GENWORTH FINANCIAL INC
Form 10-Q
November 02, 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 September 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 **(State or Other Jurisdiction of** **Incorporation or Organization)**	**33-1073076** **(I.R.S. Employer** **Identification Number)**
6620 West Broad Street **Richmond, Virginia** **(Address of Principal Executive Offices)**	**23230** **(Zip Code)**

(804) 281-6000

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 October 26, 2012, 491,831,925 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)

	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	$ 62,214	$ 58,295
Equity securities available-for-sale, at fair value	524	361
Commercial mortgage loans	5,861	6,092
Restricted commercial mortgage loans related to securitization entities	359	411
Policy loans	1,626	1,549
Other invested assets	3,916	4,819
Restricted other invested assets related to securitization entities ($393 and $376 at fair value)	393	377
Total investments	74,893	71,904
Cash and cash equivalents	3,741	4,488
Accrued investment income	746	691
Deferred acquisition costs	5,020	5,193
Intangible assets	488	580
Goodwill	1,128	1,253
Reinsurance recoverable	17,195	16,998
Other assets	1,010	958
Separate account assets	10,166	10,122
Total assets	$ 114,387	$ 112,187
Liabilities and stockholders equity		
Liabilities:		
Future policy benefits	$ 33,221	$ 32,175
Policyholder account balances	26,449	26,345
Liability for policy and contract claims	7,545	7,620
Unearned premiums	4,291	4,223
Other liabilities ($167 and $210 other liabilities related to securitization entities)	6,073	6,308
Borrowings related to securitization entities ($60 and $48 at fair value)	353	396
Non-recourse funding obligations	2,325	3,256
Long-term borrowings	4,880	4,726
Deferred tax liability	1,437	838
Separate account liabilities	10,166	10,122
Total liabilities	96,740	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 September 30, 2012 and December 31, 2011, respectively; 492 million and 491 million shares outstanding as of September 30, 2012 and December 31, 2011, respectively	1	1
Additional paid-in capital	12,162	12,136

Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	2,641	1,617
Net unrealized gains (losses) on other-than-temporarily impaired securities	(88)	(132)
Net unrealized investment gains (losses)	2,553	1,485
Derivatives qualifying as hedges	2,011	2,009
Foreign currency translation and other adjustments	659	553
Total accumulated other comprehensive income (loss)	5,223	4,047
Retained earnings	1,741	1,584
Treasury stock, at cost (88 million shares as of September 30, 2012 and December 31, 2011)	(2,700)	(2,700)
Total Genworth Financial, Inc. s stockholders equity	16,427	15,068
Noncontrolling interests	1,220	1,110
Total stockholders equity	17,647	16,178
Total liabilities and stockholders equity	$ 114,387	$ 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 September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Revenues:				
Premiums	$ 1,311	$ 1,461	$ 3,720	$ 4,353
Net investment income	825	842	2,503	2,553
Net investment gains (losses)	9	(157)	10	(225)
Insurance and investment product fees and other	391	375	1,252	1,063
Total revenues	2,536	2,521	7,485	7,744
Benefits and expenses:				
Benefits and other changes in policy reserves	1,363	1,457	3,977	4,549
Interest credited	193	194	582	599
Acquisition and operating expenses, net of deferrals	504	581	1,536	1,725
Amortization of deferred acquisition costs and intangibles	162	152	582	465
Goodwill impairment	89		89	
Interest expense	126	124	352	385
Total benefits and expenses	2,437	2,508	7,118	7,723
Income before income taxes	99	13	367	21
Provision (benefit) for income taxes	29	(7)	108	8
Net income	70	20	259	13
Less: net income attributable to noncontrolling interests	36	36	102	106
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ 34	$ (16)	$ 157	$ (93)
Net income (loss) available to Genworth Financial, Inc. s common stockholders per common share:				
Basic	$ 0.07	$ (0.03)	$ 0.32	$ (0.19)
Diluted	$ 0.07	$ (0.03)	$ 0.32	$ (0.19)
Weighted-average common shares outstanding:				
Basic	491.7	490.8	491.5	490.5
Diluted	493.9	490.8	494.5	490.5
Supplemental disclosures:				
Total other-than-temporary impairments	$ (26)	$ (39)	$ (84)	$ (98)
Portion of other-than-temporary impairments included in other comprehensive income (loss)	(3)	(13)	(1)	(16)

Net other-than-temporary impairments		(29)		(52)		(85)		(114)
Other investments gains (losses)		38		(105)		95		(111)
Total net investment gains (losses)	$	9	$	(157)	$	10	$	(225)

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 September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net income	$ 70	$ 20	$ 259	$ 13
Other comprehensive income (loss), net of taxes:				
Net unrealized gains (losses) on securities not other-than-temporarily impaired	517	1,256	1,029	1,600
Net unrealized gains (losses) on other-than-temporarily impaired securities	28	(10)	44	(5)
Derivatives qualifying as hedges	(76)	1,017	2	1,036
Foreign currency translation and other adjustments	148	(508)	145	(259)
Total other comprehensive income (loss)	617	1,755	1,220	2,372
Total comprehensive income (loss)	687	1,775	1,479	2,385
Less: comprehensive income attributable to noncontrolling interests	83	(25)	146	86
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$ 604	$ 1,800	$ 1,333	$ 2,299

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				157		157	102	259
Net unrealized gains (losses) on securities not other-than-temporarily impaired			1,024			1,024	5	1,029
Net unrealized gains (losses) on other-than-temporarily impaired securities			44			44		44
Derivatives qualifying as hedges			2			2		2
Foreign currency translation and other adjustments			106			106	39	145
Total comprehensive income (loss)						1,333	146	1,479
Dividends to noncontrolling interests							(36)	(36)
Stock-based compensation expense and exercises and other		26				26		26
Balances as of September 30, 2012	$ 1	$ 12,162	$ 5,223	$ 1,741	$ (2,700)	$ 16,427	$ 1,220	$ 17,647
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)				(93)		(93)	106	13
Net unrealized gains (losses) on securities not other-than-temporarily impaired			1,566			1,566	34	1,600
Net unrealized gains (losses) on other-than-temporarily impaired securities			(5)			(5)		(5)
Derivatives qualifying as hedges			1,036			1,036		1,036
Foreign currency translation and other adjustments			(205)			(205)	(54)	(259)
Total comprehensive income (loss)						2,299	86	2,385
Dividends to noncontrolling interests							(35)	(35)
Stock-based compensation expense and exercises and other		22				22		22
Balances as of September 30, 2011	$ 1	$ 12,129	$ 3,898	$ 1,442	$ (2,700)	$ 14,770	$ 1,076	$ 15,846

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Cash flows from operating activities:		
Net income	$ 259	$ 13
Adjustments to reconcile net income to net cash from operating activities:		
Amortization of fixed maturity discounts and premiums and limited partnerships	(59)	(71)
Net investment losses (gains)	(10)	225
Charges assessed to policyholders	(590)	(507)
Acquisition costs deferred	(456)	(485)
Amortization of deferred acquisition costs and intangibles	582	465
Goodwill impairment	89	
Deferred income taxes	14	(155)
Gain on sale of subsidiary	(15)	
Net increase in trading securities, held-for-sale investments and derivative instruments	66	795
Stock-based compensation expense	20	23
Change in certain assets and liabilities:		
Accrued investment income and other assets	(160)	(152)
Insurance reserves	1,672	1,953
Current tax liabilities	(190)	8
Other liabilities and other policy-related balances	(795)	(80)
Net cash from operating activities	427	2,032
Cash flows from investing activities:		
Proceeds from maturities and repayments of investments:		
Fixed maturity securities	3,619	4,075
Commercial mortgage loans	559	633
Restricted commercial mortgage loans related to securitization entities	48	77
Proceeds from sales of investments:		
Fixed maturity and equity securities	3,956	3,446
Purchases and originations of investments:		
Fixed maturity and equity securities	(8,942)	(7,798)
Commercial mortgage loans	(339)	(202)
Other invested assets, net	531	(56)
Policy loans, net	(8)	(85)
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	(530)	86
Cash flows from financing activities:		
Deposits to universal life and investment contracts	2,248	2,016
Withdrawals from universal life and investment contracts	(2,057)	(3,034)
Redemption and repurchase of non-recourse funding obligations	(801)	(112)
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	(53)	(77)
Repurchase of subsidiary shares		(71)
Dividends paid to noncontrolling interests	(36)	(35)
Other, net	(103)	21
Net cash from financing activities	(663)	(1,507)
Effect of exchange rate changes on cash and cash equivalents	19	(95)
Net change in cash and cash equivalents	(747)	516
Cash and cash equivalents at beginning of period	4,488	3,132
Cash and cash equivalents at end of period	$ 3,741	$ 3,648

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.

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.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 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.

On October 22, 2012, we announced the launch of a new traditional term life insurance product, along with other changes to our life insurance portfolio designed to update and expand our product offerings and further adjust pricing. We will floor the liability for future policy benefits on these level premium term insurance policies at zero, consistent with our accounting for our existing level premium term insurance business.

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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

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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 September 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	$ 1,461	$	$	$ 1,461
Net investment income	842			842
Net investment gains (losses)	(157)			(157)
Insurance and investment product fees and other	375			375
Total revenues	2,521			2,521
Benefits and expenses:				
Benefits and other changes in policy reserves	1,457			1,457
Interest credited	194			194
Acquisition and operating expenses, net of deferrals	510	71		581
Amortization of deferred acquisition costs and intangibles	190	(38)		152
Interest expense	124			124
Total benefits and expenses	2,475	33		2,508
Income before income taxes	46	(33)		13
Benefit for income taxes	(19)	12		(7)
Net income	65	(45)		20
Less: net income attributable to noncontrolling interests	36			36
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ 29	$ (45)	$	$ (16)
Net income (loss) available to Genworth Financial, Inc. s common stockholders per common share:				
Basic [(1)]	$ 0.06	$ (0.09)	$	$ (0.03)
Diluted [(1)]	$ 0.06	$ (0.09)	$	$ (0.03)

(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 income statement for the nine months ended September 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	$ 4,353	$	$	$ 4,353
Net investment income	2,553			2,553
Net investment gains (losses)	(225)			(225)
Insurance and investment product fees and other	1,063			1,063
Total revenues	7,744			7,744
Benefits and expenses:				
Benefits and other changes in policy reserves	4,538		11	4,549
Interest credited	599			599
Acquisition and operating expenses, net of deferrals	1,524	201		1,725
Amortization of deferred acquisition costs and intangibles	572	(107)		465
Interest expense	385			385
Total benefits and expenses	7,618	94	11	7,723
Income before income taxes	126	(94)	(11)	21
Provision for income taxes	5	7	(4)	8
Net income	121	(101)	(7)	13
Less: net income attributable to noncontrolling interests	106			106
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ 15	$ (101)	$ (7)	$ (93)
Net income (loss) available to Genworth Financial, Inc. s common stockholders per common share:				
Basic [1]	$ 0.03	$ (0.21)	$ (0.01)	$ (0.19)
Diluted [1]	$ 0.03	$ (0.21)	$ (0.01)	$ (0.19)

[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 nine months ended September 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	$ 121	$ (101)	$ (7)	$ 13
Adjustments to reconcile net income to net cash from operating activities:				
Amortization of fixed maturity discounts and premiums and limited partnerships	(71)			(71)
Net investment losses	225			225
Charges assessed to policyholders	(507)			(507)
Acquisition costs deferred	(686)	201		(485)
Amortization of deferred acquisition costs and intangibles	572	(107)		465
Deferred income taxes	(158)	7	(4)	(155)
Net increase in trading securities, held-for-sale investments and derivative instruments	795			795
Stock-based compensation expense	23			23
Change in certain assets and liabilities:				
Accrued investment income and other assets	(152)			(152)
Insurance reserves	1,942		11	1,953
Current tax liabilities	8			8
Other liabilities and policy-related balances	(80)			(80)
Net cash from operating activities	$ 2,032	$	$	$ 2,032

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the balance sheet as of September 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	$ 74,893	$ 74,893	$
Cash and cash equivalents	3,741	3,741	
Accrued investment income	746	746	
Deferred acquisition costs	5,020	5,020	
Intangible assets	488	488	
Goodwill	1,128	1,128	
Reinsurance recoverable	17,195	17,172	23
Other assets	1,010	1,010	
Separate account assets	10,166	10,166	
Total assets	$ 114,387	$ 114,364	$ 23
Liabilities and stockholders equity			
Liabilities:			
Future policy benefits	$ 33,221	$ 32,997	$ 224
Policyholder account balances	26,449	26,449	
Liability for policy and contract claims	7,545	7,545	
Unearned premiums	4,291	4,291	
Other liabilities	6,073	6,073	
Borrowings related to securitization entities	353	353	
Non-recourse funding obligations	2,325	2,325	
Long-term borrowings	4,880	4,880	
Deferred tax liability	1,437	1,508	(71)
Separate account liabilities	10,166	10,166	
Total liabilities	96,740	96,587	153
Stockholders equity:			
Class A common stock	1	1	
Additional paid-in capital	12,162	12,162	
Accumulated other comprehensive income (loss):			
Net unrealized investment gains (losses):			
Net unrealized gains (losses) on securities not other-than-temporarily impaired	2,641	2,641	
Net unrealized gains (losses) on other-than-temporarily impaired securities	(88)	(88)	
Net unrealized investment gains (losses)	2,553	2,553	
Derivatives qualifying as hedges	2,011	2,011	
Foreign currency translation and other adjustments	659	659	

Total accumulated other comprehensive income (loss)	5,223	5,223	
Retained earnings	1,741	1,871	(130)
Treasury stock, at cost	(2,700)	(2,700)	
Total Genworth Financial, Inc. s stockholders equity	16,427	16,557	(130)
Noncontrolling interests	1,220	1,220	
Total stockholders equity	17,647	17,777	(130)
Total liabilities and stockholders equity	$ 114,387	$ 114,364	$ 23

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the income statement for the three months ended September 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	$ 1,311	$ 1,311	$
Net investment income	825	825	
Net investment gains (losses)	9	9	
Insurance and investment product fees and other	391	391	
Total revenues	2,536	2,536	
Benefits and expenses:			
Benefits and other changes in policy reserves	1,363	1,356	7
Interest credited	193	193	
Acquisition and operating expenses, net of deferrals	504	504	
Amortization of deferred acquisition costs and intangibles	162	162	
Goodwill impairment	89	89	
Interest expense	126	126	
Total benefits and expenses	2,437	2,430	7
Income before income taxes	99	106	(7)
Provision for income taxes	29	32	(3)
Net income	70	74	(4)
Less: net income attributable to noncontrolling interests	36	36	
Net income available to Genworth Financial, Inc. s common stockholders	$ 34	$ 38	$ (4)
Net income available to Genworth Financial, Inc. s common stockholders per common share:			
Basic	$ 0.07	$ 0.08	$ (0.01)
Diluted	$ 0.07	$ 0.08	$ (0.01)

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the income statement for the nine months ended September 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	$ 3,720	$ 3,720	$
Net investment income	2,503	2,503	
Net investment gains (losses)	10	10	
Insurance and investment product fees and other	1,252	1,252	
Total revenues	7,485	7,485	
Benefits and expenses:			
Benefits and other changes in policy reserves	3,977	3,961	16
Interest credited	582	582	
Acquisition and operating expenses, net of deferrals	1,536	1,536	
Amortization of deferred acquisition costs and intangibles	582	582	
Goodwill impairment	89	89	
Interest expense	352	352	
Total benefits and expenses	7,118	7,102	16
Income before income taxes	367	383	(16)
Provision for income taxes	108	114	(6)
Net income	259	269	(10)
Less: net income attributable to noncontrolling interests	102	102	
Net income available to Genworth Financial, Inc. s common stockholders	$ 157	$ 167	$ (10)
Net income available to Genworth Financial, Inc. s common stockholders per common share:			
Basic	$ 0.32	$ 0.34	$ (0.02)
Diluted	$ 0.32	$ 0.34	$ (0.02)

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the net cash flows from operating activities for the nine months ended September 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	$ 259	$ 269	$ (10)
Adjustments to reconcile net income to net cash from operating activities:			
Amortization of fixed maturity discounts and premiums and limited partnerships	(59)	(59)	
Net investment gains	(10)	(10)	
Charges assessed to policyholders	(590)	(590)	
Acquisition costs deferred	(456)	(456)	
Amortization of deferred acquisition costs and intangibles	582	582	
Goodwill impairment	89	89	
Deferred income taxes	14	20	(6)
Gain on sale of subsidiary	(15)	(15)	
Net increase in trading securities, held-for-sale investments and derivative instruments	66	66	
Stock-based compensation expense	20	20	
Change in certain assets and liabilities:			
Accrued investment income and other assets	(160)	(160)	
Insurance reserves	1,672	1,656	16
Current tax liabilities	(190)	(190)	
Other liabilities and policy-related balances	(795)	(795)	
Net cash from operating activities	$ 427	$ 427	$

Accounting Pronouncements Not Yet Adopted

In July 2012, the FASB issued new accounting guidance on testing indefinite-lived intangible assets for impairment. The new guidance permits the use of a qualitative assessment prior to, and potentially instead of, the quantitative impairment test for indefinite-lived intangible assets. This new accounting guidance has an effective date of January 1, 2013, with early adoption permitted in certain circumstances. We do not expect the adoption of this accounting guidance to have an impact on our consolidated financial statements.

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:

	Three months ended September 30,		Nine months ended September 30,	
(Amounts in millions, except per share amounts)	**2012**	**2011**	**2012**	**2011**
Net income	$ 70	$ 20	$ 259	$ 13
Less: net income attributable to noncontrolling interests	36	36	102	106
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ 34	$ (16)	$ 157	$ (93)
Basic per common share:				
Net income	$ 0.14	$ 0.04	$ 0.53	$ 0.03
Less: net income attributable to noncontrolling interests	0.07	0.07	0.21	0.22
Net income (loss) available to Genworth Financial, Inc. s common stockholders[1]	$ 0.07	$ (0.03)	$ 0.32	$ (0.19)
Diluted per common share:				
Net income	$ 0.14	$ 0.04	$ 0.52	$ 0.03
Less: net income attributable to noncontrolling interests	0.07	0.07	0.21	0.22
Net income (loss) available to Genworth Financial, Inc. s common stockholders[1]	$ 0.07	$ (0.03)	$ 0.32	$ (0.19)
Weighted-average shares used in basic earnings per common share calculations	491.7	490.8	491.5	490.5
Potentially dilutive securities:				
Stock options, restricted stock units and stock appreciation rights	2.2		3.0	
Weighted-average shares used in diluted earnings per common share calculations [2]	493.9	490.8	494.5	490.5

(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 nine months ended September 30, 2011, we were required to use basic weighted-average common shares outstanding in the calculation for the three and nine months ended September 30, 2011 diluted loss per share, as the inclusion of shares for stock options, restricted stock units and stock appreciation rights of 1.7 million and 3.2 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 nine months ended September 30, 2011, dilutive potential common shares would have been 492.5 million and 493.7 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 September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Fixed maturity securities taxable	$ 659	$ 669	$ 1,988	$ 2,032
Fixed maturity securities non-taxable	2	8	9	29
Commercial mortgage loans	87	89	256	273
Restricted commercial mortgage loans related to securitization entities	8	11	24	30
Equity securities	4	3	14	16
Other invested assets	48	42	157	131
Policy loans	31	30	93	89
Cash, cash equivalents and short-term investments	8	12	28	24
Gross investment income before expenses and fees	847	864	2,569	2,624
Expenses and fees	(22)	(22)	(66)	(71)
Net investment income	$ 825	$ 842	$ 2,503	$ 2,553

(b) Net Investment Gains (Losses)

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

(Amounts in millions)	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Available-for-sale securities:				
Realized gains	$ 28	$ 59	$ 112	$ 113
Realized losses	(14)	(23)	(79)	(88)
Net realized gains (losses) on available-for-sale securities	14	36	33	25
Impairments:				
Total other-than-temporary impairments	(26)	(39)	(84)	(98)
Portion of other-than-temporary impairments included in other comprehensive income (loss)	(3)	(13)	(1)	(16)

Net other-than-temporary impairments	(29)	(52)	(85)	(114)
Trading securities	14	11	21	36
Commercial mortgage loans	2	3	7	4
Net gains (losses) related to securitization entities	18	(57)	48	(52)
Derivative instruments [1]	(2)	(76)	(4)	(101)
Contingent consideration adjustment	(8)	(22)	(10)	(23)
Net investment gains (losses)	$ 9	$ (157)	$ 10	$ (225)

(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 September 30, 2012 and 2011 was $228 million and $263 million, respectively, which was approximately 96% and 93%, respectively, of book value. The aggregate fair value of securities sold at a loss during the nine months ended September 30, 2012 and 2011 was $911 million and $954 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 September 30,		As of or for the nine months ended September 30,	
(Amounts in millions)	**2012**	**2011**	**2012**	**2011**
Beginning balance	$ 588	$ 726	$ 646	$ 784
Additions:				
Other-than-temporary impairments not previously recognized	5	27	13	31
Increases related to other-than-temporary impairments previously recognized	10	24	42	72
Reductions:				
Securities sold, paid down or disposed	(66)	(58)	(164)	(168)
Ending balance	$ 537	$ 719	$ 537	$ 719

(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)	**September 30, 2012**	**December 31, 2011**
Net unrealized gains (losses) on investment securities:		
Fixed maturity securities	$ 5,925	$ 3,742
Equity securities	24	5
Other invested assets	(23)	(30)
Subtotal	5,926	3,717
Adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves	(1,867)	(1,303)
Income taxes, net	(1,412)	(840)
Net unrealized investment gains (losses)	2,647	1,574
	94	89

Less: net unrealized investment gains (losses) attributable to noncontrolling interests				
Net unrealized investment gains (losses) attributable to Genworth Financial, Inc.	$	2,553	$	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 September 30, 2012	2011
Beginning balance	$ 2,016	$ 264
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	1,040	2,365
Adjustment to deferred acquisition costs	(39)	(41)
Adjustment to present value of future profits	11	(61)
Adjustment to sales inducements	(17)	6
Adjustment to benefit reserves	(171)	(369)
Provision for income taxes	(288)	(665)
Change in unrealized gains (losses) on investment securities	536	1,235
Reclassification adjustments to net investment (gains) losses, net of taxes of $(6) and $(5)	9	11
Change in net unrealized investment gains (losses)	545	1,246
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	8	29
Ending balance	$ 2,553	$ 1,481

(Amounts in millions)	As of or for the nine months ended September 30, 2012	2011
Beginning balance	$ 1,485	$ (80)
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	2,157	2,932
Adjustment to deferred acquisition costs	(138)	(89)
Adjustment to present value of future profits	(11)	(77)
Adjustment to sales inducements	(31)	(1)
Adjustment to benefit reserves	(384)	(400)
Provision for income taxes	(553)	(828)
Change in unrealized gains (losses) on investment securities	1,040	1,537
Reclassification adjustments to net investment (gains) losses, net of taxes of $(19) and $(31)	33	58
Change in net unrealized investment gains (losses)	1,073	1,595
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	5	34
Ending balance	$ 2,553	$ 1,481

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(d) Fixed Maturity and Equity Securities

As of September 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	$ 4,448	$ 1,060	$	$ (5)	$	$ 5,503
Tax-exempt	328	17		(43)		302
Government non-U.S.	2,315	260		(1)		2,574
U.S. corporate	23,062	3,368	20	(144)		26,306
Corporate non-U.S.	14,256	1,190		(78)		15,368
Residential mortgage-backed	5,837	562	12	(150)	(142)	6,119
Commercial mortgage-backed	3,240	185	4	(112)	(31)	3,286
Other asset-backed	2,799	44		(86)	(1)	2,756
Total fixed maturity securities	56,285	6,686	36	(619)	(174)	62,214
Equity securities	499	32		(7)		524
Total available-for-sale securities	$ 56,784	$ 6,718	$ 36	$ (626)	$ (174)	$ 62,738

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 September 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	$ 303	$ (5)	7	$	$		$ 303	$ (5)	7
Tax-exempt				129	(43)	15	129	(43)	15
Government non-U.S.				57	(1)	10	57	(1)	10
U.S. corporate	382	(11)	72	938	(133)	91	1,320	(144)	163
Corporate non-U.S.	468	(13)	90	625	(65)	61	1,093	(78)	151
Residential mortgage-backed	120	(2)	22	577	(290)	304	697	(292)	326
Commercial mortgage-backed				830	(143)	150	830	(143)	150
Other asset-backed	141	(1)	31	185	(86)	20	326	(87)	51
Subtotal, fixed maturity securities	1,414	(32)	222	3,341	(761)	651	4,755	(793)	873
Equity securities	91	(5)	40	31	(2)	20	122	(7)	60
Total for securities in an unrealized loss position	$ 1,505	$ (37)	262	$ 3,372	$ (763)	671	$ 4,877	$ (800)	933
% Below cost fixed maturity securities:									
<20% Below cost	$ 1,405	$ (30)	216	$ 2,434	$ (198)	371	$ 3,839	$ (228)	587
20%-50% Below cost	9	(2)	6	842	(385)	188	851	(387)	194
>50% Below cost				65	(178)	92	65	(178)	92
Total fixed maturity securities	1,414	(32)	222	3,341	(761)	651	4,755	(793)	873
% Below cost equity securities:									
<20% Below cost	87	(4)	39	28	(1)	19	115	(5)	58
20%-50% Below cost	4	(1)	1	3	(1)	1	7	(2)	2
Total equity securities	91	(5)	40	31	(2)	20	122	(7)	60
Total for securities in an unrealized loss position	$ 1,505	$ (37)	262	$ 3,372	$ (763)	671	$ 4,877	$ (800)	933
Investment grade	$ 1,283	$ (22)	203	$ 2,173	$ (293)	308	$ 3,456	$ (315)	511
Below investment grade [(3)]	222	(15)	59	1,199	(470)	363	1,421	(485)	422

Total for securities in an unrealized loss position	$ 1,505	$ (37)	262	$ 3,372	$ (763)	671	$ 4,877	$ (800)	933

(1) Amounts included $174 million of unrealized losses on other-than-temporarily impaired securities.

(2) Amounts included $174 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 $171 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 lower credit ratings since acquisition for corporate securities across various industry sectors. For securities that have been in a continuous unrealized loss for less than 12 months, the average fair value percentage below cost was approximately 2% as of September 30, 2012.

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

Of the $198 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 62% of the unrealized losses were related to investment grade securities as of September 30, 2012. These unrealized losses were attributable to lower credit ratings 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 7% as of September 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 September 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	$ (40)	5%	10	$	$	%	
U.S. corporate	138	(44)	6	7				
Corporate non-U.S.	29	(17)	2	8	2	(2)		1
Structured securities:								
Residential mortgage-backed	38	(22)	3	17	6	(12)	2	10
Commercial mortgage-backed	18	(7)	1	6		(1)		1
Other asset-backed	38	(26)	3	4				
Total structured securities	94	(55)	7	27	6	(13)	2	11
Total	$ 375	$ (156)	20%	52	$ 8	$ (15)	2%	12

GENWORTH FINANCIAL, INC.

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	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	$ 80	$ (32)	4%	7	$	$	%	
Structured securities:								
Residential mortgage-backed	221	(112)	14	95	40	(124)	16	67
Commercial mortgage-backed	117	(49)	6	31	7	(23)	3	10
Other asset-backed	49	(36)	5	3	10	(16)	2	3
Total structured securities	387	(197)	25	129	57	(163)	21	80
Total	$ 467	$ (229)	29%	136	$ 57	$ (163)	21%	80

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 the following for further discussion of gross unrealized losses by asset class.

Tax-Exempt Securities

As indicated in the table above, $40 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 26% below cost. The unrealized losses continue to persist due to a combination of below market spreads, very low coupons, along with economic uncertainty 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 ratings downgrades of 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 September 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	$ 136	$ (52)	7%	14	$ 2	$ (2)	%	1
Consumer-non-cyclical	31	(9)	1	1				
Total	$ 167	$ (61)	8%	15	$ 2	$ (2)	%	1

	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	$ 66	$ (23)	3%	4	$	$	%	
Consumer-non-cyclical	11	(8)	1	2				
Transportation	3	(1)		1				
Total	$ 80	$ (32)	4%	7	$	$	%	

Of the total unrealized losses of $95 million for corporate fixed maturity securities presented in the preceding tables, $77 million, or 81%, of the unrealized losses related to issuers in the finance and insurance sector that were 50% 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 September 30, 2012. Of the $77 million of unrealized losses related to the finance and insurance industry, $71 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.

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.

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Structured Securities

Of the $428 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, $148 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.

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 September 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.

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The following table presents the gross unrealized losses and fair values of our investment securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, as of 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
	$ 4,719	$ (211)	629	$ 4,251	$ (1,208)	857	$ 8,970	$ (1,419)	1,486

Total for securities in an unrealized loss position	

(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 September 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	$ 3,058	$ 3,097
Due after one year through five years	10,639	11,162
Due after five years through ten years	10,916	12,009
Due after ten years	19,796	23,785
Subtotal	44,409	50,053
Residential mortgage-backed	5,837	6,119
Commercial mortgage-backed	3,240	3,286
Other asset-backed	2,799	2,756
Total	$ 56,285	$ 62,214

As of September 30, 2012, $4,782 million of our investments (excluding mortgage-backed and asset-backed securities) were subject to certain call provisions.

As of September 30, 2012, securities issued by utilities and energy, finance and insurance, and consumer non-cyclical industry groups represented approximately 23%, 20% and 12% 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 September 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:

	September 30, 2012		December 31, 2011	
(Amounts in millions)	**Carrying value**	**% of total**	**Carrying value**	**% of total**
Property type:				
Retail	$ 1,882	32%	$ 1,898	31%
Industrial	1,633	27	1,707	28
Office	1,533	26	1,590	26
Apartments	578	10	641	10
Mixed use/other	277	5	304	5
Subtotal	5,903	100%	6,140	100%
Unamortized balance of loan origination fees and costs	2		3	
Allowance for losses	(44)		(51)	
Total	$ 5,861		$ 6,092	

	September 30, 2012		December 31, 2011	
(Amounts in millions)	**Carrying value**	**% of total**	**Carrying value**	**% of total**
Geographic region:				
South Atlantic	$ 1,619	27%	$ 1,631	27%
Pacific	1,526	26	1,539	25
Middle Atlantic	710	12	734	12
East North Central	513	9	557	9
Mountain	442	7	497	8
New England	342	6	388	6
West North Central	339	6	337	5
West South Central	260	4	298	5
East South Central	152	3	159	3
Subtotal	5,903	100%	6,140	100%
Unamortized balance of loan origination fees and costs	2		3	
Allowance for losses	(44)		(51)	
Total	$ 5,861		$ 6,092	

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(Unaudited)

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

	September 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	$ 7	$ 3	$ 3	$ 13	$ 1,869	$ 1,882
Industrial					1,633	1,633
Office			4	4	1,529	1,533
Apartments			2	2	576	578
Mixed use/other	67			67	210	277
Total recorded investment	$ 74	$ 3	$ 9	$ 86	$ 5,817	$ 5,903
% 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 September 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 September 30, 2012 and December 31, 2011.

As of and for the nine months ended September 30, 2012 and the year ended December 31, 2011, we modified or extended 30 and 39 commercial mortgage loans, respectively, with a total carrying value of $197 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:

(Amounts in millions)	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Allowance for credit losses:				
Beginning balance	$ 46	$ 57	$ 51	$ 59
Charge-offs	(3)		(4)	(5)
Recoveries				
Provision	1	(3)	(3)	
Ending balance	$ 44	$ 54	$ 44	$ 54
Ending allowance for individually impaired loans	$	$	$	$
Ending allowance for loans not individually impaired that were evaluated collectively for impairment	$ 44	$ 54	$ 44	$ 54
Recorded investment:				
Ending balance	$ 5,903	$ 6,321	$ 5,903	$ 6,321
Ending balance of individually impaired loans	$ 8	$ 13	$ 8	$ 13
Ending balance of loans not individually impaired that were evaluated collectively for impairment	$ 5,895	$ 6,308	$ 5,895	$ 6,308

As of September 30, 2012, we had individually impaired commercial mortgage loans included within the retail property type with a recorded investment of $8 million, an unpaid principal balance of $11 million, charge-offs of $3 million and an average recorded investment of $4 million. 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:

	September 30, 2012					
(Amounts in millions)	**0% - 50%**	**51% - 60%**	**61% - 75%**	**76% - 100%**	**Greater than 100%** [1]	**Total**
Property type:						
Retail	$ 560	$ 298	$ 809	$ 177	$ 38	$ 1,882
Industrial	528	244	600	220	41	1,633
Office	361	236	598	277	61	1,533
Apartments	188	143	203	29	15	578
Mixed use/other	70	32	88	81	6	277
Total	$ 1,707	$ 953	$ 2,298	$ 784	$ 161	$ 5,903
% of total	29%	16%	39%	13%	3%	100%
Weighted-average debt service coverage ratio	2.14	1.73	2.13	1.55	1.14	1.97

[1] Included $8 million of impaired loans and $153 million of loans in good standing, with a total weighted-average loan-to-value of 144%, 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:

	September 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	$ 110	$ 298	$ 388	$ 573	$ 408	$ 1,777
Industrial	187	149	343	643	305	1,627
Office	148	172	309	494	326	1,449
Apartments	9	51	90	287	141	578
Mixed use/other	33	21	38	67	51	210
Total	$ 487	$ 691	$ 1,168	$ 2,064	$ 1,231	$ 5,641
% of total	9%	12%	21%	36%	22%	100%
Weighted-average loan-to-value	83%	71%	65%	60%	45%	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:

	September 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					6	6
Office			8		76	84
Apartments						
Mixed use/other					67	67
Total	$	$	$ 9	$	$ 253	$ 262
% of total	%	%	3%	%	97%	100%
Weighted-average loan-to-value	%	%	54%	%	68%	67%

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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:

	September 30, 2012		December 31, 2011	
(Amounts in millions)	Carrying value	% of total	Carrying value	% of total
Property type:				
Retail	$ 148	41%	$ 161	38%
Industrial	85	24	99	24
Office	66	18	86	21
Apartments	57	16	60	15
Mixed use/other	5	1	7	2
Subtotal	361	100%	413	100%
Allowance for losses	(2)		(2)	
Total	$ 359		$ 411	

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(Amounts in millions)	September 30, 2012 Carrying value	September 30, 2012 % of total	December 31, 2011 Carrying value	December 31, 2011 % of total
Geographic region:				
South Atlantic	$ 132	37%	$ 146	35%
Pacific	62	17	74	18
Middle Atlantic	56	16	65	16
East North Central	36	10	42	10
West North Central	26	7	28	7
Mountain	22	6	28	7
East South Central	16	4	17	4
West South Central	11	3	12	3
New England			1	
Subtotal	361	100%	413	100%
Allowance for losses	(2)		(2)	
Total	$ 359		$ 411	

Of our restricted commercial mortgage loans as of September 30, 2012, $357 million were current and $4 million were 31 to 60 days past due. As of September 30, 2012, we did not have any restricted commercial mortgage loans 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 September 30, 2012, the total recorded investment of restricted commercial mortgage loans of $361 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 nine months ended September 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:

	September 30, 2012					
(Amounts in millions)	**0% - 50%**	**51% - 60%**	**61% - 75%**	**76% - 100%**	**Greater than 100%**	**Total**
Property type:						
Retail	$ 134	$ 4	$ 7	$	$ 3	$ 148
Industrial	80		3	2		85
Office	51	8	1	6		66
Apartments	32	4	21			57
Mixed use/other	5					5
Total recorded investments	$ 302	$ 16	$ 32	$ 8	$ 3	$ 361
% of total	83%	5%	9%	2%	1%	100%
Weighted-average debt service coverage ratio	1.78	1.38	1.14	0.86	0.54	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:

	September 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	$ 16	$ 36	$ 40	$ 50	$ 148
Industrial	12	4	14	38	17	85
Office	5	23	14	12	12	66
Apartments		20	11	22	4	57
Mixed use/other				2	3	5
Total recorded investments	$ 23	$ 63	$ 75	$ 114	$ 86	$ 361
% of total	6%	17%	21%	32%	24%	100%
Weighted-average loan-to-value	51%	53%	37%	31%	29%	37%

	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 September 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 market-making and other speculative derivatives activities. These policies require the use of derivative

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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	September 30, 2012	December 31, 2011	Balance sheet classification	September 30, 2012	December 31, 2011
Derivatives designated as hedges						
Cash flow hedges:						
Interest rate swaps	Other invested assets	$ 546	$ 602	Other liabilities	$ 2	$ 1
Inflation indexed swaps	Other invested assets			Other liabilities	98	43
Foreign currency swaps	Other invested assets	1		Other liabilities	1	
Forward bond purchase commitments	Other invested assets	68	47	Other liabilities		
Total cash flow hedges		615	649		101	44
Fair value hedges:						
Interest rate swaps	Other invested assets	19	43	Other liabilities		1
Foreign currency swaps	Other invested assets	29	32	Other liabilities		
Total fair value hedges		48	75			1
Total derivatives designated as hedges		663	724		101	45
Derivatives not designated as hedges						
Interest rate swaps	Other invested assets	691	705	Other liabilities	352	374
Interest rate swaps related to securitization entities	Restricted other invested assets			Other liabilities	29	28
Credit default swaps	Other invested assets	6	1	Other liabilities	9	59
Credit default swaps related to securitization entities	Restricted other invested assets			Other liabilities	136	177
Equity index options	Other invested assets	24	39	Other liabilities		
Financial futures	Other invested assets			Other liabilities		
Equity return swaps	Other invested assets		7	Other liabilities	7	4
Other foreign currency contracts	Other invested assets		9	Other liabilities	6	11
Reinsurance embedded derivatives [1]	Other assets	33	29	Other liabilities		
GMWB embedded derivative	Reinsurance recoverable [2]	11	16	Policyholder account balances [3]	380	492
Fixed index annuity embedded derivatives	Other assets [4]			Policyholder account balances [4]	21	4
Total derivatives not designated as hedges		765	806		940	1,149
Total derivatives		$ 1,428	$ 1,530		$ 1,041	$ 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	September 30, 2012
Derivatives designated as hedges					
Cash flow hedges:					
Interest rate swaps	Notional	$ 12,399	$	$ (2,082)	$ 10,317
Inflation indexed swaps	Notional	544	10		554
Foreign currency swaps	Notional		185	(75)	110
Forward bond purchase commitments	Notional	504			504
Total cash flow hedges		13,447	195	(2,157)	11,485
Fair value hedges:					
Interest rate swaps	Notional	1,039		(314)	725
Foreign currency swaps	Notional	85			85
Total fair value hedges		1,124		(314)	810
Total derivatives designated as hedges		14,571	195	(2,471)	12,295
Derivatives not designated as hedges					
Interest rate swaps	Notional	7,200	2,530	(2,332)	7,398
Interest rate swaps related to securitization entities	Notional	117		(9)	108
Credit default swaps	Notional	1,110	100	(230)	980
Credit default swaps related to securitization entities	Notional	314		(2)	312
Equity index options	Notional	522	1,121	(592)	1,051
Financial futures	Notional	2,924	4,228	(5,110)	2,042
Equity return swaps	Notional	326	191	(342)	175
Other foreign currency contracts	Notional	779	358	(1,084)	53
Reinsurance embedded derivatives	Notional	228	53		281
Total derivatives not designated as hedges		13,520	8,581	(9,701)	12,400
Total derivatives		$ 28,091	$ 8,776	$ (12,172)	$ 24,695

(Number of policies)	Measurement	Additions

		December 31, 2011		Maturities/ terminations	September 30, 2012
Derivatives not designated as hedges					
GMWB embedded derivatives	Policies	47,714		(2,010)	45,704
Fixed index annuity embedded derivatives	Policies	433	937	(10)	1,360

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We did not have any derivatives with counterparties that can be terminated at the option of the derivative counterparty as of September 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 September 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	$ (83)	$ 9	Net investment income	$ (6)	Net investment gains (losses)
Interest rate swaps hedging assets		1	Net investment gains (losses)		Net investment gains (losses)
Forward bond purchase commitments	2		Net investment income		Net investment gains (losses)
Inflation indexed swaps	(23)	3	Net investment income		Net investment gains (losses)
Foreign currency swaps	1		Interest expense		Net investment gains (losses)
Total	$ (103)	$ 13		$ (6)	

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

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The following table provides information about the pre-tax income (loss) effects of cash flow hedges for the three months ended September 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	$ 1,529	$ 9	Net investment income	$ 49	Net investment gains (losses)
Interest rate swaps hedging assets		2	Net investment gains (losses)		Net investment gains (losses)
Forward bond purchase commitments	37		Net investment income		Net investment gains (losses)
Inflation indexed swaps	19	(3)	Net investment income		Net investment gains (losses)
Total	$ 1,585	$ 8		$ 49	

[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 nine months ended September 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	$ 60	$ 28	Net investment income	$ (6)	Net investment gains (losses)
Interest rate swaps hedging assets		2	Net investment gains (losses)		Net investment gains (losses)
Interest rate swaps hedging liabilities		1	Interest expense		Net investment gains (losses)
Forward bond purchase commitments	22		Net investment income		Net investment gains (losses)
Inflation indexed swaps	(54)	(6)	Net investment income		Net investment gains (losses)
Foreign currency swaps	2		Interest expense		Net investment gains (losses)
Total	$ 30	$ 25		$ (6)	

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

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The following table provides information about the pre-tax income (loss) effects of cash flow hedges for the nine months ended September 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	$ 1,568	$ 19	Net investment income	$ 49	Net investment gains (losses)
Interest rate swaps hedging assets		2	Net investment gains (losses)		Net investment gains (losses)
Interest rate swaps hedging liabilities		1	Interest expense		Net investment gains (losses)
Forward bond purchase commitments	37		Net investment income		Net investment gains (losses)
Inflation indexed swaps	(8)	(24)	Net investment income		Net investment gains (losses)
Foreign currency swaps	4	(5)	Interest expense		Net investment gains (losses)
Total	$ 1,601	$ (7)		$ 49	

[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 September 30, 2012	2011
Derivatives qualifying as effective accounting hedges as of July 1	$ 2,087	$ 943
Current period increases (decreases) in fair value, net of deferred taxes of $31 and $(563)	(72)	1,022
Reclassification to net (income) loss, net of deferred taxes of $9 and $3	(4)	(5)
Derivatives qualifying as effective accounting hedges as of September 30	$ 2,011	$ 1,960

(Amounts in millions)	Nine months ended September 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 $(12) and $(569)	18	1,032
Reclassification to net (income) loss, net of deferred taxes of $9 and $(3)	(16)	4
Derivatives qualifying as effective accounting hedges as of September 30	$ 2,011	$ 1,960

The total of derivatives designated as cash flow hedges of $2,011 million, net of taxes, recorded in stockholders equity as of September 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, $33 million, net of taxes, is

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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 nine months ended September 30, 2012 in connection with forecasted transactions that were no longer considered probable of occurring.

Fair Value Hedges

Certain derivative instruments are designated as fair value hedges. The changes in fair value of these instruments are recorded in net income (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 September 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	$	Net investment gains (losses)	$	Net investment income	$	Net investment gains (losses)
Interest rate swaps hedging liabilities	(4)	Net investment gains (losses)	8	Interest credited	4	Net investment gains (losses)
Foreign currency swaps		Net investment gains (losses)	1	Interest credited		Net investment gains (losses)
Total	$ (4)		$ 9		$ 4	

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 September 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	Net investment gains (losses)	$ (2)	Net investment income	$ (1)	Net investment gains (losses)

Interest rate swaps hedging liabilities	(10)	Net investment gains (losses)	16	Interest credited	10	Net investment gains (losses)
Foreign currency swaps	(9)	Net investment gains (losses)	1	Interest credited	10	Net investment gains (losses)
Total	$ (18)		$ 15		$ 19	

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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 nine months ended September 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	(23)	Net investment gains (losses)	29	Interest credited	23	Net investment gains (losses)
Foreign currency swaps	(3)	Net investment gains (losses)	2	Interest credited	3	Net investment gains (losses)
Total	$ (25)		$ 28		$ 25	

The following table provides information about the pre-tax income (loss) effects of fair value hedges and related hedged items for the nine months ended September 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	$ 3	Net investment gains (losses)	$ (7)	Net investment income	$ (3)	Net investment gains (losses)
Interest rate swaps hedging liabilities	(39)	Net investment gains (losses)	53	Interest credited	39	Net investment gains (losses)
Foreign currency swaps	2	Net investment gains (losses)	2	Interest credited	(2)	Net investment gains (losses)
Total	$ (34)		$ 48		$ 34	

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 credit risk; (vi) foreign currency forward contracts to mitigate currency risk associated with future dividends and

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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 September 30,		Classification of gain (loss) recognized
(Amounts in millions)	**2012**	**2011**	**in net income (loss)**
Interest rate swaps	$ 1	$ 9	Net investment gains (losses)
Interest rate swaps related to securitization entities	(1)	(12)	Net investment gains (losses)
Credit default swaps	25	(70)	Net investment gains (losses)
Credit default swaps related to securitization entities	20	(54)	Net investment gains (losses)
Equity index options	(17)	59	Net investment gains (losses)
Financial futures	(70)	266	Net investment gains (losses)
Equity return swaps	(11)	22	Net investment gains (losses)
Other foreign currency contracts	(2)	13	Net investment gains (losses)
Reinsurance embedded derivatives	(1)	27	Net investment gains (losses)
GMWB embedded derivatives	79	(454)	Net investment gains (losses)
Fixed index annuity embedded derivatives	(1)	1	Net investment gains (losses)
Total derivatives not designated as hedges	$ 22	$ (193)	

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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:

	Nine months ended September 30,		Classification of gain (loss) recognized
(Amounts in millions)	**2012**	**2011**	**in net income (loss)**
Interest rate swaps	$ 18	$ 13	Net investment gains (losses)
Interest rate swaps related to securitization entities	(4)	(15)	Net investment gains (losses)
Credit default swaps	47	(67)	Net investment gains (losses)
Credit default swaps related to securitization entities	43	(49)	Net investment gains (losses)
Equity index options	(46)	31	Net investment gains (losses)
Financial futures	(109)	261	Net investment gains (losses)
Equity return swaps	(25)	12	Net investment gains (losses)
Other foreign currency contracts	(19)		Net investment gains (losses)
Reinsurance embedded derivatives	4	26	Net investment gains (losses)
GMWB embedded derivatives	132	(428)	Net investment gains (losses)
Fixed index annuity embedded derivatives	(2)	1	Net investment gains (losses)
Total derivatives not designated as hedges	$ 39	$ (215)	

Derivative Counterparty Credit Risk

As of September 30, 2012 and December 31, 2011, net fair value assets by counterparty totaled $937 million and $1,027 million, respectively. As of September 30, 2012 and December 31, 2011, net fair value liabilities by counterparty totaled $193 million and $240 million, respectively. As of September 30, 2012 and December 31, 2011, we retained collateral of $1,010 million and $1,023 million, respectively, related to these agreements, including over collateralization of $95 million and $50 million, respectively, from certain counterparties. As of September 30, 2012 and December 31, 2011, we posted $24 million and $28 million, respectively, of collateral to derivative counterparties, including over collateralization of $1 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 September 30, 2012 and December 31, 2011, we could have been allowed to claim up to $22 million and $54 million, respectively, from counterparties and required to disburse up to $5 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

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name reference entities follow the Credit Derivatives Physical Settlement Matrix published by the International Swaps and Derivatives Association. Under these terms, credit default triggers are defined as bankruptcy, failure to pay or restructuring, if applicable. Our maximum exposure to credit loss equals the notional value for credit default swaps. In the event of default for credit default swaps, we are typically required to pay the protection holder the full notional value less a recovery rate determined at auction.

In addition to the credit derivatives discussed above, we also have credit derivative instruments related to securitization entities that we 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:

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

	September 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	$	$ 2	$	$	$
9% 12% matures in less than one year[2]	50					
9% 12% matures after one year through five years[2]	250		5	300		27
10% 15% matures after one year through five years[3]	250	4		250		
12% 22% matures after five years through ten years[4]	48		2	248		28
15% 30% matures after five years through ten years[5]	127	1		127		2
Total credit default swap index tranches	825	5	9	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		131	300		170
Total customized credit default swap index tranches related to securitization entities	312		136	314		177
Total credit default swaps on index tranches	$ 1,137	$ 5	$ 145	$ 1,239	$	$ 234

(1) The current attachment/detachment as of September 30, 2012 was 7% 15%.
(2) The current attachment/detachment as of September 30, 2012 and December 31, 2011 was 9% 12%.
(3) The current attachment/detachment as of September 30, 2012 and December 31, 2011 was 10% 15%.
(4) The current attachment/detachment as of September 30, 2012 and December 31, 2011 was 12% 22%.
(5) The current attachment/detachment as of September 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:

	September 30, 2012					
	Notional	Carrying	Fair value			
(Amounts in millions)	**amount**	**amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:						
Commercial mortgage loans	$ [1]	$ 5,861	$	$	$ 6,380	$ 6,380
Restricted commercial mortgage loans	[1]	359			410	410
Other invested assets	[1]	250		134	123	257
Liabilities:						
Long-term borrowings [2]	[1]	4,880		4,703	146	4,849
Non-recourse funding obligations [2]	[1]	2,325			1,567	1,567
Borrowings related to securitization entities	[1]	293		253	71	324
Investment contracts	[1]	18,581		1,027	18,689	19,716
Other firm commitments:						
Commitments to fund limited partnerships	57					
Ordinary course of business lending commitments	98					

	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:

	September 30, 2012			
(Amounts in millions)	Total	Level 1	Level 2	Level 3
U.S. government, agencies and government-sponsored enterprises:				
Pricing services	$ 5,494	$	$ 5,494	$
Internal models	9			9
Total U.S. government, agencies and government-sponsored enterprises	5,503		5,494	9
Tax-exempt:				
Pricing services	302		302	
Total tax-exempt	302		302	
Government non-U.S.:				
Pricing services	2,566		2,566	
Internal models	8			8
Total government non-U.S.	2,574		2,566	8
U.S. corporate:				
Pricing services	23,298		23,298	
Broker quotes	138			138
Internal models	2,870		259	2,611
Total U.S. corporate	26,306		23,557	2,749
Corporate non-U.S.:				
Pricing services	13,308		13,308	
Broker quotes	62			62
Internal models	1,998		151	1,847
Total corporate non-U.S.	15,368		13,459	1,909
Residential mortgage-backed:				
Pricing services	5,995		5,995	
Broker quotes	67			67
Internal models	57			57
Total residential mortgage-backed	6,119		5,995	124
Commercial mortgage-backed:				

Pricing services	3,248		3,248	
Broker quotes	15			15
Internal models	23		5	18
Total commercial mortgage-backed	3,286		3,253	33
Other asset-backed:				
Pricing services	2,070		2,070	
Broker quotes	643			643
Internal models	43		5	38
Total other asset-backed	2,756		2,075	681
Total fixed maturity securities	$ 62,214	$	$ 56,701	$ 5,513

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(Amounts in millions)	**December 31, 2011** 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		22,747	2,511
Corporate non-U.S.:				
Pricing services	11,925		11,925	
Broker quotes	78			78
Internal models	1,754		548	1,206
Total corporate non-U.S.	13,757		12,473	1,284
Residential mortgage-backed:				
Pricing services	5,600		5,600	
Broker quotes	36			36
Internal models	59			59
Total residential mortgage-backed	5,695		5,600	95
Commercial mortgage-backed:				
Pricing services	3,361		3,361	
Broker quotes	15			15
Internal models	24			24
Total commercial mortgage-backed	3,400		3,361	39

Other asset-backed:				
Pricing services	2,328		2,328	
Broker quotes	271			271
Internal models	9		9	
Total other asset-backed	2,608		2,337	271
Total fixed maturity securities	$ 58,295	$	$ 54,072	$ 4,223

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The following tables summarize the primary sources of data considered when determining fair value of equity securities as of the dates indicated:

	September 30, 2012			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Pricing services	$ 425	$ 424	$ 1	$
Broker quotes	3			3
Internal models	96			96
Total equity securities	$ 524	$ 424	$ 1	$ 99

	December 31, 2011			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Pricing services	$ 263	$ 261	$ 2	$
Broker quotes	6			6
Internal models	92			92
Total equity securities	$ 361	$ 261	$ 2	$ 98

The following tables summarize the primary sources of data considered when determining fair value of trading securities as of the dates indicated:

	September 30, 2012			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Pricing services	$ 496	$	$ 496	$
Broker quotes	194			194
Total trading securities	$ 690	$	$ 496	$ 194

	December 31, 2011			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Pricing services	$ 524	$	$ 524	$
Broker quotes	264			264
Total trading securities	$ 788	$	$ 524	$ 264

Restricted other invested assets related to securitization entities

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

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Securities lending and derivative counterparty collateral

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

Contingent consideration

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

Separate account assets

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

Derivatives

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

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

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

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

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

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

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

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

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

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

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

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

Reinsurance embedded derivatives

We have certain reinsurance agreements that result in a reinsurance counterparty holding assets for our benefit where this feature is considered an embedded derivative requiring bifurcation. As a result, we measure the embedded derivatives at fair value with changes in fair value being recorded in income (loss). Fair value is determined by comparing the fair value and cost basis of the underlying assets. The underlying assets are primarily comprised of highly rated investments and result in the fair value of the embedded derivatives being classified as Level 2.

GMWB embedded derivatives

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

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For GMWB liabilities, non-performance risk is integrated into the discount rate. Our discount rate used to determine fair value of our GMWB liabilities includes market credit spreads above U.S. Treasury rates to reflect an adjustment for the non-performance risk of the GMWB liabilities. As of September 30, 2012 and December 31, 2011, the impact of non-performance risk resulted in a lower fair value of our GMWB liabilities of $97 million and $109 million, respectively.

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

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

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

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

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

We evaluate the inputs and methodologies used to determine fair value based on how we expect a market participant would determine exit value. As stated above, there is no exit market or market participants for the GMWB embedded derivatives. Accordingly, we evaluate our inputs and resulting fair value based on a hypothetical exit market and hypothetical market participants. A hypothetical exit market could be viewed as a transaction that would closely resemble reinsurance. While reinsurance transactions for this type of product are not an observable input, we consider this type of hypothetical exit market, as appropriate, when evaluating our inputs and determining that our inputs are consistent with that of a hypothetical market participant.

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Fixed index annuity embedded derivatives

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

Borrowings related to securitization entities

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

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(Unaudited)

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

	September 30, 2012			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 5,503	$	$ 5,494	$ 9
Tax-exempt	302		302	
Government non-U.S.	2,574		2,566	8
U.S. corporate	26,306		23,557	2,749
Corporate non-U.S.	15,368		13,459	1,909
Residential mortgage-backed	6,119		5,995	124
Commercial mortgage-backed	3,286		3,253	33
Other asset-backed	2,756		2,075	681
Total fixed maturity securities	62,214		56,701	5,513
Equity securities	524	424	1	99
Other invested assets:				
Trading securities	690		496	194
Derivative assets:				
Interest rate swaps	1,256		1,253	3
Foreign currency swaps	30		30	
Credit default swaps	6		1	5
Equity index options	24			24
Forward bond purchase commitments	68		68	
Total derivative assets	1,384		1,352	32
Securities lending collateral	181		181	
Derivatives counterparty collateral	662		662	
Total other invested assets	2,917		2,691	226
Restricted other invested assets related to securitization entities	393		199	194
Other assets:				
Reinsurance embedded derivatives (1)	33		33	
Contingent receivable	9			9
Total other assets	42		33	9
Reinsurance recoverable (2)	11			11
Separate account assets	10,166	10,166		
Total assets	$ 76,267	$ 10,590	$ 59,625	$ 6,052

Liabilities				
Policyholder account balances:				
GMWB embedded derivatives [3]	$ 380	$	$	$ 380
Fixed index annuity embedded derivatives [4]	21			21
Total policyholder account balances	401			401
Other liabilities:				
Contingent purchase price	31			31
Derivative liabilities:				
Interest rate swaps	354		354	
Interest rate swaps related to securitization entities	29		29	
Inflation indexed swaps	98		98	
Foreign currency swaps	1		1	
Credit default swaps	9			9
Credit default swaps related to securitization entities	136			136
Equity return swaps	7		7	
Other foreign currency contracts	6		6	
Total derivative liabilities	640		495	145
Total other liabilities	671		495	176
Borrowings related to securitization entities	60			60
Total liabilities	$ 1,132	$	$ 495	$ 637

(1) Represents embedded derivatives associated with certain reinsurance agreements.
(2) Represents embedded derivatives associated with the reinsured portion of our GMWB liabilities.
(3) Represents 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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	December 31, 2011			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 4,863	$	$ 4,850	$ 13
Tax-exempt	503		503	
Government non-U.S.	2,211		2,201	10
U.S. corporate	25,258		22,747	2,511
Corporate non-U.S.	13,757		12,473	1,284
Residential mortgage-backed	5,695		5,600	95
Commercial mortgage-backed	3,400		3,361	39
Other asset-backed	2,608		2,337	271
Total fixed maturity securities	58,295		54,072	4,223
Equity securities	361	261	2	98
Other invested assets:				
Trading securities	788		524	264
Derivative assets:				
Interest rate swaps	1,350		1,345	5
Foreign currency swaps	32		32	
Credit default swaps	1		1	
Equity index options	39			39
Equity return swaps	7		7	
Forward bond purchase commitments	47		47	
Other foreign currency contracts	9			9
Total derivative assets	1,485		1,432	53
Securities lending collateral	406		406	
Derivatives counterparty collateral	323		323	
Total other invested assets	3,002		2,685	317
Restricted other invested assets related to securitization entities	376		200	176
Other assets (1)	29		29	
Reinsurance recoverable (2)	16			16
Separate account assets	10,122	10,122		
Total assets	$ 72,201	$ 10,383	$ 56,988	$ 4,830
Liabilities				
Policyholder account balances:				
GMWB embedded derivatives (3)	$ 492	$	$	$ 492
Fixed index annuity embedded derivatives (4)	4			4
Total policyholder account balances	496			496
Other liabilities:				

Contingent purchase price	46			46
Derivative liabilities:				
Interest rate swaps	376		376	
Interest rate swaps related to securitization entities	28		28	
Inflation indexed swaps	43		43	
Credit default swaps	59		2	57
Credit default swaps related to securitization entities	177			177
Equity return swaps	4		4	
Other foreign currency contracts	11		11	
Total derivative liabilities	698		464	234
Total other liabilities	744		464	280
Borrowings related to securitization entities	48			48
Total liabilities	$ 1,288	$	$ 464	$ 824

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

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

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(Unaudited)

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

(Amounts in millions)	Beginning balance as of July 1, 2012	Total realized and unrealized gains (losses) Included in net income (loss)	Included in OCI	Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance as of September 30, 2012	Total gains (losses) included in net income (loss) attributable to assets still held
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	$ 10	$	$	$	$	$	$	$	$ (1)	$ 9	$
Government non-U.S.	9						(1)			8	
U.S. corporate (1)	2,849	5	34	58	(4)		(92)	36	(137)	2,749	4
Corporate non-U.S. (1)	1,864	2	17	106			(88)	8		1,909	
Residential mortgage- backed	120		3	12	(12)		(9)	13	(3)	124	
Commercial mortgage- backed	33									33	
Other asset-backed	597		10	66			(25)	59	(26)	681	
Total fixed maturity securities	5,482	7	64	242	(16)		(215)	116	(167)	5,513	4
Equity securities	96			4	(1)					99	
Other invested assets:											
Trading securities	284	6			(63)		(2)		(31)	194	5
Derivative assets:											
Interest rate swaps	3									3	
Credit default swaps	2	4					(1)			5	4
Equity index options	27	(17)		14						24	(17)
Total derivative assets	32	(13)		14			(1)			32	(13)
Total other invested assets	316	(7)		14	(63)		(3)		(31)	226	(8)
Restricted other invested assets related to securitization entities	192	2								194	1
Other assets:											
Contingent receivable	17	(8)								9	(8)
Reinsurance recoverable (2)	15	(4)								11	(4)

Total Level 3 assets	$	6,118	$	(10)	$	64	$	260	$	(80)	$		$	(218)	$	116	$	(198)	$	6,052	$	(15)

(1) The transfers into and out of Level 3 were primarily related to private fixed rate U.S. corporate and corporate non-U.S. securities and resulted from a change in the observability of the additional premium to the public bond spread to adjust for the liquidity and other features of our private placements and resulted in unobservable inputs having a significant impact on certain valuations for transfers in or no longer having significant impact on certain valuations for transfers out.

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

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(Unaudited)

(Amounts in millions)	Beginning balance as of July 1, 2011	Total realized and unrealized gains (losses) Included in net income (loss)	Included in OCI	Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance as of September 30, 2011	Total gains (losses) included in net income (loss) attributable to assets still held
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	$ 13	$	$	$	$	$	$	$	$ (12)	$ 1	$
Government non-U.S.	1									1	
U.S. corporate [1]	949	(21)	39	41			(7)	382	(33)	1,350	(21)
Corporate non-U.S. [1]	371	(15)	30				(1)	20	(35)	370	(16)
Residential mortgage- backed	124	1	(7)				(12)	3	(2)	107	1
Commercial mortgage-backed	43		(1)				(2)	1		41	
Other asset-backed	265		(4)				(6)			255	
Total fixed maturity securities	1,766	(35)	57	41			(28)	406	(82)	2,125	(36)
Equity securities	106		(1)		(5)					100	
Other invested assets:											
Trading securities	291	(12)					(5)			274	(12)
Derivative assets:											
Interest rate swaps	4	3					(1)			6	3
Credit default swaps	4	(4)									(4)
Equity index options	40	58					(36)			62	37
Total derivative assets	48	57					(37)			68	36
Total other invested assets	339	45					(42)			342	24
Restricted other invested assets related to securitization entities	175	(1)								174	(1)
Reinsurance recoverable [2]	(5)	26								21	26
Total Level 3 assets	$ 2,381	$ 35	$ 56	$ 41	$ (5)	$	$ (70)	$ 406	$ (82)	$ 2,762	$ 13

(1) The transfers into and out of Level 3 were primarily related to private fixed rate U.S. corporate and corporate non-U.S. securities and resulted from a change in the observability of the additional premium to the public bond spread to adjust for the liquidity and other features of our private placements and resulted in unobservable inputs having a significant impact on certain valuations for transfers in or no longer having significant impact on certain valuations for transfers out.

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

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

		Total realized and unrealized gains (losses)									
(Amounts in millions)	**Beginning balance as of January 1, 2012**	**Included in net income (loss)**	**Included in OCI**	**Purchases**	**Sales**	**Issuances**	**Settlements**	**Transfer into Level 3**	**Transfer out of Level 3**	**Ending balance as of September 30, 2012**	**Total gains (losses) included in net income (loss) attributable to assets still held**
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	$ 13	$	$	$	$	$	$	$ 9	$ (13)	$ 9	$
Government non-U.S.	10						(2)			8	
U.S. corporate [1]	2,511	8	63	88	(22)		(129)	725	(495)	2,749	10
Corporate non-U.S. [1]	1,284	2	28	189	(12)		(127)	692	(147)	1,909	1
Residential mortgage- backed	95	(1)	10	15	(12)		(23)	43	(3)	124	(1)
Commercial mortgage- backed	39		2				(1)		(7)	33	
Other asset-backed	271	1	17	276	(22)		(60)	224	(26)	681	1
Total fixed maturity securities	4,223	10	120	568	(68)		(342)	1,693	(691)	5,513	11
Equity securities	98	1	(2)	9	(7)					99	
Other invested assets:											
Trading securities	264	11		34	(70)		(18)	4	(31)	194	12
Derivative assets:											
Interest rate swaps	5						(2)			3	
Credit default swaps		8					(3)			5	8
Equity index options	39	(46)		31						24	(42)
Other foreign currency contracts	9	(11)		3			(1)				(11)
Total derivative assets	53	(49)		34			(6)			32	(45)
Total other invested assets	317	(38)		68	(70)		(24)	4	(31)	226	(33)
Restricted other invested assets related to securitization entities	176	18		100	(100)					194	13

Other assets:											
Contingent receivable		(7)				16				9	(7)
Reinsurance recoverable [2]	16	(7)				2				11	(7)
Total Level 3 assets	$ 4,830	$ (23)	$ 118	$ 745	$ (245)	$ 18	$ (366)	$ 1,697	$ (722)	$ 6,052	$ (23)

(1) The transfers into and out of Level 3 were primarily related to private fixed rate U.S. corporate and corporate non-U.S. securities and resulted from a change in the observability of the additional premium to the public bond spread to adjust for the liquidity and other features of our private placements and resulted in unobservable inputs having a significant impact on certain valuations for transfers in or no longer having significant impact on certain valuations for transfers out. During the second quarter of 2012, we began classifying private securities without an external rating as Level 3, which resulted in a significant number of securities being transferred into Level 3.

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

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		Total realized and unrealized gains (losses)									
(Amounts in millions)	**Beginning balance as of January 1, 2011**	**Included in net income (loss)**	**Included in OCI**	**Purchases**	**Sales**	**Issuances**	**Settlements**	**Transfer into Level 3**	**Transfer out of Level 3**	**Ending balance as of September 30, 2011**	**Total gains (losses) included in net income (loss) attributable to assets still held**
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	$ 11	$	$	$	$	$	$	$ 12	$ (22)	$ 1	$
Government non-U.S.	1									1	
U.S. corporate [1]	1,100	(13)	45	71	(5)		(70)	634	(412)	1,350	(13)
Corporate non-U.S. [1]	368	(26)	27	40	(35)		(8)	225	(221)	370	(26)
Residential mortgage-backed	143		(15)	3			(24)	3	(3)	107	
Commercial mortgage-backed	50		1				(11)	1		41	
Other asset-backed	268	(1)	5	8	(8)		(32)	15		255	(1)
Total fixed maturity securities	1,941	(40)	63	122	(48)		(145)	890	(658)	2,125	(40)
Equity securities	87	1		24	(10)		(2)			100	
Other invested assets:											
Trading securities	329	4		5	(41)		(23)			274	4
Derivative assets:											
Interest rate swaps	5	2					(1)			6	2
Credit default swaps	6	(6)									(6)
Equity index options	33	31		39			(41)			62	10
Total derivative assets	44	27		39			(42)			68	6
Total other invested assets	373	31		44	(41)		(65)			342	10
Restricted other invested assets related to securitization entities	171	3								174	3
Reinsurance recoverable [2]	(5)	24				2				21	24
Total Level 3 assets	$ 2,567	$ 19	$ 63	$ 190	$ (99)	$ 2	$ (212)	$ 890	$ (658)	$ 2,762	$ (3)

(1) The transfers into and out of Level 3 were primarily related to private fixed rate U.S. corporate and corporate non-U.S. securities and resulted from a change in the observability of the additional premium to the public bond spread to adjust for the liquidity and other features of our private placements and resulted in unobservable inputs having a significant impact on certain valuations for transfers in or no longer having significant impact on certain valuations for transfers out.

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

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(Unaudited)

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

(Amounts in millions)	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Total realized and unrealized gains (losses) included in net income (loss):				
Net investment income	$ 8	$ 7	$ 22	$ 18
Net investment gains (losses)	(18)	28	(45)	1
Total	$ (10)	$ 35	$ (23)	$ 19
Total gains (losses) included in net income (loss) attributable to assets still held:				
Net investment income	$ 4	$ 7	$ 17	$ 19
Net investment gains (losses)	(19)	6	(40)	(22)
Total	$ (15)	$ 13	$ (23)	$ (3)

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

(Amounts in millions)	Beginning balance as of July 1, 2012	Total realized and unrealized (gains) losses: Included in net (income) loss	Total realized and unrealized (gains) losses: Included in OCI	Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance as of September 30, 2012	Total (gains) losses included in net (income) loss attributable to liabilities still held
Policyholder account balances:											
GMWB embedded derivatives [1]	$ 453	$ (83)	$	$	$	$ 10	$	$	$	$ 380	$ (81)
Fixed index annuity embedded derivatives [2]	10	1				10				21	1
Total policyholder account balances	463	(82)				20				401	(80)
Other liabilities:											
Contingent purchase price	31									31	
Derivative liabilities:											
Credit default swaps	37	(19)					(9)			9	(19)

Credit default swaps related to securitization entities	155	(20)		1						136	(20)
Total derivative liabilities	192	(39)		1			(9)			145	(39)
Total other liabilities	223	(39)		1			(9)			176	(39)
Borrowings related to securitization entities	57	3								60	3
Total Level 3 liabilities	$ 743	$ (118)	$	$ 1	$	$ 20	$ (9)	$	$	$ 637	$ (116)

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

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(Unaudited)

		Total realized and unrealized (gains) losses									Total (gains) losses included in net (income)
(Amounts in millions)	**Beginning balance as of July 1, 2011**	**Included in net (income) loss**	**Included in OCI**	**Purchases**	**Sales**	**Issuances**	**Settlements**	**Transfer into Level 3**	**Transfer out of Level 3**	**Ending balance as of September 30, 2011**	**loss attributable to liabilities still held**
Policyholder account balances:											
GMWB embedded derivatives [1]	$ 113	$ 480	$	$	$	$ 9	$	$	$	$ 602	$ 480
Fixed index annuity embedded derivatives [2]	5	(1)								4	(1)
Total policyholder account balances	118	479				9				606	479
Other liabilities:											
Contingent purchase price		22				22				44	22
Derivative liabilities:											
Credit default swaps	9	66								75	66
Credit default swaps related to securitization entities	126	54								180	54
Total derivative liabilities	135	120								255	120
Total other liabilities	135	142				22				299	142
Borrowings related to securitization entities	58	(10)								48	(10)
Total Level 3 liabilities	$ 311	$ 611	$	$	$	$ 31	$	$	$	$ 953	$ 611

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

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(Unaudited)

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

(Amounts in millions)	Beginning balance as of January 1, 2012	Total realized and unrealized (gains) losses: Included in net (income) loss	Total realized and unrealized (gains) losses: Included in OCI	Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance as of September 30, 2012	Total (gains) losses included in net (income) loss attributable to liabilities still held
Policyholder account balances:											
GMWB embedded derivatives (1)	$ 492	$ (139)	$	$	$	$ 27	$	$	$	$ 380	$ (134)
Fixed index annuity embedded derivatives (2)	4	2				15				21	2
Total policyholder account balances	496	(137)				42				401	(132)
Other liabilities:											
Contingent purchase price	46	3					(18)			31	3
Derivative liabilities:											
Credit default swaps	57	(37)		2			(13)			9	(40)
Credit default swaps related to securitization entities	177	(43)		2						136	(43)
Total derivative liabilities	234	(80)		4			(13)			145	(83)
Total other liabilities	280	(77)		4			(31)			176	(80)
Borrowings related to securitization entities	48	12								60	12
Total Level 3 liabilities	$ 824	$ (202)	$	$ 4	$	$ 42	$ (31)	$	$	$ 637	$ (200)

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

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(Amounts in millions)	Beginning balance as of January 1, 2011	Total realized and unrealized (gains) losses Included in net (income)	Included in OCI	Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance as of September 30, 2011	Total (gains) losses included in net (income) attributable to liabilities still held
Policyholder account balances:											
GMWB embedded derivatives [1]	$ 121	$ 452	$	$	$	$ 29	$	$	$	$ 602	$ 452
Fixed index annuity embedded derivatives [2]	5	(1)								4	(1)
Total policyholder account balances	126	451				29				606	451
Other liabilities:											
Contingent purchase price		23				21				44	23
Derivative liabilities:											
Credit default swaps	7	66		3			(1)			75	66
Credit default swaps related to securitization entities	129	51								180	51
Equity index options	3						(3)				
Total derivative liabilities	139	117		3			(4)			255	117
Total other liabilities	139	140		3		21	(4)			299	140
Borrowings related to securitization entities	51	(3)								48	(3)
Total Level 3 liabilities	$ 316	$ 588	$	$ 3	$	$ 50	$ (4)	$	$	$ 953	$ 588

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

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

(Amounts in millions)	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Total realized and unrealized (gains) losses included in net (income) loss:				
Net investment income	$	$	$	$
Net investment (gains) losses	(118)	611	(202)	588
Total	$ (118)	$ 611	$ (202)	$ 588

Total (gains) losses included in net (income) loss attributable to liabilities still held:				
Net investment income	$	$	$	$
Net investment (gains) losses	(116)	611	(200)	588
Total	$ (116)	$ 611	$ (200)	$ 588

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Realized and unrealized gains (losses) on Level 3 assets and liabilities are primarily reported in either net investment gains (losses) within the consolidated statements of income or OCI within stockholders equity based on the appropriate accounting treatment for the instrument.

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

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

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

Certain classes of instruments classified as Level 3 are excluded below as a result of not being material or due to limitations in being able to obtain the underlying inputs used by certain third-party sources, such as broker quotes, used as an input in determining fair value. The following table presents a summary of the significant unobservable inputs used for certain fair value measurements that are based on internal models and classified as Level 3 as of September 30, 2012:

(Amounts in millions)	**Valuation technique**	**Fair value**	**Unobservable input**	**Range (weighted-average)**
Assets				
Fixed maturity securities:				
U.S. corporate	Matrix pricing	$ 2,611	Credit spreads	63bps - 1,127bps (218bps)
Corporate non-U.S.	Matrix pricing	1,847	Credit spreads	83bps - 376bps (204bps)
Derivative assets:				
Interest rate swaps	Discounted cash flows	3	Interest rate volatility	25% - 35% (30%)
Credit default swaps (1)	Discounted cash flows	5	Credit spreads	15bps - 89bps (49bps)
Equity index options	Discounted cash flows	24	Equity index volatility	15% - 48% (30%)
Other assets:				
Contingent receivable	Discounted cash flows	9	Discount rate	23%
Liabilities				
Policyholder account balances:				
			Withdrawal utilization rate	% - 97%
			Lapse rate	% - 25%
			Non-performance risk	
GMWB embedded			(credit spreads)	55bps - 90bps (80bps)
derivatives (2)	Stochastic cash flow model	380	Equity index volatility	19% - 25% (22%)
Fixed index annuity embedded derivatives (3)	Option budget method	21	Expected future interest credited	1% - 3% (2%)
Other liabilities:				
Contingent purchase price	Discounted cash flows	31	Discount rate	23%
Derivative liabilities:				

Credit default swaps [1]	Discounted cash flows	9	Credit spreads	158bps - 211bps (197bps)

(1) Unobservable input valuation based on the current market credit default swap premium.
(2) Represents embedded derivatives associated with our GMWB liabilities, excluding the impact of reinsurance.
(3) Represents the embedded derivatives associated with our fixed index annuity liabilities.

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(7) Commitments and Contingencies

(a) Litigation

We face the risk of litigation and regulatory investigations and actions in the ordinary course of operating our businesses, including class action lawsuits. Our pending legal and regulatory actions include proceedings specific to us and others generally applicable to business practices in the industries in which we operate. In our insurance operations, we are, have been, or may become subject to class actions and individual suits alleging, among other things, issues relating to sales or underwriting practices, increases to in-force long-term care insurance premiums, payment of contingent or other sales commissions, bidding practices in connection with our management and administration of a third-party s municipal guaranteed investment contract business, claims payments and procedures, product design, product disclosure, administration, additional premium charges for premiums paid on a periodic basis, denial or delay of benefits, charging excessive or impermissible fees on products, recommending unsuitable products to customers, our pricing structures and business practices in our mortgage insurance businesses, such as captive reinsurance arrangements with lenders and contract underwriting services, violations of the Real Estate Settlement Procedures Act of 1974 (RESPA) or related state anti-inducement laws, and breaching fiduciary or other duties to customers. Plaintiffs in class action and other lawsuits against us may seek very large or indeterminate amounts which may remain unknown for substantial periods of time. In our investment-related operations, we are subject to litigation involving commercial disputes with counterparties. We are also subject to litigation arising out of our general business activities such as our contractual and employment relationships. In addition, we are also subject to various regulatory inquiries, such as information requests, subpoenas, books and record examinations and market conduct and financial examinations from state, federal and international regulators and other authorities. A substantial legal liability or a significant regulatory action against us could have an adverse effect on our financial condition and results of operations. Moreover, even if we ultimately prevail in the litigation, regulatory action or investigation, we could suffer significant reputational harm, which could have an adverse effect on our business, financial condition or results of operations.

As previously disclosed, in December 2011, one of our U.S. mortgage insurance subsidiaries received a subpoena from the United States Department of Housing and Urban Development, Office of the Inspector General with respect to reinsurance arrangements, including captive reinsurance transactions. That subpoena was withdrawn subsequent to our subsidiary s receipt of an information request from the Consumer Financial Protection Bureau (CFPB) in January 2012, relating to the same subject matter. The CFPB further sent to our subsidiary a Civil Investigative Demand dated June 20, 2012 (the CFPB Demand) seeking production of specified documents and responses to questions set forth in the CFPB Demand. We intend to cooperate with the CFPB as appropriate in connection with the CFPB Demand.

As previously disclosed, beginning in December 2011, one of our U.S. mortgage insurance subsidiaries was named along with several other mortgage insurance participants and mortgage lenders as a defendant in three putative class action lawsuits alleging that certain captive reinsurance arrangements were in violation of RESPA. Eight additional putative class actions, making similar allegations, have since been filed in which our mortgage insurance subsidiary is again named as one of numerous defendants. Those cases are captioned as follows: *McCarn, et al. v. HSB, et al.*, United States District Court for the Eastern District of California; *Manners, et al, v. First Third Bank, et al.*, United States District court for the Western District of Pennsylvania; *Riddle, et al. v Bank of America, et al.*, United States District Court for the Eastern District of Pennsylvania; *Rulison et al. v. ABN AMRO Mortgage Group, Inc. et al.*, United States District Court for the Southern District of New York; *Barlee, et al. v. First Horizon National Corp., et al.*, United States District Court for the Eastern District of Pennsylvania; *Cunningham, et al. v. M&T Bank Corp., et al.*, United States District Court for the

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Middle District of Pennsylvania; *Orange, et al. v. Wachovia Bank, N.A., et al*., United States District Court for the Central District of California; and *Hill et al. v. Flagstar Bank, FSB, et al.,* United States District Court for the Eastern District of Pennsylvania. The Rulison case was voluntarily dismissed by the plaintiffs. We intend to vigorously defend these remaining actions.

As previously disclosed, in April 2012, two of our U.S. mortgage insurance subsidiaries were named as respondents in two arbitrations, one brought by Bank of America, N.A., and one brought by Countrywide Home Loans, Inc. and Bank of America, N.A., as claimants. Claimants allege breach of contract and breach of the covenant of good faith and fair dealing, and seek a declaratory judgment relating to our subsidiaries mortgage insurance claims handling practices in connection with denying, curtailing or rescinding coverage of mortgage insurance. Claimants seek damages in excess of $834 million, in addition to interest and punitive damages. In June 2012, our U.S. mortgage insurance subsidiaries responded to the arbitration demands and asserted numerous counterclaims against the claimants. We intend to vigorously defend these actions and pursue the counterclaims.

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

(b) Commitments

As of September 30, 2012, we were committed to fund $57 million in limited partnership investments and $98 million in U.S. commercial mortgage loan investments.

(8) Borrowings and Other Financings

Revolving Credit Facilities

We had two five-year revolving credit facilities of $930 million each, one that matured in May 2012 and the other in August 2012. We did not renew either of these facilities. These facilities had variable interest rates based on one-month London Interbank Offered Rate plus a margin. At the time of maturity, we had no borrowings under either of these facilities and no letters of credit outstanding. Any letters of credit that were previously outstanding under these facilities have been replaced via other arrangements. As of December 31, 2011, we had no borrowings under either of these facilities; however, we utilized $257 million under these facilities primarily for the issuance of letters of credit for the benefit of one of our life insurance subsidiaries.

Long-Term Notes

We repaid $222 million of senior notes with an interest rate equal to 5.65% per year payable semi-annually that matured in June 2012.

In March 2012, we priced a $350 million reopening of our 7.625% senior notes due in September 2021. The notes were offered as additional debt securities under an indenture, as supplemented from time to time, pursuant to which we have previously issued $400 million aggregate principal amount of our 7.625% senior notes due in September 2021. The notes are our direct, unsecured obligations and rank equally with all of our existing and future unsecured and unsubordinated obligations. The notes were issued at a public offering price of 103% of principal amount, with a yield to maturity of 7.184%. The net proceeds of $358 million from the issuance of the new notes were used for general corporate purposes, including increasing liquidity at the holding company level.

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Non-Recourse Funding Obligations

As of September 30, 2012, we had $2.3 billion of fixed and floating rate non-recourse funding obligations outstanding backing additional statutory reserves.

During the three months ended September 30, 2012, as part of a life block transaction, we repurchased $270 million of non-recourse funding obligations issued by River Lake Insurance Company IV, our indirect wholly-owned subsidiary, resulting in a U.S. GAAP after-tax gain of approximately $21 million. We also recorded higher after-tax amortization of deferred acquisition costs of $25 million reflecting loss recognition associated with a third-party reinsurance treaty plus additional expenses. The combined transactions resulted in a U.S. GAAP after-tax loss of $6 million in the three months ended September 30, 2012 which was included in our U.S. Life Insurance segment.

In January 2012, as part of a life block transaction, we repurchased $475 million of our non-recourse funding obligations issued by River Lake Insurance Company III (River Lake III), our indirect wholly-owned subsidiary, resulting in a U.S. GAAP after-tax gain of approximately $52 million. In connection with the repurchase, we ceded certain term life insurance policies to a third-party reinsurer resulting in a U.S. GAAP after-tax loss, net of amortization of deferred acquisition costs, of $93 million. The combined transactions resulted in a U.S. GAAP after-tax loss of approximately $41 million in the three months ended March 31, 2012 which was included in our U.S. Life Insurance segment. In February and March 2012, we repaid the remaining non-recourse funding obligations issued by River Lake III of $176 million.

As of September 30, 2012 and December 31, 2011, the weighted-average interest rates on our non-recourse funding obligations were 1.29% and 1.41%, respectively.

(9) Income Taxes

The reconciliation of the federal statutory tax rate to the effective income tax rate was as follows for the periods indicated:

	Three months ended September 30,				Nine months ended September 30,			
(Amounts in millions)	**2012**		**2011**		**2012**		**2011**	
Pre-tax income	$ 99		$ 13		$ 367		$ 21	
Statutory U.S. federal income tax rate	$ 35	35.0%	$ 5	35.0%	$ 128	35.0%	$ 7	35.0%
Increase (reduction) in rate resulting from:								
State income tax, net of federal income tax effect	(1)	(1.1)	(1)	(9.0)		0.1	2	9.9
Benefit on tax favored investments	(3)	(3.5)	(12)	(93.9)	(5)	(1.5)	(13)	(60.5)
Effect of foreign operations	(21)	(21.6)	6	44.5	(40)	(10.9)	14	66.8
Sale of subsidiary					8	2.3		
Non-deductible expenses		0.8	1	4.8	2	0.4	1	3.2
Interest on uncertain tax positions	(2)	(1.9)	(1)	(4.8)	(4)	(1.2)		(1.6)
Non-deductible goodwill	19	19.1			19	5.1		
Other, net	2	2.5	(5)	(30.4)		0.1	(3)	(14.7)
Effective rate	$ 29	29.3%	$ (7)	(53.8)%	$ 108	29.4%	$ 8	38.1%

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For the three months ended September 30, 2012, the increase in the effective tax rate compared to the prior year was primarily attributable to lower taxed foreign income, a goodwill impairment and tax favored investments.

For the nine months ended September 30, 2012, the decrease in the effective tax rate compared to the prior year was primarily attributable to lower taxed foreign income, partially offset by tax favored investments, a goodwill impairment and the sale of our tax and accounting financial advisor unit, Genworth Financial Investment Services (GFIS).

Due to events that occurred during the nine months ended September 30, 2012, we recognized or settled approximately $183 million of previously unrecognized tax benefits. This had no impact on the effective tax rate. As of September 30, 2012, we had approximately $50 million of remaining unrecognized tax benefits.

(10) Segment Information

We currently conduct our operations in the following operating business segments: (1) U.S. Life Insurance, which includes our life insurance, long-term care insurance and fixed annuities businesses; (2) International Protection Insurance, which includes our lifestyle protection insurance business; (3) Wealth Management; (4) International Mortgage Insurance, which includes mortgage insurance-related products and services; (5) U.S. Mortgage Insurance, which includes mortgage insurance-related products and services; and (6) Runoff, which 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, FABNs and GICs.

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.

We use the same accounting policies and procedures to measure segment income (loss) and assets as our consolidated net income (loss) and assets. Our chief operating decision maker evaluates segment performance and allocates resources on the basis of net operating income (loss) available to Genworth Financial, Inc. s common stockholders. We define net operating income (loss) available to Genworth Financial, Inc. s common stockholders as income (loss) from continuing operations excluding the after-tax effects of income attributable to noncontrolling interests, net investment gains (losses), goodwill impairments, gains (losses) on the sale of businesses and infrequent or unusual non-operating items. We exclude net investment gains (losses) and infrequent or unusual non-operating items because we do not consider them to be related to the operating performance of our segments and Corporate and Other activities. A component of our net investment gains (losses) is the result of impairments, the size and timing of which can vary significantly depending on market credit cycles. In addition, the size and timing of other investment gains (losses) can be subject to our discretion and are influenced by market opportunities, as well as asset-liability matching considerations. Goodwill impairments and gains (losses) on the sale of businesses are also excluded from net operating income (loss) available to Genworth Financial, Inc. s common stockholders because, in our opinion, they are not indicative of overall operating trends. Other non-operating items are also excluded from net operating income (loss) available to Genworth Financial, Inc. s common stockholders if, in our opinion, they are not indicative of overall operating trends.

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In the third quarter of 2012, we revised our definition of net operating income (loss) available to Genworth Financial, Inc. s common stockholders to exclude goodwill impairments to better reflect the basis on which the performance of our business is internally assessed and to reflect management s opinion that it is not indicative of overall operating trends. There was an $86 million after-tax goodwill impairment related to our lifestyle protection insurance business recorded in the third quarter of 2012. We also modified our definition to explicitly state that gains (losses) on the sale of businesses, which were previously included in the infrequent and unusual category, are excluded from net operating income (loss). There was a $15 million gain related to the sale of our tax and accounting financial advisor unit in the second quarter of 2012.

There were no infrequent or unusual items excluded from net operating income (loss) available to Genworth Financial, Inc. s common stockholders during the periods presented.

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

GENWORTH FINANCIAL, INC.

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(Unaudited)

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

(Amounts in millions)	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Revenues:				
U.S. Life Insurance segment:				
Life insurance	$ 533	$ 532	$ 1,404	$ 1,545
Long-term care insurance	809	785	2,381	2,227
Fixed annuities	284	243	838	792
U.S. Life Insurance segment s revenues	1,626	1,560	4,623	4,564
International Protection segment s revenues	198	245	627	796
Wealth Management segment s revenues	82	115	316	339
International Mortgage Insurance segment:				
Canada	197	207	591	623
Australia	140	184	421	467
Other Countries	13	17	45	57
International Mortgage Insurance segment s revenues	350	408	1,057	1,147
U.S. Mortgage Insurance segment s revenues	154	171	513	518
Runoff segment s revenues	92	18	289	363
Corporate and Other s revenues	34	4	60	17
Total revenues	$ 2,536	$ 2,521	$ 7,485	$ 7,744

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The following is a summary of net operating income (loss) available to Genworth Financial, Inc. s common stockholders for our segments and Corporate and Other activities and a reconciliation of net operating income (loss) available to Genworth Financial, Inc. s common stockholders for our segments and Corporate and Other activities to net income (loss) for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
(Amounts in millions)	**2012**	**2011**	**2012**	**2011**
U.S. Life Insurance segment:				
Life insurance	$ 22	$ 64	$ 58	$ 163
Long-term care insurance	45	17	94	71
Fixed annuities	19	21	62	60
U.S. Life Insurance segment s net operating income	86	102	214	294
International Protection segment s net operating income	8	22	16	72
Wealth Management segment s net operating income	10	12	34	35
International Mortgage Insurance segment:				
Canada	42	40	120	119
Australia	57	36	80	142
Other Countries	(5)	(8)	(23)	(16)
International Mortgage Insurance segment s net operating income	94	68	177	245
U.S. Mortgage Insurance segment s net operating loss	(38)	(79)	(106)	(417)
Runoff segment s net operating income (loss)	9	(7)	38	12
Corporate and Other s net operating loss	(48)	(56)	(141)	(217)
Net operating income	121	62	232	24
Net investment gains (losses), net of taxes and other adjustments	(1)	(78)	(4)	(117)
Goodwill impairment, net of taxes	(86)		(86)	
Gain on sale of business, net of taxes			15	
Net income (loss) available to Genworth Financial, Inc. s common stockholders	34	(16)	157	(93)
Add: net income attributable to noncontrolling interests	36	36	102	106
Net income	$ 70	$ 20	$ 259	$ 13

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

(Amounts in millions)	September 30, 2012	December 31, 2011
Assets:		
U.S. Life Insurance	$ 79,499	$ 75,547
International Protection	2,220	2,375
Wealth Management	460	523
International Mortgage Insurance	10,233	9,643
U.S. Mortgage Insurance	2,491	2,966
Runoff	15,670	16,031
Corporate and Other	3,814	5,102
Total assets	$ 114,387	$ 112,187

(11) Sale of Tax and Accounting Financial Advisor Unit

On April 2, 2012, we completed the sale of our tax and accounting financial advisor unit, GFIS, for approximately $79 million, plus contingent consideration, to Cetera Financial Group. The contingent consideration was recorded at fair value upon disposition and provides the opportunity for us to receive additional future payments of up to approximately $25 million based on achieving certain revenue goals. We recognized a realized gain of $15 million in other income related to the sale. GFIS was included in our Wealth Management segment.

(12) Goodwill

During the third quarter of 2012, we completed our annual goodwill impairment analysis based on data as of July 1, 2012. As a result of this analysis, we recorded a goodwill impairment related to our international protection reporting unit. For all other of our reporting units, there were no charges to income as a result of our annual goodwill impairment testing. We determined fair value for our international protection reporting unit using an income approach based on discounted cash flows, considering current market conditions, including the market environment in Europe and lower trading multiples of European financial services companies, and the impact of those conditions on our international protection reporting unit in a market transaction that may require a higher risk premium. As a result of our analysis, we determined the fair value of the reporting unit was below book value and determined the goodwill associated with this reporting unit was not recoverable. Therefore, we recorded a goodwill impairment of $89 million for the write-off of all of the goodwill associated with our international protection reporting unit during the third quarter of 2012.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included herein and with our 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.

Cautionary note regarding forward-looking statements

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

Risks relating to our businesses, including downturns and volatility in global economies and equity and credit markets; downgrades or potential downgrades in our financial strength or credit ratings; interest rate fluctuations and levels; adverse capital and credit market conditions; the impact of expiration of our credit facilities; the valuation of fixed maturity, equity and trading securities; defaults, downgrades or other events impacting the value of our fixed maturity securities portfolio; defaults on our commercial mortgage loans or the mortgage loans underlying our investments in commercial mortgage-backed securities and volatility in performance; goodwill impairments; defaults by counterparties to reinsurance arrangements or derivative instruments; an adverse change in risk-based capital and other regulatory requirements; insufficiency of reserves; legal constraints on dividend distributions by our subsidiaries; competition; availability, affordability and adequacy of reinsurance; loss of key distribution partners; regulatory restrictions on our operations and changes in applicable laws and regulations; legal or regulatory investigations or actions; the failure of or any compromise of the security of our computer systems; the occurrence of natural or man-made disasters or a pandemic; the effect of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act; changes in the accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies; impairments of or valuation allowances against our deferred tax assets; changes in expected morbidity and mortality rate; accelerated amortization of deferred acquisition costs and present value of future profits; reputational risks as a result of rate increases on certain in-force long-term care insurance products; medical advances, such as genetic research and diagnostic imaging, and related legislation; unexpected changes in persistency rates; ability to continue to implement actions to mitigate the impact of statutory reserve requirements; the failure of demand for long-term care insurance to increase; political and economic instability or changes in government policies; foreign exchange rate fluctuations; unexpected changes in unemployment rates; unexpected increases in mortgage insurance default rates or severity of defaults; the significant portion of high loan-to-value insured international mortgage loans which generally result in more and larger claims than lower loan-to-value ratios; competition with government-owned and government-sponsored enterprises (GSEs) offering mortgage insurance; changes in international regulations reducing demand for mortgage insurance; increases in mortgage insurance default rates; failure to meet, or have waived to the extent needed, the minimum statutory capital requirements and hazardous financial condition standards; uncertain results of continued investigations of insured U.S. mortgage loans; possible rescissions of coverage and the results of objections to our rescissions; the extent to which loan modifications and other similar programs may provide benefits to us; unexpected changes in unemployment and underemployment rates in the United States; further deterioration in economic conditions or a further decline in home prices in the United States; problems associated with foreclosure process defects in the United States that may defer claim payments; changes to the role or structure of Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac); competition with government-owned and government-sponsored enterprises offering U.S. mortgage insurance; changes in regulations that affect our U.S. mortgage insurance business; the influence of Fannie Mae, Freddie Mac and a small number of large mortgage lenders and investors; decreases in the volume of high loan-to-value mortgage originations or increases in mortgage insurance cancellations in the United States; increases in the use of alternatives to private mortgage insurance in the United States and reductions by lenders in the level of coverage they select; the impact of the use of reinsurance with reinsurance companies affiliated with U.S. mortgage lending customers; legal actions under the Real Estate Settlement Procedures Act of 1974 (RESPA); and potential liabilities in connection with our U.S. contract underwriting services;

Other risks, including the risk that adverse market or other conditions might further delay or impede the planned initial public offering (IPO) of our mortgage insurance business in Australia; the possibility that in certain circumstances we will be obligated to make payments to General Electric Company (GE) under the tax matters agreement with GE even if our corresponding tax savings are never realized and payments could be accelerated in the event of certain changes in control; and provisions of our certificate of incorporation and bylaws and the tax matters agreement with GE may discourage takeover attempts and business combinations that stockholders might consider in their best interests; and

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

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

Overview

Our business

We are a leading financial security company dedicated to providing insurance, wealth management, investment and financial solutions to more than 15 million customers, with a presence in more than 25 countries. 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. For the three months ended September 30, 2012, our U.S. Life Insurance segment s net income available to Genworth Financial, Inc. s common stockholders and net operating income available to Genworth Financial, Inc. s common stockholders were $85 million and $86 million, respectively. For the nine months ended September 30, 2012, our U.S. Life Insurance segment s net income available to Genworth Financial, Inc. s common stockholders and net operating income available to Genworth Financial, Inc. s common stockholders were $196 million and $214 million, respectively.

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. For the three months ended September 30, 2012, our International Protection segment had a net loss available to Genworth Financial, Inc. s common stockholders of $77 million and net operating income available to Genworth Financial, Inc. s common stockholders of $8 million. For the nine months ended September 30, 2012, our International Protection segment had a net loss available to Genworth Financial, Inc. s common stockholders of $68 million and net operating income available to Genworth Financial, Inc. s common stockholders of $16 million.

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Wealth Management. We offer and manage a variety of wealth management services, including investments, advisor support and practice management services. For the three months ended September 30, 2012, our Wealth Management segment s net income available to Genworth Financial, Inc. s common stockholders and net operating income available to Genworth Financial, Inc. s common stockholders were both $10 million. For the nine months ended September 30, 2012, our Wealth Management segment s net income available to Genworth Financial, Inc. s common stockholders and net operating income available to Genworth Financial, Inc. s common stockholders were $49 million and $34 million, respectively.

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. For the three months ended September 30, 2012, our International Mortgage Insurance segment s net income available to Genworth Financial, Inc. s common stockholders and net operating income available to Genworth Financial, Inc. s common stockholders were $93 million and $94 million, respectively. For the nine months ended September 30, 2012, our International Mortgage Insurance segment s net income available to Genworth Financial, Inc. s common stockholders and net operating income available to Genworth Financial, Inc. s common stockholders were $183 million and $177 million, respectively.

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. For the three months ended September 30, 2012, our U.S. Mortgage Insurance segment s net loss available to Genworth Financial, Inc. s common stockholders and net operating loss available to Genworth Financial, Inc. s common stockholders were both $38 million. For the nine months ended September 30, 2012, our U.S. Mortgage Insurance segment s net loss available to Genworth Financial, Inc. s common stockholders and net operating loss available to Genworth Financial, Inc. s common stockholders were $89 million and $106 million, respectively.

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. For the three months ended September 30, 2012, our Runoff segment s net income available to Genworth Financial, Inc. s common stockholders and net operating income available to Genworth Financial, Inc. s common stockholders were $11 million and $9 million, respectively. For the nine months ended September 30, 2012, our Runoff segment s net income available to Genworth Financial, Inc. s common stockholders and net operating income available to Genworth Financial, Inc. s common stockholders were $52 million and $38 million, respectively.

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. For the three months ended September 30, 2012, Corporate and Other activities had a net loss available to Genworth Financial, Inc. s common stockholders and a net operating loss available to Genworth Financial, Inc. s common stockholders of $50 million and $48 million, respectively. For the nine months ended September 30, 2012, Corporate and Other activities had a net loss available to Genworth Financial, Inc. s common stockholders and a net operating loss available to Genworth Financial, Inc. s common stockholders of $166 million and $141 million, respectively.

Business trends and conditions

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

General conditions and trends affecting our businesses

Financial and economic environment. The stability of both the financial markets and global economies in which we operate impacts the sales, revenue growth and profitability trends of our businesses. Equity and credit markets improved and interest rate spreads were generally stable to tighter during the third quarter of 2012. Although global financial markets experienced some improvement during the first nine months of 2012, the European debt crisis and concerns regarding global economies continued to impact the rate of recovery.

The U.S. housing market reflected continuing stress and growing levels of foreclosures with variations in performance by sub-market, including signs of stabilization within certain regions while others declined. Unemployment and underemployment levels in the United States remained relatively constant with the fourth quarter of 2011 that experienced a slight decline in December 2011. We expect unemployment and underemployment levels in the United States to stabilize at elevated levels for an extended period and gradually decrease over time. In Canada, the overall housing market benefited from low interest rates and income and employment growth as unemployment levels decreased slightly from the start of 2012 and home prices remained stable. In Australia, the overall housing market improved during the third quarter of 2012 following modest declines in the first half of 2012 and in 2011. The growth in home prices was supported by a continuation of the first half of 2012 trend of improvements in affordability and consumer sentiment. Unemployment increased slightly in the third quarter of 2012 due to a marginal increase in workforce participation levels, with continued variations in regional trends. Europe overall remained a slow growth or declining environment with lower lending activity and reduced consumer spending, particularly in Greece, Spain, Portugal, Ireland and Italy, in part as a result of the European debt crisis and actual or anticipated austerity initiatives. See Trends and conditions affecting our segments below for a discussion regarding the impacts the financial markets and global economies have on our businesses.

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

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

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

Credit and investment markets. The tone of financial markets generally strengthened during the third quarter of 2012 with the implementation of, and expectation of continued, central bank support across major economies and no meaningful escalation of Eurozone economic distress. While market concerns regarding pending U.S. federal tax increases and spending cuts in late 2012 and early 2013, a slowdown in China s economic activity and continued deterioration in European economies existed, these factors were outweighed by strongly positive market indicators related to price and volume patterns resulting from global Central Banks commitment to liquidity led by the U.S. Federal Reserve and the European Central Bank. As U.S. treasury yields remained at historically low levels, the relative stability in global markets led to strong investor demand for spread products. As a result, spreads tightened substantially across most fixed income asset classes. Supply was robust in most products, particularly in corporate bonds, and was met with very strong investor demand.

We recorded net other-than-temporary impairments of $29 million in the third quarter of 2012 compared to $52 million in the third quarter of 2011. While impairments related to corporate securities declined in the third quarter of 2012, impairments of structured securities in our investment portfolio were higher than in the prior year primarily related to our intent to sell certain securities. Although economic conditions may continue to negatively impact certain investment valuations, the underlying collateral associated with our securities that have not been impaired continues to perform.

Looking ahead, we believe the current credit environment provides us with opportunities to invest across a variety of asset classes to meet our yield requirements for our newer business although certain of our businesses have been pressured in the low rate environment. The current environment will also provide opportunities to continue execution of various risk management disciplines involving further diversification within the investment portfolio. See Investments and Derivative Instruments for additional information on our investment portfolio.

Trends and conditions affecting our segments

U.S. Life Insurance

Life insurance. Results of our life insurance business are impacted by sales, mortality, persistency, investment yields, expenses, reinsurance and statutory reserve requirements. Additionally, sales of our products and persistency of our insurance in-force are dependent on competitive product features and pricing, underwriting, effective distribution and customer service.

Life insurance sales decreased 24% during the third quarter of 2012 compared to the same period in 2011 reflecting a decrease in sales of our term universal life insurance product. Sales of our term universal life insurance product reflected recent price increases and narrower product offerings as we manage our capital and return profile. Our universal life insurance sales increased slightly in the third quarter of 2012 compared to the prior year from a combination of enhanced sales and marketing strategies, consistent with efforts to shift our sales mix. Shifts in consumer demand, relative pricing, return on capital or reinsurance decisions and other factors, such as regulatory matters affecting universal life insurance policies with secondary guarantees, could also affect our sales levels.

Throughout 2011, we experienced favorable mortality in our term life insurance products as compared to priced mortality assumptions. In 2012, while still favorable and within pricing, we experienced higher mortality than the prior year on our term and universal life insurance products. Our review of the claims creating this year over year increase in mortality suggested normal fluctuation. The majority of the higher mortality originated from policies within their level-period with claims below established reinsurance retention levels. Despite historically favorable experience, mortality levels can deviate each period from historical trends. In addition, while less severe in 2012 than in prior years, we have experienced lower persistency as compared to pricing assumptions for our 10-year term life insurance policies as they go through their post-level rate period. We expect this trend in persistency to continue as these 10-year term life insurance policies approach their post-level rate period and then moderate thereafter.

Regulations XXX and AXXX require insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and for certain universal life insurance policies with secondary guarantees. This increases the capital required to write these products. Despite this, committed funding sources are in place for approximately 95% of our anticipated peak level reserves currently required under Regulations XXX and AXXX.

In 2011, the National Association of Insurance Commissioners (NAIC) formed a Joint Working Group to review the statutory reserve requirements of Regulation AXXX, also known as Actuarial Guideline 38 (AG 38), impacting certain universal life insurance policies with secondary guarantees. In March 2012, the NAIC adopted a framework to address these reserving issues, and subsequently retained an actuarial consultant to help resolve the framework s proposal for addressing in-force business and business that would be written in an interim period until the adoption of a principles-based reserve approach. In September 2012, subsequent to public exposure and significant public comment, the NAIC adopted the Joint Working Group s proposals for new and in-force business subject to AG 38 provisions. We are addressing these new business requirements through revised product offerings and increased utilization of reinsurance for our new business. Over time, there can be no assurance that there will continue to be affordable reinsurance available. With respect to the in-force requirements, we have determined that approximately 7% of our universal life insurance reserves are subject to the new regulations, which require additional reserve adequacy testing. While our analysis is not yet complete, we do not expect a significant financial impact related to the new reserving requirements on our in-force reserves subject to the new guidance.

On October 22, 2012, we announced changes to our life insurance portfolio designed to update and expand our product offerings, and further adjust pricing to reflect the current low interest rate market environment and the regulatory changes. In late October 2012, we launched a new traditional term life insurance product, which replaces our term universal life insurance product. In addition, effective November 12, 2012, we are streamlining our guaranteed universal life insurance portfolio by expanding and re-pricing certain product offerings. In 2013, we will continue to broaden our life insurance product mix and improve service delivery platforms. In particular, this will include the introduction of new linked-benefit offerings and new index universal life insurance products.

Long-term care insurance. Results of our long-term care insurance business are influenced by sales, morbidity, mortality, persistency, investment yields, expenses and reinsurance. Additionally, sales of our products are impacted by the relative competitiveness of our offerings based on product features and pricing, including the impact of in-force rate actions on distribution and consumer demand.

In July 2012, we introduced changes to our individual long-term care insurance product to improve profitability and reduce risk. Certain lifetime benefits coverages and limited pay options are no longer available, underwriting was further tightened, first-year commissions were lowered in certain channels and certain discounts were reduced or suspended effectively increasing average pricing by more than 20% on the products impacted. Our long-term care insurance sales increased 28% in the third quarter of 2012 compared to the same period in 2011 from increased sales prior to the implementation of these changes and new state launches of our enhanced Privileged Choice Flex product. In addition, we began filing for regulatory approval of a new product,

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scheduled for the first half of 2013 release, which will include several transformational concepts such as gender distinct pricing for single applicants and blood and lab underwriting requirements for all applicants. We continue to implement new product pricing changes and have utilized reinsurance in the form of coinsurance to improve profitability and manage risk and limit capital allocated to this business. We are currently reinsuring on a 40% coinsurance basis our most recent individual long-term care insurance offerings.

The annual loss ratios of our long-term care insurance business have ranged from 65% to 70% over the last five years. However, we experience volatility in our loss ratios from period to period caused by variances in claim terminations, claim severity and changes in claims counts. In addition, we evaluate reserves and refine our estimates from time to time which may also cause volatility in operating results.

Given the continued low interest rate environment, we continue active asset-liability management including maintaining hedges on the majority of the next ten years of long-term care insurance product cash flows.

We continue pursuing initiatives to improve the risk and profitability profile of our long-term care insurance business including: new product issuance and service offerings; investing in care coordination capabilities; refining underwriting requirements; maintaining tight expense management; actively exploring additional reinsurance strategies; executing effective investment strategies; and considering other actions to improve the performance of the overall block. These efforts include evaluating the need for future in-force rate increases, where warranted, on older issued policies. In this regard, we began filing for a rate increase of 18% on two blocks of older long-term care insurance policies in November 2010. As of September 30, 2012, we have received approvals in 45 states which represent approximately 80% of the targeted premiums. In the third quarter of 2012, we initiated another round of long-term care insurance in-force premium rate increases with the goal of achieving an average premium increase in excess of 50% on the older generation policies and an average premium increase in excess of 25% on an earlier series of new generation policies over the next five years. Subject to regulatory approval, this premium rate increase would generate approximately $200 million to $300 million of additional annual premiums when fully implemented. The goal of these rate actions is to mitigate losses on the older generation products and, on certain newer generation products which have generated positive operating earnings to date, help offset higher than priced-for loss ratios due to unfavorable business mix and lower lapse rates than expected. As of October 26, 2012, this round of rate action had been filed in 18 states and we had approvals from two states. The state approval process of an in-force rate increase and the amount of the rate increase varies, and in certain states the decision to approve or decline can take up to two years. Upon approval, premium increases may only occur on an insured s billing anniversary date. Therefore, the benefits of any rate increase may not be fully realized until the implementation is complete.

Changes in regulations or government programs, including long-term care insurance rate action legislation could impact our long-term care insurance business positively or negatively. As such, we continue to actively monitor regulatory developments.

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

In fixed annuities, sales may fluctuate as a result of consumer demand, changes in interest rates, credit spreads, relative pricing, return on capital decisions, and our disciplined approach to managing risk. We have re-priced fixed annuities to maintain spreads and targeted returns. Looking ahead, we will continue to actively evaluate marketing and investment strategies in the event that interest rates change. We have targeted distributors and producers and maintained sales capabilities that align with our focused strategy. We expect to continue to build these distribution relationships while selectively adding or shifting towards other product offerings, including fixed indexed annuities.

Refinements of product offerings and related pricing, including use of reduced commission structures and disciplined investment strategies, support our target of achieving appropriate risk-adjusted returns. Sales in the third quarter of 2012 increased 45% compared to the second quarter of 2012 as low rate expectations, consistent with recent Federal Reserve positions, made fixed annuities a relatively attractive product. We expect declining sales during the remainder of 2012 as we continue our disciplined approach to product pricing and risk management.

International Protection

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

Consumer lending levels remain challenged particularly given concerns regarding the European debt crisis. Unemployment rates in Europe trended upwards slightly during the third quarter of 2012 with regional variation. Additionally, we experienced negative European gross domestic product growth in the first nine months of 2012.

The profitability of our lifestyle protection insurance business improved in the third quarter of 2012 from the second quarter of 2012 as a result of improved underwriting margins driven by lower losses offsetting lower sales and premiums. New claim registrations decreased in the third quarter of 2012 from the second quarter of 2012 and were lower than the third quarter of 2011. We could see increases in losses if claim registrations increase particularly with continued rising unemployment in Europe. Our declining premiums resulted in a loss ratio of 22% for the nine months ended September 30, 2012 compared to 16% for the nine months ended September 30, 2011. The loss ratio was 18% in the third quarter of 2012 compared to 24% in the second quarter of 2012.

Sales decreased during the first nine months of 2012 compared to the same period in 2011 primarily in Southern Europe, most notably in Italy, mainly as a result of stagnating economies across Europe, which resulted in a decline in consumer lending where most of our insurance coverages attach as banks tightened lending criteria and consumer demand declined. Additionally, we have selectively exited client bank relationships where underwriting and loss development have not met our expectations. We are pursuing various targeted initiatives to increase sales in existing markets, with focus on distribution expansion, optimizing our product portfolio and selective new client acquisition within our risk profile. However, depending on the economic situation in Europe, we could experience additional declines in sales and ability to generate targeted growth in new sales.

With our focus on growth in select new markets and enhanced distribution capabilities, we expect these efforts, coupled with sound risk and cost management disciplines, will maintain or improve profitability and help offset the impact of economic or employment pressures as well as lower levels of consumer lending in Europe.

During the third quarter of 2012, we completed our annual goodwill impairment analysis. As a result of current market conditions, including the market environment in Europe and lower trading multiples of European financial services companies, and the impact of those conditions on our international protection reporting unit in a market transaction that may require a higher risk premium, we recorded an after-tax goodwill impairment of $86 million for the write-off of all of the goodwill associated with our international protection reporting unit during the third quarter of 2012.

Wealth Management

Results of our wealth management business are impacted by the demand for asset management products and related support services, investment performance and equity market conditions.

Net flows in the third quarter of 2012 continued to remain negative primarily related to relative investment performance and changing product demand. In addition, we have experienced an increased competitive landscape. To partially offset this negative trend, throughout the third quarter of 2012, we have introduced product enhancements, more competitive pricing and continued efforts to streamline our operations. Depending upon the level of inflows related to customer investment in new products and the direction of equity and fixed-income markets in the future, we could see either positive or negative impacts on sales, net flows and assets under management.

On April 2, 2012, we completed the sale of our tax and accounting financial advisor unit, Genworth Financial Investment Services (GFIS), for approximately $79 million, plus contingent consideration, to Cetera Financial Group. We recognized an after-tax gain of $15 million related to the sale.

International Mortgage Insurance

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

Canada and Australia comprise approximately 98% of our international mortgage insurance primary risk in-force with an estimated average effective loan-to-value ratio of 57%. These established markets will continue to be key drivers of revenues and earnings in our international mortgage insurance business.

Our participation or entry in other international markets remains selective and disciplined. During the second quarter of 2012, we became a minority shareholder of a newly formed joint venture partnership in India. The joint venture will offer mortgage guarantees against borrower defaults on housing loans from mortgage lenders in India. The financial impact of this joint venture during 2012 is expected to be minimal.

In Canada, during 2011 and the first nine months of 2012, favorable economic conditions persisted with housing affordability benefiting from low interest rates and income and employment growth. Since September 2010, the Bank of Canada has maintained the overnight rate at 1.0% and we expect this rate to be maintained near this level for the remainder of 2012. The unemployment rate in Canada has gradually decreased during the last two years and this trend continued in the first half of 2012. During the third quarter of 2012, the unemployment rate remained relatively stable and we expect the unemployment rate to remain near current levels for the remainder of 2012. Additionally, average home prices have remained stable after increasing modestly during the first half of 2011. Average home prices remained flat on a year over year basis in the third quarter of 2012 after increasing slightly during the first half of 2012. We expect prices to remain stable for the remainder of 2012, as a balanced housing market persists.

In January 2011, the Canadian government announced new mortgage rules that became effective in March and April of 2011. These changes reduced the amount of flow new insurance written in 2011 compared to 2010 levels primarily due to a smaller market, particularly for high loan-to-value refinance transactions, which was partially offset by improved market penetration. In June 2012, the Canadian government announced further changes to the mortgage insurance eligibility rules that became effective in early July 2012. The new rules eliminate high loan-to-value refinancings and impose more stringent qualifying criteria for insured mortgages by reducing the maximum amortization period to 25 years from 30 years. As a result, we expect net written premiums to decrease in the fourth quarter of 2012.

During the first quarter of 2012, flow new insurance written in Canada remained lower than the fourth quarter of 2011 primarily from a decrease in the size of the high loan-to-value market and seasonal factors, which were partially offset by a slight improvement in our market penetration. During the second and third quarters of

2012, flow new insurance written improved from the first quarter of 2012 primarily from a seasonably larger mortgage insurance market. During the third quarter of 2012, flow new insurance written was at its highest level since the first quarter of 2010; however, this trend is not expected to continue. As of September 30, 2012, our 2010 and 2011 books of business represented 19% of our insurance in-force while our 2007 and 2008 book years, the two largest in our portfolio, together represented 26% of our insurance in-force. As our 2007 and 2008 book years are largely past their peak earnings period, earned premiums in Canada are expected to decline modestly in 2012 compared to 2011 reflecting earnings from the smaller 2009, 2010 and 2011 books of business.

During 2011, losses in Canada increased from levels experienced during 2010 despite improving overall economic conditions and stable housing markets. While the total number of delinquencies decreased during 2011, and we continued to realize benefits from our loss mitigation activities, overall losses increased as a result of higher severity on older books, particularly from Alberta. In Alberta, the economy and housing market have not fully recovered to pre-recession levels and continue to drive increased severity, although conditions have improved during the second half of 2011 and so far in 2012. At the end of the third quarter of 2012, Alberta had the lowest reported unemployment rate of all Canadian provinces at almost half of the national average. During the first quarter of 2012, losses were lower compared to the fourth quarter of 2011 and further decreased during the second and third quarters of 2012 as both the total number of delinquencies and the proportion of new delinquencies, net of cures, from Alberta continued to decline. These improvements were partially offset by increased severity on existing delinquencies. We expect our overall loss levels in Canada to remain consistent with current levels in the fourth quarter of 2012.

In June 2011, the Canadian government passed legislation, that when effective, will formalize existing mortgage insurance arrangements with private mortgage insurers and terminate the existing agreement with the Canadian government, including the elimination of the Canadian government guarantee fund. This legislation does not change the current government guarantee of 90% provided on mortgages we insure. We do not anticipate any significant impacts to our business as a result of this legislation; however, a full assessment of the impact on our business cannot be completed until the regulations are finalized.

In Australia, economic growth slowed during 2011 given the economic impact of pressures from higher interest rates, higher costs of living, higher exchange rates and cautious consumer spending. This was particularly the case in coastal tourism areas of Queensland where these pressures were exacerbated by the flooding in January 2011. During the first nine months of 2012, Australia experienced modest economic growth with some variation across sectors and regions, and interest rates decreased. The overall housing market in Australia remained flat during the first quarter of 2012 and declined slightly during the second quarter of 2012 after experiencing some modest home price declines in 2011. On a regional basis, variations were more pronounced, especially in Queensland and Western Australia where average home prices declined 7% and 6%, respectively, in 2011. During the third quarter of 2012, home prices increased across most regions reversing the decline in values during the first half of 2012 as both consumer sentiment and affordability from recent interest rate declines improved. We expect average national home prices to remain near current levels for the remainder of 2012. After a slight increase during 2011, unemployment levels stabilized during the first half of 2012. During the third quarter of 2012, the unemployment rate increased slightly due to a marginal increase in participation rates. We expect the unemployment rate to remain broadly consistent with current levels in the fourth quarter of 2012. Since the fourth quarter of 2011, the Reserve Bank of Australia has lowered the cash rate from 4.75% to 3.25%, in five separate decisions with the latest one being in October 2012, as Australian and global economic conditions have been somewhat weaker than expected.

Total mortgage market activity in Australia slowed during 2011 as consumers became more cautious about higher interest rates and global economic uncertainty together with the economic impact of natural disasters. Additionally, some lenders were slow to return to the high loan-to-value market. These factors resulted in a smaller high loan-to-value mortgage originations market. First-time home buyer transactions increased in late 2011 from improving consumer confidence and stable to declining interest rates in the fourth quarter of 2011. During the first quarter of 2012, flow new insurance written declined modestly from the fourth quarter of 2011, primarily from a smaller mortgage originations market as a result of the expiration of certain first-time home buyer concessions offered by local governments, and seasonal factors. During the second and third quarters of 2012, flow new insurance written improved to its highest levels since the first quarter of 2010; however, this trend is expected to moderate going forward. The primary drivers of the increase in flow new insurance written were a stronger high loan-to-value mortgage originations market driven by improved affordability from recent interest rate declines. As a result, we expect our level of flow new insurance written in 2012 to be higher than 2011 levels. As of September 30, 2012, our 2010 and 2011 books of business represented 18% of our insurance in-force while our 2007, 2008 and 2009 book years, the three largest in our portfolio, together represented 33% of our insurance in-force. We expect the pressure on our earned premiums, as the large 2007 to 2009 book years mature past their peak earnings period and subsequent smaller books season during 2012, to be largely offset by higher net premiums written based on a higher loan-to-value mix and pricing actions during the second quarter of 2012. Given this and changes in external reinsurance, we anticipate earned premiums during 2012 to remain similar to 2011 levels.

During 2011, losses began to increase following an improvement during 2010. This was mainly driven by higher interest rates, lower retail spending and higher reserves for claims anticipated from the natural disasters in early 2011, particularly the flooding in Queensland. As a result, there was an increase in the number of outstanding delinquencies and reserves as the cumulative impact of the factors noted previously exerted pressure on elements of the portfolio. Overall delinquencies and the delinquency rate peaked during the third quarter of 2011 and have since trended downward, ending the third quarter of 2012 at their lowest level since the start of 2010. This improvement was broad based across most regions, including Queensland. During the second half of 2011, we increased the intensity of our efforts to work with lenders to accelerate the processing of older delinquencies through to resolution. The extent of the rate of conversion from later stage delinquency to claim and higher average paid claim amounts during the first quarter of 2012 led to higher losses than previously anticipated. We now expect the higher rate of conversion to claim and average paid claims to continue at least through the remainder of 2012. The higher losses were most pronounced in sub-segments of the Queensland region, whose economy has been pressured, as well as our 2007 and 2008 vintages which have higher concentrations of self-employed borrowers. We strengthened loss reserves by $82 million during the first quarter of 2012 to reflect the adverse change in frequency and severity experience that emerged during that quarter. The reserve strengthening recognized that we expected to see an elevated number of claims paid and higher average claim amounts continue into at least the second and third quarters of 2012 before beginning to moderate toward the end of 2012. During the second and third quarters of 2012, as expected, we paid a high number of claims which also had a high average claim amount. Pressures from sub-segments of the Queensland region and our 2007 and 2008 vintages continued to be the primary drivers of losses in the second and third quarters of 2012, the impact of which was partly offset by lower new delinquencies, net of cures. We expect our overall loss levels in Australia during the remainder of the year to be similar to levels experienced during the third quarter of 2012.

On April 17, 2012, we announced a new timeframe (early 2013) for completing our planned minority IPO of up to 40% of our Australian mortgage insurance business, which was originally expected to occur during 2012. Executing a partial sale of our Australia mortgage insurance business remains a key goal in reducing our exposure to mortgage insurance risk and generating capital. While the performance of the business is recovering, the increasing regulatory capital expectations and uncertain market conditions in Australia for IPOs can impact valuation and timing. Execution of an IPO is subject to market, valuation and regulatory considerations and we do not now expect an IPO to occur prior to late 2013.

On April 20, 2012, Moody s Investors Service (Moody s) placed our Australian mortgage insurance business on review for possible downgrade following our announcement regarding an anticipated net operating loss in this business in the first quarter of 2012 as a result of the elevated loss experience and higher claims incidence and severity. Subsequently, Moody s extended the review period to align it with its review of the overall mortgage insurance industry and, on July 18, 2012 announced that its review of Australian mortgage insurers would not be finalized until Moody s draft Global Methodology for Rating Mortgage Insurers is finalized, which we expect to be finalized in 2012. See Risk Factors A downgrade or a potential downgrade in our financial strength or credit ratings could result in a loss of business and adversely affect our financial condition and results of operations in Item 1A. Risk Factors in our Annual Report on Form 10-K, filed on February 27, 2012.

The overall economic environment in Europe continued to be dominated by concerns about the fiscal health of the region, which has created uncertainty about the timing and speed of economic recovery and renewed concerns about an economic recession. While regional differences exist, the overall business climate and the economic growth outlook in Europe remain pressured from the combination of persistent high unemployment rates and low business and consumer confidence. As a result, we have seen increasing delinquencies and lower cures driven by prolonged economic stress, most notably in Ireland, contributing to increased loss reserves in our European mortgage insurance business, which we expect to continue during the fourth quarter of 2012. Specifically in Ireland, which represents less than 1% of our international primary risk in-force, we experienced increasing delinquencies and reserves in the second half of 2011 and during the first quarter of 2012 driven by prolonged economic and housing market stress. While Ireland continues to be the primary driver of losses in Europe, there has been a sequential decrease in new delinquencies in each quarter of 2012. We are actively working with lenders and have significantly reduced our exposure and new business volumes from certain regions as we seek opportunities to manage and mitigate our risk profile in Europe.

Over the past several years, our global loss mitigation operations have enhanced both their capabilities and resources devoted to finding solutions that cure delinquencies and help to keep borrowers in their homes. These efforts include lender mortgage-related strategies, such as loan modification programs designed to help borrowers maintain mortgage payments while they are experiencing personal hardships. These programs allow lenders to maintain their relationship with a borrower while retaining an interest earning asset. In addition, we have developed asset management strategies designed to efficiently dispose of properties when a borrower s hardship cannot be cured. Such efforts include actively partnering with the lender and borrower to optimize the transition process and taking early possession of properties to mitigate claim payments. As a result, our loss mitigation activities have had a favorable impact on our financial results as well as our relationships in the marketplace.

U.S. Mortgage Insurance

Results of our U.S. mortgage insurance business are affected by unemployment, underemployment and other economic and housing market trends, interest rates, home prices, mortgage origination volume mix and practices, the levels and aging of mortgage delinquencies including seasonal variations, the inventory of unsold homes and lender modification and other servicing efforts. These economic and housing market trends are continuing to be adversely affected by ongoing weakness in the domestic economy and related levels of unemployment and underemployment. This has resulted in rising foreclosures, more borrowers seeking loan modifications and elevated housing inventories which contributed to the downward pressure on home values. Overall, we believe that home values have reached their lowest levels and expect slow modest growth in these values through the remainder of 2012 and into 2013. At the same time, we also expect unemployment and underemployment levels to stabilize at elevated levels for an extended period and gradually decrease over time. Given the trends of new delinquencies, reserves, new insurance written, originations and mortgage insurance penetration, and assuming no significant deterioration in the U.S. housing market or material global economic downturns, we believe these drivers create the conditions for a return by our U.S. mortgage insurance business to profitability at some point in 2013.

Over recent periods, the convergence of a weak housing market, tightened lending standards, the lack of consumer confidence and the lack of liquidity in some mortgage securitization markets, along with volatility in mortgage interest rates, converged to drive a smaller mortgage origination market. Within the private mortgage insurance market, over recent periods the mortgage insurance penetration rate and overall market size was driven down by growth in Federal Housing Administration (FHA) originations, associated with multiple pricing, underwriting and loan size factors, and the negative impact of GSE market fees and loan level pricing which made private mortgage insurance solutions less competitive with FHA solutions. We saw the private mortgage insurance penetration rate remain essentially flat in the fourth quarter of 2011 and in the first quarter of 2012. However, given the effects of prior and ongoing FHA risk management actions, the private mortgage insurance penetration rate increased in the second and third quarters of 2012. This pattern has been mitigated in part by increased GSE loan level fees which can make private mortgage insurance less attractive. Going forward, further GSE fee increases could limit the demand for or competitiveness of private mortgage insurance. Considering both of these trends, we still believe the industry can expect to regain market share over time. In November 2011, federal legislation was enacted that extended the authority of the FHA to insure loans with initial balances in amounts up to 125% of median area home prices of up to and including $729,750. With this new legislation in place, the FHA now has higher loan limits than do the GSEs in certain metropolitan statistical areas. Accordingly, this could give the FHA a competitive advantage over private mortgage insurance providers. The mortgage insurance industry level of market penetration and eventual market size will continue to be affected by any actions taken by the GSEs, the FHA or the U.S. government impacting housing or housing finance policy, underwriting standards or related reforms. The Housing and Economic Recovery Act of 2008 provided for changes to, among other things, the regulatory authority and oversight of the GSEs and the authority of the FHA including with respect to premium pricing, maximum loan limits and down payment requirements. In addition, Fannie Mae and Freddie Mac remain the largest purchasers and guarantors of mortgage loans in the United States.

Although the overall insured market size is expected to be larger compared to the prior year, we expect our U.S. mortgage insurance market share to be slightly lower in 2012 driven by the impact of competitor pricing and underwriting guidelines. Meanwhile, we continue to manage the quality of new business through prudent underwriting guidelines, which we modify from time to time when circumstances warrant. In addition, we regularly monitor competitor pricing and underwriting changes and their potential market impact. During the second quarter of 2012, we announced reduced pricing and expanded underwriting guidelines that over time are expected to increase our competiveness in the mortgage insurance market. As of September 30, 2012, the Home Affordable Refinance Program (HARP) production, which is up substantially over prior quarters, accounted for approximately $2.6 billion of insurance that is treated as a modification of the coverage on existing insurance in-force rather than new insurance written. Loans modified through HARP have extended amortization periods and reduced interest rates which reduce borrower s monthly payments. Over time, these modified loans are expected to result in extended premium streams and a lower incidence of default.

While we continue to experience a decrease in the level of new delinquencies, overall pressure on the housing market continues to adversely affect the performance of our portfolio, particularly our 2005, 2006, 2007 and first half of 2008 book years that we believe peaked in their delinquency development during the first quarter of 2010. Albeit at a lower rate, delinquencies for these book years continue to drive the level of new delinquencies being reported. While the impact was originally concentrated in certain states and alternative product types, during the last few years, the impact has shifted to more traditional products reflecting the elevated unemployment and underemployment levels throughout the United States. Beginning mid-2010, we saw an increase in foreclosure starts as well as an increase in our paid claims as late stage delinquency loans go through foreclosure. In addition, we saw wide ranges in performance among loan servicers regarding the ability to modify loans. Suspensions and delays of foreclosure actions in response to problems associated with lender and servicer foreclosure process changes and defects have caused, and could further cause, claim payments to be deferred to later periods and potentially have an adverse impact on the timing of a recovery of the U.S. residential mortgage market. Several major servicers reached agreement in principle in February 2012 with the U.S. Department of Justice, various federal agencies and 49 state attorneys general on origination and servicing practices, and this could affect timelines for claims submissions or administration actions. The effect on us of this agreement is uncertain at this time.

Expanded efforts in the mortgage lending market to modify loans and improved performance of our second half of 2008 and the 2009, 2010 and 2011 book years compared with the performance of prior book years, resulted in continued reductions in delinquency levels through the third quarter of 2012. However, loan modification efforts remained challenged and aging of delinquencies continued to increase through 2011 and through the first nine months of 2012; moreover, both foreclosures and liquidations remained elevated through the same period, thereby resulting in ongoing elevated levels of loss reserves and claims. If employment levels remain pressured, home values experience further decline, credit remains tight or interest rates increase, the ability to cure a delinquent loan could be more difficult to achieve. In addition, while we continue to execute on our loan modification strategy, during 2011 and through the first nine months of 2012, we have seen the level of loan modification actions moderating against the levels we experienced during the fourth quarter of 2010. We also saw evidence of low levels of modification activity outside of government programs and servicers distracted by various regulatory and legal actions. While we expect loan modifications to continue declining as delinquencies age, a significant reduction of these modifications would have an adverse impact on the ability of borrowers to cure a delinquent loan.

Our loss mitigation activities, including those relating to workouts, loan modifications, pre-sales, rescissions, claims administration (including curtailment of claim amounts) and targeted settlements, net of reinstatements, which occurred during the nine months ended September 30, 2012 resulted in a reduction of expected losses of $509 million compared to $420 million during the nine months ended September 30, 2011.

Workouts and loan modifications, which related to loans representing 2% of our primary risk in-force as of September 30, 2012, and occurred during the period then ended, resulted in a reduction of expected losses during the nine months ended September 30, 2012 of $270 million compared to $314 million during the nine months ended September 30, 2011. Our workout and loan modification programs with various lenders and servicers are designed to help borrowers in default regain current repayment status on their mortgage loans, which ultimately allowed many of these borrowers to remain in their homes. The loans that are subject to workouts and loan modifications that were completed could be subject to potential re-default by the underlying borrower at some future date. However, such borrower re-defaults currently remain stable and in line with current experience levels. In addition, pre-sales, claims administration and other non-cure workouts that occurred during the nine months ended September 30, 2012 resulted in a reduction of expected losses of $214 million compared to $70 million that occurred during the nine months ended September 30, 2011.

As a result of investigation activities on certain insured delinquent loans, we found some levels of misrepresentation and non-compliance with specific terms and conditions of our underlying master insurance policies, as well as fraud. These findings separately resulted in rescission actions that occurred during the nine months ended September 30, 2012 which reduced our expected losses at the time of rescission by $25 million compared to $36 million that occurred during the nine months ended September 30, 2011. We expect limited benefit from rescission actions in future periods.

Since 2010, benefits from loss mitigation activities have shifted from rescissions to loan modifications and reviews of loan servicing and claims administration compliance where we expect a majority of our loss mitigation benefits to be achieved going forward. While we expect to continue evaluating compliance of the insured or its loan servicer with respect to its servicing obligations under our master policy for loans insured thereunder and may curtail claim amounts payable based on our evaluations of such compliance, we cannot give assurance on the extent or level at which such claim curtailments will continue. Although loan servicers continue to pursue a wide range of approaches to execute appropriate loan modifications, government-sponsored programs such as Home Affordable Modification Program (HAMP) continue to decline as alternative programs have begun to gain momentum. With lower benefits from government-sponsored programs and the limited impact from alternative programs to date, we have experienced higher levels of loss reserves and/or paid claims. On February 1, 2012, the Obama Administration announced that it would extend HAMP for one year until December 31, 2013, and expand borrower eligibility by loosening certain underwriting requirements. In addition, incentives paid to the owner of a loan that qualifies for principal reduction under HAMP are being increased and, for the first time, will be offered to the GSEs. However, to date, the GSEs are not participating in this program. There can be no assurance that these changes will increase the number of loans that are modified under HAMP, including mortgage loans we insure currently, or that any such modifications will succeed in avoiding foreclosure. Depending upon the mix of loss mitigation activity, market trends, employment levels in future periods and other general economic impacts which influence the U.S. residential housing market, we could see additional adverse loss reserve development going forward. We expect the primary source of new reserves and losses to come from new delinquencies.

We also participate in reinsurance programs in which we share portions of our premiums associated with flow insurance written on loans originated or purchased by lenders with captive insurance entities of these lenders in exchange for an agreed upon level of loss coverage above a specified attachment point. For the nine months ended September 30, 2012, we recorded reinsurance recoveries of $35 million where cumulative losses have exceeded the attachment points in captive reinsurance arrangements, primarily related to our 2004 through 2008 book years. We have exhausted certain captive reinsurance tiers for these book years based on loss development trends. While we continue to receive cash benefit from these captive arrangements at the time of claim payment, this level of benefit is expected to decline going forward due to exhaustion of reinsurance as more reinsurers satisfy their contractual obligations such that remaining risk is borne by Genworth Mortgage Insurance Corporation (GEMICO), our primary U.S. mortgage insurance subsidiary. The majority of our excess of loss captive reinsurance arrangements are in runoff with no new books of business being added going forward.

GEMICO continues to exceed the maximum risk-to-capital ratio of 25:1 established under North Carolina law and enforced by the North Carolina Department of Insurance (NCDOI), which is GEMICO s domestic insurance regulator. Sixteen other states maintain similar risk-to-capital requirements. As of September 30, 2012 and December 31, 2011, GEMICO s risk-to-capital ratio was approximately 35.1:1 and 32.9:1, respectively. GEMICO s ongoing risk-to-capital ratio will depend principally on the magnitude of future losses incurred by GEMICO, the effectiveness of ongoing loss mitigation activities and the amount of additional capital that is generated within the business or capital support (if any) that we provide. Our estimate of the amount and timing of future losses is inherently uncertain, requires significant judgment and may change significantly over time.

As previously disclosed, notwithstanding its elevated risk-to-capital ratio, GEMICO continues to operate under state regulatory waivers or their equivalent where required. In the absence of such authority, we operate out of alternative mortgage insurance subsidiaries, all with the necessary state and GSE authority. In July 2012, North Carolina extended its waiver expiration date until July 31, 2014. In September 2012, the state of Kansas granted GEMICO a revocable waiver to its risk-to-capital requirement effective through July 31, 2014, with the result that 11 states are currently providing GEMICO with revocable waivers (or the equivalent) to their risk-to-capital requirements. Three of these states waivers have an expiration date earlier than July 31, 2014, and we are in the process of seeking additional extensions with those three states through July 31, 2014. These waivers (including from the NCDOI), their equivalents and other approvals remain revocable at the discretion of the applicable regulator or GSE.

New insurance written in North Carolina (and in the 34 states which do not impose their own risk-to-capital requirements where we operate as long as North Carolina permits us to operate) represented approximately 49% and 48%, respectively, of our total new insurance written for the nine months ended September 30, 2012 and 2011. New insurance written in the other ten states currently providing revocable waivers (or the equivalent) of their risk-to-capital requirements represented approximately 37% and 34%, respectively, of total new insurance written for the nine months ended September 30, 2012 and 2011.

We plan to write new business through Genworth Residential Mortgage Assurance Corporation (GRMAC) in any other state that prohibits GEMICO from writing new business, and currently do so in four states (with one additional state being written out of Genworth Residential Mortgage Insurance Corporation of North Carolina), subject to the approval of applicable insurance regulators and the GSEs and subject to GRMAC continuing to satisfy its own regulatory requirements. The period during which GRMAC will continue to meet these requirements will in part be a function of the level of new business it writes which in turn will in part be a function of the number of states the company adds to GRMAC s production, if any. In September 2012, Freddie

Mac and Fannie Mae extended their respective approvals through December 31, 2013. We continue to discuss our ongoing use of these and other alternative arrangements with our state insurance regulators and the GSEs.

Historically, we have actively managed the risk-to-capital ratios of our U.S. mortgage insurance business in various ways, including through reinsurance arrangements with our subsidiaries and by providing additional capital support to our U.S. mortgage insurance subsidiaries (including through the contribution of a portion of our common shares of Genworth MI Canada Inc. (Genworth Canada)). Our existing intercompany reinsurance arrangements are conducted through affiliated insurance subsidiaries, and therefore, remain subject to regulation by state insurance regulators who could decide to limit, or require the termination of, such arrangements. Any decision to provide additional capital to support our U.S. mortgage insurance subsidiaries is subject to a number of considerations, including (i) the extent to which we are on track towards executing certain capital reallocation transactions to support the redeployment of capital for the benefit of our stockholders while maintaining appropriate risk buffers; (ii) our ongoing analyses of risk scenarios and the value and return on providing such capital support or pursuing other alternative arrangements or strategies; (iii) our assessment and understanding of the prospects for U.S. policy relating to housing finance, the use of private mortgage insurance or the GSEs; and (iv) our assessment of actions by competitors and the current views of the GSEs and state regulators. Depending on the state of the U.S. economy and housing market along with other factors, there is a range of potential additional capital needs that our U.S. mortgage insurance subsidiaries might require, including some that could be substantial. We continue to work with regulators and rating agencies to develop comprehensive solutions for our U.S. mortgage insurance business. Alternatives under consideration include internal reorganizations and potential newco structures. These alternatives could require some form of capital contribution, none of which is expected to be material to holding company target liquidity or buffers. These alternatives also do not rely on our capital generation plans, nor do they rely on additional contribution of shares of Genworth Canada. For a variety of reasons, there is no assurance that we will or will not provide additional capital to support our U.S. mortgage insurance subsidiaries in the future.

While our U.S. mortgage insurance business continues to write new business with expected profitable returns on an ongoing basis, we evaluated (i) the maintenance of ongoing operations and potential changes to the business as the private mortgage insurance and broader housing finance markets evolve; (ii) the prospects involved in ceasing to write new business but continuing to service the existing policies in-force (commonly referred to as runoff); and (iii) the merits and potential of entering into a strategic transaction involving the spinoff, merger or sale of our U.S. mortgage insurance operations. Key considerations taken into account by us in identifying and assessing alternatives included the efficiency of capital required in the short- and medium-term under each of these options; underlying embedded value within our U.S. mortgage insurance business; maximization of capital deployment flexibility; maintenance of adequate liquidity and financial flexibility; protection of the value, reputation, ratings and regulatory relationships of our U.S. mortgage insurance business and Genworth as a whole; and maximization of medium- to long-term shareholder value. Each alternative we considered included challenges and opportunities from a financial, operational, reputational and regulatory perspective. We will continue to monitor these considerations and alternatives on a go forward basis and our expectation currently is to continue operating our U.S. mortgage insurance business with the benefit of regulatory waivers and the use of alternative subsidiaries to generate additional flexibility to write new insurance written. We believe that a runoff, spin-off or sale of our U.S. mortgage insurance business or the amendment of our senior notes indenture to eliminate the risk of default in the event of certain bankruptcy or insolvency events related to our U.S. mortgage insurance business, are not the most beneficial options for shareholders at this time. We are seeking to address rating agency concerns and fulfill our commitment to pay all of our valid claims, while safeguarding liquidity, capital and shareholder value, by increasing financial flexibility for Genworth and our U.S. mortgage insurance business by reducing its dependency on our holding company, preserving holding company liquidity buffers and other liquid assets and sustaining our U.S. mortgage insurance business s access to profitable new insurance written markets.

Runoff

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

In January 2011, we discontinued sales of our individual and group variable annuities; however, we continue to service our existing block of business and accept additional deposits on existing contracts. During 2012, equity market volatility has caused fluctuations in the results of our variable annuity products and regulatory capital requirements. In the future, equity market performance and volatility could result in additional gains or losses in our variable annuity products although associated hedging activities are expected to mitigate most of these impacts. Volatility in the results of our variable annuity products can result in favorable or unfavorable impacts on capital and earnings. In addition to the use of hedging activities to mitigate impacts related to equity market volatility and interest rate risks, we may pursue reinsurance opportunities to further mitigate volatility in results.

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

Effective October 1, 2011, we completed the sale of our Medicare supplement insurance business for $276 million. We recognized an after-tax gain on the sale of $36 million in the fourth quarter of 2011. The transaction included the sale of Continental Life Insurance Company of Brentwood, Tennessee and its subsidiary, American Continental Insurance Company, and the reinsurance of the Medicare supplement insurance in-force business written by other Genworth life insurance subsidiaries.

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

Strategic Update

In October 2012, we announced developments to our strategy to enhance shareholder value. As part of our strategy, we have identified two core sets of businesses: (1) U.S. Life Insurance, which includes our life insurance, long-term care insurance and fixed annuities businesses and (2) Global Mortgage Insurance, which includes mortgage insurance in the United States, Canada, Australia and other markets. We have the following areas of focus: (1) rebalance the portfolio risk; (2) write profitable new business; (3) improve returns on the in-force business; and (4) support holding company liquidity and flexibility.

For our U.S. Life Insurance business, we believe the uninsured and underserved middle market for life insurance and the growing consumer need for long-term care position us for growth. For this segment, our primary focus is on increasing the value of the in-force business particularly through long-term care insurance in-force price actions and refinancing of our life reserves. We are also working to improve the new business profile of both our life and long-term care insurance products by managing sales, redesigning products to reduce risk, improving profitability and maximizing capital efficiency. Our goal is to position our life insurance subsidiaries to provide regular ordinary dividends to our holding company beginning in 2013.

In Global Mortgage Insurance, the developing U.S. housing market recovery and the continuing development of the housing markets in various international countries also provide opportunities for growth. We are working to rebalance business risk in mortgage insurance through the partial sale of our Australian mortgage insurance business, increasing the use of third-party reinsurance and managing our exposure in Europe as we will be limiting new sales to four countries. We remain focused on executing loss mitigation strategies, maintaining our distribution network and writing profitable new business. At the same time, we are actively pursuing solutions to reduce linkages and dependencies of our U.S. mortgage insurance business to our holding company.

We also identified certain businesses as non-core. The non-core businesses include: (1) International Protection; (2) Wealth Management; and (3) businesses included in our Runoff segment, which primarily include our variable annuity and institutional products. In our non-core businesses, we expect to manage new business to maintain or increase the value that can be realized, while generating cash and capital, for example, through an ultimate sale. In International Protection, we intend to maximize the embedded value of the overall business through re-sizing the current European franchise, while continuing to execute on growth opportunities in new markets. We are significantly narrowing the focus in Europe to key relationships, and using appropriate pricing to protect margins during the prolonged financial crisis. This will enable us to reduce corresponding infrastructure costs. We believe these changes will add to the embedded value of the business while maintaining significant dividends to the holding company, enhancing our ability to realize increased value from the potential sale of the business in the next two to three years and as economic and business conditions permit. Wealth Management is an attractive business, with a strong competitive position and continuing growth potential, and we believe it also can be a significant source of capital. We continue to invest in investment solutions and new capabilities to support the financial advisors we serve, and to increase the value of the business. We will also be evaluating opportunities to ultimately realize that value at the appropriate time.

We believe all of these actions support our goals of building strength and flexibility at the holding company. We are positioning our core businesses to pay consistent dividends, while generating cash and capital from our non-core businesses.

Ratings

On June 27, 2012, Moody s downgraded the insurance financial strength rating of our U.S. life insurance subsidiaries to A3 from A2 with a stable outlook and placed our holding company and U.S. mortgage insurance business on review for downgrade. On September 28, 2012, Moody s extended their review for potential downgrade of our senior unsecured debt rating and our U.S. mortgage insurance business. These actions may adversely impact our business in various ways, including resulting in lower sales, particularly for our life insurance businesses; however, we are currently managing statutory performance through lower sales in these businesses. Moody s currently rates our senior debt Baa3, which is their lowest investment grade rating. Lowering our senior debt rating may adversely impact our ability to raise capital at competitive rates, including issuing debt, and may have other adverse commercial impacts. Our next debt maturity is $600 million in June 2014. According to Moody s, the following could lead to a confirmation of the holding company s ratings: 1) de-linkage from the U.S. mortgage insurance business so that a downside scenario would not impact holding company creditors or determination that a downside scenario would have a modest impact on the group; or 2) capital actions that enhance holding company financial flexibility without hurting long-term earnings power of the company. On the other hand, the following could result in a downgrade of the holding company s ratings: 1) failure to de-link the U.S. mortgage insurance business from holding company creditors or determination that a downside scenario would have more than a modest impact on the group; or 2) failure to take capital actions that enhance holding company financial flexibility without hurting long-term earnings power of the company. We continue to work with Moody s on their rating evaluation of our holding company and our U.S. mortgage insurance business. We are pursuing various plans to manage our U.S. mortgage insurance business and its linkages and dependencies to our holding company. Alternatives under consideration include internal reorganizations and potential newco structures. These alternatives could require some form of capital contribution, none of which is expected to be material to holding company target liquidity or buffers. These alternatives also do not rely on our capital generation plans, nor do they rely on additional contribution of shares of Genworth Canada.

On October 11, 2012, Standard and Poor s Ratings Services LLC (S&P) lowered our holding company s senior debt rating to BBB- from BBB with a negative outlook. S&P also lowered the insurer financial strength rating on our U.S. life insurance subsidiaries to A- from A with a stable outlook. In addition, Genworth Financial Mortgage Insurance Limited (Europe) was downgraded to BBB- from BBB consistent with our holding company rating. S&P stated it continues to view our holding company as investment grade due to our increased liquidity, significant improvement in our U.S. mortgage insurance platform year to date, our Australian mortgage insurer s return to profitability in the second quarter of 2012 and the positive momentum in unassigned surplus at our U.S. life insurance operations. However, S&P stated the reasons for the downgrade

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were the low earnings level for the organization relative to BBB expectations and difficulty they believe we will face expanding margins globally in the weak economy. According to S&P, the downgrade of our U.S. life insurance operations reflect the impact of low interest rates on our fixed annuity and long-term care insurance products, as well as legacy term and long-term care insurance blocks performance issues that will take time to stabilize and improve. We do not believe these actions will have an adverse impact from a commercial, liquidity or financial perspective. According to S&P, it expects to review our holding company rating within six to 12 months as we execute our strategic plans and manage our U.S. mortgage insurance business and its linkages and dependencies to our holding company. S&P stated that it is unlikely to change our U.S. life insurance subsidiaries ratings during the next 18 to 24 months.

Also on October 11, 2012, S&P indicated ratings for Genworth Financial Mortgage Insurance Company Canada were unaffected and remained at AA- with a stable outlook. In addition, on October 1, 2012, DBRS Ratings Limited confirmed the Genworth Financial Mortgage Insurance Company Canada ratings at AA with a stable trend. S&P stated these ratings reflect the strong capital position and risk management expertise and prudential regulation by the Office of the Superintendent of Financial Institutions, among other factors.

On October 12, 2012, S&P also affirmed the AA- rating of Genworth Financial Mortgage Insurance Pty Ltd. (Australia) but revised the outlook to negative following the downgrade of our U.S. life insurance operations. S&P noted in its report that it did not lower the ratings at this time because it expects the planned partial sale of that business to take place within the first half of 2013. According to S&P, however, further delay of the planned partial sale beyond the first half of 2013, or its cancellation, would likely result in S&P lowering the ratings by one notch to A+.

On October 16, 2012, S&P downgraded Seguros de Crédito a la Vivienda S.A. de C.V. (Mexico) to mxAA- from mxAA following our holding company downgrade as our holding company provides a limited guarantee to our Mexican insurance operations.

Critical Accounting Estimates

As of September 30, 2012, other than as set forth below, there have been no material changes to critical accounting estimates set forth 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.

Goodwill. Goodwill represents the excess of the amounts paid to acquire a business over the fair value of its net assets at the date of acquisition. Subsequent to acquisition, goodwill could become impaired if the fair value of a reporting unit as a whole were to decline below the value of its individually identifiable assets and liabilities. This may occur for various reasons, including changes in actual or expected income or cash flows of a reporting unit or generation of income by a reporting unit at a lower rate of return than similar businesses.

Under U.S. generally accepted accounting principals (U.S. GAAP), we test the carrying value of goodwill for impairment at least annually at the reporting unit level, which is either an operating segment or a business one level below the operating segment. Under certain circumstances, interim impairment tests may be required if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

The determination of fair value for our reporting units is primarily based on an income approach whereby we use discounted cash flows for each reporting unit. When available, and as appropriate, we use market approaches or other valuation techniques to corroborate discounted cash flow results. The discounted cash flow model used for each reporting unit is based on either operating income or statutory distributable income, depending on the reporting unit being valued.

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For the operating income model, we determine fair value based on the present value of the most recent income projections for each reporting unit and calculate a terminal value utilizing a terminal growth rate. We primarily utilize the operating income model to determine fair value for all reporting units except for our life and long-term care insurance reporting units. In addition to the operating income model, we also consider the valuation of our Canadian mortgage insurance subsidiary s publicly traded stock price in determining fair value for that reporting unit. The significant assumptions in the operating income model include: income projections, which are dependent on new business production, customer behavior, operating expenses and market conditions; discount rate; and terminal growth rate.

For the statutory distributable income model, we determine fair value based on the present value of projected statutory net income and changes in required capital to determine distributable income for the respective reporting unit. We utilize the statutory distributable income model to determine fair value for our life and long-term care insurance reporting units. The significant assumptions in the statutory distributable income model include: required capital levels; income projections, which are dependent on mortality or morbidity, new business production growth, new business projection period, policyholder behavior and other specific industry and market conditions; and discount rate.

The cash flows used to determine fair value are dependent on a number of significant assumptions based on our historical experience, our expectations of future performance and expected economic environment. We determine the best estimate of our income projections based on current market conditions as well as our expectation of future market conditions. Our estimates of projected income are subject to change given the inherent uncertainty in predicting future results. Additionally, the discount rate used to determine fair value is based on our judgment of the appropriate rate for each reporting unit based on the relative risk associated with the projected cash flows as well as our expectation of the discount rate that would be utilized by a hypothetical market participant.

We consider our market capitalization in assessing the reasonableness of the fair values estimated for our reporting units in connection with our goodwill impairment testing. In 2008, we impaired all goodwill associated with our U.S. mortgage insurance business and annuity and institutional products. Accordingly, these businesses are no longer subject to goodwill impairment testing but do have a significant impact on the valuation of our market capitalization in comparison to our book value. When reconciling to our market capitalization, we estimate the values for these businesses and also consider the negative value that would be associated with corporate debt, which would be subtracted from the fair value of our businesses to calculate the total value attributed to equity holders. We then compare the total value attributed to equity holders to our market capitalization.

During the third quarter of 2012, we completed our annual goodwill impairment analysis as of July 1, 2012. As a result of this analysis, we determined fair value was in excess of book value for all of our reporting units with goodwill, except for our international protection and long-term care insurance reporting units discussed further below. While the remaining reporting units with goodwill had fair values in excess of their respective book values, we noted that our life insurance reporting unit had a fair value that was relatively close to book value and was at greater risk compared to our other reporting units of fair value being below book value in the future.

In accordance with our annual goodwill impairment analysis during the third quarter of 2012, we performed the two-step impairment test for our international protection reporting unit. We determined fair value for our international protection reporting unit using an income approach based on discounted cash flows, considering current market conditions, including the market environment in Europe and lower trading multiples of European financial services companies, and the impact of those conditions on our international protection reporting unit in a market transaction that may require a higher risk premium. As a result of our analysis, we determined the fair value of the reporting unit was below book value and determined the goodwill associated with this reporting unit was not recoverable. Therefore, we recorded a goodwill impairment of $89 million for the write-off of all of the goodwill associated with our international protection reporting unit during the third quarter of 2012.

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As part of our annual goodwill impairment testing, we noted that our long-term care insurance reporting unit s fair value was less than its book value. If fair value is lower than book value, the reporting unit s fair value is allocated to assets and liabilities as if the reporting unit had been acquired in a business combination. If this implied goodwill exceeds the reporting unit s goodwill balance, goodwill is deemed recoverable. Accordingly, we evaluated our long-term care insurance reporting unit s goodwill balance of $354 million and determined that the amount of implied goodwill exceeded the amount of goodwill currently recorded by more than 100%. Accordingly, goodwill was recoverable and not impaired.

The key assumptions that impact our evaluation of goodwill for our long-term care insurance reporting unit under our goodwill impairment assessment primarily relate to the discount rate utilized to determine the present value of the projected cash flows and the valuation of new business. While the valuation of our in-force business for long-term care insurance is included in the fair value of the reporting unit, the in-force value does not contribute significant, incremental value to support goodwill. Based on a hypothetical acquisition under our goodwill impairment assessment, any difference in our current carrying value and the fair value of our in-force business would be associated with an intangible asset for the present value of future profits and would not create additional implied goodwill.

We determine the appropriate discount rate based on our experience and understanding of common actuarial appraisal methodologies that we believe market participants would also utilize when evaluating similar product lines where there is significant experience for a product and policyholder assumptions (i.e., lapse, mortality and morbidity). The valuation of new business is determined by utilizing several inputs such as expected new business production, both in terms of the quantity and number of years of new production assumed, as well as profitability of the new business, which is primarily dependent on policyholder assumptions, expected investment returns and targeted capital levels.

In our annual goodwill assessment of our life insurance reporting unit, we used our best estimate of the future performance of the business and discounted these projections using a 9.0% discount rate. We determined the discount rate assumption used in our valuation after considering certain external data points from acquisitions/disposals, relevant reinsurance transactions and calculations of the expected weighted-average cost of capital for hypothetical market participants in an acquisition. Based on our annual goodwill impairment testing, our life insurance reporting unit s fair value continued to exceed book value by approximately 15% with a goodwill balance of $495 million.

If the discount rate used in our valuation increased by 100 basis points, our life insurance reporting unit s fair value would be slightly above its book value as of our annual assessment date and would not require further evaluation for impairment. However, this sensitivity does not consider that there could be corresponding changes in our projections and book value resulting from the market changes that impacted the discount rate. Depending on the magnitude of the combined impacts, further evaluation for impairment may be necessary under this scenario. Additionally, changes in market conditions or the regulatory environment could alter our expected sales production levels or product mix and could impact the fair value of this reporting unit.

Shifts in business strategy or capital allocation as well as deterioration or adverse market conditions for certain businesses could have a significant impact on the fair value of our reporting units and could result in additional future impairments of goodwill.

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Consolidated Results of Operations

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

Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011

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

(Amounts in millions)	Three months ended September 30, 2012	Three months ended September 30, 2011	Increase (decrease) and percentage change 2012 vs. 2011	
Revenues:				
Premiums	$ 1,311	$ 1,461	$ (150)	(10)%
Net investment income	825	842	(17)	(2)%
Net investment gains (losses)	9	(157)	166	106%
Insurance and investment product fees and other	391	375	16	4%
Total revenues	2,536	2,521	15	1%
Benefits and expenses:				
Benefits and other changes in policy reserves	1,363	1,457	(94)	(6)%
Interest credited	193	194	(1)	(1)%
Acquisition and operating expenses, net of deferrals	504	581	(77)	(13)%
Amortization of deferred acquisition costs and intangibles	162	152	10	7%
Goodwill impairment	89		89	NM[(1)]
Interest expense	126	124	2	2%
Total benefits and expenses	2,437	2,508	(71)	(3)%
Income before income taxes	99	13	86	NM[(1)]
Provision (benefit) for income taxes	29	(7)	36	NM[(1)]
Net income	70	20	50	NM[(1)]
Less: net income attributable to noncontrolling interests	36	36		%
Net income (loss) available to Genworth Financial, Inc s common stockholders	$ 34	$ (16)	$ 50	NM[(1)]

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

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

Our Runoff segment decreased $88 million driven by the sale of our Medicare supplement insurance business in the fourth quarter of 2011.

Our International Protection segment decreased $45 million, including a decrease of $23 million attributable to changes in foreign exchange rates, primarily due to lower premium volume driven by reduced levels of consumer lending and lower premiums from the exit of certain client bank relationships.

Our International Mortgage Insurance segment decreased $17 million, including a decrease of $11 million attributable to changes in foreign exchange rates. In Australia, premiums decreased from lower policy cancellations, partially offset by higher premiums from our in-force block of business and lower

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ceded reinsurance premiums in the current year. Excluding the effects of foreign exchange, premiums in Canada were flat as premiums from the smaller more recent books of business were offset by seasoning of our larger in-force block of business. In Other Countries, premiums decreased as a result of seasoning of our in-force block of business and lower premium volume from existing lenders in Europe.

Our U.S. Mortgage Insurance segment decreased $4 million largely related to lower insurance in-force and lower premiums assumed from an affiliate under an intercompany reinsurance agreement, partially offset by lower ceded reinsurance premiums related to our captive arrangements and less policy coverage rescission activity.

Our U.S. Life Insurance segment increased $4 million primarily attributable to an increase of $28 million in our long-term care insurance business from growth due to new sales and in-force rate actions. Our fixed annuities business increased $4 million from higher sales of our life-contingent products in the current year. These increases were partially offset by a decrease in our life insurance business of $28 million related to our term life insurance products from higher ceded reinsurance as a result of a new reinsurance treaty in the current year and from not offering these products during these periods.

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

Weighted-average investment yields were 4.7% and 4.9% for the three months ended September 30, 2012 and 2011, respectively. The weighted-average investment yields decreased primarily as a result of lower reinvestment yields and $9 million of lower gains related to limited partnerships accounted for under the equity method, partially offset by higher average invested assets in longer duration products. Net investment income for the three months ended September 30, 2012 also included $6 million of higher bond calls and prepayments.

The three months ended September 30, 2012 included a decrease of $11 million attributable to changes in foreign exchange rates.

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

We recorded $29 million of net other-than-temporary impairments during the three months ended September 30, 2012 as compared to $52 million during the three months ended September 30, 2011. Of total impairments during the three months ended September 30, 2012 and 2011, $25 million and $10 million, respectively, related to structured securities, including $8 million and $5 million, respectively, related to credit deterioration on sub-prime and Alt-A residential mortgage-backed and asset-backed securities. The three months ended September 30, 2012 also included $10 million of impairments of sub-prime and Alt-A residential mortgage-backed and asset-backed securities related to our intent to sell certain securities. Impairments related to corporate securities as a result of bankruptcies, receivership or concerns about the issuer s ability to continue to make contractual payments or where we have intent to sell were $42 million during the three months ended September 30, 2011. During the three months ended September 30, 2012, we also recorded a $3 million of impairments related to commercial mortgage loans.

Net investment losses related to derivatives of $2 million during the three months ended September 30, 2012 were primarily associated with embedded derivatives related to variable annuity products with guaranteed minimum withdrawal benefit (GMWB) riders and foreign currency risk. The GMWB losses were primarily due to the policyholder funds underperformance of underlying variable annuity funds as compared to market indices and market losses resulting from volatility. Additionally, there were losses associated with derivatives used to hedge foreign currency risk associated with near-term expected dividend payments from certain subsidiaries and to mitigate foreign subsidiary macroeconomic risk. These losses were partially offset by gains from the narrowing of credit spreads associated with credit default swaps where we sold protection to improve diversification and portfolio yield. Net investment losses related to derivatives of $76 million during the three months ended September 30, 2011 were primarily associated with embedded derivatives related to variable annuity products with GMWB riders and credit default swaps. The GMWB losses were primarily due to the policyholder funds underperformance of underlying variable annuity funds as compared to market indices. Additionally, there were market losses resulting from increased volatility and widening of credit spreads associated with credit default swaps where we sold protection to improve diversifications and portfolio yield. These losses were partially offset by ineffectiveness gains from our cash flow hedge programs as a result of lower long-term interest rates related to our long-term care insurances business and gains related to embedded derivatives associated with an increase in the value of assets held by the reinsurer. In addition, there were gains from derivatives used to mitigate foreign subsidiary macroeconomic and currency risk and gains related to a derivative strategy to mitigate the interest rate risk associated with our statutory capital position.

We had $22 million of lower net gains related to the sale of available-for-sale securities during the three months ended September 30, 2012. We recorded $18 million of net gains related securitization entities during the three months ended September 30, 2012 compared to $57 million of net losses during the three months ended September 30, 2011 primarily related to derivatives. We also recorded $14 million of lower contingent consideration adjustments during the three months ended September 30, 2012 mainly related to the purchase of Altegris Capital, LLC. (Altegris) in 2010.

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

Our U.S. Life Insurance segment increased $29 million mainly driven by our life insurance business predominately from growth of our term universal and universal life insurance products. The increase was also attributable to $13 million of higher gains from the repurchase of notes secured by our non-recourse funding obligations, partially offset by the write-off of $6 million in deferred borrowing costs from the repurchase and repayment of non-recourse funding obligations associated with a life block transaction in the current year.

Corporate and Other activities increased $22 million primarily attributable to higher income related to our reverse mortgage business.

Our Wealth Management segment decreased $33 million primarily attributable to lower fees due to the sale of our tax and accounting financial advisor unit in the second quarter of 2012 and negative net flows in the current year.

Our Runoff segment decreased $3 million mainly associated with lower average account values of our variable annuity products in the current year.

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

Our U.S. Mortgage Insurance segment decreased $77 million mainly from lower new delinquencies in the current year. Net paid claims increased principally related to continued aging of the delinquency inventory volume and a significant reduction in ceded claims under captive arrangements in the current year.

Our Runoff segment decreased $77 million principally from the sale of our Medicare supplement insurance business in the fourth quarter of 2011 and from a decrease in our guaranteed minimum death

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benefit (GMDB) reserves in our variable annuity products due to favorable equity market impacts in the current year.

Our International Mortgage Insurance segment decreased $20 million, including a decrease of $6 million attributable to changes in foreign exchange rates. In Canada, losses decreased $13 million primarily driven by lower new delinquencies, net of cures, lower paid claims due to a shift in regional mix, with fewer claims from Alberta, and higher benefits from loss mitigation activities. These decreases were partially offset by a higher average reserve per delinquency in the current year. Australia decreased $5 million primarily from lower new delinquencies, net of cures, in the current year. This decrease was partially offset by higher claims paid in the current year as a result of an increase in the number of claims, a higher average claim payment and a higher average reserve per delinquency driven by higher frequency and severity assumptions. The prior year also included a decrease in reserves established for the economic impact of the flooding in early 2011. Excluding the effects of foreign exchange, losses in Other Countries were flat as continued aging of existing delinquencies, particularly in Ireland and Italy, and a higher average reserve per delinquency were offset by lower new delinquencies, net of cures, and benefits from ongoing loss mitigation activities.

Our International Protection segment decreased $7 million, including a decrease of $4 million attributable to changes in foreign exchange rates, primarily driven by lower paid claims from a decrease in new claim registrations in the current year. In addition, we reclassified loss adjustment expenses of $3 million from acquisition and operating expenses, net of deferrals, in the current year.

Our U.S. Life Insurance segment increased $87 million primarily attributable to a $55 million increase in our life insurance business principally related to a $31 million unfavorable unlocking in our term universal and universal life insurance products related to interest assumptions in the current year, unfavorable mortality in our term life insurance products compared to the prior year and from growth of our term universal life insurance product. These increases were partially offset by higher ceded reinsurance in the current year and a $9 million unfavorable claims adjustment in the prior year that did not recur from the use of the U.S. Social Security Administration s Death Master File to identify certain life insurance policies where the covered person may be deceased but a claim had not yet been reported. Our long-term care insurance business increased $20 million primarily from the aging and growth of our in-force block and higher average reserve costs on new claims in the current year. The increase was also attributable to a reclassification of loss adjustment expenses of $11 million from acquisition and operating expenses, net of deferrals. These increases in our long-term care insurance business were partially offset by favorable reserve adjustments of $44 million primarily related to the continuation of a multi-stage system conversion in the current year compared to a $13 million favorable valuation adjustment in the prior year. Our fixed annuities business increased $12 million largely attributable to an $8 million favorable reserve adjustment in the prior year that did not recur from terminating contracts related to deaths not previously reported and from higher sales of our life-contingent products in the current year.

Interest credited. Interest credited represents interest credited on behalf of policyholder and contractholder general account balances. Our U.S. Life Insurance segment was flat as a decrease of $7 million in our fixed annuities business from lower crediting rates in the current year was offset by an increase of $7 million in our life insurance business related to the timing of reinsurance activity in the prior year.

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

Our Wealth Management segment decreased $32 million from lower commission expenses due to the sale of our tax and accounting financial advisor unit in the second quarter of 2012 and negative net flows in the current year.

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Our International Protection segment decreased $26 million, including a decrease of $15 million attributable to changes in foreign exchange rates, as a result of lower paid commissions from a decline in new business and lower operating expenses as a result of a cost-saving initiative in the prior year. In addition, we reclassified loss adjustment expenses of $3 million to benefits and other changes in policy reserves in the current year.

Our U.S. Life Insurance segment decreased $18 million primarily attributable to an $11 million decrease in our life insurance business primarily from lower expenses related to our term life insurance products as we did not offer these products during these periods and from expense management. Our long-term care insurance business decreased $10 million from a reclassification of loss adjustment expenses of $11 million to benefits and other changes in policy reserves in the current year, partially offset by growth of our in-force block. Our fixed annuities business increased $3 million from higher sales in the current year.

Our Runoff segment decreased $17 million principally from the sale of our Medicare supplement insurance business in the fourth quarter of 2011.

Our International Mortgage Insurance segment decreased $3 million, including a decrease of $2 million attributable to changes in foreign exchange rates, largely driven by Other Countries as a result of lower operating expenses and cost-saving initiatives in the current year.

Corporate and Other activities increased $20 million as a result of an increase of $24 million attributable to our reverse mortgage business primarily related to broker commissions on loans, partially offset by lower net expenses after allocations to our operating segments in the current year.

Amortization of deferred acquisition costs and intangibles. Amortization of deferred acquisition costs and intangibles consists primarily of the amortization of acquisition costs that are capitalized, present value of future profits and capitalized software.

Our U.S. Life Insurance segment increased $27 million principally from an increase in our life insurance business of $15 million primarily from higher amortization of $39 million reflecting loss recognition on certain term life insurance policies under a reinsurance treaty as part of a life block transaction in the current year and a lower favorable unlocking of $6 million primarily related to interest assumptions in our term universal life insurance product in the current year. These increases were partially offset by a $17 million favorable unlocking related to interest assumptions in our universal life insurance products in the current year compared to a $7 million unfavorable unlocking in the prior year. Our fixed annuities business increased $12 million primarily related to higher amortization of deferred acquisition costs attributable to higher net investment gains in the current year, partially offset by a $3 million favorable unlocking related to maintenance expense assumption changes and lower surrenders in the current year compared to an $8 million unfavorable unlocking in the prior year related to lower interest rates and less favorable adjustments related to surrenders.

Our Runoff segment decreased $14 million largely related to lower amortization of deferred acquisition costs in our variable annuity products from favorable equity market impacts and a $2 million favorable unlocking driven by lower surrenders in the current year. The decrease was also attributable to the sale of our Medicare supplement insurance business in the fourth quarter of 2011. These decreases were partially offset by higher net investment gains on embedded derivatives associated with our variable annuity products with GMWBs and a $13 million unfavorable unlocking related to our annual review of assumptions in the current year.

Our International Protection segment decreased $5 million, including a decrease of $3 million attributable to changes in foreign exchange rates, mainly as a result of lower premium volume in the current year.

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Goodwill impairment. Charges for impairment of goodwill are as a result of declines in the fair value of the reporting units. The goodwill impairment charge in the third quarter of 2012 related to our lifestyle protection insurance business and included a decrease of $8 million attributable to changes in foreign exchange rates. See Critical Accounting Estimates for additional information.

Interest expense. Interest expense represents interest related to our borrowings that are incurred at our holding company or subsidiary level and our non-recourse funding obligations and interest expense related to certain reinsurance arrangements being accounted for as deposits.

Our International Protection segment increased $5 million, including a decrease of $3 million attributable to changes in foreign exchange rates, mainly due to reinsurance arrangements accounted for under the deposit method of accounting as certain of these arrangements were in a higher loss position in the current year.

Our U.S. Life Insurance segment decreased $3 million mainly related to our life insurance business driven by the repurchase and repayment of non-recourse funding obligations.

Provision (benefit) for income taxes. The effective tax rate increased to 29.3% for the three months ended September 30, 2012 from (53.8)% for the three months ended September 30, 2011. This increase in the effective tax rate was primarily attributable to lower levels of taxed foreign income, a goodwill impairment and tax favored investments. The three months ended September 30, 2012 included a decrease of $2 million attributable to changes in foreign exchange rates.

Net income attributable to noncontrolling interests. Net income attributable to noncontrolling interests represents the portion of income in a subsidiary attributable to third parties.

Net income (loss) available to Genworth Financial, Inc. s common stockholders. We had net income available to Genworth Financial, Inc. s common stockholders in the current year compared to a net loss available to Genworth Financial, Inc. s common stockholders in the prior year primarily related to net investment losses in the prior year compared to net investment gains in the current year. These increases were partially offset by a goodwill impairment recorded in the current year. For a discussion of each of our segments and Corporate and Other activities, see the Results of Operations and Selected Financial and Operating Performance Measures by Segment.

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Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

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

(Amounts in millions)	Nine months ended September 30, 2012	Nine months ended September 30, 2011	Increase (decrease) and percentage change 2012 vs. 2011	
Revenues:				
Premiums	$ 3,720	$ 4,353	$ (633)	(15)%
Net investment income	2,503	2,553	(50)	(2)%
Net investment gains (losses)	10	(225)	235	104%
Insurance and investment product fees and other	1,252	1,063	189	18%
Total revenues	7,485	7,744	(259)	(3)%
Benefits and expenses:				
Benefits and other changes in policy reserves	3,977	4,549	(572)	(13)%
Interest credited	582	599	(17)	(3)%
Acquisition and operating expenses, net of deferrals	1,536	1,725	(189)	(11)%
Amortization of deferred acquisition costs and intangibles	582	465	117	25%
Goodwill impairment	89		89	NM[1]
Interest expense	352	385	(33)	(9)%
Total benefits and expenses	7,118	7,723	(605)	(8)%
Income before income taxes	367	21	346	NM[1]
Provision for income taxes	108	8	100	NM[1]
Net income	259	13	246	NM[1]
Less: net income attributable to noncontrolling interests	102	106	(4)	(4)%
Net income (loss) available to Genworth Financial, Inc s common stockholders	$ 157	$ (93)	$ 250	NM[1]

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

Premiums

Our Runoff segment decreased $254 million driven by the sale of our Medicare supplement insurance business in the fourth quarter of 2011.

Our U.S. Life Insurance segment decreased $191 million primarily as a result of a decrease of $294 million in our life insurance business related to our term life insurance products from higher ceded reinsurance on certain term life insurance policies under a new reinsurance treaty as part of a life block transaction in the current year and from not offering these products during these periods. This decrease was partially offset by an increase of $91 million in our long-term care insurance business due to growth of our in-force block from new sales and in-force rate actions. Our fixed annuities business increased $12 million from higher sales of our life-contingent products in the current year.

Our International Protection segment decreased $130 million, including a decrease of $43 million attributable to changes in foreign exchange rates, primarily due to lower premium volume driven by reduced levels of consumer lending and lower premiums from the exit of certain client bank relationships.

Our International Mortgage Insurance segment decreased $44 million, including a decrease of $17 million attributable to changes in foreign exchange rates. Premiums decreased mainly as a result of the seasoning of our in-force blocks of business in Canada. In Other Countries, premiums decreased as a result of seasoning of our in-force block of business and lower premium volume from existing lenders

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in Europe. In Australia, premiums decreased driven by lower policy cancellations in the current year and higher ceded reinsurance premiums, partially offset by an increase from an actuarial update to premium recognition factors related to policy cancellation experience in the current year.

Our U.S. Mortgage Insurance segment decreased $14 million largely related to lower insurance in-force and lower premiums assumed from an affiliate under an intercompany reinsurance agreement, partially offset by lower ceded reinsurance premiums related to our captive arrangements, the benefit of previously implemented rate increases and less policy coverage rescission activity.

Net investment income

Weighted-average investment yields were 4.8% and 5.0% for the nine months ended September 30, 2012 and 2011, respectively. The weighted-average investment yields decreased primarily as a result of lower reinvestment yields and lower income attributable to reinsurance arrangements accounted for under the deposit method as certain of these arrangements were in a lower gain position in the current year, partially offset by higher average invested assets in longer duration products. Net investment income for the nine months ended September 30, 2012 also included $9 million of lower bond calls and prepayments.

The nine months ended September 30, 2012 included a decrease of $16 million attributable to changes in foreign exchange rates.

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

We recorded $85 million of net other-than-temporary impairments during the nine months ended September 30, 2012 as compared to $114 million during the nine months ended September 30, 2011. Of total impairments during the nine months ended September 30, 2012 and 2011, $63 million and $48 million, respectively, related to structured securities, including $30 million and $29 million, respectively, related to credit deterioration on sub-prime and Alt-A residential mortgage-backed and asset-backed securities. The nine months ended September 30, 2012 also included $10 million of impairments of sub-prime and Alt-A residential mortgage-backed and asset-backed securities related to our intent to sell certain securities. Impairments related to corporate securities were $15 million during the nine months ended September 30, 2012 predominately attributable to a financial hybrid security related to a bank in the United Kingdom that was downgraded to below investment grade. Impairments related to corporate securities as a result of bankruptcies, receivership or concerns about the issuer s ability to continue to make contractual payments or where we have intent to sell were $56 million during the nine months ended September 30, 2011. During the nine months ended September 30, 2011, we also recorded $3 million of impairments related to real estate held-for-investment.

Net investment losses related to derivatives of $4 million during the nine months ended September 30, 2012 were primarily associated with embedded derivatives related to variable annuity products with GMWB riders and foreign currency risk. The GMWB losses were primarily due to the policyholder funds underperformance of underlying variable annuity funds as compared to market indices and market losses resulting from volatility. Additionally, there were losses associated with derivatives used to hedge foreign currency risk associated with near-term expected dividend payments from certain subsidiaries and to mitigate foreign subsidiary macroeconomic risk. These losses were partially offset by gains from the narrowing of credit spreads associated with credit default swaps where we sold protection to improve diversification and portfolio yield. Net investment losses related to derivatives of $101 million during the nine months ended September 30, 2011 were primarily associated with embedded derivatives related to variable annuity products with GMWB riders and credit default swaps. The GMWB losses were primarily due to the policyholder funds underperformance of underlying variable annuity funds as compared to market indices. Additionally, there were market losses resulting from increased volatility and widening of credit spreads associated with credit default swaps where we sold protection to improve diversifications and portfolio yield. These losses were partially offset by

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ineffectiveness gains from our cash flow hedge programs as a result of lower long-term interest rates related to our long-term care insurance business and gains related to embedded derivatives associated with an increase in the value of assets held by the reinsurer. In addition, there were gains from derivatives used to mitigate foreign subsidiary macroeconomic and currency risk and gains related to a derivative strategy to mitigate the interest rate risk associated with our statutory capital position.

We had $8 million of higher net gains related to the sale of available-for-sale securities during the nine months ended September 30, 2012. We recorded $48 million of net gains related to securitization entities during the nine months ended September 30, 2012 compared to $52 million of net losses during the nine months ended September 30, 2011 primarily related to derivatives and higher gains on trading securities. We also recorded $15 million of lower gains related to trading securities and $13 million of lower contingent consideration adjustments during the nine months ended September 30, 2012 mainly related to the purchase of Altegris in 2010.

Insurance and investment product fees and other

Our U.S. Life Insurance segment increased $166 million mainly driven by our life insurance business related to $84 million of higher gains from the repurchase of notes secured by our non-recourse funding obligations in the current year and from growth of our term universal and universal life insurance products. These increases were partially offset by an unfavorable valuation adjustment and from the write-off of $6 million in deferred borrowing costs from the repurchase and repayment of non-recourse funding obligations associated with a life block transaction in the current year.

Corporate and Other activities increased $54 million primarily attributable to higher income related to our reverse mortgage business.

Our U.S. Mortgage Insurance segment increased $20 million from a gain related to the termination of an external reinsurance arrangement in the current year.

Our Wealth Management segment decreased $23 million. Lower fees due to the sale of our tax and accounting financial advisor unit in the second quarter of 2012 and negative net flows in the current year were partially offset by a gain of $38 million recognized on the sale and favorable market performance during the first and third quarters of 2012.

Our Runoff segment decreased $16 million mainly attributable to lower average account values of our variable annuity products in the current year.

Our International Protection segment decreased $6 million attributable to lower third-party administration fees in the current year and non-functional currency transactions as a result of changes in foreign exchange rates.

Our International Mortgage Insurance segment decreased $6 million primarily related to currency transactions related to a foreign branch in the prior year.

Benefits and other changes in policy reserves

Our U.S. Mortgage Insurance segment decreased $511 million from lower new delinquencies in the current year and from a prior year reserve strengthening of $299 million that did not recur. Net paid claims increased principally related to continued aging of the delinquency inventory volume and a significant reduction in ceded claims under captive arrangements in the current year.

Our Runoff segment decreased $209 million principally from the sale of our Medicare supplement insurance business in the fourth quarter of 2011 and from a decrease in our GMDB reserves in our variable annuity products due to favorable equity market impacts in the current year.

Our International Mortgage Insurance segment increased $86 million, including a decrease of $3 million attributable to changes in foreign exchange rates. Australia increased $97 million driven by a reserve strengthening of $82 million in the first quarter of 2012 due to higher than anticipated frequency and severity of claims paid from later stage delinquencies from prior years, particularly in coastal tourism areas of Queensland as a result of regional economic pressures as well as our 2007 and 2008 vintages which have a higher concentration of self-employed borrowers. Claims paid also increased in the current year as a result of an increase in both the number of claims and the average claim payment. These increases were partially offset by lower new delinquencies, net of cures, in the current year. Other Countries increased $9 million primarily from the continued aging of existing delinquencies, particularly in Ireland and Italy, and a higher average reserve per delinquency which were partially offset by benefits from ongoing loss mitigation activities. In Canada, losses decreased $20 million primarily driven by lower new delinquencies, net of cures, lower paid claims due to a shift in regional mix, with fewer claims from Alberta, and higher benefits from loss mitigation activities. These decreases were partially offset by a higher average reserve per delinquency in the current year.

Our U.S. Life Insurance segment increased $54 million primarily attributable to an increase of $149 million in our long-term care insurance business from the aging and growth of our in-force block and higher average reserve costs on new claims in the current year. Also included in the increase was a reclassification of loss adjustment expenses of $32 million from acquisition and operating expenses, net of deferrals, and an $11 million increase in reserves associated with a methodology change related to pending claims in the current year. These increases in our long-term care insurance business were partially offset by favorable reserve and actuarial adjustments of $60 million primarily related to the continuation of a multi-stage system conversion in the current year compared to a $13 million favorable valuation adjustment in the prior year. Our fixed annuities business increased $20 million largely attributable to an $8 million favorable reserve adjustment in the prior year that did not recur from terminating contracts related to deaths that had not been previously reported, higher sales of our life-contingent products and unfavorable mortality in the current year. These increases were partially offset by a decrease of $115 million in our life insurance business principally related to higher ceded reinsurance in the current year. We initially ceded $209 million of certain term life insurance reserves under a new reinsurance treaty as part of a life block transaction. The decrease was also attributable to a $9 million unfavorable claims adjustment in the prior year that did not recur from the use of the U.S. Social Security Administration s Death Master File to identify certain life insurance policies where the covered person may be deceased but a claim had not yet been reported. These decreases were partially offset by growth in our term universal and universal life insurance products, a $31 million unfavorable unlocking in our term universal and universal life insurance products primarily related to interest assumptions in the current year and unfavorable mortality in our term and term universal life insurance products compared to the prior year.

Our International Protection segment increased $8 million, including a decrease of $9 million attributable to changes in foreign exchange rates, primarily driven by lower favorable claim reserve adjustments, partially offset by lower paid claims from a decrease in new claim registrations in the current year. In addition, we reclassified loss adjustment expenses of $9 million from acquisition and operating expenses, net of deferrals, in the current year.

Interest credited

Our U.S. Life Insurance segment decreased $14 million from a decrease of $19 million in our fixed annuities business primarily attributable to lower crediting rates in a low interest rate environment, partially offset by a $5 million increase in our life insurance business from growth of our universal life insurance products.

Our Runoff segment decreased $3 million principally from our institutional products as a result of lower interest paid on our floating rate policyholder liabilities due to a decrease in average outstanding liabilities.

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Acquisition and operating expenses, net of deferrals

Our International Protection segment decreased $81 million, including a decrease of $28 million attributable to changes in foreign exchange rates, as a result of lower paid commissions from a decline in new business and lower operating expenses as a result of a cost-saving initiative in the prior year. In addition, we reclassified loss adjustment expenses of $9 million to benefits and other changes in policy reserves in the current year.

Our Runoff segment decreased $60 million principally from the sale of our Medicare supplement insurance business in the fourth quarter of 2011, a $9 million charge from the discontinuance of our variable annuity offerings in the prior year that did not recur and from lower production of our variable annuity products in the current year due to block runoff.

Our Wealth Management segment decreased $60 million primarily attributable to lower commission expenses from the sale of our tax and accounting financial advisor unit in the second quarter of 2012 and negative net flows in the current year.

Our U.S. Life Insurance segment decreased $35 million primarily attributable to a $25 million decrease in our long-term care insurance business from a reclassification of loss adjustment expenses of $32 million to benefits and other changes in policy reserves in the current year, partially offset by growth of our in-force block. Our life insurance business decreased $7 million primarily driven by lower expenses related to our term life insurance products as we did not offer these products during these periods and from expense management, partially offset by a $13 million favorable cumulative impact from a change in premium taxes in Virginia in the prior year that did not recur. Our fixed annuities business decreased $3 million primarily related to a favorable adjustment of $4 million associated with guarantee funds in the current year compared to a $4 million accrual related to guarantee funds in the prior year, partially offset by higher sales in the current year.

Our U.S. Mortgage Insurance segment decreased $14 million related to lower operating expenses as a result of a cost saving initiative in 2011.

Our International Mortgage Insurance segment decreased $6 million, including a decrease of $3 million attributable to changes in foreign exchange rates, mainly related to Other Countries as a result of lower operating expenses and cost-saving initiatives in the current year.

Corporate and Other activities increased $67 million as a result of an increase of $56 million associated with our reverse mortgage business primarily related to broker commissions on loans and higher unallocated expenses to our operating segments in the current year.

Amortization of deferred acquisition costs and intangibles

Our U.S. Life Insurance segment increased $179 million principally from an increase in our life insurance business of $155 million largely related to higher ceded reinsurance as we wrote off $142 million of deferred acquisition costs associated with certain term life insurance policies under a new reinsurance treaty as part of a life block transaction in the first quarter of 2012. Higher amortization of deferred acquisition costs of $39 million in the current year reflected loss recognition on certain term life insurance policies under a reinsurance treaty as part of a life block transaction in the third quarter of 2012 and a lower favorable unlocking of $6 million related to interest assumptions in our term universal life insurance product in the current year. These increases were partially offset by a $17 million favorable unlocking primarily related to interest assumptions in our universal life insurance products in the current year compared to a $7 million unfavorable unlocking in the prior year. Our fixed annuities business increased $17 million primarily due to higher amortization of deferred acquisition costs attributable to higher net investment gains in the current year, partially offset by a $3 million favorable unlocking related to maintenance expense assumption changes and lower surrenders in the current year compared to an $8 million unfavorable unlocking in the prior year related to lower interest rates and less favorable adjustments related to surrenders. Our long-term care insurance business increased $7 million primarily from growth of our in-force block.

Our Runoff segment decreased $37 million largely related to the sale of our Medicare supplement insurance business in the fourth quarter of 2011 and from favorable equity market impacts in our variable annuity products in the current year. These decreases were partially offset by higher net investment gains on embedded derivatives associated with our variable annuity products with GMWBs. The current year also included a $13 million unfavorable unlocking related to our annual review of assumptions, partially offset by a $7 million favorable unlocking driven by lower surrenders in the current year.

Our International Protection segment decreased $25 million, including a decrease of $6 million attributable to changes in foreign exchange rates, mainly as a result of lower premium volume in the current year.

Goodwill impairment. The goodwill impairment charge in the third quarter of 2012 related to our lifestyle protection insurance business and included a decrease of $8 million attributable to changes in foreign exchange rates. See Critical Accounting Estimates for additional information.

Interest expense

Corporate and Other activities decreased $22 million primarily attributable to a favorable adjustment of $20 million in the current year related to the Tax Matters Agreement with our former parent company.

Our U.S. Life Insurance segment decreased $18 million related to our life insurance business primarily from a favorable adjustment of $20 million in the current year related to the Tax Matters Agreement with our former parent company and from the repurchase and repayment of non-recourse funding obligations in the current year. These decreases were partially offset by the write-off of $8 million in deferred borrowing costs from the repurchase and repayment of non-recourse funding obligations associated with a life block transaction in the current year.

Our International Mortgage Insurance segment increased $6 million, including a decrease of $1 million attributable to changes in foreign exchange rates, from the issuance of debt by our wholly-owned Australian mortgage insurance subsidiary in June 2011.

Provision for income taxes. The effective tax rate decreased to 29.4% for the nine months ended September 30, 2012 from 38.1% for the nine months ended September 30, 2011. This decrease in the effective tax rate was primarily attributable to lower levels of taxed foreign income, partially offset by a decrease in tax favored investments, a goodwill impairment and the sale of our tax and accounting financial advisor unit, GFIS, in the current year. The nine months ended September 30, 2012 included a decrease of $5 million attributable to changes in foreign exchange rates.

Net income (loss) available to Genworth Financial, Inc. s common stockholders. We had net income available to Genworth Financial, Inc. s common stockholders in the current year compared to a net loss available to Genworth Financial, Inc. s common stockholders in the prior year primarily related to significantly lower losses in our U.S. Mortgage Insurance segment in the current year as a result of a reserve strengthening in the prior year that did not recur, an increase in our variable annuities from favorable equity market performance in the current year and net investment losses in the prior year compared to net investment gains in the current year. These increases were partially offset by $47 million of net losses related to life block transactions completed by our life insurance business, a reserve strengthening in our Australian mortgage insurance business and a goodwill impairment recorded in the current year. For a discussion of each of our segments and Corporate and Other activities, see the Results of Operations and Selected Financial and Operating Performance Measures by Segment. Included in net income available to Genworth Financial, Inc. s common stockholders for the nine months ended September 30, 2012 was a decrease of $5 million, net of taxes, attributable to changes in foreign exchange rates.

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Reconciliation of net income to net operating income available to Genworth Financial, Inc. s common stockholders

We had net operating income available to Genworth Financial, Inc. s common stockholders for the three months ended September 30, 2012 of $121 million compared to $62 million for the three months ended September 30, 2011. We had net operating income available to Genworth Financial, Inc. s common stockholders for the nine months ended September 30, 2012 of $232 million compared to $24 million for the nine months ended September 30, 2011. We define net operating income (loss) available to Genworth Financial, Inc. s common stockholders as income (loss) from continuing operations excluding the after-tax effects of income attributable to noncontrolling interests, net investment gains (losses), goodwill impairments, gains (losses) on the sale of businesses and infrequent or unusual non-operating items. We exclude net investment gains (losses) and infrequent or unusual non-operating items because we do not consider them to be related to the operating performance of our segments and Corporate and Other activities. A component of our net investment gains (losses) is the result of impairments, the size and timing of which can vary significantly depending on market credit cycles. In addition, the size and timing of other investment gains (losses) can be subject to our discretion and are influenced by market opportunities, as well as asset-liability matching considerations. Goodwill impairments and gains (losses) on the sale of businesses are also excluded from net operating income (loss) available to Genworth Financial, Inc. s common stockholders because, in our opinion, they are not indicative of overall operating trends. Other non-operating items are also excluded from net operating income (loss) available to Genworth Financial, Inc. s common stockholders if, in our opinion, they are not indicative of overall operating trends.

In the third quarter of 2012, we revised our definition of net operating income (loss) available to Genworth Financial, Inc. s common stockholders to exclude goodwill impairments to better reflect the basis on which the performance of our business is internally assessed and to reflect management s opinion that it is not indicative of overall operating trends. There was an $86 million after-tax goodwill impairment related to our lifestyle protection insurance business recorded in the third quarter of 2012. We also modified our definition to explicitly state that gains (losses) on the sale of businesses, which were previously included in the infrequent and unusual category, are excluded from net operating income (loss). There was a $15 million gain related to the sale of our tax and accounting financial advisor unit in the second quarter of 2012.

There were no infrequent or unusual items excluded from net operating income (loss) available to Genworth Financial, Inc. s common stockholders during the periods presented.

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

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The following table includes a reconciliation of net income to net operating income available to Genworth Financial, Inc. s common stockholders for the periods indicated:

(Amounts in millions)	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Net income	$ 70	$ 20	$ 259	$ 13
Less: net income attributable to noncontrolling interests	36	36	102	106
Net income (loss) available to Genworth Financial, Inc. s common stockholders	34	(16)	157	(93)
Adjustments to net income (loss) available to Genworth Financial, Inc. s common stockholders:				
Net investment (gains) losses, net of taxes and other adjustments	1	78&n		