GENWORTH FINANCIAL INC
Form 10-Q
August 03, 2012
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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, 2012

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	**33-1073076**
(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 27, 2012, 491,630,268 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, 2012 (Unaudited)	December 31, 2011
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	$ 59,791	$ 58,295
Equity securities available-for-sale, at fair value	431	361
Commercial mortgage loans	5,875	6,092
Restricted commercial mortgage loans related to securitization entities	382	411
Policy loans	1,619	1,549
Other invested assets	4,512	4,819
Restricted other invested assets related to securitization entities ($392 and $376 at fair value)	391	377
Total investments	73,001	71,904
Cash and cash equivalents	3,874	4,488
Accrued investment income	652	691
Deferred acquisition costs	5,023	5,193
Intangible assets	519	580
Goodwill	1,218	1,253
Reinsurance recoverable	17,177	16,998
Other assets	1,039	958
Separate account assets	10,033	10,122
Total assets	$ 112,536	$ 112,187
Liabilities and stockholders equity		
Liabilities:		
Future policy benefits	$ 32,825	$ 32,175
Policyholder account balances	26,160	26,345
Liability for policy and contract claims	7,552	7,620
Unearned premiums	4,156	4,223
Other liabilities ($186 and $210 other liabilities related to securitization entities)	5,790	6,308
Borrowings related to securitization entities ($57 and $48 at fair value)	375	396
Non-recourse funding obligations	2,598	3,256
Long-term borrowings	4,865	4,726
Deferred tax liability	1,216	838
Separate account liabilities	10,033	10,122
Total liabilities	95,570	96,009
Commitments and contingencies		
Stockholders equity:		
Class A common stock, $0.001 par value; 1.5 billion shares authorized; 580 million and 579 million shares issued as of June 30, 2012 and December 31, 2011, respectively; 492 million shares and 491 million shares outstanding as of June 30, 2012 and December 31, 2011, respectively	1	1
Additional paid-in capital	12,156	12,136

Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	2,132	1,617
Net unrealized gains (losses) on other-than-temporarily impaired securities	(116)	(132)
Net unrealized investment gains (losses)	2,016	1,485
Derivatives qualifying as hedges	2,087	2,009
Foreign currency translation and other adjustments	550	553
Total accumulated other comprehensive income (loss)	4,653	4,047
Retained earnings	1,707	1,584
Treasury stock, at cost (88 million shares as of June 30, 2012 and December 31, 2011)	(2,700)	(2,700)
Total Genworth Financial, Inc. s stockholders equity	15,817	15,068
Noncontrolling interests	1,149	1,110
Total stockholders equity	16,966	16,178
Total liabilities and stockholders equity	$ 112,536	$ 112,187

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, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Revenues:				
Premiums	$ 1,302	$ 1,455	$ 2,409	$ 2,892
Net investment income	846	881	1,678	1,711
Net investment gains (losses)	(34)	(40)	1	(68)
Insurance and investment product fees and other	409	359	861	688
Total revenues	2,523	2,655	4,949	5,223
Benefits and expenses:				
Benefits and other changes in policy reserves	1,382	1,679	2,614	3,092
Interest credited	194	204	389	405
Acquisition and operating expenses, net of deferrals	502	581	1,032	1,144
Amortization of deferred acquisition costs and intangibles	148	162	420	313
Interest expense	131	134	226	261
Total benefits and expenses	2,357	2,760	4,681	5,215
Income (loss) before income taxes	166	(105)	268	8
Provision (benefit) for income taxes	57	(5)	79	15
Net income (loss)	109	(100)	189	(7)
Less: net income attributable to noncontrolling interests	33	36	66	70
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ 76	$ (136)	$ 123	$ (77)
Net income (loss) available to Genworth Financial, Inc. s common stockholders per common share:				
Basic	$ 0.16	$ (0.28)	$ 0.25	$ (0.16)
Diluted	$ 0.16	$ (0.28)	$ 0.25	$ (0.16)
Weighted-average common shares outstanding:				
Basic	491.5	490.6	491.4	490.4
Diluted	493.9	490.6	494.8	490.4
Supplemental disclosures:				
Total other-than-temporary impairments	$ (42)	$ (28)	$ (58)	$ (59)
Portion of other-than-temporary impairments included in other comprehensive income (loss)	3	2	2	(3)
Net other-than-temporary impairments	(39)	(26)	(56)	(62)

Other investments gains (losses)		5		(14)		57		(6)
Total net investment gains (losses)	$	(34)	$	(40)	$	1	$	(68)

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, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Net income (loss)	$ 109	$ (100)	$ 189	$ (7)
Other comprehensive income (loss), net of taxes:				
Net unrealized gains (losses) on securities not other-than-temporarily impaired	697	294	512	344
Net unrealized gains (losses) on other-than-temporarily impaired securities	(5)	(2)	16	5
Derivatives qualifying as hedges	407	79	78	19
Foreign currency translation and other adjustments	(119)	97	(3)	249
Total other comprehensive income (loss)	980	468	603	617
Total comprehensive income (loss)	1,089	368	792	610
Less: comprehensive income attributable to noncontrolling interests	16	57	63	111
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$ 1,073	$ 311	$ 729	$ 499

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, 2011	$ 1	$ 12,136	$ 4,047	$ 1,584	$ (2,700)	$ 15,068	$ 1,110	$ 16,178
Comprehensive income (loss):								
Net income				123		123	66	189
Net unrealized gains (losses) on securities not other-than-temporarily impaired			515			515	(3)	512
Net unrealized gains (losses) on other-than-temporarily impaired securities			16			16		16
Derivatives qualifying as hedges			78			78		78
Foreign currency translation and other adjustments			(3)			(3)		(3)
Total comprehensive income (loss)						729	63	792
Dividends to noncontrolling interests							(24)	(24)
Stock-based compensation expense and exercises and other		20				20		20
Balances as of June 30, 2012	$ 1	$ 12,156	$ 4,653	$ 1,707	$ (2,700)	$ 15,817	$ 1,149	$ 16,966
Balances as of December 31, 2010	$ 1	$ 12,107	$ 1,506	$ 1,535	$ (2,700)	$ 12,449	$ 1,096	$ 13,545
Repurchase of subsidiary shares							(71)	(71)
Comprehensive income (loss):								
Net income (loss)				(77)		(77)	70	(7)
Net unrealized gains (losses) on securities not other-than-temporarily impaired			339			339	5	344
Net unrealized gains (losses) on other-than-temporarily impaired securities			5			5		5
Derivatives qualifying as hedges			19			19		19
Foreign currency translation and other adjustments			213			213	36	249
Total comprehensive income (loss)						499	111	610
Dividends to noncontrolling interests							(24)	(24)
Stock-based compensation expense and exercises and other		15				15		15
Balances as of June 30, 2011	$ 1	$ 12,122	$ 2,082	$ 1,458	$ (2,700)	$ 12,963	$ 1,112	$ 14,075

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, 2012	Six months ended June 30, 2011
Cash flows from operating activities:		
Net income (loss)	$ 189	$ (7)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Amortization of fixed maturity discounts and premiums and limited partnerships	(49)	(53)
Net investment losses (gains)	(1)	68
Charges assessed to policyholders	(388)	(327)
Acquisition costs deferred	(309)	(319)
Amortization of deferred acquisition costs and intangibles	420	313
Deferred income taxes	46	(94)
Gain on sale of subsidiary	(15)	
Net increase in trading securities, held-for-sale investments and derivative instruments	93	79
Stock-based compensation expense	13	16
Change in certain assets and liabilities:		
Accrued investment income and other assets	5	(83)
Insurance reserves	1,001	1,292
Current tax liabilities	(196)	5
Other liabilities and other policy-related balances	(589)	(48)
Net cash from operating activities	220	842
Cash flows from investing activities:		
Proceeds from maturities and repayments of investments:		
Fixed maturity securities	2,366	3,069
Commercial mortgage loans	391	411
Restricted commercial mortgage loans related to securitization entities	25	49
Proceeds from sales of investments:		
Fixed maturity and equity securities	2,538	1,893
Purchases and originations of investments:		
Fixed maturity and equity securities	(5,596)	(5,183)
Commercial mortgage loans	(184)	(142)
Other invested assets, net	378	(28)
Policy loans, net	(70)	(71)
Proceeds from sale of a subsidiary, net of cash transferred	64	
Payments for businesses purchased, net of cash acquired	(18)	(4)
Net cash from investing activities	(106)	(6)
Cash flows from financing activities:		
Deposits to universal life and investment contracts	1,351	1,221
Withdrawals from universal life and investment contracts	(1,506)	(2,123)
Redemption and repurchase of non-recourse funding obligations	(567)	(45)
Proceeds from the issuance of long-term debt	361	545
Repayment and repurchase of long-term debt	(222)	(760)

Repayment of borrowings related to securitization entities	(29)	(49)
Repurchase of subsidiary shares		(71)
Dividends paid to noncontrolling interests	(24)	(24)
Other, net	(89)	137
Net cash from financing activities	(725)	(1,169)
Effect of exchange rate changes on cash and cash equivalents	(3)	32
Net change in cash and cash equivalents	(614)	(301)
Cash and cash equivalents at beginning of period	4,488	3,132
Cash and cash equivalents at end of period	$ 3,874	$ 2,831

See Notes to Condensed Consolidated Financial Statements

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Formation of Genworth and Basis of Presentation

Genworth Financial, Inc. (Genworth) was incorporated in Delaware on October 23, 2003. The accompanying 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, which we refer to as the Company, we, us or our unless the context otherwise requires. 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. Our primary insurance products include life and long-term care insurance.

International Protection. We are a leading provider of payment protection coverages (referred to as lifestyle protection) in multiple European 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.

Wealth Management. We offer and manage a variety of wealth management services, including investments, advisor support and practice management services.

International Mortgage Insurance. We are a leading provider of mortgage insurance products and related services in Canada, Australia, Mexico and multiple European countries. Our products predominantly insure prime-based, individually underwritten residential mortgage loans, also known as flow mortgage insurance. On a limited basis, we also 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.

Runoff. The Runoff segment includes the results of non-strategic products which are no longer actively sold. Our non-strategic products include our variable annuity, variable life insurance, institutional, corporate-owned life insurance and Medicare supplement insurance products. Institutional products consist of funding agreements, funding agreements backing notes (FABNs) and guaranteed investment contracts (GICs). In January 2011, we discontinued new sales of retail and group variable annuities while continuing to service our existing blocks of business. Effective October 1, 2011, we completed the sale of our Medicare supplement insurance business.

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

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.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Actual results could differ from those estimates. These condensed consolidated financial statements include all 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 condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. The condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and related notes contained in our Current Report on Form 8-K filed on June 11, 2012 which reflected retrospective changes in accounting for costs associated with acquiring or renewing insurance contracts and changes in the treatment of future policy benefits for level premium term life insurance products. Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) Accounting Changes

On January 1, 2012, we adopted new accounting guidance requiring presentation of the components of net income (loss), the components of other comprehensive income (loss) (OCI) and total comprehensive income either in a single continuous statement of comprehensive income (loss) or in two separate but consecutive statements. We chose to present two separate but consecutive statements and adopted this new guidance retrospectively. The Financial Accounting Standards Board (FASB) issued an amendment relating to this new guidance for presentation of the reclassification of items out of accumulated other comprehensive income into net income that removed this requirement until further guidance is issued. The adoption of this new accounting guidance did not have any impact on our consolidated financial results.

On January 1, 2012, we adopted new accounting guidance related to fair value measurements. This new accounting guidance clarified existing fair value measurement requirements and changed certain fair value measurement principles and disclosure requirements. The adoption of this accounting guidance did not have a material impact on our consolidated financial statements.

On January 1, 2012, we adopted new accounting guidance related to repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The new guidance removed the requirement to consider a transferor s ability to fulfill its contractual rights from the criteria used to determine effective control and was effective for us prospectively for any transactions occurring on or after January 1, 2012. The adoption of this accounting guidance did not have a material impact on our consolidated financial statements.

On January 1, 2012, we adopted new accounting guidance related to accounting for costs associated with acquiring or renewing insurance contracts. Acquisition costs include costs that are related directly to the successful acquisition of our insurance policies and investment contracts, which are deferred and amortized over the estimated life of the related insurance policies. These costs include commissions in excess of ultimate renewal commissions and for contracts and policies issued some support costs, such as underwriting, medical inspection and issuance expenses. Deferred acquisition costs (DAC) are subsequently amortized to expense over the lives of the underlying contracts, in relation to the anticipated recognition of premiums or gross profits. We adopted this new guidance retrospectively, which reduced retained earnings and stockholders equity by $1.3 billion as of January 1, 2011, and reduced net income (loss) by $63 million, $86 million and $12 million for the years ended December 31, 2011, 2010 and 2009, respectively. This new guidance results in lower amortization and fewer deferred costs, specifically related to underwriting, inspection and processing for contracts that are not issued, as well as marketing and customer solicitation.

Effective January 1, 2012, we changed our treatment of the liability for future policy benefits for our level premium term life insurance products when the liability for a policy falls below zero. Previously, the total

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

liability for future policy benefits included negative reserves calculated at an individual policy level. Through 2010, we issued level premium term life insurance policies whose premiums are contractually determined to be level through a period of time and then increase thereafter. Our previous accounting policy followed the accounting for traditional, long-duration insurance contracts where the reserves are calculated as the present value of expected benefit payments minus the present value of net premiums based on assumptions determined on the policy issuance date including mortality, interest, and lapse rates. This accounting has the effect of causing profits to emerge as a level percentage of premiums, subject to differences in assumed versus actual experience which flow through income as they occur, and for products with an increasing premium stream, such as the level premium term life insurance product, may result in negative reserves for a given policy.

More recent insurance-specific accounting guidance reflects a different accounting philosophy, emphasizing the balance sheet over the income statement, or matching, focus which was the philosophy in place when the traditional, long-duration insurance contract guidance was issued (the accounting model for traditional, long-duration insurance contracts draws upon the principles of matching and conservatism originating in the 1970 s, and does not specifically address negative reserves). More recent accounting models for long-duration contracts specifically prohibit negative reserves, e.g., non-traditional contracts with annuitization benefits and certain participating contracts. These recent accounting models do not impact the reserving for our level premium term life insurance products.

We believe that industry accounting practices for level premium term life insurance product reserving is mixed with some companies flooring reserves at zero and others applying our previous accounting policy described above. In 2010, we stopped issuing new level premium term life insurance policies. Thus, as the level premium term policies reach the end of their level premium term periods, the portion of policies with negative reserves in relation to the reserve for all level premium term life insurance products will continue to increase. Our new method of accounting floors the liability for future policy benefits on each level premium term life insurance policy at zero. We believe that flooring reserves at zero is preferable in our circumstances as this alternative accounting policy will not allow negative reserves to accumulate on the balance sheet for this closed block of insurance policies. In implementing this change in accounting, no changes were made to the assumptions that were locked-in at policy inception. We implemented this accounting change retrospectively, which reduced retained earnings and stockholders equity by $110 million as of January 1, 2011, and reduced net income (loss) by $10 million, $4 million and $32 million for the years ended December 31, 2011, 2010 and 2009, respectively.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the balance sheet as of December 31, 2011 reflecting the impact of the accounting changes that were retrospectively adopted on January 1, 2012:

(Amounts in millions)	As Originally Reported	Effect of DAC Change	Effect of Reserve Change	As Currently Reported
Assets				
Total investments	$ 71,904	$	$	$ 71,904
Cash and cash equivalents	4,488			4,488
Accrued investment income	691			691
Deferred acquisition costs	7,327	(2,134)		5,193
Intangible assets	577	3		580
Goodwill	1,253			1,253
Reinsurance recoverable	16,982		16	16,998
Other assets	958			958
Separate account assets	10,122			10,122
Total assets	$ 114,302	$ (2,131)	$ 16	$ 112,187
Liabilities and stockholders equity				
Liabilities:				
Future policy benefits	$ 31,971	$ 3	$ 201	$ 32,175
Policyholder account balances	26,345			26,345
Liability for policy and contract claims	7,620			7,620
Unearned premiums	4,257	(34)		4,223
Other liabilities	6,308			6,308
Borrowings related to securitization entities	396			396
Non-recourse funding obligations	3,256			3,256
Long-term borrowings	4,726			4,726
Deferred tax liability	1,636	(733)	(65)	838
Separate account liabilities	10,122			10,122
Total liabilities	96,637	(764)	136	96,009
Stockholders equity:				
Class A common stock	1			1
Additional paid-in capital	12,124	12		12,136
Accumulated other comprehensive income (loss):				
Net unrealized investment gains (losses):				
Net unrealized gains (losses) on securities not other-than-temporarily impaired	1,586	31		1,617
Net unrealized gains (losses) on other-than-temporarily impaired securities	(132)			(132)
Net unrealized investment gains (losses)	1,454	31		1,485
Derivatives qualifying as hedges	2,009			2,009

Foreign currency translation and other adjustments	558	(5)		553
Total accumulated other comprehensive income (loss)	4,021	26		4,047
Retained earnings	3,095	(1,391)	(120)	1,584
Treasury stock, at cost	(2,700)			(2,700)
Total Genworth Financial, Inc. s stockholders equity	16,541	(1,353)	(120)	15,068
Noncontrolling interests	1,124	(14)		1,110
Total stockholders equity	17,665	(1,367)	(120)	16,178
Total liabilities and stockholders equity	$ 114,302	$ (2,131)	$ 16	$ 112,187

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the income statement for the three months ended June 30, 2011 reflecting the impact of the accounting changes that were retrospectively adopted on January 1, 2012:

(Amounts in millions)	As Originally Reported	Effect of DAC Change	Effect of Reserve Change	As Currently Reported
Revenues:				
Premiums	$ 1,455	$	$	$ 1,455
Net investment income	881			881
Net investment gains (losses)	(40)			(40)
Insurance and investment product fees and other	359			359
Total revenues	2,655			2,655
Benefits and expenses:				
Benefits and other changes in policy reserves	1,672		7	1,679
Interest credited	204			204
Acquisition and operating expenses, net of deferrals	514	67		581
Amortization of deferred acquisition costs and intangibles	197	(35)		162
Interest expense	134			134
Total benefits and expenses	2,721	32	7	2,760
Loss before income taxes	(66)	(32)	(7)	(105)
Benefit for income taxes	(6)	4	(3)	(5)
Net loss	(60)	(36)	(4)	(100)
Less: net income attributable to noncontrolling interests	36			36
Net loss available to Genworth Financial, Inc. s common stockholders	$ (96)	$ (36)	$ (4)	$ (136)
Net loss available to Genworth Financial, Inc. s common stockholders per common share:				
Basic [(1)]	$ (0.20)	$ (0.07)	$ (0.01)	$ (0.28)
Diluted [(1)]	$ (0.20)	$ (0.07)	$ (0.01)	$ (0.28)

(1) May not total due to whole number calculation.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the income statement for the six months ended June 30, 2011 reflecting the impact of the accounting changes that were retrospectively adopted on January 1, 2012:

(Amounts in millions)	As Originally Reported	Effect of DAC Change	Effect of Reserve Change	As Currently Reported
Revenues:				
Premiums	$ 2,892	$	$	$ 2,892
Net investment income	1,711			1,711
Net investment gains (losses)	(68)			(68)
Insurance and investment product fees and other	688			688
Total revenues	5,223			5,223
Benefits and expenses:				
Benefits and other changes in policy reserves	3,081		11	3,092
Interest credited	405			405
Acquisition and operating expenses, net of deferrals	1,014	130		1,144
Amortization of deferred acquisition costs and intangibles	382	(69)		313
Interest expense	261			261
Total benefits and expenses	5,143	61	11	5,215
Income before income taxes	80	(61)	(11)	8
Provision for income taxes	24	(5)	(4)	15
Net income (loss)	56	(56)	(7)	(7)
Less: net income attributable to noncontrolling interests	70			70
Net loss available to Genworth Financial, Inc. s common stockholders	$ (14)	$ (56)	$ (7)	$ (77)
Net loss available to Genworth Financial, Inc. s common stockholders per common share:				
Basic [(1)]	$ (0.03)	$ (0.11)	$ (0.01)	$ (0.16)
Diluted [(1)]	$ (0.03)	$ (0.11)	$ (0.01)	$ (0.16)

(1) May not total due to whole number calculation.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the cash flows from operating activities for the six months ended June 30, 2011 reflecting the impact of the accounting changes that were retrospectively adopted on January 1, 2012:

(Amounts in millions)	**As Originally Reported**	**Effect of DAC Change**	**Effect of Reserve Change**	**As Currently Reported**
Cash flows from operating activities:				
Net income (loss)	$ 56	$ (56)	$ (7)	$ (7)
Adjustments to reconcile net income (loss) to net cash from operating activities:				
Amortization of fixed maturity discounts and premiums and limited partnerships	(53)			(53)
Net investment losses	68			68
Charges assessed to policyholders	(327)			(327)
Acquisition costs deferred	(449)	130		(319)
Amortization of deferred acquisition costs and intangibles	382	(69)		313
Deferred income taxes	(85)	(5)	(4)	(94)
Net increase in trading securities, held-for-sale investments and derivative instruments	79			79
Stock-based compensation expense	16			16
Change in certain assets and liabilities:				
Accrued investment income and other assets	(83)			(83)
Insurance reserves	1,281		11	1,292
Current tax liabilities	5			5
Other liabilities and policy-related balances	(48)			(48)
Net cash from operating activities	$ 842	$	$	$ 842

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the balance sheet as of June 30, 2012 to reflect the impact of the accounting change related to reserves that was adopted on January 1, 2012:

(Amounts in millions)	As Reported Under New Policy	As Computed Under Previous Policy	Effect of Change
Assets			
Total investments	$ 73,001	$ 73,001	$
Cash and cash equivalents	3,874	3,874	
Accrued investment income	652	652	
Deferred acquisition costs	5,023	5,023	
Intangible assets	519	519	
Goodwill	1,218	1,218	
Reinsurance recoverable	17,177	17,157	20
Other assets	1,039	1,039	
Separate account assets	10,033	10,033	
Total assets	$ 112,536	$ 112,516	$ 20
Liabilities and stockholders equity			
Liabilities:			
Future policy benefits	$ 32,825	$ 32,611	$ 214
Policyholder account balances	26,160	26,160	
Liability for policy and contract claims	7,552	7,552	
Unearned premiums	4,156	4,156	
Other liabilities	5,790	5,790	
Borrowings related to securitization entities	375	375	
Non-recourse funding obligations	2,598	2,598	
Long-term borrowings	4,865	4,865	
Deferred tax liability	1,216	1,284	(68)
Separate account liabilities	10,033	10,033	
Total liabilities	95,570	95,424	146
Stockholders equity:			
Class A common stock	1	1	
Additional paid-in capital	12,156	12,156	
Accumulated other comprehensive income (loss):			
Net unrealized investment gains (losses):			
Net unrealized gains (losses) on securities not other-than-temporarily impaired	2,132	2,132	
Net unrealized gains (losses) on other-than-temporarily impaired securities	(116)	(116)	
Net unrealized investment gains (losses)	2,016	2,016	
Derivatives qualifying as hedges	2,087	2,087	
Foreign currency translation and other adjustments	550	550	

Total accumulated other comprehensive income (loss)	4,653	4,653	
Retained earnings	1,707	1,833	(126)
Treasury stock, at cost	(2,700)	(2,700)	
Total Genworth Financial, Inc. s stockholders equity	15,817	15,943	(126)
Noncontrolling interests	1,149	1,149	
Total stockholders equity	16,966	17,092	(126)
Total liabilities and stockholders equity	$ 112,536	$ 112,516	$ 20

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the income statement for the three months ended June 30, 2012 to reflect the impact of the accounting change related to reserves that was adopted on January 1, 2012:

(Amounts in millions)	As Reported Under New Policy	As Computed Under Previous Policy	Effect of Change
Revenues:			
Premiums	$ 1,302	$ 1,302	$
Net investment income	846	846	
Net investment gains (losses)	(34)	(34)	
Insurance and investment product fees and other	409	409	
Total revenues	2,523	2,523	
Benefits and expenses:			
Benefits and other changes in policy reserves	1,382	1,380	2
Interest credited	194	194	
Acquisition and operating expenses, net of deferrals	502	502	
Amortization of deferred acquisition costs and intangibles	148	148	
Interest expense	131	131	
Total benefits and expenses	2,357	2,355	2
Income before income taxes	166	168	(2)
Provision for income taxes	57	58	(1)
Net income	109	110	(1)
Less: net income attributable to noncontrolling interests	33	33	
Net income available to Genworth Financial, Inc. s common stockholders	$ 76	$ 77	$ (1)
Net income available to Genworth Financial, Inc. s common stockholders per common share:			
Basic	$ 0.16	$ 0.16	$
Diluted	$ 0.16	$ 0.16	$

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the income statement for the six months ended June 30, 2012 to reflect the impact of the accounting change related to reserves that was adopted on January 1, 2012:

(Amounts in millions)	As Reported Under New Policy	As Computed Under Previous Policy	Effect of Change
Revenues:			
Premiums	$ 2,409	$ 2,409	$
Net investment income	1,678	1,678	
Net investment gains (losses)	1	1	
Insurance and investment product fees and other	861	861	
Total revenues	4,949	4,949	
Benefits and expenses:			
Benefits and other changes in policy reserves	2,614	2,605	9
Interest credited	389	389	
Acquisition and operating expenses, net of deferrals	1,032	1,032	
Amortization of deferred acquisition costs and intangibles	420	420	
Interest expense	226	226	
Total benefits and expenses	4,681	4,672	9
Income before income taxes	268	277	(9)
Provision for income taxes	79	82	(3)
Net income	189	195	(6)
Less: net income attributable to noncontrolling interests	66	66	
Net income available to Genworth Financial, Inc. s common stockholders	$ 123	$ 129	$ (6)
Net income available to Genworth Financial, Inc. s common stockholders per common share:			
Basic	$ 0.25	$ 0.26	$ (0.01)
Diluted	$ 0.25	$ 0.26	$ (0.01)

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the net cash flows from operating activities for the six months ended June 30, 2012 to reflect the impact of the accounting change related to reserves that was adopted on January 1, 2012:

(Amounts in millions)	As Reported Under New Policy	As Computed Under Previous Policy	Effect of Change
Cash flows from operating activities:			
Net income	$ 189	$ 195	$ (6)
Adjustments to reconcile net income to net cash from operating activities:			
Amortization of fixed maturity discounts and premiums and limited partnerships	(49)	(49)	
Net investment losses	(1)	(1)	
Charges assessed to policyholders	(388)	(388)	
Acquisition costs deferred	(309)	(309)	
Amortization of deferred acquisition costs and intangibles	420	420	
Deferred income taxes	46	49	(3)
Gain on sale of subsidiary	(15)	(15)	
Net increase in trading securities, held-for-sale investments and derivative instruments	93	93	
Stock-based compensation expense	13	13	
Change in certain assets and liabilities:			
Accrued investment income and other assets	5	5	
Insurance reserves	1,001	992	9
Current tax liabilities	(196)	(196)	
Other liabilities and policy-related balances	(589)	(589)	
Net cash from operating activities	$ 220	$ 220	$

Accounting Pronouncements Not Yet Adopted

In December 2011, the FASB issued new accounting guidance for disclosures about offsetting assets and liabilities. The new guidance requires an entity to disclose information about offsetting and related arrangements to enable users to understand the effect of those arrangements on its financial position. These new disclosure requirements will be effective for us on January 1, 2013 and are not expected to have a material impact on our consolidated financial statements.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(3) Earnings (Loss) Per Share

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

(Amounts in millions, except per share amounts)	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Net income (loss)	$ 109	$ (100)	$ 189	$ (7)
Less: net income attributable to noncontrolling interests	33	36	66	70
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ 76	$ (136)	$ 123	$ (77)
Basic per common share:				
Net income (loss)	$ 0.22	$ (0.20)	$ 0.39	$ (0.01)
Less: net income attributable to noncontrolling interests	0.07	0.07	0.14	0.14
Net income (loss) available to Genworth Financial, Inc. s common stockholders[1]	$ 0.16	$ (0.28)	$ 0.25	$ (0.16)
Diluted per common share:				
Net income (loss)	$ 0.22	$ (0.20)	$ 0.38	$ (0.01)
Less: net income attributable to noncontrolling interests	0.07	0.07	0.13	0.14
Net income (loss) available to Genworth Financial, Inc. s common stockholders[1]	$ 0.16	$ (0.28)	$ 0.25	$ (0.16)
Weighted-average shares used in basic earnings per common share calculations	491.5	490.6	491.4	490.4
Potentially dilutive securities:				
Stock options, restricted stock units and stock appreciation rights	2.4		3.4	
Weighted-average shares used in diluted earnings per common share calculations [2]	493.9	490.6	494.8	490.4

(1) May not total due to whole number calculation.

(2) Under applicable accounting guidance, companies in a loss position are required to use basic weighted-average common shares outstanding in the calculation of diluted loss per share. Therefore, as a result of our net loss available to Genworth Financial, Inc. s common stockholders for the three and six months ended June 30, 2011, we were required to use basic weighted-average common shares outstanding in the calculation for the three and six months ended June 30, 2011 diluted loss per share, as the inclusion of shares for stock options, restricted stock units and stock appreciation rights of 3.7 million and 4.0 million, respectively, would have been antidilutive to the calculation. If we had not incurred a net loss available to Genworth Financial, Inc. s common stockholders for the three and six months ended June 30, 2011, dilutive potential common shares would have been 494.3 million and 494.4 million, respectively.

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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, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Fixed maturity securities taxable	$ 669	$ 693	$ 1,329	$ 1,363
Fixed maturity securities non-taxable	3	10	7	21
Commercial mortgage loans	85	92	169	184
Restricted commercial mortgage loans related to securitization entities	7	9	16	19
Equity securities	6	10	10	13
Other invested assets	56	55	109	89
Policy loans	31	30	62	59
Cash, cash equivalents and short-term investments	10	6	20	12
Gross investment income before expenses and fees	867	905	1,722	1,760
Expenses and fees	(21)	(24)	(44)	(49)
Net investment income	$ 846	$ 881	$ 1,678	$ 1,711

(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, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Available-for-sale securities:				
Realized gains	$ 21	$ 25	$ 84	$ 54
Realized losses	(19)	(34)	(65)	(65)
Net realized gains (losses) on available-for-sale securities	2	(9)	19	(11)
Impairments:				
Total other-than-temporary impairments	(42)	(28)	(58)	(59)
Portion of other-than-temporary impairments included in other comprehensive income (loss)	3	2	2	(3)

Net other-than-temporary impairments	(39)	(26)	(56)	(62)
Trading securities	32	14	7	25
Commercial mortgage loans	3	2	5	1
Net gains (losses) related to securitization entities	(4)	(5)	30	5
Derivative instruments [(1)]	(28)	(15)	(2)	(25)
Contingent consideration adjustment			(2)	
Other		(1)		(1)
Net investment gains (losses)	$ (34)	$ (40)	$ 1	$ (68)

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

We generally intend to hold securities in unrealized loss positions until they recover. However, from time to time, our intent on an individual security may change, based upon market or other unforeseen developments. In such instances, we sell securities in the ordinary course of managing our portfolio to meet diversification, credit quality, yield and liquidity requirements. If a loss is recognized from a sale subsequent to a balance sheet date due to these unexpected developments, the loss is recognized in the period in which we determined that we have the intent to sell the securities or it is more likely than not that we will be required to sell the securities prior to recovery. The aggregate fair value of securities sold at a loss during the three months ended June 30, 2012 and 2011 was $326 million and $294 million, respectively, which was approximately 95% and 91%, respectively, of book value. The aggregate fair value of securities sold at a loss during the six months ended June 30, 2012 and 2011 was $683 million and $691 million, respectively, which was approximately 93% of book value for both periods.

The following represents the activity for credit losses recognized in net income (loss) on debt securities where an other-than-temporary impairment was identified and a portion of other-than-temporary impairments was included in 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)	2012	2011	2012	2011
Beginning balance	$ 610	$ 755	$ 646	$ 784
Additions:				
Other-than-temporary impairments not previously recognized	6	1	8	4
Increases related to other-than-temporary impairments previously recognized	19	17	32	48
Reductions:				
Securities sold, paid down or disposed	(47)	(47)	(98)	(110)
Ending balance	$ 588	$ 726	$ 588	$ 726

(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, 2012	December 31, 2011
Net unrealized gains (losses) on investment securities:		
Fixed maturity securities	$ 4,889	$ 3,742
Equity securities	8	5
Other invested assets	(26)	(30)
Subtotal	4,871	3,717
Adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves	(1,651)	(1,303)
Income taxes, net	(1,118)	(840)
Net unrealized investment gains (losses)	2,102	1,574
Less: net unrealized investment gains (losses) attributable to noncontrolling interests	86	89

Net unrealized investment gains (losses) attributable to Genworth Financial, Inc.	$	2,016	$	1,485

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(Amounts in millions)	**As of or for the three months ended June 30, 2012**	**2011**
Beginning balance	$ 1,327	$ (14)
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	1,329	555
Adjustment to deferred acquisition costs	(52)	(31)
Adjustment to present value of future profits	(33)	(15)
Adjustment to sales inducements	(4)	(3)
Adjustment to benefit reserves	(214)	(94)
Provision for income taxes	(358)	(142)
Change in unrealized gains (losses) on investment securities	668	270
Reclassification adjustments to net investment (gains) losses, net of taxes of $(13) and $(13)	24	22
Change in net unrealized investment gains (losses)	692	292
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	3	14
Ending balance	$ 2,016	$ 264

(Amounts in millions)	**As of or for the six months ended June 30, 2012**	**2011**
Beginning balance	$ 1,485	$ (80)
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	1,117	567
Adjustment to deferred acquisition costs	(99)	(48)
Adjustment to present value of future profits	(22)	(16)
Adjustment to sales inducements	(14)	(7)
Adjustment to benefit reserves	(213)	(31)
Provision for income taxes	(265)	(163)
Change in unrealized gains (losses) on investment securities	504	302
Reclassification adjustments to net investment (gains) losses, net of taxes of $(13) and $(26)	24	47
Change in net unrealized investment gains (losses)	528	349
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	(3)	5

Ending balance	$ 2,016	$ 264

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(d) Fixed Maturity and Equity Securities

As of June 30, 2012, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

		Gross unrealized gains		Gross unrealized losses		
(Amounts in millions)	**Amortized cost or cost**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Fair value**
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 3,915	$ 1,071	$	$ (1)	$	$ 4,985
Tax-exempt	348	13		(51)		310
Government non-U.S.	2,278	228		(1)		2,505
U.S. corporate	22,840	2,891	16	(201)	(1)	25,545
Corporate non-U.S.	13,764	958		(137)		14,585
Residential mortgage-backed	5,792	547	8	(196)	(175)	5,976
Commercial mortgage-backed	3,297	152	3	(146)	(38)	3,268
Other asset-backed	2,678	31		(90)	(2)	2,617
Total fixed maturity securities	54,912	5,891	27	(823)	(216)	59,791
Equity securities	422	21		(12)		431
Total available-for-sale securities	$ 55,334	$ 5,912	$ 27	$ (835)	$ (216)	$ 60,222

As of December 31, 2011, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

		Gross unrealized gains		Gross unrealized losses		
(Amounts in millions)	**Amortized cost or cost**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Fair value**
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 3,946	$ 918	$	$ (1)	$	$ 4,863
Tax-exempt	564	15		(76)		503
Government non-U.S.	2,017	196		(2)		2,211
U.S. corporate	23,024	2,542	18	(325)	(1)	25,258
Corporate non-U.S.	13,156	819		(218)		13,757
Residential mortgage-backed	5,695	446	9	(252)	(203)	5,695
Commercial mortgage-backed	3,470	157	4	(179)	(52)	3,400
Other asset-backed	2,686	18		(95)	(1)	2,608
Total fixed maturity securities	54,558	5,111	31	(1,148)	(257)	58,295

Equity securities	356	19		(14)		361
Total available-for-sale securities	$ 54,914	$ 5,130	$ 31	$ (1,162)	$ (257)	$ 58,656

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the gross unrealized losses and fair values of our investment securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, as of June 30, 2012:

	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 [2]**	**Number of securities**
Description of Securities									
Fixed maturity securities:									
U.S. government, agencies and government-sponsored enterprises	$ 247	$ (1)	4	$	$		$ 247	$ (1)	4
Tax-exempt				148	(51)	30	148	(51)	30
Government non-U.S.				63	(1)	15	63	(1)	15
U.S. corporate	707	(21)	115	1,164	(181)	110	1,871	(202)	225
Corporate non-U.S.	1,022	(34)	124	722	(103)	66	1,744	(137)	190
Residential mortgage-backed	177	(2)	39	681	(369)	351	858	(371)	390
Commercial mortgage-backed	161	(6)	26	911	(178)	164	1,072	(184)	190
Other asset-backed	282	(2)	50	223	(90)	25	505	(92)	75
Subtotal, fixed maturity securities	2,596	(66)	358	3,912	(973)	761	6,508	(1,039)	1,119
Equity securities	133	(10)	56	22	(2)	21	155	(12)	77
Total for securities in an unrealized loss position	$ 2,729	$ (76)	414	$ 3,934	$ (975)	782	$ 6,663	$ (1,051)	1,196
% Below cost fixed maturity securities:									
<20% Below cost	$ 2,572	$ (55)	343	$ 2,706	$ (240)	419	$ 5,278	$ (295)	762
20%-50% Below cost	23	(8)	10	1,111	(499)	235	1,134	(507)	245
>50% Below cost	1	(3)	5	95	(234)	107	96	(237)	112
Total fixed maturity securities	2,596	(66)	358	3,912	(973)	761	6,508	(1,039)	1,119
% Below cost equity securities:									
<20% Below cost	127	(7)	54	18	(1)	16	145	(8)	70
20%-50% Below cost	6	(3)	2	4	(1)	5	10	(4)	7
Total equity securities	133	(10)	56	22	(2)	21	155	(12)	77
Total for securities in an unrealized loss position	$ 2,729	$ (76)	414	$ 3,934	$ (975)	782	$ 6,663	$ (1,051)	1,196
Investment grade	$ 2,334	$ (44)	302	$ 2,694	$ (396)	380	$ 5,028	$ (440)	682
Below investment grade [3]	395	(32)	112	1,240	(579)	402	1,635	(611)	514

Total for securities in an unrealized loss position	$ 2,729	$ (76)	414	$ 3,934	$ (975)	782	$ 6,663	$ (1,051)	1,196

(1) Amounts included $213 million of unrealized losses on other-than-temporarily impaired securities.
(2) Amounts included $216 million of unrealized losses on other-than-temporarily impaired securities.
(3) Amounts that have been in a continuous loss position for 12 months or more included $206 million of unrealized losses on other-than-temporarily impaired securities.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 credit spreads that have widened since acquisition for corporate securities across various industry sectors, including finance and insurance as well as consumer non-cyclical. For securities that have been in a continuous unrealized loss for less than 12 months, the average fair value percentage below cost was approximately 3% as of June 30, 2012.

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

Of the $240 million of unrealized losses on fixed maturity securities in a continuous unrealized loss for 12 months or more that were less than 20% below cost, the weighted-average rating was BBB- and approximately 70% of the unrealized losses were related to investment grade securities as of June 30, 2012. These unrealized losses were attributable to the widening of credit spreads for these securities since acquisition, primarily associated with corporate securities in the finance and insurance sector as well as mortgage-backed and asset-backed securities. The average fair value percentage below cost for these securities was approximately 8% as of June 30, 2012. 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.

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, 2012:

	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	$ 114	$ (47)	4%	11	$	$	%	
U.S. corporate	217	(74)	7	13				
Corporate non-U.S.	150	(55)	5	14				
Structured securities:								
Residential mortgage-backed	40	(24)	2	20	5	(12)	1	9
Commercial mortgage-backed	24	(9)	1	8		(1)		1
Other asset-backed	18	(7)	1	3				
Total structured securities	82	(40)	4	31	5	(13)	1	10
Total	$ 563	$ (216)	20%	69	$ 5	$ (13)	1%	10

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GENWORTH FINANCIAL, INC.

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(Unaudited)

	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:								
U.S. corporate	$ 76	$ (34)	3%	10	$	$	%	
Corporate non-U.S.	38	(13)	1	3				
Structured securities:								
Residential mortgage-backed	231	(123)	12	112	73	(180)	17	83
Commercial mortgage-backed	138	(62)	6	37	8	(25)	2	11
Other asset-backed	65	(51)	5	4	9	(16)	2	3
Total structured securities	434	(236)	23	153	90	(221)	21	97
Total	$ 548	$ (283)	27%	166	$ 90	$ (221)	21%	97

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 and it is not more likely than not 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.

Tax-Exempt Securities

As indicated in the table above, $47 million of gross unrealized losses were related to tax-exempt securities that have been in a continuous unrealized loss position for more than 12 months and were more than 20% below cost. The unrealized losses for tax-exempt securities represent municipal bonds that were diversified by state as well as municipality or political subdivision within those states. Of these tax-exempt securities, the average unrealized loss was approximately $4 million which represented an average of 29% below cost. The unrealized losses primarily related to widening of credit spreads on these securities since acquisition as a result of higher risk premiums being attributed to these securities from uncertainty in many political subdivisions related to special revenues supporting these obligations as well as certain securities having longer duration that may be viewed as less desirable in the current market place. Additionally, certain of these securities have been negatively impacted as a result of having certain bond insurers associated with the security. In our analysis of impairment for these securities, we expect to recover our amortized cost from the cash flows of the underlying securities before any guarantee support. However, the existence of these guarantees may negatively impact the value of the debt security in certain instances. We performed an analysis of these securities and the underlying activities that are expected to support the cash flows and determined we expect to recover our amortized cost.

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Corporate Debt Securities

The following tables present the concentration of gross unrealized losses and fair values related to corporate debt fixed maturity securities that were more than 20% below cost and in a continuous loss position for 12 months or more by industry as of June 30, 2012:

	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
Industry:								
Finance and insurance	$ 249	$ (90)	9%	21	$	$	%	
Utilities and energy	31	(12)	1	2				
Consumer-non-cyclical	28	(11)	1	1				
Capital goods	10	(3)		1				
Technology and communications	29	(8)	1	1				
Other	20	(5)		1				
Total	$ 367	$ (129)	12%	27	$	$	%	

	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
Industry:								
Finance and insurance	$ 97	$ (39)	3%	5	$	$	%	
Consumer-non-cyclical	12	(6)	1	1				
Consumer-cyclical	2	(1)		6				
Transportation	3	(1)		1				
Total	$ 114	$ (47)	4%	13	$	$	%	

Of the total unrealized losses of $176 million for corporate fixed maturity securities presented in the preceding tables, $129 million, or 73%, of the unrealized losses related to issuers in the finance and insurance sector that were 27% below cost on average. Given the current market conditions, including current financial industry events and uncertainty around global economic conditions, the fair value of these debt securities has declined due to credit spreads that have widened since acquisition. In our examination of these securities, we considered all available evidence, including the issuers financial condition and current industry events to develop our conclusion on the amount and timing of the cash flows expected to be collected. Based on this evaluation, we determined that the unrealized losses on these debt securities represented temporary impairments as of June 30, 2012. Of the $129 million of unrealized losses related to the finance and insurance industry, $104 million related to financial hybrid securities on which a debt impairment model was employed. Most of our hybrid securities retained a credit rating of investment grade. The fair value of these hybrid securities has been impacted by credit spreads that have widened since acquisition and reflect uncertainty surrounding the extent and duration of government involvement, potential capital restructuring of these institutions, and continued but diminishing risk that income payments may be deferred. We continue to receive our contractual payments and expect to fully recover our amortized cost.

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We expect that our investments in corporate securities will continue to perform in accordance with our expectations about the amount and timing of estimated cash flows. Although we do not anticipate such events, it is at least reasonably possible that issuers of our investments in corporate securities will perform worse than current expectations. Such events may lead us to recognize write-downs within our portfolio of corporate securities in the future.

Structured Securities

Of the $510 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, $178 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 the ongoing concern and uncertainty about the residential and commercial real estate market and unemployment, resulting in credit spreads that have widened since acquisition. Additionally, the fair value of certain structured securities has been significantly 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. housing market.

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.

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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, 2012.

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.

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, 2011:

	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** (2)	**Number of securities**
Description of Securities									
U.S. government, agencies and government-sponsored enterprises	$ 160	$ (1)	2	$	$		$ 160	$ (1)	2
Tax-exempt				230	(76)	72	230	(76)	72
Government non-U.S.	90	(1)	25	8	(1)	8	98	(2)	33
U.S. corporate	1,721	(68)	175	1,416	(258)	136	3,137	(326)	311
Corporate non-U.S.	1,475	(86)	188	705	(132)	75	2,180	(218)	263
Residential mortgage-backed	276	(5)	68	727	(450)	359	1,003	(455)	427
Commercial mortgage-backed	282	(36)	49	831	(195)	159	1,113	(231)	208
Other asset-backed	623	(3)	83	309	(93)	35	932	(96)	118
Subtotal, fixed maturity securities	4,627	(200)	590	4,226	(1,205)	844	8,853	(1,405)	1,434
Equity securities	92	(11)	39	25	(3)	13	117	(14)	52
Total for securities in an unrealized loss position	$ 4,719	$ (211)	629	$ 4,251	$ (1,208)	857	$ 8,970	$ (1,419)	1,486
% Below cost fixed maturity securities:									
<20% Below cost	$ 4,545	$ (156)	548	$ 2,758	$ (252)	435	$ 7,303	$ (408)	983
20%-50% Below cost	78	(30)	27	1,335	(653)	283	1,413	(683)	310
>50% Below cost	4	(14)	15	133	(300)	126	137	(314)	141
Total fixed maturity securities	4,627	(200)	590	4,226	(1,205)	844	8,853	(1,405)	1,434
% Below cost equity securities:									
<20% Below cost	80	(6)	36	21	(1)	12	101	(7)	48
20%-50% Below cost	12	(5)	3	4	(2)	1	16	(7)	4
Total equity securities	92	(11)	39	25	(3)	13	117	(14)	52
Total for securities in an unrealized loss position	$ 4,719	$ (211)	629	$ 4,251	$ (1,208)	857	$ 8,970	$ (1,419)	1,486

Investment grade	$ 4,292	$	(165)	502	$ 3,066	$	(577)	479	$ 7,358	$	(742)	981
Below investment grade [3]	427		(46)	127	1,185		(631)	378	1,612		(677)	505
Total for securities in an unrealized loss position	$ 4,719	$	(211)	629	$ 4,251	$	(1,208)	857	$ 8,970	$	(1,419)	1,486

(1) Amounts included $248 million of unrealized losses on other-than-temporarily impaired securities.

(2) Amounts included $257 million of unrealized losses on other-than-temporarily impaired securities.

(3) Amounts that have been in a continuous loss position for 12 months or more included $235 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, 2012 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	$ 3,016	$ 3,054
Due after one year through five years	10,342	10,765
Due after five years through ten years	10,680	11,569
Due after ten years	19,107	22,542
Subtotal	43,145	47,930
Residential mortgage-backed	5,792	5,976
Commercial mortgage-backed	3,297	3,268
Other asset-backed	2,678	2,617
Total	$ 54,912	$ 59,791

As of June 30, 2012, $4,431 million of our investments (excluding mortgage-backed and asset-backed securities) were subject to certain call provisions.

As of June 30, 2012, securities issued by utilities and energy, finance and insurance, and consumer non-cyclical industry groups represented approximately 23%, 21% and 13% of our domestic and foreign corporate fixed maturity securities portfolio, respectively. 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, 2012, 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, 2012		December 31, 2011	
(Amounts in millions)	**Carrying value**	**% of total**	**Carrying value**	**% of total**
Property type:				
Retail	$ 1,899	32%	$ 1,898	31%
Industrial	1,623	27	1,707	28
Office	1,520	26	1,590	26
Apartments	595	10	641	10
Mixed use/other	281	5	304	5
Subtotal	5,918	100%	6,140	100%
Unamortized balance of loan origination fees and costs	3		3	
Allowance for losses	(46)		(51)	
Total	$ 5,875		$ 6,092	

	June 30, 2012		December 31, 2011	
(Amounts in millions)	**Carrying value**	**% of total**	**Carrying value**	**% of total**
Geographic region:				
South Atlantic	$ 1,640	28%	$ 1,631	27%
Pacific	1,486	25	1,539	25
Middle Atlantic	715	12	734	12
East North Central	528	9	557	9
Mountain	461	8	497	8
New England	344	6	388	6
West North Central	320	5	337	5
West South Central	269	4	298	5
East South Central	155	3	159	3
Subtotal	5,918	100%	6,140	100%
Unamortized balance of loan origination fees and costs	3		3	
Allowance for losses	(46)		(51)	
Total	$ 5,875		$ 6,092	

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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, 2012					
(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	$ 6	$ 3	$ 3	$ 12	$ 1,887	$ 1,899
Industrial					1,623	1,623
Office			4	4	1,516	1,520
Apartments			3	3	592	595
Mixed use/other	67			67	214	281
Total recorded investment	$ 73	$ 3	$ 10	$ 86	$ 5,832	$ 5,918
% of total commercial mortgage loans	1%	%	%	1%	99%	100%

	December 31, 2011					
(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	$ 107	$	$	$ 107	$ 1,791	$ 1,898
Industrial	3			3	1,704	1,707
Office	4	3	15	22	1,568	1,590
Apartments					641	641
Mixed use/other	1			1	303	304
Total recorded investment	$ 115	$ 3	$ 15	$ 133	$ 6,007	$ 6,140
% of total commercial mortgage loans	2%	%	%	2%	98%	100%

As of June 30, 2012 and December 31, 2011, we had no commercial mortgage loans that were past due for more than 90 days and still accruing interest. We also did not have any commercial mortgage loans that were past due for less than 90 days on nonaccrual status as of June 30, 2012 and December 31, 2011.

As of and for the six months ended June 30, 2012 and the year ended December 31, 2011, we modified or extended 17 and 39 commercial mortgage loans, respectively, with a total carrying value of $65 million and $252 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. As of and for the year ended December 31, 2011, we modified or extended one commercial mortgage loan with a total carrying value of $3 million that was considered a troubled debt restructuring. As part of this troubled debt restructuring, we forgave default penalties and fees. This troubled debt restructuring did not result in any forgiveness in the outstanding principal amount owed by the borrower or a change to the original contractual interest rate.

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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)	**2012**	**2011**	**2012**	**2011**
Allowance for credit losses:				
Beginning balance	$ 49	$ 58	$ 51	$ 59
Charge-offs		(4)	(1)	(5)
Recoveries				
Provision	(3)	3	(4)	3
Ending balance	$ 46	$ 57	$ 46	$ 57
Ending allowance for individually impaired loans	$	$	$	$
Ending allowance for loans not individually impaired that were evaluated collectively for impairment	$ 46	$ 57	$ 46	$ 57
Recorded investment:				
Ending balance	$ 5,918	$ 6,485	$ 5,918	$ 6,485
Ending balance of individually impaired loans	$	$ 13	$	$ 13
Ending balance of loans not individually impaired that were evaluated collectively for impairment	$ 5,918	$ 6,472	$ 5,918	$ 6,472

As of June 30, 2012, we did not have any individually impaired commercial mortgage loans. As of December 31, 2011, we had individually impaired commercial mortgage loans included within the office property type with a recorded investment of $10 million, an unpaid principal balance of $13 million, charge-offs of $3 million and an average recorded investment of $10 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, 2012					
(Amounts in millions)	0% - 50%	51% - 60%	61% - 75%	76% - 100%	Greater than 100% (1)	Total
Property type:						
Retail	$ 535	$ 289	$ 860	$ 173	$ 42	$ 1,899
Industrial	544	274	558	231	16	1,623
Office	344	236	580	298	62	1,520
Apartments	180	143	226	31	15	595
Mixed use/other	75	35	84	15	72	281
Total	$ 1,678	$ 977	$ 2,308	$ 748	$ 207	$ 5,918
% of total	28%	17%	39%	13%	3%	100%
Weighted-average debt service coverage ratio	2.16	1.74	2.14	1.14	2.64	1.97

(1) Included $207 million of loans in good standing, with a total weighted-average loan-to-value of 116%, where borrowers continued to make timely payments and have no history of delinquencies or distress.

	December 31, 2011					
(Amounts in millions)	0% - 50%	51% - 60%	61% - 75%	76% - 100%	Greater than 100% (1)	Total
Property type:						
Retail	$ 453	$ 247	$ 900	$ 268	$ 30	$ 1,898
Industrial	445	332	642	261	27	1,707
Office	364	281	546	283	116	1,590
Apartments	164	110	321	31	15	641
Mixed use/other	81	47	89	15	72	304
Total	$ 1,507	$ 1,017	$ 2,498	$ 858	$ 260	$ 6,140
% of total	25%	17%	40%	14%	4%	100%
Weighted-average debt service coverage ratio	2.28	1.89	2.16	1.19	2.26	2.01

(1) Included $260 million of loans in good standing, with a total weighted-average loan-to-value of 117%, where borrowers continued to make timely payments and have no history of delinquencies or distress.

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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, 2012					
(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	$ 91	$ 304	$ 392	$ 605	$ 402	$ 1,794
Industrial	198	147	324	650	297	1,616
Office	152	172	308	464	340	1,436
Apartments	9	56	78	294	158	595
Mixed use/other	38	22	32	69	52	213
Total	$ 488	$ 701	$ 1,134	$ 2,082	$ 1,249	$ 5,654
% of total	9%	12%	20%	37%	22%	100%
Weighted-average loan-to-value	84%	71%	65%	58%	46%	61%

	December 31, 2011					
(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	$ 91	$ 322	$ 445	$ 595	$ 340	$ 1,793
Industrial	197	238	278	652	334	1,699
Office	188	130	341	395	452	1,506
Apartments	15	80	76	295	174	640
Mixed use/other	22	23	53	61	59	218
Total	$ 513	$ 793	$ 1,193	$ 1,998	$ 1,359	$ 5,856
% of total	9%	14%	20%	34%	23%	100%
Weighted-average loan-to-value	86%	72%	68%	59%	50%	63%

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

	June 30, 2012					
(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	$	$	$ 1	$	$ 104	$ 105
Industrial					7	7
Office			8		76	84
Apartments						
Mixed use/other					68	68
Total	$	$	$ 9	$	$ 255	$ 264
% of total	%	%	3%	%	97%	100%
Weighted-average loan-to-value	%	%	54%	%	74%	74%

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	December 31, 2011					
(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	$	$	$ 1	$	$ 104	$ 105
Industrial				5	3	8
Office			8		76	84
Apartments					1	1
Mixed use/other					86	86
Total	$	$	$ 9	$ 5	$ 270	$ 284
% of total	%	%	3%	2%	95%	100%
Weighted-average loan-to-value	%	%	54%	44%	74%	72%

(f) Restricted Commercial Mortgage Loans Related To Securitization Entities

The following tables set forth additional information regarding our restricted commercial mortgage loans related to securitization entities as of the dates indicated:

	June 30, 2012		December 31, 2011	
(Amounts in millions)	Carrying value	% of total	Carrying value	% of total
Property type:				
Retail	$ 152	40%	$ 161	38%
Industrial	93	24	99	24
Office	74	19	86	21
Apartments	58	15	60	15
Mixed use/other	7	2	7	2
Subtotal	384	100%	413	100%
Allowance for losses	(2)		(2)	
Total	$ 382		$ 411	

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	June 30, 2012		December 31, 2011	
(Amounts in millions)	**Carrying value**	**% of total**	**Carrying value**	**% of total**
Geographic region:				
South Atlantic	$ 137	36%	$ 146	35%
Pacific	69	18	74	18
Middle Atlantic	62	16	65	16
East North Central	38	10	42	10
West North Central	26	7	28	7
Mountain	24	6	28	7
East South Central	16	4	17	4
West South Central	11	3	12	3
New England	1		1	
Subtotal	384	100%	413	100%
Allowance for losses	(2)		(2)	
Total	$ 382		$ 411	

Of our restricted commercial mortgage loans as of June 30, 2012, $380 million were current and $4 million were past due for more than 90 days and still accruing interest. Of our restricted commercial mortgage loans as of December 31, 2011, $408 million were current, $2 million were 61 to 90 days past due and $3 million were past due for more than 90 days and still accruing interest.

As of June 30, 2012, the total recorded investment of restricted commercial mortgage loans of $384 million related to loans not individually impaired that were evaluated collectively for impairment. As of December 31, 2011, loans not individually impaired that were evaluated collectively for impairment were $412 million of the total recorded investment of restricted commercial mortgage loans of $413 million. There was no provision for credit losses recorded during the three or six months ended June 30, 2012 or 2011 related to restricted commercial mortgage loans.

In evaluating the credit quality of restricted commercial mortgage loans, we assess the performance of the underlying loans using both quantitative and qualitative criteria. The risks associated with restricted commercial mortgage loans can typically 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 restricted commercial mortgage loans by property type as of the dates indicated:

	June 30, 2012					
(Amounts in millions)	**0% - 50%**	**51% - 60%**	**61% - 75%**	**76% - 100%**	**Greater than 100%**	**Total**
Property type:						
Retail	$ 147	$	$ 2	$	$ 3	$ 152
Industrial	83	2	2	6		93
Office	57	9	3	3	2	74
Apartments	33	2	4	19		58
Mixed use/other	7					7
Total recorded investments	$ 327	$ 13	$ 11	$ 28	$ 5	$ 384
% of total	85%	4%	3%	7%	1%	100%
Weighted-average debt service coverage ratio	1.75	1.51	1.92	1.05	0.58	1.68

	December 31, 2011					
(Amounts in millions)	**0% - 50%**	**51% - 60%**	**61% - 75%**	**76% - 100%**	**Greater than 100%**	**Total**
Property type:						
Retail	$ 147	$ 9	$ 2	$	$ 3	$ 161
Industrial	87	5		5	2	99
Office	63	9	6	6	2	86
Apartments	34	3		23		60
Mixed use/other	7					7
Total recorded investments	$ 338	$ 26	$ 8	$ 34	$ 7	$ 413
% of total	82%	6%	2%	8%	2%	100%
Weighted-average debt service coverage ratio	1.78	1.16	2.07	0.88	0.49	1.65

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

	June 30, 2012					
(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	$ 6	$ 17	$ 42	$ 33	$ 54	$ 152
Industrial	14	7	15	40	17	93
Office	5	23	17	14	15	74
Apartments		20	12	22	4	58
Mixed use/other				2	5	7
Total recorded investments	$ 25	$ 67	$ 86	$ 111	$ 95	$ 384
% of total	6%	17%	22%	30%	25%	100%
Weighted-average loan-to-value	56%	52%	36%	34%	32%	39%

	December 31, 2011					
(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	$ 5	$ 17	$ 49	$ 62	$ 28	$ 161
Industrial	15	10	21	23	30	99
Office	12	23	4	37	10	86
Apartments	12	14	7	22	5	60
Mixed use/other				2	5	7
Total recorded investments	$ 44	$ 64	$ 81	$ 146	$ 78	$ 413
% of total	10%	16%	20%	35%	19%	100%
Weighted-average loan-to-value	73%	48%	39%	36%	28%	41%

There were no floating rate restricted commercial mortgage loans as of June 30, 2012 or December 31, 2011.

(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 are comprised of asset-backed securities, including residual interest in certain policy loan securitization entities and highly rated bonds that are primarily backed by credit card receivables.

(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

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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, 2012**	**December 31, 2011**	**Balance sheet classification**	**June 30, 2012**	**December 31, 2011**
Derivatives designated as hedges						
Cash flow hedges:						
Interest rate swaps	Other invested assets	$ 734	$ 602	Other liabilities	$	$ 1
Forward bond purchase commitments	Other invested assets	67	47	Other liabilities		
Inflation indexed swaps	Other invested assets			Other liabilities	74	43
Foreign currency swaps	Other invested assets	3		Other liabilities		
Total cash flow hedges		804	649		74	44
Fair value hedges:						
Interest rate swaps	Other invested assets	25	43	Other liabilities	1	1
Foreign currency swaps	Other invested assets	29	32	Other liabilities		
Total fair value hedges		54	75		1	1
Total derivatives designated as hedges		858	724		75	45
Derivatives not designated as hedges						
Interest rate swaps	Other invested assets	706	705	Other liabilities	436	374
Interest rate swaps related to securitization entities	Restricted other invested assets			Other liabilities	29	28
Credit default swaps	Other invested assets	3	1	Other liabilities	38	59
Credit default swaps related to securitization entities	Restricted other invested assets			Other liabilities	155	177
Equity index options	Other invested assets	27	39	Other liabilities		
Financial futures	Other invested assets			Other liabilities		
Equity return swaps	Other invested assets	5	7	Other liabilities	2	4
Other foreign currency contracts	Other invested assets		9	Other liabilities	4	11
Reinsurance embedded derivatives [(1)]	Other assets	34	29	Other liabilities		
GMWB embedded derivatives	Reinsurance recoverable [(2)]	15	16	Policyholder account balances [(3)]	453	492

Fixed index annuity embedded derivatives	Other assets [4]			Policyholder account balances [4]	10	4
Total derivatives not designated as hedges		790	806		1,127	1,149
Total derivatives		$ 1,648	$ 1,530		$ 1,202	$ 1,194

[1] Represents embedded derivatives associated with certain reinsurance agreements.
[2] Represents embedded derivatives associated with the reinsured portion of our guaranteed minimum withdrawal benefits (GMWB) liabilities.
[3] Represents the embedded derivatives associated with our GMWB liabilities, excluding the impact of reinsurance.
[4] Represents the embedded derivatives associated with our fixed index annuity 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 and fixed index annuity 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, 2011**	**Additions**	**Maturities/ terminations**	**June 30, 2012**
Derivatives designated as hedges					
Cash flow hedges:					
Interest rate swaps	Notional	$ 12,399	$	$ (122)	$ 12,277
Forward bond purchase commitments	Notional	504			504
Inflation indexed swaps	Notional	544	8		552
Foreign currency swaps	Notional		109		109
Total cash flow hedges		13,447	117	(122)	13,442
Fair value hedges:					
Interest rate swaps	Notional	1,039		(272)	767
Foreign currency swaps	Notional	85			85
Total fair value hedges		1,124		(272)	852
Total derivatives designated as hedges		14,571	117	(394)	14,294
Derivatives not designated as hedges					
Interest rate swaps	Notional	7,200	1,359	(796)	7,763
Interest rate swaps related to securitization entities	Notional	117		(6)	111
Credit default swaps	Notional	1,110	100	(130)	1,080
Credit default swaps related to securitization entities	Notional	314		(2)	312
Equity index options	Notional	522	503	(558)	467
Financial futures	Notional	2,924	2,626	(3,365)	2,185
Equity return swaps	Notional	326	17	(194)	149
Other foreign currency contracts	Notional	779	358	(1,069)	68
Reinsurance embedded derivatives	Notional	228	39		267
Total derivatives not designated as hedges		13,520	5,002	(6,120)	12,402
Total derivatives		$ 28,091	$ 5,119	$ (6,514)	$ 26,696

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(Number of policies)	Measurement	December 31, 2011	Additions	Maturities/ terminations	June 30, 2012
Derivatives not designated as hedges					
GMWB embedded derivatives	Policies	47,714	4	(1,323)	46,395
Fixed index annuity embedded derivatives	Policies	433	333	(6)	760

We did not have any derivatives with counterparties that can be terminated at the option of the derivative counterparty as of June 30, 2012.

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) pay U.S. dollar fixed on foreign currency swaps to hedge the foreign currency cash flow exposure on liabilities denominated in foreign currencies; (v) forward starting interest rate swaps to hedge against changes in interest rates associated with future fixed rate bond purchases and/or interest income; (vi) forward bond purchase commitments to hedge against the variability in the anticipated cash flows required to purchase future fixed rate bonds; and (vii) 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, 2012:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [1]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ 564	$ 10	Net investment income	$ 16	Net investment gains (losses)
Interest rate swaps hedging liabilities		1	Interest expense		Net investment gains (losses)
Forward bond purchase commitments	68		Net investment income		Net investment gains (losses)
Inflation indexed swaps		(9)	Net investment income		Net investment gains (losses)
Total	$ 632	$ 2		$ 16	

(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, 2011:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [(1)]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ 139	$ 5	Net investment income	$ 2	Net investment gains (losses)
Interest rate swaps hedging liabilities		1	Interest expense		Net investment gains (losses)
Inflation indexed swaps	(26)	(11)	Net investment income		Net investment gains (losses)
Foreign currency swaps	1	(4)	Interest expense		Net investment gains (losses)
Total	$ 114	$ (9)		$ 2	

(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, 2012:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [(1)]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ 143	$ 19	Net investment income	$	Net investment gains (losses)
Interest rate swaps hedging assets		1	Net investment gains (losses)		Net investment gains (losses)
Interest rate swaps hedging liabilities		1	Interest expense		Net investment gains (losses)
Forward bond purchase commitments	20		Net investment income		Net investment gains (losses)
Inflation indexed swaps	(31)	(9)	Net investment income		Net investment gains (losses)
Foreign currency swaps	1		Interest expense		Net investment gains (losses)
Total	$ 133	$ 12		$	

(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, 2011:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [1]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ 39	$ 10	Net investment income	$	Net investment gains (losses)
Interest rate swaps hedging liabilities		1	Interest expense		Net investment gains (losses)
Inflation indexed swaps	(27)	(21)	Net investment income		Net investment gains (losses)
Foreign currency swaps	4	(5)	Interest expense		Net investment gains (losses)
Total	$ 16	$ (15)		$	

(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, 2012	2011
Derivatives qualifying as effective accounting hedges as of April 1	$ 1,680	$ 864
Current period increases (decreases) in fair value, net of deferred taxes of $(220) and $(40)	412	74
Reclassification to net (income) loss, net of deferred taxes of $(3) and $(4)	(5)	5
Derivatives qualifying as effective accounting hedges as of June 30	$ 2,087	$ 943

(Amounts in millions)	Six months ended June 30, 2012	2011
Derivatives qualifying as effective accounting hedges as of January 1	$ 2,009	$ 924
Current period increases (decreases) in fair value, net of deferred taxes of $(43) and $(6)	90	10
Reclassification to net (income) loss, net of deferred taxes of $ and $(6)	(12)	9
Derivatives qualifying as effective accounting hedges as of June 30	$ 2,087	$ 943

The total of derivatives designated as cash flow hedges of $2,087 million, net of taxes, recorded in stockholders equity as of June 30, 2012 is expected to be reclassified to future net income (loss), 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, $30 million, net of taxes, is expected to be reclassified to net income (loss) 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 2045. No amounts were reclassified to net income (loss) during the six months ended June 30, 2012 in connection with forecasted transactions that were no longer considered probable of occurring.

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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 (loss). In addition, changes in the fair value attributable to the hedged portion of the underlying instrument are reported in net income (loss). 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 investments to floating rate investments; (ii) interest rate swaps to convert fixed rate liabilities into floating rate liabilities; (iii) cross currency swaps to convert non-U.S. dollar fixed rate liabilities to floating rate U.S. dollar liabilities; and (iv) other instruments to hedge various fair value exposures of investments.

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, 2012:

	Derivative instrument				Hedged item	
(Amounts in millions)	Gain (loss) recognized in net income (loss)	Classification of gain (losses) recognized in net income (loss)	Other impacts to net income (loss)	Classification of other impacts to net income (loss)	Gain (loss) recognized in net income (loss)	Classification of gain (losses) recognized in net income (loss)
Interest rate swaps hedging assets	$ 1	Net investment gains (losses)	$ (2)	Net investment income	$ (1)	Net investment gains (losses)
Interest rate swaps hedging liabilities	(10)	Net investment gains (losses)	10	Interest credited	10	Net investment gains (losses)
Foreign currency swaps	(6)	Net investment gains (losses)		Interest credited	7	Net investment gains (losses)
Total	$ (15)		$ 8		$ 16	

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, 2011:

	Derivative instrument				Hedged item	
(Amounts in millions)	Gain (loss) recognized in net income (loss)	Classification of gain (losses) recognized in net income (loss)	Other impacts to net income (loss)	Classification of other impacts to net income (loss)	Gain (loss) recognized in net income (loss)	Classification of gain (losses) recognized in net income (loss)
Interest rate swaps hedging assets	$ 1		$ (2)		$ (1)	

		Net investment gains (losses)			Net investment income			Net investment gains (losses)
Interest rate swaps hedging liabilities	(7)	Net investment gains (losses)		17	Interest credited		7	Net investment gains (losses)
Foreign currency swaps	11	Net investment gains (losses)			Interest credited		(11)	Net investment gains (losses)
Total	$ 5		$	15		$	(5)	

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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, 2012:

	Derivative instrument				Hedged item	
(Amounts in millions)	Gain (loss) recognized in net income (loss)	Classification of gain (losses) recognized in net income (loss)	Other impacts to net income (loss)	Classification of other impacts to net income (loss)	Gain (loss) recognized in net income (loss)	Classification of gain (losses) recognized in net income (loss)
Interest rate swaps hedging assets	$ 1	Net investment gains (losses)	$ (3)	Net investment income	$ (1)	Net investment gains (losses)
Interest rate swaps hedging liabilities	(19)	Net investment gains (losses)	21	Interest credited	19	Net investment gains (losses)
Foreign currency swaps	(3)	Net investment gains (losses)	1	Interest credited	3	Net investment gains (losses)
Total	$ (21)		$ 19		$ 21	

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, 2011:

	Derivative instrument				Hedged item	
(Amounts in millions)	Gain (loss) recognized in net income (loss)	Classification of gain (losses) recognized in net income (loss)	Other impacts to net income (loss)	Classification of other impacts to net income (loss)	Gain (loss) recognized in net income (loss)	Classification of gain (losses) recognized in net income (loss)
Interest rate swaps hedging assets	$ 2	Net investment gains (losses)	$ (5)	Net investment income	$ (2)	Net investment gains (losses)
Interest rate swaps hedging liabilities	(29)	Net investment gains (losses)	37	Interest credited	29	Net investment gains (losses)
Foreign currency swaps	11	Net investment gains (losses)	1	Interest credited	(12)	Net investment gains (losses)
Total	$ (16)		$ 33		$ 15	

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 (loss) effects of the derivative instruments that are presented in the same 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, swaptions 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; (iv) interest rate swaps where the hedging relationship does not qualify for hedge accounting; (v) credit default swaps to mitigate loss exposure to certain

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credit risk; (vi) foreign currency forward contracts to mitigate currency risk associated with future dividends and other cash flows from certain foreign subsidiaries to our holding company; and (vii) equity index options and credit default swaps 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 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 (loss) 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)	**2012**	**2011**	**in net income (loss)**
Interest rate swaps	$ 16	$ 2	Net investment gains (losses)
Interest rate swaps related to securitization entities	(5)	(4)	Net investment gains (losses)
Credit default swaps	(19)		Net investment gains (losses)
Credit default swaps related to securitization entities	(8)	(4)	Net investment gains (losses)
Equity index options	6	(9)	Net investment gains (losses)
Financial futures	73	34	Net investment gains (losses)
Equity return swaps	11	(6)	Net investment gains (losses)
Other foreign currency contracts		(4)	Net investment gains (losses)
Reinsurance embedded derivatives	17	(1)	Net investment gains (losses)
GMWB embedded derivatives	(150)	(33)	Net investment gains (losses)
Fixed index annuity embedded derivatives	1		Net investment gains (losses)
Total derivatives not designated as hedges	$ (58)	$ (25)	

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The following table provides the pre-tax gain (loss) recognized in net income (loss) 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)	**2012**	**2011**	**in net income (loss)**
Interest rate swaps	$ 17	$ 4	Net investment gains (losses)
Interest rate swaps related to securitization entities	(3)	(3)	Net investment gains (losses)
Credit default swaps	22	3	Net investment gains (losses)
Credit default swaps related to securitization entities	23	5	Net investment gains (losses)
Equity index options	(29)	(28)	Net investment gains (losses)
Financial futures	(39)	(5)	Net investment gains (losses)
Equity return swaps	(14)	(10)	Net investment gains (losses)
Other foreign currency contracts	(17)	(13)	Net investment gains (losses)
Reinsurance embedded derivatives	5	(1)	Net investment gains (losses)
GMWB embedded derivatives	53	26	Net investment gains (losses)
Fixed index annuity embedded derivatives	(1)		Net investment gains (losses)
Total derivatives not designated as hedges	$ 17	$ (22)	

Derivative Counterparty Credit Risk

As of June 30, 2012 and December 31, 2011, net fair value assets by counterparty totaled $1,106 million and $1,027 million, respectively. As of June 30, 2012 and December 31, 2011, net fair value liabilities by counterparty totaled $246 million and $240 million, respectively. As of June 30, 2012 and December 31, 2011, we retained collateral of $1,219 million and $1,023 million, respectively, related to these agreements, including over collateralization of $150 million and $50 million, respectively, from certain counterparties. As of June 30, 2012 and December 31, 2011, we posted $58 million and $28 million, respectively, of collateral to derivative counterparties, including over collateralization of $2 million and $11 million, respectively. 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.

Except for derivatives related to securitization entities, 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, 2012 and December 31, 2011, we could have been allowed to claim up to $37 million and $54 million, respectively, from counterparties and required to disburse up to $6 million and $18 million, respectively. This represented the net fair value of gains and losses by counterparty, less available collateral held, and did not include any fair value gains or losses for derivatives related to securitization entities.

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

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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 consolidated in 2010. These derivatives represent a customized index of reference entities with specified attachment points for certain derivatives. The credit default triggers are similar to those described above. In the event of default, the securitization entity will provide the counterparty with the par value of assets held in the securitization entity for the amount of incurred loss on the credit default swap. The maximum exposure to loss for the securitization entity is the notional value of the derivatives. Certain losses on these credit default swaps would be absorbed by the third-party noteholders of the securitization entity and the remaining losses on the credit default swaps would be absorbed by our portion of the notes issued by the securitization entity.

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

	June 30, 2012			December 31, 2011		
(Amounts in millions)	**Notional value**	**Assets**	**Liabilities**	**Notional value**	**Assets**	**Liabilities**
Reference entity credit rating and maturity:						
AAA						
Matures after one year through five years	$ 5	$	$	$ 5	$	$
AA						
Matures after one year through five years	6			6		
Matures after five years through ten years	5			5		
A						
Matures after one year through five years	37			37		
Matures after five years through ten years	10			10		1
BBB						
Matures after one year through five years	68	1		68	1	
Matures after five years through ten years	24		1	24		1
Total credit default swaps on single name reference entities	$ 155	$ 1	$ 1	$ 155	$ 1	$ 2

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

	June 30, 2012			December 31, 2011		
(Amounts in millions)	**Notional value**	**Assets**	**Liabilities**	**Notional value**	**Assets**	**Liabilities**
Original index tranche attachment/detachment point and maturity:						
7% 15% matures after one year through five years[1]	$ 100	$	$ 4	$	$	$
9% 12% matures after one year through five years[2]	300		16	300		27
10% 15% matures after one year through five years[3]	250	2		250		
12% 22% matures after five years through ten years[4]	148		16	248		28
15% 30% matures after five years through ten years[5]	127		1	127		2
Total credit default swap index tranches	925	2	37	925		57
Customized credit default swap index tranches related to securitization entities:						
Portion backing third-party borrowings maturing 2017[6]	12		5	14		7
Portion backing our interest maturing 2017[7]	300		149	300		170
Total customized credit default swap index tranches related to securitization entities	312		154	314		177
Total credit default swaps on index tranches	$ 1,237	$ 2	$ 191	$ 1,239	$	$ 234

(1) The current attachment/detachment as of June 30, 2012 was 7% 15%.

(2) The current attachment/detachment as of June 30, 2012 and December 31, 2011 was 9% 12%.

(3) The current attachment/detachment as of June 30, 2012 and December 31, 2011 was 10% 15%.

(4) The current attachment/detachment as of June 30, 2012 and December 31, 2011 was 12% 22%.

(5) The current attachment/detachment as of June 30, 2012 and December 31, 2011 was 14.8% 30.3%.

(6) Original notional value was $39 million.

(7) 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 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.

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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. Based on comparable market transactions, discounted future cash flows, quoted market prices and/or estimates using the most recent data available for the related instrument. 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. 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 U.S. 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 Australian borrowings, 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, 2012					
	Notional	Carrying	Fair value			
(Amounts in millions)	**amount**	**amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:						
Commercial mortgage loans	$ [1]	$ 5,875	$	$	$ 6,396	$ 6,396
Restricted commercial mortgage loans	[1]	382			435	435
Other invested assets	[1]	399		277	134	411
Liabilities:						
Long-term borrowings [2]	[1]	4,865		4,480	140	4,620
Non-recourse funding obligations [2]	[1]	2,598			1,761	1,761
Borrowings related to securitization entities	[1]	318		269	80	349
Investment contracts	[1]	18,424		1,024	18,322	19,346
Other firm commitments:						
Commitments to fund limited partnerships	59					
Ordinary course of business lending commitments	45					

	December 31, 2011					
	Notional	Carrying	Fair value			
(Amounts in millions)	**amount**	**amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:						
Commercial mortgage loans	$ [1]	$ 6,092	$	$	$ 6,500	$ 6,500
Restricted commercial mortgage loans	[1]	411			461	461
Other invested assets	[1]	786		658	137	795
Liabilities:						
Long-term borrowings [2]	[1]	4,726		4,214	139	4,353
Non-recourse funding obligations [2]	[1]	3,256			2,160	2,160
Borrowings related to securitization entities	[1]	348		287	88	375
Investment contracts	[1]	18,880		1,356	18,325	19,681
Other firm commitments:						
Commitments to fund limited partnerships	78					

Ordinary course of business lending commitments	9

(1) These financial instruments do not have notional amounts.
(2) See note 8 for additional information related to borrowings.

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.

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, 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. Additionally, we evaluate significant changes in fair value each month to further aide in our review of the accuracy our fair value measurements and understanding of changes in fair value, where more detailed reviews are 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 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. 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. We assign each security an internal rating to determine the appropriate public bond spread that should be utilized in the valuation. While we generally consider the public bond spreads by sector and maturity to be observable inputs, we evaluate the similarities of our private placement with the public bonds, any price caps utilized and whether external ratings are available for our private placement to determine whether the spreads utilized would be considered observable inputs. During the second quarter of 2012, we began classifying private securities without an external rating as Level 3. In general, increases (decreases) in credit spreads will decrease (increase) the fair value for our fixed maturity securities. To determine the significance of unobservable inputs, we calculate the impact on the valuation from the unobservable input and will classify a security as Level 3 when the impact on the valuation exceeds 10%.

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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.

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The following tables summarize the primary sources of data considered when determining fair value of each class of fixed maturity securities as of the dates indicated:

	June 30, 2012			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
U.S. government, agencies and government-sponsored enterprises:				
Pricing services	$ 4,975	$	$ 4,975	$
Internal models	10			10
Total U.S. government, agencies and government-sponsored enterprises	4,985		4,975	10
Tax-exempt:				
Pricing services	310		310	
Total tax-exempt	310		310	
Government non-U.S.:				
Pricing services	2,496		2,496	
Internal models	9			9
Total government non-U.S.	2,505		2,496	9
U.S. corporate:				
Pricing services	22,553		22,553	
Broker quotes	249			249
Internal models	2,743		143	2,600
Total U.S. corporate	25,545		22,696	2,849
Corporate non-U.S.:				
Pricing services	12,572		12,572	
Broker quotes	77			77
Internal models	1,936		149	1,787
Total corporate non-U.S.	14,585		12,721	1,864
Residential mortgage-backed:				
Pricing services	5,856		5,856	
Broker quotes	63			63
Internal models	57			57
Total residential mortgage-backed	5,976		5,856	120
Commercial mortgage-backed:				

Pricing services	3,229		3,229	
Broker quotes	15			15
Internal models	24		6	18
Total commercial mortgage-backed	3,268		3,235	33
Other asset-backed:				
Pricing services	2,014		2,014	
Broker quotes	586			586
Internal models	17		6	11
Total other asset-backed	2,617		2,020	597
Total fixed maturity securities	$ 59,791	$	$ 54,309	$ 5,482

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	December 31, 2011			
(Amounts in millions)	Total	Level 1	Level 2	Level 3
U.S. government, agencies and government-sponsored enterprises:				
Pricing services	$ 4,850	$	$ 4,850	$
Internal models	13			13
Total U.S. government, agencies and government-sponsored enterprises	4,863		4,850	13
Tax-exempt:				
Pricing services	503		503	
Total tax-exempt	503		503	
Government non-U.S.:				
Pricing services	2,201		2,201	
Internal models	10			10
Total government non-U.S.	2,211		2,201	10
U.S. corporate:				
Pricing services	22,168		22,168	
Broker quotes	250			250
Internal models	2,840		579	2,261
Total U.S. corporate	25,258			