66.2%, resulting in lower net income of $11 million in the current year.

International Mortgage Insurance selected operating performance measures

The following tables set forth selected operating performance measures regarding our International Mortgage Insurance segment as of or for the dates indicated:

(Amounts in millions)	As of June 30, 2014	As of June 30, 2013	Increase (decrease) and percentage change 2014 vs. 2013	
Primary insurance in-force:				
Canada	$ 314,500	$ 285,200	$ 29,300	10%
Australia	288,500	266,500	22,000	8%
Other Countries	26,000	31,300	(5,300)	(17)%
Total	$ 629,000	$ 583,000	$ 46,000	8%
Risk in-force:				
Canada	$ 110,100	$ 99,800	$ 10,300	10%
Australia	101,000	93,300	7,700	8%
Other Countries [(1)]	3,600	4,200	(600)	(14)%
Total	$ 214,700	$ 197,300	$ 17,400	9%

(1) Risk in-force as of June 30, 2014 and 2013 excluded $298 million and $250 million, respectively, of risk in-force in Europe ceded under quota share reinsurance agreements.

(Amounts in millions)	Three months ended June 30, 2014	Three months ended June 30, 2013	Increase (decrease) and percentage change 2014 vs. 2013		Six months ended June 30, 2014	Six months ended June 30, 2013	Increase (decrease) and percentage change 2014 vs. 2013	
New insurance written:								
Canada	$ 12,500	$ 11,100	$ 1,400	13%	$ 18,300	$ 16,800	$ 1,500	9%
Australia	7,900	9,600	(1,700)	(18)%	15,700	17,500	(1,800)	(10)%
Other Countries	500	400	100	25%	900	800	100	13%
Total	$ 20,900	$ 21,100	$ (200)	(1)%	$ 34,900	$ 35,100	$ (200)	(1)%
Net premiums written:								
Canada	$ 146	$ 134	$ 12	9%	$ 223	$ 218	$ 5	2%
Australia	125	132	(7)	(5)%	251	249	2	1%

Other Countries	1	7	(6)	(86)%	7	12	(5)	(42)%
Total	$ 272	$ 273	$ (1)	%	$ 481	$ 479	$ 2	%

Primary insurance in-force and risk in-force

Our businesses in Canada and Australia currently provide 100% coverage on the majority of the loans we insure in those markets. For the purpose of representing our risk in-force, we have computed an effective risk in-force amount, which recognizes that the loss on any particular loan will be reduced by the net proceeds received upon sale of the property. Effective risk in-force has been calculated by applying to insurance in-force a factor that represents our highest expected average per-claim payment for any one underwriting year over the life of our businesses in Canada and Australia. For the three and six months ended June 30, 2014 and 2013, this factor was 35%.

In Canada, primary insurance in-force and risk in-force increased primarily as a result of flow new insurance written and bulk transactions, partially offset by decreases of $4.5 billion and $1.6 billion, respectively, attributable to changes in foreign exchange rates in the current year.

In Australia, primary insurance in-force and risk in-force increased mainly attributable to flow new insurance written and included increases of $9.2 billion and $3.2 billion, respectively, attributable to changes in foreign exchange rates in the current year.

In Other Countries, primary insurance in-force and risk in-force decreased mainly attributable to lender settlements, primarily in Ireland, in the fourth quarter of 2013, partially offset by increases of $1.3 billion and $0.2 billion, respectively, attributable to changes in foreign exchange rates in the current year.

New insurance written

For the three months and six months ended June 30, 2014, new insurance written in Canada increased primarily as a result of higher bulk transactions and an increase in flow new insurance written attributable to increased market penetration. The three and six months ended June 30, 2014 included decreases of $800 million and $1,400 million, respectively, attributable to changes in foreign exchange rates in Canada.

For the three months ended June 30, 2014, new insurance written in Australia decreased mainly attributable to bulk transactions in the prior year that did not recur and a decrease in flow new insurance written driven by a decrease of $800 million attributable to changes in foreign exchange rates in the current year. For the six months ended June 30, 2014, new insurance written in Australia decreased $2,100 million driven by changes in foreign exchange rates. Excluding the effects of foreign exchange, new insurance written in Australia increased mainly attributable to higher flow average price and improved housing market activity as interest rates remained low in the current year, partially offset by bulk transactions in the prior year that did not recur.

For the three and six months ended June 30, 2014, new insurance written in Other Countries increased slightly from flow new insurance written but remained at low levels as the mortgage originations market in Europe continued to be pressured by a weak economic environment.

Net premiums written

Most of our international mortgage insurance policies provide for single premiums at the time that loan proceeds are advanced. We initially record the single premiums to unearned premium reserves and recognize the premiums earned over time in accordance with the expected pattern of risk emergence. As of June 30, 2014, our unearned premium reserves were $2,887 million, including an increase of $100 million attributable to changes in foreign exchange rates, compared to $2,780 million as of June 30, 2013.

In Canada, net premiums written increased during the three and six months ended June 30, 2014 primarily from higher flow volume attributable to increased market penetration and higher bulk transactions in the current year. In addition, the price increase on high loan-to-value premiums effective May 1, 2014 resulted in higher net premiums written. The three and six months ended June 30, 2014 included decreases of $11 million and $18 million, respectively, attributable to changes in foreign exchange rates in Canada.

For the three months ended June 30, 2014, net premiums written in Australia decreased driven by changes in foreign exchange rates. Excluding the effects of foreign exchange for the three months ended June 30, 2014, net premiums written increased in Australia during the three and six months ended June 30, 2014 primarily from higher flow average price and volume, partially offset by lower loan-to-value mortgage originations and higher ceded reinsurance premiums in the current year. The three and six months ended June 30, 2014 included decreases of $13 million and $34 million, respectively, attributable to changes in foreign exchange rates in Australia.

In Other Countries, net premiums written decreased during the three and six months ended June 30, 2014 primarily from higher ceded reinsurance premiums in the current year.

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Loss and expense ratios

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

	Three months ended June 30,		Increase (decrease)	Six months ended June 30,		Increase (decrease)
	2014	2013	2014 vs. 2013	2014	2013	2014 vs. 2013
Loss ratio:						
Canada	12%	25%	(13)%	16%	28%	(12)%
Australia	23%	35%	(12)%	20%	41%	(21)%
Other Countries	90%	110%	(20)%	71%	100%	(29)%
Total	19%	32%	(13)%	20%	36%	(16)%
Expense ratio:						
Canada	26%	23%	3%	30%	28%	2%
Australia	23%	25%	(2)%	21%	26%	(5)%
Other Countries	NM[1]	177%	NM[2]	277%	176%	101%
Total	28%	28%	%	29%	30%	(1)%

(1) We define NM as not meaningful for percentages greater than 500%.
(2) We define NM as not meaningful for changes greater than 500%.

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

Loss ratio

The loss ratio in Canada for the three months ended June 30, 2014 decreased primarily driven by lower losses incurred as a result of improved performance of our newer in-force blocks of business in the current year and lower severity of claims due to a higher proportion of delinquencies in provinces where severity has been lower and home price appreciation has been higher. The loss ratio in Canada for the six months ended June 30, 2014 decreased primarily driven by lower severity of claims due to a higher proportion of delinquencies in provinces where severity has been lower and home price appreciation has been higher and lower losses incurred as a result of improved performance of our newer in-force blocks of business in the current year. Partially offsetting these decreases were lower premiums during the three and six months ended June 30, 2014 from the seasoning of our larger 2007 and 2008 in-force blocks of business, which are past their peak earnings period.

For the three and six months ended June 30, 2014, the loss ratio in Australia decreased primarily driven by improved aging on our existing delinquencies from higher home price appreciation and a lower volume of existing delinquencies converting to mortgages in possession in the current year. Paid claims also decreased in the current year as a result of a decrease in both the number of claims and the average claim payment. These decreases were partially offset by a lower cure rate during the three months ended June 30, 2014.

In Other Countries, the loss ratio decreased for the three and six months ended June 30, 2014 primarily from lower new delinquencies, net of cures, and improved aging on our existing delinquencies in the current year. The decrease was also attributable to lender settlements in the prior year.

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Expense ratio

In Canada, the expense ratio increased during the three and six months ended June 30, 2014 as higher operating expenses from the early redemption payment of $6 million in May 2014 related to the redemption of Genworth Canada s senior notes that were scheduled to mature in 2015 and higher expenses related to stock options from an increase in the share price in the current year were not fully offset by the impact of higher net premiums written. Excluding the early redemption payment of $6 million, the expense ratio for the three and six months ended June 30, 2014 would have been 21% and 27%, respectively.

The expense ratio in Australia decreased for the three months ended June 30, 2014 from lower operating expenses related to contract fees, partially offset by higher employee compensation and benefit expenses in the current year. This was partially offset by lower net premiums written from changes in foreign exchange rates in the current year. The expense ratio in Australia decreased for the six months ended June 30, 2014 from lower operating expenses related to contract fees in the current year.

In Other Countries, the expense ratio increased for the three and six months ended June 30, 2014 primarily from higher ceded net premiums written in the current year, partially offset by lower operating expenses in the current year and a $1 million restructuring charge in the prior year that did not recur.

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Delinquent loans

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

	June 30, 2014	December 31, 2013	June 30, 2013
Canada:			
Primary insured loans in-force	1,602,928	1,527,554	1,464,060
Delinquent loans	1,703	1,830	1,778
Percentage of delinquent loans (delinquency rate)	0.11%	0.12%	0.12%
Flow loan in-force	1,213,846	1,187,753	1,151,957
Flow delinquent loans	1,493	1,591	1,562
Percentage of flow delinquent loans (delinquency rate)	0.12%	0.13%	0.14%
Bulk loans in-force	389,082	339,801	312,103
Bulk delinquent loans	210	239	216
Percentage of bulk delinquent loans (delinquency rate)	0.05%	0.07%	0.07%
Australia:			
Primary insured loans in-force	1,481,201	1,474,181	1,459,376
Delinquent loans	5,405	4,980	5,820
Percentage of delinquent loans (delinquency rate)	0.36%	0.34%	0.40%
Flow loan in-force	1,362,236	1,350,571	1,330,157
Flow delinquent loans	5,125	4,760	5,513
Percentage of flow delinquent loans (delinquency rate)	0.38%	0.35%	0.41%
Bulk loans in-force	118,965	123,610	129,219
Bulk delinquent loans	280	220	307
Percentage of bulk delinquent loans (delinquency rate)	0.24%	0.18%	0.24%
Other Countries:			
Primary insured loans in-force	188,034	193,647	194,634
Delinquent loans	10,065	10,049	12,091
Percentage of delinquent loans (delinquency rate)	5.35%	5.19%	6.21%
Flow loan in-force	112,715	113,616	139,928
Flow delinquent loans	6,750	6,442	8,087
Percentage of flow delinquent loans (delinquency rate)	5.99%	5.67%	5.78%
Bulk loans in-force	75,319	80,031	54,706

Bulk delinquent loans	3,315	3,607	4,004
Percentage of bulk delinquent loans (delinquency rate)	4.40%	4.51%	7.32%
Total:			
Primary insured loans in-force	3,272,163	3,195,382	3,118,070
Delinquent loans	17,173	16,859	19,689
Percentage of delinquent loans (delinquency rate)	0.52%	0.53%	0.63%
Flow loan in-force	2,688,797	2,651,940	2,622,042
Flow delinquent loans	13,368	12,793	15,162
Percentage of flow delinquent loans (delinquency rate)	0.50%	0.48%	0.58%
Bulk loans in-force	583,366	543,442	496,028
Bulk delinquent loans (1)	3,805	4,066	4,527
Percentage of bulk delinquent loans (delinquency rate)	0.65%	0.75%	0.91%

(1) Included loans where we were in a secondary loss position for which no reserve was established due to an existing deductible. Excluding these loans, bulk delinquent loans were 3,778 as of June 30, 2014, 4,030 as of December 31, 2013 and 4,496 as of June 30, 2013.

In Canada, flow loans in-force increased from new policies written and flow delinquent loans decreased compared to December 31, 2013 as paid claims and cures more than offset new delinquencies in the current year. Bulk loans in-force increased from higher bulk transactions in the current year.

In Australia, flow loans in-force increased as a result of new policies written, partially offset by policy cancellations in the current year. Flow delinquent loans increased compared to December 31, 2013 as new delinquencies more than offset paid claims and cures.

In Other Countries, flow delinquent loans decreased compared to June 30, 2013 mainly attributable to lender settlements, primarily in Ireland, in the fourth quarter of 2013.

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U.S. Mortgage Insurance segment

Segment results of operations

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

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

(Amounts in millions)	Three months ended June 30, 2014	Three months ended June 30, 2013	Increase (decrease) and percentage change 2014 vs. 2013	
Revenues:				
Premiums	$ 144	$ 141	$ 3	2%
Net investment income	11	10	1	10%
Net investment gains (losses)				%
Insurance and investment product fees and other	1		1	NM[(1)]
Total revenues	156	151	5	3%
Benefits and expenses:				
Benefits and other changes in policy reserves	62	97	(35)	(36)%
Acquisition and operating expenses, net of deferrals	34	35	(1)	(3)%
Amortization of deferred acquisition costs and intangibles	2	2		%
Total benefits and expenses	98	134	(36)	(27)%
Income from continuing operations before income taxes	58	17	41	NM[(1)]
Provision for income taxes	19	4	15	NM[(1)]
Income from continuing operations	39	13	26	200%
Adjustment to income from continuing operations:				
Net investment (gains) losses, net				%
Net operating income	$ 39	$ 13	$ 26	200%

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

Net operating income

The increase in net operating income was mainly attributable to fewer new delinquencies, as well as lower reserves on new delinquencies, and improvements in net cures and aging on existing delinquencies in the current year.

Revenues

Premiums increased mainly attributable to higher average flow insurance in-force and lower ceded reinsurance premiums in the current year.

Benefits and expenses

Benefits and other changes in policy reserves decreased primarily driven by fewer new delinquencies, as well as lower reserves on new delinquencies, and improvements in net cures and aging on existing delinquencies in the current year. Reserves for prior year delinquencies benefitted $15 million during the current year from improvements in net cures and aging.

Provision for income taxes. The effective tax rate increased to 32.8% for the three months ended June 30, 2014 from 23.5% for the three months ended June 30, 2013. The increase in the effective tax rate was primarily attributable to changes in tax favored investment benefits in relation to pre-tax income, partially offset by the loss of foreign credits and the non-deductibility of the CFPB settlement in the prior year.

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Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

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

(Amounts in millions)	Six month ended June 30, 2014	Six month ended June 30, 2013	Increase (decrease) and percentage change 2014 vs. 2013	
Revenues:				
Premiums	$ 281	$ 275	$ 6	2%
Net investment income	29	29		%
Net investment gains (losses)				%
Insurance and investment product fees and other	1	1		%
Total revenues	311	305	6	2%
Benefits and expenses:				
Benefits and other changes in policy reserves	125	181	(56)	(31)%
Acquisition and operating expenses, net of deferrals	67	74	(7)	(9)%
Amortization of deferred acquisition costs and intangibles	4	3	1	33%
Total benefits and expenses	196	258	(62)	(24)%
Income from continuing operations before income taxes	115	47	68	145%
Provision for income taxes	43	13	30	NM[1]
Income from continuing operations	72	34	38	112%
Adjustment to income from continuing operations:				
Net investment (gains) losses, net				%
Net operating income	$ 72	$ 34	$ 38	112%

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

Net operating income

Net operating income increased in the current year mainly attributable to the decline in new delinquencies, as well as lower reserves on new delinquencies, and improvements in net cures and aging on existing delinquencies, partially offset by a net reserve strengthening of $11 million and unfavorable tax adjustments of $6 million recorded in the current year.

Revenues

Premiums increased driven by higher average flow insurance in-force and lower ceded reinsurance premiums in the current year.

Benefits and expenses

Benefits and other changes in policy reserves decreased driven by a decline in new delinquencies, as well as lower reserves on new delinquencies, and improvements in net cures and aging on existing delinquencies in the current year, partially offset by a net reserve strengthening of $17 million in the current year. In the first quarter of 2014, we strengthened reserves to reflect the expectation in future periods of increased claim severity primarily for late-stage delinquencies, partially offset by lower claim rates for early-stage delinquencies. Overall delinquencies continued to decline from factors such as increased cure rates resulting from improvements in the overall housing market, fewer new delinquencies and ongoing loss mitigation efforts. Reserves for prior year delinquencies benefitted $26 million during the current year from improvements in net cures and aging.

Acquisition and operating expenses, net of deferrals, decreased primarily from a settlement of approximately $4 million with the CFPB to end its review of industry captive reinsurance arrangements in the prior year that did not recur and lower operating expenses in the current year.

Provision for income taxes. The effective tax rate increased to 37.4% for the six months ended June 30, 2014 from 27.7% for the six months ended June 30, 2013. The increase in the effective tax rate was primarily attributable to changes in tax favored investment benefits in relation to pre-tax income and changes in the state tax valuation allowance, partially offset by the loss of foreign credits and the non-deductibility of the CFPB settlement in the prior year.

U.S. Mortgage Insurance selected operating performance measures

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

(Amounts in millions)	As of June 30, 2014	2013	Increase (decrease) and percentage change 2014 vs. 2013	
Primary insurance in-force	$ 110,500	$ 108,800	$ 1,700	2%
Risk in-force	27,500	26,600	900	3%

(Amounts in millions)	Three months ended June 30, 2014	2013	Increase (decrease) and percentage change 2014 vs. 2013		Six months ended June 30, 2014	2013	Increase (decrease) and percentage change 2014 vs. 2013	
New insurance written	$ 6,100	$ 6,300	$ (200)	(3)%	$ 10,000	$ 11,000	$ (1,000)	(9)%
Net premiums written	151	144	7	5%	295	279	16	6%

Primary insurance in-force and risk in-force

Primary insurance in-force increased as the result of an increase of $3.0 billion in flow insurance in-force, which increased from $103.5 billion as of June 30, 2013 to $106.5 billion as of June 30, 2014, as a result of new insurance written during 2013. This increase was partially offset by a decline of $1.3 billion in bulk insurance in-force, which decreased from $5.3 billion as of June 30, 2013 to $4.0 billion as of June 30, 2014, from cancellations and lapses. In addition, risk in-force increased primarily as a result of higher flow new insurance written, partially offset by the decline in bulk risk in-force. Flow persistency was 84% and 81% for the six months ended June 30, 2014 and 2013, respectively.

New insurance written

New insurance written decreased for the three and six months ended June 30, 2014 primarily driven by a decline in the mortgage insurance origination market. Mortgage refinance originations also remained low as a result of higher interest rates during the current year.

Net premiums written

Net premiums written for the three and six months ended June 30, 2014 increased due to higher average flow insurance in-force and lower ceded reinsurance premiums in the current year.

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Loss and expense ratios

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

	Three months ended June 30,		Increase (decrease)	Six months ended June 30,		Increase (decrease)
	2014	**2013**	**2014 vs. 2013**	**2014**	**2013**	**2014 vs. 2013**
Loss ratio	43%	70%	(27)%	45%	66%	(21)%
Expense ratio	23%	25%	(2)%	24%	28%	(4)%

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

The loss ratio for the three months ended June 30, 2014 decreased primarily driven by a decline in new delinquencies, as well as lower reserves on new delinquencies, and improvements in net cures and aging on existing delinquencies in the current year. Reserves for prior year delinquencies benefitted $15 million for the three months ended June 30, 2014 from improvements in net cures and aging.

The decrease in the loss ratio for the six months ended June 30, 2014 was primarily attributable to fewer new delinquencies, as well as lower reserves on new delinquencies, and improved net cures and aging on existing delinquencies in the current year, partially offset by a net reserve strengthening of $17 million in the current year. In the first quarter of 2014, we strengthened reserves to reflect the expectation in future periods of increased claim severity primarily for late-stage delinquencies, partially offset by lower claim rates for early-stage delinquencies. Reserves for prior year delinquencies benefitted $26 million during the six months ended June 30, 2014 from improvements in net cures and aging.

The expense ratio decreased for the three months ended June 30, 2014 from higher net premiums written in the current year. The expense ratio decreased for the six months ended June 30, 2014 as a result of the settlement of approximately $4 million with the CFPB to end its review of industry captive reinsurance arrangements in the prior year did not recur, lower operating expenses and higher net premiums written.

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Delinquent loans

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

	June 30, 2014	December 31, 2013	June 30, 2013
Primary insurance:			
Insured loans in-force	620,415	624,236	633,685
Delinquent loans	42,605	51,459	58,199
Percentage of delinquent loans (delinquency rate)	6.87%	8.24%	9.18%
Flow loan in-force	585,719	586,546	590,949
Flow delinquent loans	40,897	49,255	55,413
Percentage of flow delinquent loans (delinquency rate)	6.98%	8.40%	9.38%
Bulk loans in-force	34,696	37,690	42,736
Bulk delinquent loans [(1)]	1,708	2,204	2,786
Percentage of bulk delinquent loans (delinquency rate)	4.92%	5.85%	6.52%
A minus and sub-prime loans in-force	36,219	39,307	42,993
A minus and sub-prime loans delinquent loans	8,238	10,023	10,803
Percentage of A minus and sub-prime delinquent loans (delinquency rate)	22.74%	25.50%	25.13%
Pool insurance:			
Insured loans in-force	10,336	11,354	12,063
Delinquent loans	546	628	634
Percentage of delinquent loans (delinquency rate)	5.28%	5.53%	5.26%

(1) Included loans where we were in a secondary loss position for which no reserve was established due to an existing deductible. Excluding these loans, bulk delinquent loans were 1,147 as of June 30, 2014, 1,491 as of December 31, 2013 and 1,526 as of June 30, 2013.

Delinquency and foreclosure levels that developed principally in our 2005 through 2008 book years have declined as the United States has continued to experience improvement in its residential real estate market. We also have seen a decline in new delinquencies and lower foreclosure starts in the current year.

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

June 30, 2014

(Dollar amounts in millions)	Delinquencies	Direct case reserves [1]	Risk in-force	Reserves as % of risk in-force
Payments in default:				
3 payments or less	10,780	$ 76	$ 427	18%
4-11 payments	9,601	242	398	61%
12 payments or more	20,516	765	1,016	75%
Total	40,897	$ 1,083	$ 1,841	59%

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

	December 31, 2013			
(Dollar amounts in millions)	Delinquencies	Direct case reserves [1]	Risk in-force	Reserves as % of risk in-force
Payments in default:				
3 payments or less	13,436	$ 121	$ 523	23%
4-11 payments	11,854	305	486	63%
12 payments or more	23,965	851	1,178	72%
Total	49,255	$ 1,277	$ 2,187	58%

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

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

	Percent of primary risk in-force as of June 30, 2014	Percent of total reserves as of June 30, 2014 [1]	Delinquency rate		
			June 30, 2014	December 31, 2013	June 30, 2013
By Region:					
Southeast [2]	20%	30%	9.01%	11.02%	12.69%
South Central [3]	16	7	4.73%	5.85%	6.29%
Northeast [4]	15	25	11.17%	12.30%	12.50%
Pacific [5]	12	10	5.28%	6.47%	7.96%
North Central [6]	11	10	5.89%	7.39%	8.62%
Great Lakes [7]	10	6	4.90%	6.03%	6.78%
New England [8]	6	5	6.69%	7.74%	8.57%
Mid-Atlantic [9]	5	5	6.79%	8.18%	8.85%
Plains [10]	5	2	4.50%	5.46%	5.93%
Total	100%	100%	6.87%	8.24%	9.18%

(1) Total reserves were $1,256 million as of June 30, 2014.

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

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

(4) New Jersey, New York and Pennsylvania.

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

(6) Illinois, Minnesota, Missouri and Wisconsin.
(7) Indiana, Kentucky, Michigan and Ohio.
(8) Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.
(9) Delaware, Maryland, Virginia, Washington D.C. and West Virginia.
(10) Idaho, Iowa, Kansas, Montana, Nebraska, North Dakota, South Dakota and Wyoming.

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	Percent of primary risk in-force as of June 30, 2014	Percent of total reserves as of June 30, 2014 [1]	Delinquency rate June 30, 2014	December 31, 2013	June 30, 2013
By State:					
California	7%	4%	3.42%	4.27%	5.39%
Texas	7%	3%	4.66%	5.68%	5.74%
New York	6%	11%	11.11%	11.90%	11.58%
Florida	6%	21%	15.71%	19.50%	23.12%
Illinois	5%	6%	7.82%	9.67%	11.95%
New Jersey	4%	10%	15.45%	16.76%	18.05%
Pennsylvania	4%	4%	8.25%	9.73%	9.94%
Georgia	4%	3%	6.76%	8.48%	9.73%
Ohio	4%	2%	5.44%	6.69%	7.29%
North Carolina	4%	2%	6.04%	7.43%	8.47%

(1) Total reserves were $1,256 million as of June 30, 2014.

The following table sets forth the dispersion of our total reserves and primary insurance in-force and risk in-force by year of policy origination and average annual mortgage interest rate as of June 30, 2014:

(Amounts in millions)	Average rate	Percent of total reserves [1]	Primary insurance in-force	Percent of total	Primary risk in-force	Percent of total
Policy Year						
2003 and prior	6.41%	7.4%	$ 3,962	3.6%	$ 903	3.3%
2004	5.74%	5.2	2,631	2.4	628	2.3
2005	5.71%	12.4	5,154	4.6	1,372	5.0
2006	5.96%	17.8	7,857	7.1	1,992	7.3
2007	5.89%	37.4	18,641	16.9	4,670	17.1
2008	5.42%	17.7	16,547	15.0	4,175	15.3
2009	4.98%	0.6	2,996	2.7	672	2.5
2010	4.69%	0.6	3,950	3.6	924	3.4
2011	4.49%	0.4	5,305	4.8	1,310	4.8
2012	3.78%	0.3	12,812	11.6	3,157	11.5
2013	3.95%	0.2	20,775	18.8	5,048	18.5
2014	4.48%		9,881	8.9	2,463	9.0
Total portfolio	5.08%	100.0%	$ 110,511	100.0%	$ 27,314	100.0%

(1) Total reserves were $1,256 million as of June 30, 2014.

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Corporate and Other Division

Division results of operations

The following table sets forth the results of operations relating to our Corporate and Other Division for the periods indicated. See below for a discussion by segment.

(Amounts in millions)	Three months ended June 30, 2014	Three months ended June 30, 2013	Increase (decrease) and percentage change 2014 vs. 2013		Six months ended June 30, 2014	Six months ended June 30, 2013	Increase (decrease) and percentage change 2014 vs. 2013	
Net operating income (loss):								
International Protection segment	$ 2	$ 1	$ 1	100%	$ 9	$ 7	$ 2	29%
Runoff segment	15	6	9	150%	27	22	5	23%
Corporate and Other activities	(64)	(55)	(9)	(16)%	(115)	(113)	(2)	(2)%
Total net operating loss	(47)	(48)	1	2%	(79)	(84)	5	6%
Adjustments to net operating loss:								
Net investment gains (losses), net	(1)		(1)	NM[(1)]	(11)	(21)		