GENWORTH FINANCIAL INC
Form 10-Q
November 07, 2011

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, 2011

OR

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

For the transition period from to

Commission file number 001-32195

GENWORTH FINANCIAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**33-1073076**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification Number)**
6620 West Broad Street	
Richmond, Virginia	**23230**
(Address of Principal Executive Offices)	**(Zip Code)**

(804) 281-6000

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

As of October 31, 2011, 490,931,207 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 STATEMENTS OF INCOME

(Amounts in millions, except per share amounts)

(Unaudited)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Revenues:				
Premiums	$ 1,461	$ 1,447	$ 4,353	$ 4,387
Net investment income	842	815	2,553	2,403
Net investment gains (losses)	(157)	105	(225)	(104)
Insurance and investment product fees and other	375	300	1,063	812
Total revenues	2,521	2,667	7,744	7,498
Benefits and expenses:				
Benefits and other changes in policy reserves	1,457	1,502	4,538	4,157
Interest credited	194	212	599	636
Acquisition and operating expenses, net of deferrals	510	472	1,524	1,446
Amortization of deferred acquisition costs and intangibles	190	227	572	590
Interest expense	124	114	385	338
Total benefits and expenses	2,475	2,527	7,618	7,167
Income before income taxes	46	140	126	331
Provision (benefit) for income taxes	(19)	18	5	(80)
Net income	65	122	121	411
Less: net income attributable to noncontrolling interests	36	39	106	108
Net income available to Genworth Financial, Inc. s common stockholders	$ 29	$ 83	$ 15	$ 303
Net income available to Genworth Financial, Inc. s common stockholders per common share:				
Basic	$ 0.06	$ 0.17	$ 0.03	$ 0.62
Diluted	$ 0.06	$ 0.17	$ 0.03	$ 0.61
Weighted-average common shares outstanding:				
Basic	490.8	489.5	490.5	489.1
Diluted	492.5	493.9	493.7	493.9
Supplemental disclosures:				
Total other-than-temporary impairments	$ (39)	$ (7)	$ (98)	$ (108)

Portion of other-than-temporary impairments included in other comprehensive income (loss)	(13)	(30)	(16)	(60)
Net other-than-temporary impairments	(52)	(37)	(114)	(168)
Other investments gains (losses)	(105)	142	(111)	64
Total net investment gains (losses)	$ (157)	$ 105	$ (225)	$ (104)

See Notes to Condensed Consolidated Financial Statements

GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except per share amounts)

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	$ 57,816	$ 55,183
Equity securities available-for-sale, at fair value	354	332
Commercial mortgage loans	6,271	6,718
Restricted commercial mortgage loans related to securitization entities	430	507
Policy loans	1,556	1,471
Other invested assets	5,626	3,854
Restricted other invested assets related to securitization entities ($376 and $370 at fair value)	377	372
Total investments	72,430	68,437
Cash and cash equivalents	3,648	3,132
Accrued investment income	725	733
Deferred acquisition costs	7,359	7,256
Intangible assets	626	741
Goodwill	1,326	1,329
Reinsurance recoverable	16,976	17,191
Other assets	1,002	810
Deferred tax asset		1,100
Separate account assets	9,794	11,666
Total assets	$ 113,886	$ 112,395
Liabilities and stockholders equity		
Liabilities:		
Future policy benefits	$ 31,745	$ 30,717
Policyholder account balances	26,480	26,978
Liability for policy and contract claims	7,379	6,933
Unearned premiums	4,210	4,541
Other liabilities ($212 and $150 other liabilities related to securitization entities)	6,755	6,085
Borrowings related to securitization entities ($48 and $51 at fair value)	414	494
Non-recourse funding obligations	3,280	3,437
Long-term borrowings	4,708	4,952
Deferred tax liability	1,753	1,621
Separate account liabilities	9,794	11,666
Total liabilities	96,518	97,424
Commitments and contingencies		
Stockholders equity:		
Class A common stock, $0.001 par value; 1.5 billion shares authorized; 579 million and 578 million shares issued as of September 30, 2011 and December 31, 2010, respectively; 491 million and 490 million shares outstanding as of September 30, 2011 and December 31, 2010, respectively	1	1
Additional paid-in capital	12,117	12,095
Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	1,579	21
Net unrealized gains (losses) on other-than-temporarily impaired securities	(126)	(121)
Net unrealized investment gains (losses)	1,453	(100)

Derivatives qualifying as hedges		1,960		924
Foreign currency translation and other adjustments		459		668
Total accumulated other comprehensive income (loss)		3,872		1,492
Retained earnings		2,988		2,973
Treasury stock, at cost (88 million shares as of September 30, 2011 and December 31, 2010)		(2,700)		(2,700)
Total Genworth Financial, Inc. s stockholders equity		16,278		13,861
Noncontrolling interests		1,090		1,110
Total stockholders equity		17,368		14,971
Total liabilities and stockholders equity	$	113,886	$	112,395

See Notes to Condensed Consolidated Financial Statements

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, 2010	$ 1	$ 12,095	$ 1,492	$ 2,973	$ (2,700)	$ 13,861	$ 1,110	$ 14,971
Repurchase of subsidiary shares							(71)	(71)
Comprehensive income (loss):								
Net income				15		15	106	121
Net unrealized gains (losses) on securities not other- than-temporarily impaired			1,558			1,558	34	1,592
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			(209)			(209)	(54)	(263)
Total comprehensive income (loss)								2,481
Dividends to noncontrolling interests							(35)	(35)
Stock-based compensation expense and exercises and other		22				22		22
Balances as of September 30, 2011	$ 1	$ 12,117	$ 3,872	$ 2,988	$ (2,700)	$ 16,278	$ 1,090	$ 17,368
Balances as of December 31, 2009	$ 1	$ 12,034	$ (164)	$ 3,105	$ (2,700)	$ 12,276	$ 1,074	$ 13,350
Cumulative effect of change in accounting, net of taxes and other adjustments			260	(275)		(15)		(15)
Repurchase of subsidiary shares							(131)	(131)
Comprehensive income (loss):								
Net income				303		303	108	411
Net unrealized gains (losses) on securities not other- than-temporarily impaired			1,621			1,621	28	1,649
Net unrealized gains (losses) on other-than-temporarily impaired securities			104			104		104
Derivatives qualifying as hedges			552			552		552
Foreign currency translation and other adjustments			111			111	22	133
Total comprehensive income (loss)								2,849
Dividends to noncontrolling interests							(32)	(32)
Stock-based compensation expense and exercises and other		30				30		30
Other capital transactions		20				20		20

Balances as of September 30, 2010	$ 1	$ 12,084	$ 2,484	$ 3,133	$ (2,700)	$ 15,002	$ 1,069	$ 16,071

See Notes to Condensed Consolidated Financial Statements

GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Cash flows from operating activities:		
Net income	$ 121	$ 411
Adjustments to reconcile net income to net cash from operating activities:		
Amortization of fixed maturity discounts and premiums and limited partnerships	(71)	(11)
Net investment losses (gains)	225	104
Charges assessed to policyholders	(507)	(367)
Acquisition costs deferred	(686)	(610)
Amortization of deferred acquisition costs and intangibles	572	590
Deferred income taxes	(158)	(111)
Net increase in trading securities, held-for-sale investments and derivative instruments	795	113
Stock-based compensation expense	23	31
Change in certain assets and liabilities:		
Accrued investment income and other assets	(152)	(31)
Insurance reserves	1,942	1,767
Current tax liabilities	8	(313)
Other liabilities and other policy-related balances	(80)	(597)
Net cash from operating activities	2,032	976
Cash flows from investing activities:		
Proceeds from maturities and repayments of investments:		
Fixed maturity securities	4,075	3,302
Commercial mortgage loans	633	493
Restricted commercial mortgage loans related to securitization entities	77	40
Proceeds from sales of investments:		
Fixed maturity and equity securities	3,446	3,329
Purchases and originations of investments:		
Fixed maturity and equity securities	(7,798)	(10,223)
Commercial mortgage loans	(202)	(35)
Other invested assets, net	(56)	1,483
Policy loans, net	(85)	(77)
Payments for businesses purchased, net of cash acquired	(4)	
Net cash from investing activities	86	(1,688)
Cash flows from financing activities:		
Deposits to universal life and investment contracts	2,016	1,832
Withdrawals from universal life and investment contracts	(3,034)	(2,950)
Short-term borrowings and other, net	21	(86)
Redemption and repurchase of non-recourse funding obligations	(112)	(6)
Proceeds from the issuance of long-term debt	545	660
Repayment and repurchase of long-term debt	(760)	(6)
Repayment of borrowings related to securitization entities	(77)	(46)
Repurchase of subsidiary shares	(71)	(131)
Dividends paid to noncontrolling interests	(35)	(32)

Net cash from financing activities	(1,507)	(765)
Effect of exchange rate changes on cash and cash equivalents	(95)	73
Net change in cash and cash equivalents	516	(1,404)
Cash and cash equivalents at beginning of period	3,132	5,002
Cash and cash equivalents at end of period	$ 3,648	$ 3,598

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 three operating segments:

- ***Retirement and Protection.*** We offer and/or manage a variety of protection, wealth management and retirement income products. Our primary insurance products include life and long-term care insurance. Additionally, we offer other Medicare supplement insurance products, as well as care coordination services for our long-term care policyholders. Our wealth management and retirement income products include: a variety of managed account programs and advisor services, financial planning services and fixed deferred and immediate individual annuities. We previously offered variable deferred annuities and group variable annuities offered through retirement plans.

- ***International.*** We offer mortgage and lifestyle protection insurance products and related services in multiple markets. We are a leading provider of mortgage insurance products 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. We are a leading provider of protection coverages primarily associated with certain financial obligations (referred to as lifestyle protection) in multiple European countries. These 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.

- ***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 structured, or 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 capital and risk.

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 non-strategic products that are managed outside of our operating segments. Our non-strategic products include our institutional and corporate-owned life insurance products. Institutional products consist of: funding agreements, funding agreements backing notes (FABNs) and guaranteed investment contracts (GICs).

In January 2011, we discontinued new sales of retail and group variable annuities while continuing to service our existing blocks of business. We continue to offer fixed annuities.

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and rules and regulations of the U.S. Securities and Exchange Commission (SEC). Preparing financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. These condensed consolidated financial statements include all adjustments considered necessary by management to present a fair statement of the financial position, results of

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 2010 Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) Accounting Pronouncements

Recently Adopted

In September 2011, the Financial Accounting Standards Board (the FASB) issued new accounting guidance related to goodwill impairment testing. The new guidance permits the use of a qualitative assessment prior to, and potentially instead of, the two step quantitative goodwill impairment test. The new guidance has a mandatory effective date of January 1, 2012, with early adoption permitted in some cases. We elected to early adopt this new guidance effective on July 1, 2011 in order to apply the new guidance in our annual goodwill impairment testing performed during the third quarter. The adoption of this new accounting guidance did not have an impact on our consolidated financial statements.

On July 1, 2011, we adopted new accounting guidance related to additional disclosures for troubled debt restructurings. The adoption of this new accounting guidance did not have a material impact on our consolidated financial statements.

On January 1, 2011, we adopted new accounting guidance related to goodwill impairment testing when a reporting unit s carrying value is zero or negative. This guidance did not impact our consolidated financial statements upon adoption, as all of our reporting units with goodwill balances have positive carrying values.

On January 1, 2011, we adopted new accounting guidance related to how investments held through separate accounts affect an insurer s consolidation analysis of those investments. The adoption of this new accounting guidance did not have a material impact on our consolidated financial statements.

On January 1, 2011, we adopted new accounting guidance related to additional disclosures about purchases, sales, issuances and settlements in the rollforward of Level 3 fair value measurements. The adoption of this new accounting guidance did not have a material impact on our consolidated financial statements.

Not Yet Adopted

In June 2011, the FASB issued 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. This new accounting guidance is effective for us on January 1, 2012. We do not expect the adoption of this accounting guidance to have a material impact on our consolidated financial results.

In May 2011, the FASB issued new accounting guidance for fair value measurements. This new accounting guidance clarifies existing fair value measurement requirements and changes certain fair value measurement principles and disclosure requirements that will be effective for us on January 1, 2012. We have not yet determined the impact this accounting guidance will have on our consolidated financial statements.

In April 2011, the FASB issued new accounting guidance for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The new

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

guidance removes the requirement to consider a transferor s ability to fulfill its contractual rights from the criteria when determining effective control and is effective, for us, prospectively to any transactions occurring on or after January 1, 2012. We do not expect the adoption of this accounting guidance to have a material impact on our consolidated financial statements.

In October 2010, the FASB issued new accounting guidance related to accounting for costs associated with acquiring or renewing insurance contracts. This new accounting guidance will be effective for us on January 1, 2012. The new guidance is effective prospectively with retrospective adoption allowed. We intend to adopt this new guidance retrospectively. We expect that this new guidance, when adopted, will reduce retained earnings and stockholders equity by approximately $1.3 billion to $1.6 billion, subject to other adjustments. When adopted in 2012, we expect to defer fewer costs and record lower amortization resulting in decreased earnings.

(3) Earnings Per Share

Basic and diluted earnings per share are calculated by dividing each income 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)	**2011**	**2010**	**2011**	**2010**
Net income	$ 65	$ 122	$ 121	$ 411
Less: net income attributable to noncontrolling interests	36	39	106	108
Net income available to Genworth Financial, Inc. s common stockholders	$ 29	$ 83	$ 15	$ 303
Basic per common share:				
Net income	$ 0.13	$ 0.25	$ 0.25	$ 0.84
Less: net income attributable to noncontrolling interests	0.07	0.08	0.22	0.22
Net income available to Genworth Financial, Inc. s common stockholders[1]	$ 0.06	$ 0.17	$ 0.03	$ 0.62
Diluted per common share:				
Net income	$ 0.13	$ 0.25	$ 0.24	$ 0.83
Less: net income attributable to noncontrolling interests	0.07	0.08	0.21	0.22
Net income available to Genworth Financial, Inc. s common stockholders[1]	$ 0.06	$ 0.17	$ 0.03	$ 0.61
Weighted-average shares used in basic earnings per common share calculations	490.8	489.5	490.5	489.1
Potentially dilutive securities:				
Stock options, restricted stock units and stock appreciation rights	1.7	4.4	3.2	4.8
Weighted-average shares used in diluted earnings per common share calculations	492.5	493.9	493.7	493.9

[1] May not total due to whole number calculation.

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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, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Fixed maturity securities taxable	$ 669	$ 658	$ 2,032	$ 1,930
Fixed maturity securities non-taxable	8	14	29	46
Commercial mortgage loans	89	95	273	298
Restricted commercial mortgage loans related to securitization entities	11	10	30	30
Equity securities	3	4	16	11
Other invested assets	42	24	131	61
Restricted other invested assets related to securitization entities		1		2
Policy loans	30	28	89	83
Cash, cash equivalents and short-term investments	12	6	24	15
Gross investment income before expenses and fees	864	840	2,624	2,476
Expenses and fees	(22)	(25)	(71)	(73)
Net investment income	$ 842	$ 815	$ 2,553	$ 2,403

(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, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Available-for-sale securities:				
Realized gains	$ 59	$ 38	$ 113	$ 114
Realized losses	(23)	(35)	(88)	(109)
Net realized gains (losses) on available-for-sale securities	36	3	25	5
Impairments:				
Total other-than-temporary impairments	(39)	(7)	(98)	(108)
Portion of other-than-temporary impairments included in other comprehensive income (loss)	(13)	(30)	(16)	(60)
Net other-than-temporary impairments	(52)	(37)	(114)	(168)
Trading securities	11	23	36	25

Commercial mortgage loans	3	(9)	4	(31)
Net gains (losses) related to securitization entities	(57)	30	(52)	(6)
Derivative instruments [(1)]	(76)	94	(101)	48
Contingent purchase price valuation change	(22)		(23)	
Other		1		23
Net investment gains (losses)	$ (157)	$ 105	$ (225)	$ (104)

(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, 2011 and 2010 was $263 million and $275 million, respectively, which was approximately 93% and 89%, respectively, of book value. The aggregate fair value of securities sold at a loss during the nine months ended September 30, 2011 and 2010 was $954 million and $1,691 million, respectively, which was approximately 93% and 94%, respectively, of book value.

The following represents the activity for credit losses recognized in net income on debt securities where an other-than-temporary impairment was identified and a portion of other-than-temporary impairments was included in OCI as of or 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)	**2011**	**2010**	**2011**	**2010**
Beginning balance	$ 726	$ 978	$ 784	$ 1,059
Additions:				
Other-than-temporary impairments not previously recognized	27	13	31	44
Increases related to other-than-temporary impairments previously recognized	24	22	72	100
Reductions:				
Securities sold, paid down or disposed	(58)	(126)	(168)	(316)
Ending balance	$ 719	$ 887	$ 719	$ 887

(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, 2011**	**December 31, 2010**
Net unrealized gains (losses) on investment securities:		
Fixed maturity securities	$ 3,553	$ 511
Equity securities	(4)	9
Other invested assets	(30)	(22)
Subtotal	3,519	498
Adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves	(1,162)	(583)
Income taxes, net	(820)	35
Net unrealized investment gains (losses)	1,537	(50)
Less: net unrealized investment gains (losses) attributable to noncontrolling interests	84	50

Net unrealized investment gains (losses) attributable to Genworth Financial, Inc.	$	1,453	$	(100)

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	As of or for the three months ended September 30,	
(Amounts in millions)	**2011**	**2010**
Beginning balance	$ 236	$ 29
Cumulative effect of changes in accounting		169
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	2,365	1,486
Adjustment to deferred acquisition costs	(44)	(187)
Adjustment to present value of future profits	(61)	(101)
Adjustment to sales inducements	6	(21)
Adjustment to benefit reserves	(369)	(581)
Provision for income taxes	(662)	(210)
Change in unrealized gains (losses) on investment securities	1,235	386
Reclassification adjustments to net investment (gains) losses, net of taxes of $(5) and $(12)	11	22
Change in net unrealized investment gains (losses)	1,246	577
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	29	19
Ending balance	$ 1,453	$ 587

	As of or for the nine months ended September 30,	
(Amounts in millions)	**2011**	**2010**
Beginning balance	$ (100)	$ (1,398)
Cumulative effect of changes in accounting		260
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	2,932	3,747
Adjustment to deferred acquisition costs	(101)	(381)
Adjustment to present value of future profits	(77)	(182)
Adjustment to sales inducements	(1)	(46)
Adjustment to benefit reserves	(400)	(581)
Provision for income taxes	(824)	(910)
Change in unrealized gains (losses) on investment securities	1,529	1,647
Reclassification adjustments to net investment (gains) losses, net of taxes of $(31) and $(57)	58	106
Change in net unrealized investment gains (losses)	1,587	2,013
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	34	28

Ending balance	$ 1,453	$ 587

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(d) Fixed Maturity and Equity Securities

As of September 30, 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	$ 3,973	$ 853	$	$ (1)	$	$ 4,825
Tax-exempt	753	24		(84)		693
Government non-U.S.	1,990	178		(3)		2,165
U.S. corporate	23,218	2,461	15	(324)	(2)	25,368
Corporate non-U.S.	13,138	768		(201)		13,705
Residential mortgage-backed	5,392	446	10	(267)	(201)	5,380
Commercial mortgage-backed	3,613	161	6	(199)	(38)	3,543
Other asset-backed	2,202	23		(87)	(1)	2,137
Total fixed maturity securities	54,279	4,914	31	(1,166)	(242)	57,816
Equity securities	357	15		(18)		354
Total available-for- sale securities	$ 54,636	$ 4,929	$ 31	$ (1,184)	$ (242)	$ 58,170

As of December 31, 2010, 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	$ 3,568	$ 145	$	$ (8)	$	$ 3,705
Tax-exempt	1,124	19		(113)		1,030
Government non-U.S.	2,257	118		(6)		2,369
U.S. corporate	23,282	1,123	10	(448)		23,967
Corporate non-U.S.	13,180	485		(167)		13,498
Residential mortgage-backed	4,821	116	18	(304)	(196)	4,455
Commercial mortgage-backed	3,936	132	6	(286)	(45)	3,743
Other asset-backed	2,494	18		(94)	(2)	2,416
Total fixed maturity securities	54,662	2,156	34	(1,426)	(243)	55,183
Equity securities	323	13		(4)		332

Total available-for-sale securities	$ 54,985	$ 2,169	$ 34	$ (1,430)	$ (243)	$ 55,515

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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 September 30, 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									
Fixed maturity securities:									
U.S. government, agencies and government-sponsored enterprises	$ 263	$ (1)	3	$	$		$ 263	$ (1)	3
Tax-exempt				254	(84)	79	254	(84)	79
Government non-U.S.	149	(3)	31				149	(3)	31
U.S. corporate	1,700	(65)	204	1,526	(261)	137	3,226	(326)	341
Corporate non-U.S.	1,774	(78)	271	736	(123)	73	2,510	(201)	344
Residential mortgage-backed	155	(4)	71	815	(464)	365	970	(468)	436
Commercial mortgage-backed	321	(29)	52	940	(208)	167	1,261	(237)	219
Other asset-backed	182	(1)	35	319	(87)	36	501	(88)	71
Subtotal, fixed maturity securities	4,544	(181)	667	4,590	(1,227)	857	9,134	(1,408)	1,524
Equity securities	115	(15)	50	20	(3)	13	135	(18)	63
Total for securities in an unrealized loss position	$ 4,659	$ (196)	717	$ 4,610	$ (1,230)	870	$ 9,269	$ (1,426)	1,587
% Below cost fixed maturity securities:									
<20% Below cost	$ 4,477	$ (152)	622	$ 3,230	$ (322)	456	$ 7,707	$ (474)	1,078
20%-50% Below cost	62	(24)	34	1,207	(585)	272	1,269	(609)	306
>50% Below cost	5	(5)	11	153	(320)	129	158	(325)	140
Total fixed maturity securities	4,544	(181)	667	4,590	(1,227)	857	9,134	(1,408)	1,524
% Below cost equity securities:									
<20% Below cost	99	(8)	41	16	(1)	9	115	(9)	50
20%-50% Below cost	16	(7)	9	4	(2)	4	20	(9)	13
Total equity securities	115	(15)	50	20	(3)	13	135	(18)	63
Total for securities in an unrealized loss position	$ 4,659	$ (196)	717	$ 4,610	$ (1,230)	870	$ 9,269	$ (1,426)	1,587
Investment grade	$ 4,047	$ (151)	536	$ 3,237	$ (567)	486	$ 7,284	$ (718)	1,022
Below investment grade (3)	612	(45)	181	1,373	(663)	384	1,985	(708)	565
Total for securities in an unrealized loss position	$ 4,659	$ (196)	717	$ 4,610	$ (1,230)	870	$ 9,269	$ (1,426)	1,587

(1) Amounts included $236 million of unrealized losses on other-than-temporarily impaired securities.

(2) Amounts included $242 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 $220 million of unrealized losses on other-than-temporarily impaired securities.

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As indicated in the table above, the majority of the securities in a continuous unrealized loss position for less than 12 months were investment grade and less than 20% below cost. These unrealized losses were primarily attributable to credit spreads that have widened since acquisition for corporate securities across various industry sectors, including finance and insurance as well as consumer non-cyclical. For securities that have been in a continuous unrealized loss for less than 12 months, the average fair value percentage below cost was approximately 4% as of September 30, 2011.

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

Of the $322 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 75% of the unrealized losses were related to investment grade securities as of September 30, 2011. These unrealized losses were attributable to the widening of credit spreads for these securities since acquisition, primarily associated with corporate securities in the finance and insurance sector as well as mortgage-backed and asset-backed securities. The average fair value percentage below cost for these securities was approximately 9% as of September 30, 2011. 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, 2011:

	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	$ 160	$ (73)	5%	39	$	$	%	
U.S. corporate	179	(74)	5	12				
Corporate non-U.S.	158	(76)	5	14				
Structured securities:								
Residential mortgage- backed	73	(30)	2	28	11	(27)	2	14
Commercial mortgage-backed	68	(29)	2	15	5	(6)		7
Other asset-backed	27	(9)	1	3	1	(1)		1
Total structured securities	168	(68)	5	46	17	(34)	2	22
Total	$ 665	$ (291)	20%	111	$ 17	$ (34)	2%	22

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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:								
Tax-exempt	$	$	%		$	$	%	
U.S. corporate	59	(37)	3	9	9	(11)	1	3
Structured securities:								
Residential mortgage-backed	310	(170)	12	118	86	(204)	14	86
Commercial mortgage-backed	87	(38)	3	30	29	(59)	4	16
Other asset-backed	86	(49)	3	4	12	(12)	1	2
Total structured securities	483	(257)	18	152	127	(275)	19	104
Total	$ 542	$ (294)	21%	161	$ 136	$ (286)	20%	107

For all securities in an unrealized loss position, we expect to recover the amortized cost based on our estimate of cash flows to be collected. We do not intend to sell and it is not more likely than not that we will be required to sell these securities prior to recovering our amortized cost. See below for further discussion of gross unrealized losses by asset class.

Tax-Exempt Securities

As indicated in the table above, $73 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 $2 million which represented an average of 31% below cost. The unrealized losses primarily related to widening of credit spreads on these securities since acquisition as a result of higher risk premiums being attributed to these securities from uncertainty in many political subdivisions related to special revenues supporting these obligations as well as certain securities having longer duration that may be viewed as less desirable in the current market place. Additionally, the fair value of certain of these securities has been negatively impacted as a result of having certain bond insurers associated with the security. In our analysis of impairment for these securities, we expect to recover our amortized cost from the cash flows of the underlying securities before any guarantee support. However, the existence of these guarantees may negatively impact the value of the debt security in certain instances. We performed an analysis of these securities and the underlying activities that are expected to support the cash flows and determined we expect to recover our amortized cost.

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Corporate Debt Securities

The following tables present the concentration of gross unrealized losses and fair values related to corporate debt fixed maturity securities that were more than 20% below cost and in a continuous loss position for 12 months or more by industry as of September 30, 2011:

	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	$ 290	$ (133)	9%	24	$	$	%	
Utilities and energy	17	(6)		1				
Consumer non-cyclical	30	(11)	1	1				
Total	$ 337	$ (150)	10%	26	$	$	%	

	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	$ 57	$ (36)	3%	7	$ 9	$ (11)	1%	3
Technology and communications	2	(1)		2				
Total	$ 59	$ (37)	3%	9	$ 9	$ (11)	1%	3

Of the total unrealized losses of $198 million for corporate fixed maturity securities presented in the preceding tables, $180 million, or 91%, of the unrealized losses related to issuers in the finance and insurance sector that were 34% 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, 2011. Of the $180 million of unrealized losses related to the finance and insurance industry, $141 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

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is at least reasonably possible that issuers of our investments in corporate securities will perform worse than current expectations. Such events may lead us to recognize write-downs within our portfolio of corporate securities in the future.

Structured Securities

Of the $634 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, $202 million related to other-than-temporarily-impaired securities where the unrealized losses represented the non-credit portion of the impairment. The extent and duration of the unrealized loss position on our structured securities is 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 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, 2011.

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

The following table presents the gross unrealized losses and fair values of our investment securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, as of December 31, 2010:

	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	$ 545	$ (8)	36	$	$		$ 545	$ (8)	36
Tax-exempt	285	(12)	101	244	(101)	90	529	(113)	191
Government non-U.S.	431	(5)	69	21	(1)	7	452	(6)	76
U.S. corporate	3,615	(125)	443	2,338	(323)	191	5,953	(448)	634
Corporate non-U.S.	2,466	(53)	296	1,141	(114)	102	3,607	(167)	398
Residential mortgage-backed	461	(23)	92	1,031	(477)	416	1,492	(500)	508
Commercial mortgage-backed	177	(8)	26	1,167	(323)	225	1,344	(331)	251
Other asset-backed	401	(2)	37	512	(94)	53	913	(96)	90
Subtotal, fixed maturity securities	8,381	(236)	1,100	6,454	(1,433)	1,084	14,835	(1,669)	2,184
Equity securities	77	(3)	48	5	(1)	4	82	(4)	52
Total for securities in an unrealized loss position	$ 8,458	$ (239)	1,148	$ 6,459	$ (1,434)	1,088	$ 14,917	$ (1,673)	2,236
% Below cost fixed maturity securities:									
<20% Below cost	$ 8,359	$ (226)	1,076	$ 4,852	$ (418)	588	$ 13,211	$ (644)	1,664
20%-50% Below cost	22	(8)	18	1,428	(652)	328	1,450	(660)	346
>50% Below cost		(2)	6	174	(363)	168	174	(365)	174
Total fixed maturity securities	8,381	(236)	1,100	6,454	(1,433)	1,084	14,835	(1,669)	2,184
% Below cost equity securities:									
<20% Below cost	72	(2)	47	5	(1)	4	77	(3)	51
20%-50% Below cost	5	(1)	1				5	(1)	1
Total equity securities	77	(3)	48	5	(1)	4	82	(4)	52
Total for securities in an unrealized loss position	$ 8,458	$ (239)	1,148	$ 6,459	$ (1,434)	1,088	$ 14,917	$ (1,673)	2,236
Investment grade	$ 8,249	$ (231)	1,060	$ 4,850	$ (764)	683	$ 13,099	$ (995)	1,743
Below investment grade [3]	209	(8)	88	1,609	(670)	405	1,818	(678)	493
Total for securities in an unrealized loss position	$ 8,458	$ (239)	1,148	$ 6,459	$ (1,434)	1,088	$ 14,917	$ (1,673)	2,236

(1) Amounts included $240 million of unrealized losses on other-than-temporarily impaired securities.
(2) Amounts included $243 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 $213 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, 2011 is set forth below. Actual maturities may differ from contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

(Amounts in millions)	Amortized cost or cost	Fair value
Due one year or less	$ 2,696	$ 2,720
Due after one year through five years	10,842	11,172
Due after five years through ten years	9,964	10,612
Due after ten years	19,570	22,252
Subtotal	43,072	46,756
Residential mortgage-backed	5,392	5,380
Commercial mortgage-backed	3,613	3,543
Other asset-backed	2,202	2,137
Total	$ 54,279	$ 57,816

As of September 30, 2011, $4,347 million of our investments (excluding mortgage-backed and asset-backed securities) were subject to certain call provisions.

As of September 30, 2011, securities issued by utilities and energy, finance and insurance, and consumer non-cyclical industry groups represented approximately 23%, 22% 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, 2011, 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, 2011		December 31, 2010	
(Amounts in millions)	**Carrying value**	**% of total**	**Carrying value**	**% of total**
Property type:				
Retail	$ 1,889	30%	$ 1,974	29%
Industrial	1,736	28	1,788	26
Office	1,647	26	1,850	27
Apartments	708	11	725	11
Mixed use/other	341	5	435	7
Subtotal	6,321	100%	6,772	100%
Unamortized balance of loan origination fees and costs	4		5	
Allowance for losses	(54)		(59)	
Total	$ 6,271		$ 6,718	

	September 30, 2011		December 31, 2010	
(Amounts in millions)	**Carrying value**	**% of total**	**Carrying value**	**% of total**
Geographic region:				
South Atlantic	$ 1,624	27%	$ 1,583	23%
Pacific	1,598	25	1,769	26
Middle Atlantic	810	13	937	14
East North Central	568	9	612	9
Mountain	500	8	540	8
New England	390	6	482	7
West North Central	344	5	369	6
West South Central	329	5	297	4
East South Central	158	2	183	3
Subtotal	6,321	100%	6,772	100%
Unamortized balance of loan origination fees and costs	4		5	
Allowance for losses	(54)		(59)	
Total	$ 6,271		$ 6,718	

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

	September 30, 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	$	$	$ 3	$ 3	$ 1,886	$ 1,889
Industrial		16	4	20	1,716	1,736
Office	10	4	8	22	1,625	1,647
Apartments	1			1	707	708
Mixed use/other	1			1	340	341
Total recorded investment	$ 12	$ 20	$ 15	$ 47	$ 6,274	$ 6,321
% of total commercial mortgage loans	%	1%	%	1%	99%	100%

	December 31, 2010					
(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	$	$	$	$	$ 1,974	$ 1,974
Industrial		6	27	33	1,755	1,788
Office			12	12	1,838	1,850
Apartments					725	725
Mixed use/other					435	435
Total recorded investment	$	$ 6	$ 39	$ 45	$ 6,727	$ 6,772
% of total commercial mortgage loans	%	%	1%	1%	99%	100%

As of September 30, 2011 and December 31, 2010, we had no commercial mortgage loans that were past due for more than 90 days and still accruing interest.

During the nine months ended September 30, 2011 and the year ended December 31, 2010, we modified or extended 23 and 13 commercial mortgage loans, respectively, with a total carrying value of $104 million and $98 million, respectively, as of September 30, 2011 and December 31, 2010. All of these modifications or extensions were based on current market interest rates, did not result in any forgiveness in the outstanding principal amount owed by the borrower and were not considered troubled debt restructurings.

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The following table sets forth the commercial mortgage loans on nonaccrual status by property type as of the dates indicated:

(Amounts in millions)	September 30, 2011	December 31, 2010
Property type:		
Retail	$ 3	$
Industrial	4	27
Office	8	12
Apartments		
Mixed use/other		
Total recorded investment	$ 15	$ 39

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, 2011	Nine months ended September 30, 2011
Allowance for credit losses:		
Beginning balance	$ 57	$ 59
Charge-offs		(5)
Recoveries		
Provision	(3)	
Ending balance	$ 54	$ 54
Ending allowance for individually impaired loans	$	$
Ending allowance for loans not individually impaired that were evaluated collectively for impairment	$ 54	$ 54
Recorded investment:		
Ending balance	$ 6,321	$ 6,321
Ending balance of individually impaired loans	$ 13	$ 13
Ending balance of loans not individually impaired that were evaluated collectively for impairment	$ 6,308	$ 6,308

The following table presents the activity in the allowance for losses as of or for the periods indicated:

(Amounts in millions)	Three months ended September 30, 2010	Nine months ended September 30, 2010
Beginning balance	$ 70	$ 48
Provision	5	27
Release [1]	(13)	(13)
Ending balance	$ 62	$ 62

(1) Included $13 million related to held-for-sale commercial mortgage loans that were sold in the third quarter of 2010.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following tables set forth our individually impaired commercial mortgage loans by property type as of the dates indicated:

	September 30, 2011					
(Amounts in millions)	**Recorded investment**	**Unpaid principal balance**	**Charge-offs**	**Related allowance**	**Average recorded investment**	**Interest income recognized**
Property type:						
Retail	$ 3	$ 4	$ 1	$	$ 2	$
Industrial					$	
Office	10	13	3		$ 10	
Apartments					$	
Mixed use/other					$	
Total	$ 13	$ 17	$ 4	$	$ 6	$

	December 31, 2010					
(Amounts in millions)	**Recorded investment**	**Unpaid principal balance**	**Charge-offs**	**Related allowance**	**Average recorded investment**	**Interest income recognized**
Property type:						
Retail	$ 5	$ 8	$ 3	$	$ 2	$
Industrial	19	24	5		$ 3	
Office	6	8	2		$ 2	
Apartments					$	
Mixed use/other					$	
Total	$ 30	$ 40	$ 10	$	$ 3	$

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 mortgages 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, 2011					
(Amounts in millions)	**0% 50%**	**51% 60%**	**61% 75%**	**76% 100%**	**Greater than 100%** [1]	**Total**
Property type:						
Retail	$ 426	$ 275	$ 874	$ 282	$ 32	$ 1,889
Industrial	481	286	665	281	23	1,736
Office	427	282	591	226	121	1,647
Apartments	222	162	269	40	15	708
Mixed use/other	80	58	60	137	6	341
Total	$ 1,636	$ 1,063	$ 2,459	$ 966	$ 197	$ 6,321
% of total	26%	17%	39%	15%	3%	100%
Weighted-average debt service coverage ratio	2.54	1.89	2.13	1.78	0.89	2.11

(1) Included $10 million of impaired loans and $187 million of loans in good standing, with a total weighted-average loan-to-value of 121%, where borrowers continued to make timely payments and have no history of delinquencies or distress.

	December 31, 2010					
(Amounts in millions)	**0% 50%**	**51% 60%**	**61% 75%**	**76% 100%**	**Greater than 100%** [1]	**Total**
Property type:						
Retail	$ 477	$ 287	$ 805	$ 363	$ 42	$ 1,974
Industrial	431	361	625	284	87	1,788
Office	320	327	612	446	145	1,850
Apartments	99	172	321	133		725
Mixed use/other	123	10	63	221	18	435
Total	$ 1,450	$ 1,157	$ 2,426	$ 1,447	$ 292	$ 6,772
% of total	22%	17%	36%	21%	4%	100%
Weighted-average debt service coverage ratio	2.24	1.99	1.79	2.42	0.75	2.01

(1) Included $25 million of impaired loans and $267 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.

GENWORTH FINANCIAL, INC.

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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, 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	$ 96	$ 328	$ 447	$ 568	$ 345	$ 1,784
Industrial	227	232	284	636	341	1,720
Office	192	132	282	441	516	1,563
Apartments	15	83	75	301	167	641
Mixed use/other	50	32	6	53	105	246
Total	$ 580	$ 807	$ 1,094	$ 1,999	$ 1,474	$ 5,954
% of total	10%	13%	18%	34%	25%	100%
Weighted-average loan-to-value	87%	71%	67%	60%	50%	63%

	December 31, 2010					
(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	$ 125	$ 317	$ 490	$ 512	$ 415	$ 1,859
Industrial	260	166	292	698	346	1,762
Office	176	186	238	524	547	1,671
Apartments	7	62	160	290	135	654
Mixed use/other	49	12	17	78	94	250
Total	$ 617	$ 743	$ 1,197	$ 2,102	$ 1,537	$ 6,196
% of total	10%	12%	19%	34%	25%	100%
Weighted-average loan-to-value	90%	71%	68%	62%	50%	64%

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, 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	11	16
Office			8		76	84
Apartments					67	67
Mixed use/other		4			91	95
Total	$	$ 4	$ 9	$ 5	$ 349	$ 367
% of total	%	1%	3%	1%	95%	100%
Weighted-average loan-to-value	%	80%	53%	45%	62%	62%

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(Unaudited)

	December 31, 2010					
(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	$	$	$	$ 2	$ 113	$ 115
Industrial	1	5		1	19	26
Office				57	122	179
Apartments		4		21	46	71
Mixed use/other					185	185
Total	$ 1	$ 9	$	$ 81	$ 485	$ 576
% of total	%	2%	%	14%	84%	100%
Weighted-average loan-to-value	30%	62%	%	83%	77%	78%

(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, 2011		December 31, 2010	
(Amounts in millions)	Carrying value	% of total	Carrying value	% of total
Property type:				
Retail	$ 168	39%	$ 182	36%
Industrial	104	24	124	24
Office	92	21	117	23
Apartments	61	14	64	13
Mixed use/other	7	2	22	4
Subtotal	432	100%	509	100%
Allowance for losses	(2)		(2)	
Total	$ 430		$ 507	

	September 30, 2011		December 31, 2010	
(Amounts in millions)	Carrying value	% of total	Carrying value	% of total
Geographic region:				
South Atlantic	$ 151	35%	$ 189	37%
Pacific	75	17	90	18
Middle Atlantic	67	16	70	14
East North Central	47	11	51	10
Mountain	30	7	32	6

West North Central	28	6	31	6
East South Central	21	5	32	6
West South Central	12	3	13	3
New England	1		1	
Subtotal	432	100%	509	100%
Allowance for losses	(2)		(2)	
Total	$ 430		$ 507	

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Of our restricted commercial mortgage loans as of September 30, 2011, $429 million were current and $3 million were past due for more than 90 days and still accruing interest. As of December 31, 2010, all restricted commercial mortgage loans were current and there were no restricted commercial mortgage loans on nonaccrual status.

As of September 30, 2011 and December 31, 2010, loans not individually impaired that were evaluated collectively for impairment were $431 million and $509 million, respectively, of the total recorded investment of restricted commercial mortgage loans of $432 million and $509 million, respectively. There was no provision for credit losses recorded during the three months ended September 30, 2011 or 2010 related to restricted commercial mortgage loans. There was no provision for credit losses recorded during the nine months ended September 30, 2011 related to restricted commercial mortgage loans. A provision for credit losses of $2 million was recorded during the nine months ended September 30, 2010 related to restricted commercial mortgage loans, which reflected our ending allowance for credit losses balance and was required upon consolidation of securitization entities as of January 1, 2010.

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.

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

	September 30, 2011					
(Amounts in millions)	**0% 50%**	**51% 60%**	**61% 75%**	**76% 100%**	**Greater than 100%**	**Total**
Property type:						
Retail	$ 152	$ 11	$ 2	$	$ 3	$ 168
Industrial	92	5		5	2	104
Office	67	12	5	6	2	92
Apartments	35	3		23		61
Mixed use/other	7					7
Total recorded investments	$ 353	$ 31	$ 7	$ 34	$ 7	$ 432
% of total	82%	7%	1%	8%	2%	100%
Weighted-average debt service coverage ratio	1.80	1.17	2.16	0.88	0.48	1.67

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	December 31, 2010					
(Amounts in millions)	**0% 50%**	**51% 60%**	**61% 75%**	**76% 100%**	**Greater than 100%**	**Total**
Property type:						
Retail	$ 141	$ 34	$ 1	$ 3	$ 3	$ 182
Industrial	108	8	4	2	2	124
Office	90	19	5	3		117
Apartments	35	9		20		64
Mixed use/other	17	5				22
Total recorded investments	$ 391	$ 75	$ 10	$ 28	$ 5	$ 509
% of total	77%	15%	2%	5%	1%	100%
Weighted-average debt service coverage ratio	1.82	1.35	1.05	1.18	0.52	1.69

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, 2011					
(Amounts in millions)	**Less than 1.00**	**1.00 1.50**	**1.26 1.50**	**1.51 2.00**	**Greater than 2.00**	**Total**
Property type:						
Retail	$ 5	$ 17	$ 50	$ 64	$ 32	$ 168
Industrial	15	11	24	24	30	104
Office	12	24	4	39	13	92
Apartments	12	15	9	20	5	61
Mixed use/other				2	5	7
Total recorded investments	$ 44	$ 67	$ 87	$ 149	$ 85	$ 432
% of total	10%	15%	20%	35%	20%	100%
Weighted-average loan-to-value	74%	48%	40%	36%	29%	41%

	December 31, 2010					
(Amounts in millions)	**Less than 1.00**	**1.00 1.50**	**1.26 1.50**	**1.51 2.00**	**Greater than 2.00**	**Total**
Property type:						
Retail	$ 14	$ 6	$ 52	$ 77	$ 33	$ 182
Industrial	11	9	25	50	29	124
Office	14	14	23	45	21	117
Apartments		21	10	26	7	64
Mixed use/other			7	11	4	22
Total recorded investments	$ 39	$ 50	$ 117	$ 209	$ 94	$ 509

% of total	8%	10%	23%	41%	18%	100%
Weighted-average loan-to-value	65%	55%	42%	41%	31%	43%

There were no floating rate restricted commercial mortgage loans as of September 30, 2011 or December 31, 2010.

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(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. 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 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.

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

	Derivative assets			Derivative liabilities		
	Balance	Fair value		Balance	Fair value	
(Amounts in millions)	**sheet classification**	**September 30, 2011**	**December 31, 2010**	**sheet classification**	**September 30, 2011**	**December 31, 2010**
Derivatives designated as hedges						
Cash flow hedges:						
Interest rate swaps	Other invested assets	$ 1,478	$ 222	Other liabilities	$	$ 56
Forward bond purchase commitments	Other invested assets	37		Other liabilities		
Inflation indexed swaps	Other invested assets			Other liabilities	41	33
Foreign currency swaps	Other invested assets		205	Other liabilities		
Total cash flow hedges		1,515	427		41	89
Fair value hedges:						
Interest rate swaps	Other invested assets	56	95	Other liabilities	3	8
Foreign currency swaps	Other invested assets	37	35	Other liabilities		
Total fair value hedges		93	130		3	8
Total derivatives designated as hedges		1,608	557		44	97
Derivatives not designated as hedges						
Interest rate swaps	Other invested assets	718	446	Other liabilities	351	74
Equity return swaps	Other invested assets	24		Other liabilities	1	3
Interest rate swaps related to securitization entities	Restricted other invested assets			Other liabilities	29	19
Interest rate swaptions	Other invested assets			Other liabilities		
Credit default swaps	Other invested assets	1	11	Other liabilities	77	7
Credit default swaps related to securitization entities	Restricted other invested assets			Other liabilities	180	129
Equity index options	Other invested assets	62	33	Other liabilities		3
Financial futures	Other invested assets			Other liabilities		
Other foreign currency contracts	Other invested assets	2		Other liabilities	1	
Reinsurance embedded derivatives [(1)]	Other assets	26	1	Other liabilities		
GMWB embedded derivatives	Reinsurance recoverable [(2)]	21	(5)	Policyholder account balances [(3)]	602	121
Total derivatives not designated as hedges		854	486		1,241	356
Total derivatives		$ 2,462	$ 1,043		$ 1,285	$ 453

(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.

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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 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, 2010	Additions	Maturities/ terminations	September 30, 2011
Derivatives designated as hedges					
Cash flow hedges:					
Interest rate swaps	Notional	$ 12,355	$ 3,896	$ (4,021)	$ 12,230
Forward bond purchase commitments	Notional		504		504
Inflation indexed swaps	Notional	525	19		544
Foreign currency swaps	Notional	491		(491)	
Total cash flow hedges		13,371	4,419	(4,512)	13,278
Fair value hedges:					
Interest rate swaps	Notional	1,764		(698)	1,066
Foreign currency swaps	Notional	85			85
Total fair value hedges		1,849		(698)	1,151
Total derivatives designated as hedges		15,220	4,419	(5,210)	14,429
Derivatives not designated as hedges					
Interest rate swaps	Notional	7,681	1,310	(1,769)	7,222
Equity return swaps	Notional	208	362	(229)	341
Interest rate swaps related to securitization entities	Notional	129		(9)	120
Interest rate swaptions	Notional	200		(200)	
Credit default swaps	Notional	1,195	115	(200)	1,110
Credit default swaps related to securitization entities	Notional	317			317
Equity index options	Notional	744	521	(795)	470
Financial futures	Notional	3,937	4,737	(5,078)	3,596
Other foreign currency contracts	Notional	521	185	(549)	157
Reinsurance embedded derivatives	Notional	72	297	(161)	208
Total derivatives not designated as hedges		15,004	7,527	(8,990)	13,541
Total derivatives		$ 30,224	$ 11,946	$ (14,200)	$ 27,970

(Number of policies)					
Derivatives designated as hedges					
GMWB embedded derivatives	Policies	49,566	696	(1,960)	48,302

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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, 2011.

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 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 from OCI	Classification of gain (loss) reclassified into net income	Gain (loss) recognized in net income [1]	Classification of gain (loss) recognized in net income
Interest rate swaps hedging assets	$ 1,528	$ 7	Net investment Income	$ 51	Net investment gains (losses)
Forward bond purchase commitments	37		Net investment income		Net investment gains (losses)
Inflation indexed swaps	20	(2)	Net investment income		Net investment gains (losses)
Total	$ 1,585	$ 5		$ 51	

(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 effects of cash flow hedges for the three months ended September 30, 2010:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income from OCI	Classification of gain (loss) reclassified into net income	Gain (loss) recognized in net income [1]	Classification of gain (loss) recognized in net income
Interest rate swaps hedging assets	$ 277	$ 3	Net investment income	$ 8	Net investment gains (losses)
Interest rate swaps hedging assets		1	Net investment gains (losses)		Net investment gains (losses)
Interest rate swaps hedging liabilities		1	Interest expense		Net investment gains (losses)
Inflation indexed swaps	22		Net investment income		Net investment gains (losses)
Foreign currency swaps	2	(1)	Interest expense		Net investment gains (losses)
Total	$ 301	$ 4		$ 8	

[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 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 from OCI	Classification of gain (loss) reclassified into net income	Gain (loss) recognized in net income [1]	Classification of gain (loss) recognized in net income
Interest rate swaps hedging assets	$ 1,568	$ 18	Net investment income	$ 51	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	$ (10)		$ 51	

[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 effects of cash flow hedges for the nine months ended September 30, 2010:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income from OCI	Classification of gain (loss) reclassified into net income	Gain (loss) recognized in net income [1]	Classification of gain (loss) recognized in net income
Interest rate swaps hedging assets	$ 839	$ 12	Net investment income	$ 21	Net investment gains (losses)
Interest rate swaps hedging assets		2	Net investment gains (losses)		Net investment gains (losses)
Interest rate swaps hedging liabilities	(3)	1	Interest expense		Net investment gains (losses)
Inflation indexed swaps	23		Net investment income	(1)	Net investment gains (losses)
Foreign currency swaps	9	(5)	Interest expense		Net investment gains (losses)
Total	$ 868	$ 10		$ 20	

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

The total of derivatives designated as cash flow hedges of $1,960 million, net of taxes, recorded in stockholders equity as of September 30, 2011 is expected to be reclassified to future net income, 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, $25 million, net of taxes, is expected to be reclassified to net income in the next 12 months. Actual amounts may vary from this amount as a result of market conditions. All forecasted transactions associated with qualifying cash flow hedges are expected to occur by 2045. No amounts were reclassified to net income during the nine months ended September 30, 2011 in connection with forecasted transactions that were no longer considered probable of occurring.

Fair Value Hedges

Certain derivative instruments are designated as fair value hedges. The changes in fair value of these instruments are recorded in net income. In addition, changes in the fair value attributable to the hedged portion of the underlying instrument are reported in net income. We designate and account for the following as fair value hedges when they have met the effectiveness requirements: (i) interest rate swaps to convert fixed rate 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.

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The following table provides information about the pre-tax income 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**	**Classification of gain (losses) recognized in net income**	**Other impacts to net income**	**Classification of other impacts to net income**	**Gain (loss) recognized in net income**	**Classification of gain (losses) recognized in net income**
Interest rate swaps hedging 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	

The following table provides information about the pre-tax income effects of fair value hedges and related hedged items for the three months ended September 30, 2010:

	Derivative instrument				Hedged item	
(Amounts in millions)	**Gain (loss) recognized in net income**	**Classification of gain (losses) recognized in net income**	**Other impacts to net income**	**Classification of other impacts to net income**	**Gain (loss) recognized in net income**	**Classification of gain (losses) recognized in net income**
Interest rate swaps hedging assets	$	Net investment gains (losses)	$ (4)	Net investment income	$ (1)	Net investment gains (losses)
Interest rate swaps hedging liabilities	(4)	Net investment gains (losses)	25	Interest credited	4	Net investment gains (losses)
Foreign currency swaps	11	Net investment gains (losses)		Interest credited	(10)	Net investment gains (losses)
Total	$ 7		$ 21		$ (7)	

The following table provides information about the pre-tax income 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**	**Classification of gain (losses) recognized in net income**	**Other impacts to net income**	**Classification of other impacts to net income**	**Gain (loss) recognized in net income**	**Classification of gain (losses) recognized in net income**

Interest rate swaps hedging 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	

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The following table provides information about the pre-tax income effects of fair value hedges and related hedged items for the nine months ended September 30, 2010:

	Derivative instrument				Hedged item	
(Amounts in millions)	**Gain (loss) recognized in net income**	**Classification of gain (losses) recognized in net income**	**Other impacts to net income**	**Classification of other impacts to net income**	**Gain (loss) recognized in net income**	**Classification of gain (losses) recognized in net income**
Interest rate swaps hedging assets	$ 2	Net investment gains (losses)	$ (10)	Net investment income	$ (3)	Net investment gains (losses)
Interest rate swaps hedging liabilities	(11)	Net investment gains (losses)	75	Interest credited	11	Net investment gains (losses)
Foreign currency swaps	7	Net investment gains (losses)	2	Interest credited	(6)	Net investment gains (losses)
Total	$ (2)		$ 67		$ 2	

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

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

	Three months ended September 30,		Classification of gain (loss) recognized
(Amounts in millions)	**2011**	**2010**	**in net income**
Interest rate swaps	$ 9	$ 36	Net investment gains (losses)
Equity return swaps	22	(6)	Net investment gains (losses)
Interest rate swaps related to securitization entities	(12)	(12)	Net investment gains (losses)
Interest rate swaptions		4	Net investment gains (losses)
Credit default swaps	(70)	22	Net investment gains (losses)
Credit default swaps related to securitization entities	(53)	30	Net investment gains (losses)
Equity index options	60	(55)	Net investment gains (losses)
Financial futures	267	(43)	Net investment gains (losses)
Other foreign currency contracts	13	(8)	Net investment gains (losses)
Reinsurance embedded derivatives	27	2	Net investment gains (losses)
GMWB embedded derivatives	(456)	133	Net investment gains (losses)
Total derivatives not designated as hedges	$ (193)	$ 103	

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

	Nine months ended September 30,		Classification of gain (loss) recognized
(Amounts in millions)	**2011**	**2010**	**in net income**
Interest rate swaps	$ 13	$ 93	Net investment gains (losses)
Equity return swaps	12	(6)	Net investment gains (losses)
Interest rate swaps related to securitization entities	(15)	(24)	Net investment gains (losses)
Interest rate swaptions		61	Net investment gains (losses)
Credit default swaps	(67)	(5)	Net investment gains (losses)
Credit default swaps related to securitization entities	(48)	(11)	Net investment gains (losses)
Equity index options	32	(32)	Net investment gains (losses)
Financial futures	262	29	Net investment gains (losses)
Other foreign currency contracts		(9)	Net investment gains (losses)
Reinsurance embedded derivatives	26	4	Net investment gains (losses)
GMWB embedded derivatives	(430)	(109)	Net investment gains (losses)
Total derivatives not designated as hedges	$ (215)	$ (9)	

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Derivative Counterparty Credit Risk

As of September 30, 2011 and December 31, 2010, net fair value assets by counterparty totaled $1,962 million and $888 million, respectively. As of September 30, 2011 and December 31, 2010, net fair value liabilities by counterparty totaled $230 million and $172 million, respectively. As of September 30, 2011 and December 31, 2010, we retained collateral of $1,733 million and $794 million, respectively, related to these agreements, including over collateralization of $9 million and $29 million, respectively, from certain counterparties. As of September 30, 2011, we did not post any collateral to derivative counterparties. As of December 31, 2010, we posted $30 million of collateral to derivative counterparties, including over collateralization of $11 million. 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, 2011 and December 31, 2010, we could have been allowed to claim up to $238 million and $123 million, respectively, from counterparties and required to disburse up to $21 million and $5 million, respectively. This represented the net fair value of gains and losses by counterparty, less available collateral held, and did not include any fair value gains or losses for derivatives related to securitization entities.

Credit Derivatives

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

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

	September 30, 2011			December 31, 2010		
(Amounts in millions)	**Notional value**	**Assets**	**Liabilities**	**Notional value**	**Assets**	**Liabilities**
Reference entity credit rating and maturity:						
AAA						
Matures after one year through five years	$ 5	$	$	$ 5	$	$
AA						
Matures after one year through five years	6			6		
Matures after five years through ten years	5			5		
A						
Matures after one year through five years	37	1		37	1	
Matures after five years through ten years	10		1	5		
BBB						
Matures after one year through five years	68			68	2	
Matures after five years through ten years	24		1	29		
Total credit default swaps on single name reference entities	$ 155	$ 1	$ 2	$ 155	$ 3	$

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, 2011			December 31, 2010		
(Amounts in millions)	**Notional value**	**Assets**	**Liabilities**	**Notional value**	**Assets**	**Liabilities**
Original index tranche attachment/detachment point and maturity:						
9% 12% matures after one year through five years [1]	$ 300	$	$ 35	$ 300	$	$ 3
10% 15% matures after one year through five years [2]	250		4	250	4	
12% 22% matures after five years through ten years [3]	248		32	248		4
15% 30% matures after five years through ten years [4]	127		4	127	2	
Total credit default swap index tranches	925		75	925	6	7
Customized credit default swap index tranches related to securitization entities:						
Portion backing third-party borrowings maturing 2017 [5]	17		9	17		8
Portion backing our interest maturing 2017 [6]	300		171	300		121
Total customized credit default swap index tranches related to securitization entities	317		180	317		129
Total credit default swaps on index tranches	$ 1,242	$	$ 255	$ 1,242	$ 6	$ 136

(1) The current attachment/detachment as of September 30, 2011 and December 31, 2010 was 9% 12%.

(2) The current attachment/detachment as of September 30, 2011 and December 31, 2010 was 10% 15%.

(3) The current attachment/detachment as of September 30, 2011 and December 31, 2010 was 12% 22%.

(4) The current attachment/detachment as of September 30, 2011 and December 31, 2010 was 14.8% 30.3%.

(5) Original notional value was $39 million.

(6) Original notional value was $300 million.

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(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.

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.

Restricted commercial mortgage loans. Based on recent transactions and/or discounted future cash flows, using current market rates.

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, limited partnerships accounted for under the cost method.

Long-term borrowings. Based on market quotes or comparable market transactions.

Non-recourse funding obligations. Based on the then current coupon, revalued based on the London Interbank Offered Rate (LIBOR) and current spread assumption based on commercially available data. The model is a floating rate coupon model using the spread assumption to derive the valuation.

Borrowings related to securitization entities. Based on market quotes or comparable market transactions.

Investment contracts. Based on expected future cash flows, discounted at current market rates for annuity contracts or institutional products.

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

	September 30, 2011			December 31, 2010		
(Amounts in millions)	**Notional amount**	**Carrying amount**	**Fair value**	**Notional amount**	**Carrying amount**	**Fair value**
Assets:						
Commercial mortgage loans	$ [1]	$ 6,271	$ 6,669	$ [1]	$ 6,718	$ 6,896
Restricted commercial mortgage loans	[1]	430	483	[1]	507	554
Other invested assets	[1]	302	313	[1]	267	272
Liabilities:						
Long-term borrowings [2]	[1]	4,708	4,181	[1]	4,952	4,928
Non-recourse funding obligations [2]	[1]	3,280	2,198	[1]	3,437	2,170
Borrowings related to securitization entities	[1]	366	394	[1]	443	467
Investment contracts	[1]	19,095	19,869	[1]	19,772	20,471
Other firm commitments:						
Commitments to fund limited partnerships	65			110		
Ordinary course of business lending commitments	51			28		

(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.

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 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 third-party pricing services and broker quotes, management determines the fair value of our investment securities after considering all relevant and available information. We also 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 and determine the appropriate fair value.

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

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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 quote 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.

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 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. 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 to determine whether the spreads utilized would be considered observable inputs for the private placement being valued. 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%.

For broker quotes, we consider the valuation methodology utilized by the third party but cannot typically obtain sufficient evidence to determine the valuation does not include significant unobservable inputs. Accordingly, we typically 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 considered when determining fair value of each class of fixed maturity securities as of the dates indicated:

	September 30, 2011			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
U.S. government, agencies and government-sponsored enterprises:				
Pricing services	$ 4,812	$	$ 4,812	$
Internal models	13		12	1
Total U.S. government, agencies and government-sponsored enterprises	4,825		4,824	1
Tax-exempt:				
Pricing services	693		693	
Total tax-exempt	693		693	
Government non-U.S.:				
Pricing services	2,155		2,155	
Internal models	10		9	1
Total government non-U.S.	2,165		2,164	1
U.S. corporate:				
Pricing services	22,102		22,102	
Broker quotes	269			269
Internal models	2,997		1,916	1,081
Total U.S. corporate	25,368		24,018	1,350
Corporate non-U.S.:				
Pricing services	11,790		11,790	
Broker quotes	84			84
Internal models	1,831		1,545	286
Total corporate non-U.S.	13,705		13,335	370
Residential mortgage-backed:				
Pricing services	5,273		5,273	
Broker quotes	53			53
Internal models	54			54
Total residential mortgage-backed	5,380		5,273	107
Commercial mortgage-backed:				
Pricing services	3,502		3,502	
Broker quotes	16			16
Internal models	25			25

Total commercial mortgage-backed	3,543		3,502	41
Other asset-backed:				
Pricing services	1,872		1,872	
Broker quotes	255			255
Internal models	10		10	
Total other asset-backed	2,137		1,882	255
Total fixed maturity securities	$ 57,816	$	$ 55,691	$ 2,125

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	December 31, 2010			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
U.S. government, agencies and government-sponsored enterprises:				
Pricing services	$ 3,688	$	$ 3,688	$
Internal models	17		6	11
Total U.S. government, agencies and government-sponsored enterprises	3,705		3,694	11
Tax-exempt:				
Pricing services	1,030		1,030	
Total tax-exempt	1,030		1,030	
Government non-U.S.:				
Pricing services	2,357		2,357	
Internal models	12		11	1
Total government non-U.S.	2,369		2,368	1
U.S. corporate:				
Pricing services	20,563		20,563	
Broker quotes	235			235
Internal models	3,169		2,304	865
Total U.S. corporate	23,967		22,867	1,100
Corporate non-U.S.:				
Pricing services	11,584		11,584	
Broker quotes	113			113
Internal models	1,801		1,546	255
Total corporate non-U.S.	13,498		13,130	368
Residential mortgage-backed:				
Pricing services	4,312		4,312	
Broker quotes	72			72
Internal models	71			71
Total residential mortgage-backed	4,455		4,312	143
Commercial mortgage-backed:				
Pricing services	3,693		3,693	
Broker quotes	16			16
Internal models	34			34
Total commercial mortgage-backed	3,743		3,693	50
Other asset-backed:				
Pricing services	2,241		2,143	98

Broker quotes	169			169
Internal models	6		5	1
Total other asset-backed	2,416		2,148	268
Total fixed maturity securities	$ 55,183	$	$ 53,242	$ 1,941

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

	September 30, 2011			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Pricing services	$ 254	$ 248	$ 6	$
Broker quotes	6			6
Internal models	94			94
Total equity securities	$ 354	$ 248	$ 6	$ 100

	December 31, 2010			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Pricing services	$ 245	$ 240	$ 5	$
Broker quotes	6			6
Internal models	81			81
Total equity securities	$ 332	$ 240	$ 5	$ 87

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

	September 30, 2011			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Pricing services	$ 365	$	$ 365	$
Broker quotes	274			274
Total trading securities	$ 639	$	$ 365	$ 274

	December 31, 2010			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Pricing services	$ 348	$	$ 348	$
Broker quotes	230			230
Internal models	99			99
Total trading securities	$ 677	$	$ 348	$ 329

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 and 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.

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

In determining the fair value of derivatives, we consider the counterparty collateral arrangements and rights of set-off when determining whether any incremental adjustment should be made for both the counterparty s and our non-performance risk. As a result of these counterparty arrangements, we determined no adjustment for our non-performance risk was required to our derivative liabilities.

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 and would be considered a significant unobservable input and results in the fair value measurement of the derivative being classified as Level 3.

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 and consumer price index, which are generally considered observable inputs, and results in the derivative being classified as Level 2.

Interest rate swaptions. The valuation of interest rate swaptions is determined using an income approach. The primary inputs into the valuation represent the forward interest rate swap curve, which is generally considered an observable input, forward interest rate 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 volatility input, the derivative is classified as Level 3.

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

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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.

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.

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.

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. 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.

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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. 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.

For GMWB liabilities, non-performance risk is integrated into the discount rate. Prior to the third quarter of 2010, the discount rate was based on the swap curve, which incorporated the non-performance risk of our GMWB liabilities. Beginning in 2009, the swap curve dropped below the U.S. Treasury curve at certain points on the longer end of the curve, and in 2010, the points below the U.S. Treasury curve expanded to several points beyond 10 years. For these points on the curve, we utilized the U.S. Treasury curve as our discount rate through the second quarter of 2010. Beginning in the third quarter of 2010, we revised our discount rate to reflect market credit spreads that represent an adjustment for the non-performance risk of the GMWB liabilities. The credit spreads included in our discount rate range from 60 to 85 basis points over the most relevant points on the U.S. Treasury curve. As of September 30, 2011 and December 31, 2010, the impact of non-performance risk resulted in a lower fair value of our GMWB liabilities of $118 million and $44 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. 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 near-term equity market volatility with more significance being placed on projected and recent historical data.

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. 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.

Contingent purchase price

We have certain contingent purchase price payments related to acquisitions made after 2009 that are required to be recorded at fair value each period. Fair value is determined using an income approach whereby we project the expected earnings of the business and compare our projections of the relevant earnings metric to the thresholds established in the purchase agreement to determine our expected payments. We then discount these expected payments to calculate the fair value as of the valuation date. The inputs used to determine the discount rate and expected payments are primarily based on significant unobservable inputs and result in the fair value of the contingent purchase price being classified as Level 3.

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.

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

	September 30, 2011			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government- sponsored enterprises	$ 4,825	$	$ 4,824	$ 1
Tax-exempt	693		693	
Government non-U.S.	2,165		2,164	1
U.S. corporate	25,368		24,018	1,350
Corporate non-U.S.	13,705		13,335	370
Residential mortgage-backed	5,380		5,273	107
Commercial mortgage-backed	3,543		3,502	41
Other asset-backed	2,137		1,882	255
Total fixed maturity securities	57,816		55,691	2,125
Equity securities	354	248	6	100
Other invested assets:				
Trading securities	639		365	274
Derivative assets:				
Interest rate swaps	2,252		2,246	6
Foreign currency swaps	37		37	
Credit default swaps	1		1	
Equity index options	62			62
Equity return swaps	24		24	
Forward bond purchase commitments	37		37	
Other foreign currency commitments	2		2	
Total derivative assets	2,415		2,347	68
Securities lending collateral	204		204	
Derivatives counterparty collateral	563		563	
Total other invested assets	3,821		3,479	342
Restricted other invested assets related to securitization entities	376		202	174
Other assets (1)	26		26	
Reinsurance recoverable (2)	21			21
Separate account assets	9,794	9,794		
Total assets	$ 72,208	$ 10,042	$ 59,404	$ 2,762
Liabilities				
Policyholder account balances (3)	$ 602	$	$	$ 602
Other liabilities:				
Contingent purchase price	44			44
Derivative liabilities:				

Interest rate swaps	354		354	
Interest rate swaps related to securitization entities	29		29	
Inflation indexed swaps	41		41	
Credit default swaps	77		2	75
Credit default swaps related to securitization entities	180			180
Equity return swaps	1		1	
Other foreign currency contracts	1		1	
Total derivative liabilities	683		428	255
Total other liabilities	727		428	299
Borrowings related to securitization entities	48			48
Total liabilities	$ 1,377	$	$ 428	$ 949

(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.

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(Amounts in millions)	**December 31, 2010** Total	Level 1	Level 2	Level 3
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government sponsored enterprises	$ 3,705	$	$ 3,694	$ 11
Tax-exempt	1,030		1,030	
Government non-U.S.	2,369		2,368	1
U.S. corporate	23,967		22,867	1,100
Corporate non-U.S.	13,498		13,130	368
Residential mortgage-backed	4,455		4,312	143
Commercial mortgage-backed	3,743		3,693	50
Other asset-backed	2,416		2,148	268
Total fixed maturity securities	55,183		53,242	1,941
Equity securities	332	240	5	87
Other invested assets:				
Trading securities	677		348	329
Derivative assets:				
Interest rate swaps	763		758	5
Foreign currency swaps	240		240	
Credit default swaps	11		5	6
Equity index options	33			33
Total derivative assets	1,047		1,003	44
Securities lending collateral	772		772	
Derivatives counterparty collateral	630		630	
Total other invested assets	3,126		2,753	373
Restricted other invested assets related to securitization entities	370		199	171
Other assets [(1)]	1		1	
Reinsurance recoverable [(2)]	(5)			(5)
Separate account assets	11,666	11,666		
Total assets	$ 70,673	$ 11,906	$ 56,200	$ 2,567
Liabilities				
Policyholder account balances [(3)]	$ 121	$	$	$ 121
Derivative liabilities:				
Interest rate swaps	138		138	
Interest rate swaps related to securitization entities	19		19	
Inflation indexed swaps	33		33	
Credit default swaps	7			7
Credit default swaps related to securitization entities	129			129
Equity index options	3			3

Equity return swaps	3		3	
Total derivative liabilities	332		193	139
Borrowings related to securitization entities	51			51
Total liabilities	$ 504	$	$ 193	$ 311

(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.

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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 into and out of Level 3, or between other levels, at the beginning fair value for the reporting period in which the changes occur. 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 understanding of general market activity such as new issuance and the level of secondary market trading for a class of securities. Additionally, we considered data obtained from third-party pricing sources to determine whether our estimated values incorporate significant unobservable inputs that would result in the valuation being classified as Level 3.

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

		Total realized and unrealized gains (losses)									
(Amounts in millions)	**Beginning balance as of July 1, 2011**	**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 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
	175	(1)								174	(1)

Restricted other invested assets related to securitization entities											
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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		Total realized and unrealized gains (losses)						
(Amounts in millions)	**Beginning balance as of July 1, 2010**	**Included in net income**	**Included in OCI**	**Purchases, sales, issuances and settlements, net**	**Transfer into Level 3 [1]**	**Transfer out of Level 3**	**Ending balance as of September 30, 2010**	**Total gains (losses) included in net income attributable to assets still held**
Fixed maturity securities:								
U.S. government, agencies and government-sponsored enterprises	$ 9	$	$	$	$ 5	$	$ 14	$
Government non-U.S.	18		1				19	
U.S. corporate	1,520	4	23	2	83	(303)	1,329	4
Corporate non-U.S.	720	(8)		(8)	119	(220)	603	(8)
Residential mortgage-backed	62		1	9	65	(5)	132	
Commercial mortgage-backed	59	(6)	8	(15)	1		47	
Other asset-backed	361		5	15		(215)	166	
Total fixed maturity securities	2,749	(10)	38	3	273	(743)	2,310	(4)
Equity securities	9	11		(11)	8		17	
Other invested assets:								
Trading securities	136	7		9	213		365	7
Derivative assets:								
Interest rate swaps	9						9	
Interest rate swaptions	4	4					8	4
Credit default swaps		1					1	1
Equity index options	97	(54)		18			61	(54)
Other foreign currency contracts	1			(1)				
Total derivative assets	111	(49)		17			79	(49)
Total other invested assets	247	(42)		26	213		444	(42)
Restricted other invested assets related to securitization entities	174	4					178	3
Reinsurance recoverable [2]	9	(7)		2			4	(7)
Total Level 3 assets	$ 3,188	$ (44)	$ 38	$ 20	$ 494	$ (743)	$ 2,953	$ (50)

(1) The transfer into Level 3 was primarily related to private fixed 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.

(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, 2011**	**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 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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(Amounts in millions)	Beginning balance as of January 1, 2010	Total realized and unrealized gains (losses) Included in net income	Included in OCI	Purchases, sales, issuances and settlements, net	Transfer into Level 3	Transfer out of Level 3 [1]	Ending balance as of September 30, 2010	Total gains (losses) included in net income attributable to assets still held
Fixed maturity securities								
U.S. government, agencies and government-sponsored enterprises	$ 16	$	$	$ (2)	$ 14	$ (14)	$ 14	$
Tax-exempt	2					(2)		
Government non-U.S.	7		2		16	(6)	19	
U.S. corporate	1,073	15	57	33	761	(610)	1,329	12
Corporate non-U.S.	504	(7)	8	3	472	(377)	603	(7)
Residential mortgage-backed	1,481		4	89	66	(1,508)	132	
Commercial mortgage-backed	3,558	(5)	22	(78)	12	(3,462)	47	
Other asset-backed	1,419	(24)	28	(3)	10	(1,264)	166	(24)
Total fixed maturity securities	8,060	(21)	121	42	1,351	(7,243)	2,310	(19)
Equity securities	9	11		(3)	60	(60)	17	
Other invested assets:								
Trading securities	145	8		(1)	213		365	8
Derivative assets:								
Interest rate swaps	3	6					9	6
Interest rate swaptions	54	19		(65)			8	19
Credit default swaps	6	(5)					1	(5)
Equity index options	39	(32)		54			61	(32)
Other foreign currency options	8	(7)		(1)				(7)
Total derivative assets	110	(19)		(12)			79	(19)
Total other invested assets	255	(11)		(13)	213		444	(11)
Restricted other invested assets related to securitization entities		4			174		178	1
Reinsurance recoverable [2]	(5)	7		2			4	7
Total Level 3 assets	$ 8,319	$ (10)	$ 121	$ 28	$ 1,798	$ (7,303)	$ 2,953	$ (22)

(1) During 2010, primary market issuance and secondary market activity for commercial and non-agency residential mortgage-backed and other asset-backed securities increased the market observable inputs used to establish fair values for similar securities. These factors, along with more consistent pricing from third-party sources, resulted in our conclusion that there is sufficient trading activity in similar instruments to support classifying certain mortgage-backed and asset-backed securities as Level 2.

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

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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, 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 [1]	$ 113	$ 480	$	$	$	$ 9	$	$	$	$ 602	$ 480
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	$ 306	$ 612	$	$	$	$ 31	$	$	$	$ 949	$ 612

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

(Amounts in millions)	Beginning balance as of July 1, 2010	Total realized and unrealized (gains) losses: Included in net (income)	Included in OCI	Purchases, sales, issuances and settlements, net	Transfer into Level 3	Transfer out of Level 3	Ending balance as of September 30, 2010	Total (gains) losses included in net (income) attributable to liabilities still held
Policyholder account balances [1]	$ 447	$ (140)	$	$ 9	$	$	$ 316	$ (138)
Derivative liabilities:								
Credit default swaps	26	(17)					9	(17)
	159	(30)		1			130	(30)

Credit default swaps related to securitization entities								
Total derivative liabilities	185	(47)		1			139	(47)
Borrowings related to securitization entities	51	(8)			1		44	(8)
Total Level 3 liabilities	$ 683	$ (195)	$	$ 10	$ 1	$	$ 499	$ (193)

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

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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, 2011	Total realized and unrealized (gains) losses: Included in net (income)	Total realized and unrealized (gains) losses: Included in OCI	Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance as of September 30, 2011	Total (gains) losses included in net (income) attributable to liabilities still held
Policyholder account balances [1]	$ 121	$ 452	$	$	$	$ 29	$	$	$	$ 602	$ 452
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	$ 311	$ 589	$	$ 3	$	$ 50	$ (4)	$	$	$ 949	$ 589

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

(Amounts in millions)	Beginning balance as of January 1, 2010	Total realized and unrealized (gains) losses: Included in net (income)	Total realized and unrealized (gains) losses: Included in OCI	Purchases, sales, issuances and settlements, net	Transfer into Level 3	Transfer out of Level 3	Ending balance as of September 30, 2010	Total (gains) losses included in net (income) attributable to liabilities still held
Policyholder account balances [1]	$ 175	$ 115	$	$ 26	$	$	$ 316	$ 117

Derivative liabilities:								
Interest rate swaps	2	(2)						(2)
Interest rate swaptions	67	(42)		(25)				(42)
Credit default swaps		9					9	9
Credit default swaps related to securitization entities		11		(2)	121		130	11
Equity index options	2	(1)		(1)				(1)
Total derivative liabilities	71	(25)		(28)	121		139	(25)
Borrowings related to securitization entities		(16)			60		44	(16)
Total Level 3 liabilities	$ 246	$ 74	$	$ (2)	$ 181	$	$ 499	$ 76

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

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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) in the tables presented above.

The amount presented for unrealized gains (losses) for assets and liabilities still held as of the reporting date primarily represents impairments for available-for-sale securities, changes in fair value of trading securities and certain derivatives and changes in fair value of embedded derivatives associated with our GMWB liabilities that existed as of the reporting date, which were recorded in net investment gains (losses), and accretion on certain fixed maturity securities which was recorded in net investment income.

(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 and Procedures Act of 1974 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

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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. At this time, it is not feasible to predict, nor determine the ultimate outcomes of any pending investigations and legal proceedings, nor to provide reasonable ranges of possible losses.

On June 22, 2011, we received a subpoena from the office of the New York Attorney General, relating to an industry-wide investigation of unclaimed property and escheatment practices and procedures. In addition to the subpoena, other state regulators are conducting reviews and examinations on the same subject. We are cooperating with these requests and inquiries.

As previously disclosed, in December 2009, one of our non-insurance subsidiaries, one of the subsidiary s officers and Genworth Financial, Inc. were named in a putative class action lawsuit captioned *Michael J. Goodman and Linda Brown v. Genworth Financial Wealth Management, Inc., et al,* in the United States District Court for the Eastern District of New York. In response to our motion to dismiss the complaint in its entirety, the Court granted on March 30, 2011 the motion to dismiss the state law fiduciary duty claim and denied the motion to dismiss the remaining federal claims. We continue to vigorously defend this action.

(b) Commitments

As of September 30, 2011, we were committed to fund $65 million in limited partnership investments and $51 million in U.S. commercial mortgage loan investments.

(8) Borrowings and Other Financings

Revolving Credit Facilities

We have two five-year revolving credit facilities that mature in May 2012 and August 2012. These facilities bear variable interest rates based on one-month LIBOR plus a margin and we have access to $1.9 billion under these facilities. As of September 30, 2011, we had no borrowings under these facilities; however, we utilized $259 million under these facilities primarily for the issuance of letters of credit for the benefit of one of our life insurance subsidiaries. As of December 31, 2010, we had no borrowings under these facilities; however, we utilized $56 million under these facilities primarily for the issuance of letters of credit for the benefit of one of our lifestyle protection insurance subsidiaries.

Long-Term Notes

In June 2011, our indirect wholly-owned subsidiary, Genworth Financial Mortgage Insurance Pty Limited, issued AUD$140 million of subordinated floating rate notes due 2021 with an interest rate of three-month Bank Bill Swap reference rate plus a margin of 4.75%. Genworth Financial Mortgage Insurance Pty Limited used the proceeds it received from this transaction for general corporate purposes.

During the second quarter of 2011, we repaid ¥57.0 billion of senior notes that matured in June 2011, plus accrued interest. In addition, the arrangements to swap our obligations under these notes to a U.S. dollar obligation matured. These swaps had a notional principal amount of $491 million with interest at a rate of 4.84% per year. Upon maturity of these swaps, we received $212 million from the derivative counterparty resulting in a net repayment of $491 million of principal related to these notes.

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In March 2011, we issued senior notes having an aggregate principal amount of $400 million, with an interest rate equal to 7.625% per year payable semi-annually, and maturing in September 2021 (2021 Notes). The 2021 Notes are our direct, unsecured obligations and will rank equally with all of our existing and future unsecured and unsubordinated obligations. We have the option to redeem all or a portion of the 2021 Notes at any time with proper notice to the note holders at a price equal to the greater of 100% of principal or the sum of the present value of the remaining scheduled payments of principal and interest discounted at the then-current treasury rate plus an applicable spread. The net proceeds of $397 million from the issuance of the 2021 Notes were used for general corporate purposes.

Mandatorily Redeemable Preferred Stock

On June 1, 2011, we redeemed all the remaining outstanding shares of our Series A Preferred Stock at a price of $50 per share, plus unpaid dividends accrued to the date of redemption, for $57 million.

Non-Recourse Funding Obligations

As of September 30, 2011, we had $3.3 billion of fixed and floating rate non-recourse funding obligations outstanding backing additional statutory reserves. In the third quarter of 2011, we repurchased principal of $94 million of notes secured by our non-recourse funding obligations, plus accrued interest, for a pre-tax gain of $25 million. In the second quarter of 2011, we repurchased principal of $57 million of notes secured by our non-recourse funding obligations, plus accrued interest, for a pre-tax gain of $17 million. As of September 30, 2011 and December 31, 2010, the weighted-average interest rates on our non-recourse funding obligations were 1.36% and 1.44%, 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,	
	2011	**2010**	**2011**	**2010**
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%	35.0%
Increase (reduction) in rate resulting from:				
State income tax, net of federal income tax effect	(7.3)	2.5		(0.2)
Benefit on tax favored investments	(33.0)	(6.6)	(14.9)	(6.9)
Effect of foreign operations	(26.7)	(21.1)	(13.5)	(21.2)
Non-deductible expenses	0.9	1.3	0.5	0.9
Interest on uncertain tax positions	(1.4)	(0.4)	(0.3)	(1.5)
Tax benefits related to separation from our former parent				(32.2)
Other, net	(8.8)	2.2	(2.8)	1.9
Effective rate	(41.3)%	12.9%	4.0%	(24.2)%

For the three months ended September 30, 2011, the effective tax rate decreased from the prior year primarily due to tax favored investments and taxes on foreign operations in relation to smaller pre-tax results, partially offset by changes in uncertain tax positions in the current year.

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For the nine months ended September 30, 2011, the effective tax rate increased from the prior year primarily due to changes in uncertain tax benefits related to our 2004 separation from our former parent, General Electric (GE). At the time of the separation, we made certain joint tax elections and realized certain tax benefits. During the first quarter of 2010, the Internal Revenue Service (IRS) completed an examination of GE s 2004 tax return, including these tax impacts. Therefore, $106 million of previously uncertain tax benefits related to separation became certain and we recognized those in the first quarter of 2010. Additionally, we recorded $20 million as additional paid-in capital related to our 2004 separation.

Subsequent to September 30, 2011, we completed an assessment of several strategic alternatives. In connection with the completion of this assessment, we announced on November 3, 2011 our plan to pursue a sale of a minority position of our Australian mortgage insurance business through an initial public offering in Australia during 2012, subject to market conditions and regulatory approval. We anticipate selling up to 40% of our share position, while maintaining control and, as a result of our decision, will accrue in the fourth quarter of 2011 up to $80 million of additional deferred tax liabilities related to unremitted earnings no longer considered permanently reinvested. This transaction is part of a broader strategy to rebalance the business portfolio, support future growth opportunities for the Australian business and redeploy capital.

(10) Segment Information

We conduct our operations in three operating business segments: (1) Retirement and Protection, which includes our life insurance, long-term care insurance, wealth management products and services and retirement income products; (2) International, which includes international mortgage and lifestyle protection insurance; and (3) U.S. Mortgage Insurance.

We also have Corporate and Other activities which include interest and other debt financing expenses, other corporate income and expenses not allocated to the segments, the results of non-strategic products that are managed outside of our operating segments, and eliminations of inter-segment transactions.

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 net income attributable to noncontrolling interests, after-tax net investment gains (losses) and other adjustments 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. Infrequent or unusual 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. While some of these items may be significant components of net income available to Genworth Financial, Inc. s common stockholders in accordance with U.S. GAAP, we believe that net operating income (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. However, net operating income (loss) available to Genworth Financial, Inc. s common stockholders is not a substitute for net income available to Genworth Financial, Inc. s common stockholders determined in accordance with U.S. GAAP. In addition, our definition of net operating income

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(loss) available to Genworth Financial, Inc. s common stockholders may differ from the definitions used by other companies.

There were no infrequent or unusual non-operating items excluded from net operating income (loss) available to Genworth Financial, Inc. s common stockholders during the periods presented other than a $106 million tax benefit related to separation from our former parent recorded in the first quarter of 2010.

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

	Three months ended September 30,		Nine months ended September 30,	
(Amounts in millions)	**2011**	**2010**	**2011**	**2010**
Revenues:				
Retirement and Protection	$ 1,747	$ 1,810	$ 5,269	$ 5,046
International	653	594	1,943	1,867
U.S. Mortgage Insurance	171	195	518	557
Corporate and Other	(50)	68	14	28
Total revenues	$ 2,521	$ 2,667	$ 7,744	$ 7,498

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 for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
(Amounts in millions)	**2011**	**2010**	**2011**	**2010**
Retirement and Protection s net operating income	$ 120	$ 111	$ 396	$ 347
International s net operating income	98	121	329	317
U.S. Mortgage Insurance s net operating loss	(79)	(152)	(413)	(228)
Corporate and Other s net operating loss	(35)	(51)	(184)	(175)
Net operating income available to Genworth Financial, Inc. s common stockholders	104	29	128	261
Net investment gains (losses), net of taxes and other adjustments	(75)	54	(113)	(64)
Net tax benefit related to separation from our former parent				106
Net income available to Genworth Financial, Inc. s common stockholders	29			