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, 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
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:

	Three months ended June 30,		Six months ended June 30,	
(Amounts in millions, except per share amounts)	**2014**	**2013**	**2014**	**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).

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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

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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:

(Amounts in millions)	Amortized cost or cost	Gross unrealized gains: Not other-than-temporarily impaired	Gross unrealized gains: Other-than-temporarily impaired	Gross unrealized losses: Not other-than-temporarily impaired	Gross unrealized losses: Other-than-temporarily impaired	Fair value
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 4,894	$ 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:

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

Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 4,710	$ 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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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.

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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.

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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:

(Dollar amounts in millions)	Less than 12 months			12 months or more			Total		
	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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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.

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

	June 30, 2014		December 31, 2013	
(Amounts in millions)	**Carrying value**	**% of total**	**Carrying value**	**% 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	

	June 30, 2014		December 31, 2013	
(Amounts in millions)	**Carrying value**	**% of total**	**Carrying value**	**% 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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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.

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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	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

(Amounts in millions)	Gross amounts recognized	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Gross amounts not offset in the balance sheet: Financial instruments [3]	Gross amounts not offset in the balance sheet: 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:

(Amounts in millions)	June 30, 2014 Notional value	June 30, 2014 Assets	June 30, 2014 Liabilities	December 31, 2013 Notional value	December 31, 2013 Assets	December 31, 2013 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:

(Amounts in millions)	June 30, 2014 Notional value	June 30, 2014 Assets	June 30, 2014 Liabilities	December 31, 2013 Notional value	December 31, 2013 Assets	December 31, 2013 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:

		Total realized and unrealized gains (losses)									
(Amounts in millions)	Beginning balance as of April 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	$ 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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(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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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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		Total realized and unrealized gains (losses)									
(Amounts in millions)	Beginning balance as of January 1, 2013	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.

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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:

(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	$ 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.

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(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:

		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 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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(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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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(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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(Unaudited)

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				