

ING GROEP NV  
Form 6-K  
June 25, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 6-K**

**Report of Foreign Private Issuer**  
**Pursuant to Rule 13a-16 or 15d-16 of**  
**the Securities Exchange Act of 1934**

For June 25, 2012

Commission File Number 1-14642

**ING Groep N.V.**

Amstelveenseweg 500

1081-KL Amsterdam

The Netherlands

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Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If  Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b).

EXHIBIT 1 TO THIS FORM 6-K COMPRISES EXCERPTS TAKEN DIRECTLY FROM INFORMATION PREPARED BY ING U.S., INC., A WHOLLY OWNED INDIRECT SUBSIDIARY OF ING GROEP N.V., IN CONNECTION WITH AN ING U.S., INC. DEBT FINANCING AND FURNISHED TO PROSPECTIVE INVESTORS IN SUCH FINANCING ON OR ABOUT JUNE 25, 2012. SUCH EXCERPTS WERE PREPARED FOR PURPOSES OF SUCH DEBT FINANCING ONLY AND WERE NOT PREPARED, AND HAVE NOT BEEN UPDATED OR MODIFIED, FOR DISSEMINATION BY ING GROEP N.V. IN PARTICULAR, THE FINANCIAL INFORMATION OF ING U.S., INC. INCLUDED THEREIN HAS BEEN PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES ( U.S. GAAP ). THESE ARE DIFFERENT FROM INTERNATIONAL FINANCIAL REPORTING STANDARDS ( IFRS ) AS ADOPTED BY THE EUROPEAN UNION, USED BY ING GROEP N.V. ANY FORWARD LOOKING STATEMENTS INCLUDED IN SUCH INFORMATION ARE BASED UPON NUMEROUS ASSUMPTIONS AND SUBJECT TO RISKS AND UNCERTAINTIES, INCLUDING THOSE DESCRIBED IN THE FORM 20-F FILED BY ING GROEP N.V. AND ITS OTHER FILINGS WITH THE COMMISSION, SO THAT ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE CONTEMPLATED OR DESCRIBED IN SUCH INFORMATION. ING GROEP N.V. DOES NOT INTEND, AND ASSUMES NO OBLIGATION, TO UPDATE THE CONTENTS OF EXHIBIT 1. NOTHING IN THIS FORM 6-K SHOULD BE CONSTRUED TO CONSTITUTE ANY OFFER, OR THE SOLICITATION OF ANY OFFER, TO PARTICIPATE IN THE ING U.S., INC. DEBT FINANCING FOR WHICH THE ATTACHED INFORMATION WAS PREPARED. SUCH FINANCING WILL NOT BE REGISTERED WITH THE COMMISSION OR CONDUCTED IN A MANNER THAT WILL NOT BE EXEMPT FROM SUCH REGISTRATION.

This Report contains a copy of the following:

Exhibit 1. Excerpts from information prepared and furnished by ING U.S., Inc. in connection with a debt financing transaction.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ING Groep N.V.

(Registrant)

By: /s/ H. van Barneveld  
H. van Barneveld

General Manager Group Finance & Control

By: /s/ C. Blokbergen  
C. Blokbergen

Head Legal Department

Dated: June 25, 2012

**Exhibit 1**

Excerpts from information prepared and furnished by ING U.S., Inc. in connection with a debt financing transaction.

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## RISK FACTORS

*You should carefully consider the following risks and other information in this offering memorandum, including our consolidated financial statements and related notes, before you decide to invest in the notes. Additional risks and uncertainties of which we are not presently aware or that we currently deem immaterial could also affect our business operations and financial condition. Certain risks also apply to third party service providers including those with which we have entered into outsourcing arrangements. If any of these risks actually occur, our business, results of operations, financial condition and liquidity could be materially and adversely affected, and you could lose part or all of your investment in the notes.*

### **Risks Related to Our Business – General**

***Continued difficult conditions in the global capital markets and the economy generally have affected and may continue to affect our business and results of operations.***

Our business and results of operations are materially affected by conditions in the global capital markets and the economy generally. Concerns over the slow economic recovery, the level of U.S. national debt, the European sovereign debt crisis, the ability of certain countries to remain in the euro zone, unemployment, the availability and cost of credit, the U.S. housing market, inflation levels, energy costs and geopolitical issues have contributed to increased volatility and diminished expectations for the economy and the markets. In 2011, S&P lowered its long term sovereign credit rating on the United States from AAA to AA+. In addition, significant concerns regarding the sovereign debt of Greece, Ireland, Portugal, Spain and Italy, as well as certain other countries, are ongoing and in some cases have required countries to obtain emergency financing. If these or other countries require additional financial support or if sovereign credit ratings continue to decline, yields on the sovereign debt of certain countries may continue to increase, the cost of borrowing may increase and credit may become more limited. In the event of any default or similar event with respect to a sovereign issuer, some financial institutions may suffer significant losses for which they would require additional capital, which may not be available. These factors, combined with volatile oil prices, reduced business and consumer confidence and continued high unemployment, have negatively impacted the U.S. economy. Our results of operations, investment portfolio and assets under management are exposed to these risks and may be adversely affected as a result. In addition, in the event of extreme prolonged market events, such as the recent global credit crisis, we could incur significant losses.

Even in the absence of a market downturn, our insurance, annuity, retirement and investment products, as well as our investment returns and our access to and cost of financing, are sensitive to equity, fixed income, real estate and other market fluctuations and general economic and political conditions. These fluctuations and conditions could materially and adversely affect our results of operations, financial condition and liquidity, including in the following respects:

We provide a number of insurance, annuity, retirement and investment products that expose us to risks associated with fluctuations in interest rates, market indices, securities prices, default rates, the value of real estate assets, currency exchange rates and credit spreads. The profitability of many of our insurance, annuity, retirement and investment products depends in part on the value of the general accounts and separate accounts supporting them, which may fluctuate substantially depending on the foregoing conditions.

Volatility or downturns in the equity markets can cause a reduction in fee income we earn from managing investment portfolios for third parties and fee income on certain insurance, annuity, retirement and investment products. Because these products and services generate fees related primarily to the value of assets under management, a decline in the equity markets could reduce our revenues because of the reduction in the value of the investments we manage.

A change in market conditions, including prolonged periods of high or low inflation or interest rates, could cause a change in consumer sentiment and adversely affect sales and could cause the actual persistency of these products to vary from their anticipated persistency (lapses) and adversely affect

profitability. Changing economic conditions or adverse public perception of financial institutions can influence customer behavior, which can result in, among other things, an increase or decrease in claims, lapses, withdrawals, deposits or surrenders in certain products, any of which could adversely affect profitability.

An equity market decline or decreases in prevailing interest rates could result in the value of guaranteed minimum benefits contained in certain of our life insurance, annuity and retirement products being higher than current account values or higher than anticipated in our pricing assumptions, requiring us to materially increase reserves for such products, and may result in a decrease in customer lapses, thereby increasing the cost to us.

Reductions in employment levels of our existing employer customers may result in a reduction in underlying employee participation levels, contributions, deposits and premium income for certain of our retirement products. Participants within the retirement plans for which we provide certain services may elect to effect withdrawals from these plans, or reduce or stop their payroll deferrals to these plans, which would reduce assets under management or administration and our revenues.

We have significant investment and derivative portfolios that include, among other investments, corporate and asset-backed securities, equities and commercial mortgages. Economic conditions as well as adverse capital market and credit conditions, interest rate changes, changes in mortgage prepayment behavior, or declines in the value of underlying collateral will impact the credit quality, liquidity and value of our investment and derivative portfolios, potentially resulting in higher capital charges and unrealized or realized losses and decreased investment income. The value of our investments and derivative portfolios may also be impacted by reductions in price transparency, changes in the assumptions or methodology we use to estimate fair value and changes in investor confidence or preferences, which could potentially result in higher realized or unrealized losses and have a material adverse effect on our results of operations or financial condition. Market volatility may also make it difficult to value certain of our securities if trading becomes less frequent.

Market conditions determine the availability and cost of the reinsurance protection we purchase and may result in additional expenses for reinsurance or an inability to obtain sufficient reinsurance on acceptable terms, which could adversely affect the profitability of future business and the availability of capital to support new sales.

Hedging instruments we use to manage product and other risks might not perform as intended or expected, which could result in higher realized losses and unanticipated cash needs to collateralize or settle such transactions. Adverse market conditions can limit the availability and increase the costs of hedging instruments, and such costs may not be recovered in the pricing of the underlying products being hedged. In addition, hedging counterparties may fail to perform their obligations resulting in unhedged exposures and losses on positions that are not collateralized.

Regardless of market conditions, certain investments we hold, including privately placed fixed income investments, investments in private equity funds and commercial mortgages, are relatively illiquid. If we need to sell these investments, we may have difficulty selling them in a timely manner or at a price equal to what we could otherwise realize by holding the investment to maturity.

We are also exposed to interest rate and equity risk based upon the discount rate and expected long-term rate of return assumptions associated with our pension and other retirement benefit obligations. Sustained declines in long-term interest rates or equity returns could have a negative effect on the funded status of these plans.

Fluctuations in our operating results and our investment portfolio may impact our tax profile, our ability to optimally utilize tax attributes and our deferred income tax assets. For example, the Company will most likely be in an alternative minimum tax position beginning in 2012 and going forward which may impact cash flows available to service debt. See Our ability to use beneficial U.S. tax attributes may be subject to limitations.

A default by any financial institution, including sovereigns, could lead to defaults by other institutions. The failure of a sufficiently large and influential institution could disrupt securities markets or clearance and settlement systems and lead to a chain of defaults, because the commercial and financial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of a counterparty may lead to market-wide liquidity problems and losses or defaults by us or by other institutions. This risk is sometimes referred to as systemic risk and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom we interact on a daily basis. Systemic risk could have a material adverse effect on our ability to raise new funding and on our business, results of operations, financial condition, liquidity and/or business prospects. In addition, such a failure could impact future product sales as a potential result of reduced confidence in the financial services industry.

Widening credit spreads, if not offset by declines in the risk-free interest rate, would also cause the total interest rate payable on newly issued securities to increase, and thus would have the same effect as an increase in underlying interest rates with respect to the valuation of our current portfolio.

Continuing market turmoil has resulted in, and may continue to raise the possibility of, legislative, regulatory and governmental actions. We cannot predict whether or when such actions may occur, or what impact, if any, such actions could have on our business, results of operations and financial condition.

***Adverse capital and credit market conditions may impact our ability to access liquidity and capital, as well as the cost of credit and capital.***

Adverse capital market conditions may affect the availability and cost of borrowed funds, thereby impacting our ability to support or grow our businesses. We need liquidity to pay our operating expenses, interest on our debt and dividends on our capital stock, maintain our securities lending activities and replace certain maturing liabilities. Without sufficient liquidity, we will be forced to curtail our operations and our business will suffer. As a holding company with no direct operations, our principal assets are the capital stock of our subsidiaries. Payments of dividends and advances or repayment of funds to us by our insurance subsidiaries are restricted by the applicable laws and regulations of their respective jurisdictions, including laws establishing minimum solvency and liquidity thresholds. See Risks Related to the Notes The ability of our insurance subsidiaries to pay dividends to ING U.S., Inc. and Lion Holdings is further limited by state insurance laws.

For our insurance and other subsidiaries, the principal sources of liquidity are insurance premiums and fees, annuity deposits and cash flow from investments and assets. At the holding company level, sources of liquidity in normal markets also include a variety of short-term liquid investments and short- and long-term instruments, including credit facilities, commercial paper, equity securities and medium- and long-term debt.

In the event current resources do not satisfy our needs, we may have to seek additional financing. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of our long- or short-term financial prospects. Similarly, our access to funds may be limited if regulatory authorities or rating agencies take negative actions against us. If our internal sources of liquidity prove to be insufficient, there is a risk that we may not be able to successfully obtain additional financing on favorable terms, or at all. Any actions we might take to access financing may cause rating agencies to reevaluate our ratings.

Disruptions, uncertainty or volatility in the capital and credit markets, such as that experienced over the past few years, may also limit our access to capital. Such market conditions may in the future limit our ability to raise additional capital to support business growth, or to counter-balance the consequences of losses or increased regulatory capital requirements. This could force us to (1) delay raising capital, (2) reduce, cancel or postpone



interest payments on our debt, include the notes, (3) issue capital of different types or under different terms than we would otherwise or (4) incur a higher cost of capital than in a more stable market environment. This would have the potential to decrease both our profitability and our financial flexibility. Our results of operations, financial condition, liquidity and statutory capital position could be materially and adversely affected by disruptions in the financial markets.

*Interest rate volatility may adversely affect our profitability.*

Changes in prevailing interest rates may negatively affect our business including the level of net interest margin we earn. In a period of changing interest rates, interest expense may increase and interest credited to policyholders may change at different rates than the interest earned on assets. Accordingly, changes in interest rates could decrease net interest margin. Changes in interest rates may negatively affect the value of our assets and our ability to realize gains or avoid losses from the sale of those assets, all of which also ultimately affect earnings. In addition, our insurance and annuity products and certain of our retirement and investment products are sensitive to inflation rate fluctuations. A sustained increase in the inflation rate in our principal markets may also negatively affect our business, financial condition and results of operation. For example, a sustained increase in the inflation rate may result in an increase in nominal market interest rates. A failure to accurately anticipate higher inflation and factor it into our product pricing assumptions may result in mispricing of our products, which could materially and adversely impact our results of operations.

During periods of declining interest rates, life insurance and annuity products may be relatively more attractive to consumers due to minimum guarantees that are frequently mandated by regulators, resulting in increased premium payments on products with flexible premium features and a higher percentage of insurance and annuity contracts remaining in force from year-to-year than we anticipated in our pricing, potentially resulting in greater claims costs than we expected and asset liability cash flow mismatches. A decrease in interest rates may also require additional provisions for guarantees included in life insurance and annuity contracts, as the guarantees become more valuable to policyholders. During a period of decreasing interest rates, our investment earnings may decrease because the interest earnings on our recently purchased fixed income investments will likely have declined in parallel with market interest rates. In addition, a prolonged low interest rate period may result in higher costs for certain derivative instruments that may be used to hedge certain of our product risks. Residential mortgage-backed securities ( RMBS ) and callable fixed income securities in our investment portfolios will be more likely to be prepaid or redeemed as borrowers seek to borrow at lower interest rates. Consequently, we may be required to reinvest the proceeds in securities bearing lower interest rates. Accordingly, during periods of declining interest rates, our profitability may suffer as the result of a decrease in the spread between interest rates credited to policyholders and contract owners and returns on our investment portfolios. An extended period of declining interest rates may also cause us to change our long-term view of the interest rates that we can earn on our investments. Such a change in our view would cause us to change the long-term interest rate that we assume in our calculation of insurance assets and liabilities under U.S. generally accepted accounting principles ( GAAP ). This revision would result in increased reserves, accelerated amortization of DAC and other unfavorable consequences. In addition, certain statutory capital and reserve requirements are based on formulas or models that consider interest rates, and an extended period of low interest rates may increase the statutory capital we are required to hold and the amount of assets we must maintain to support statutory reserves.

Conversely, in periods of rapidly increasing interest rates, policy loans, withdrawals and/or surrenders of life insurance and annuity contracts and certain GICs may increase as policyholders choose to seek higher investment returns. Obtaining cash to satisfy these obligations may require us to liquidate fixed income investments at a time when market prices for those assets are depressed because of increases in interest rates. This may result in realized investment losses. Regardless of whether we realize an investment loss, such cash payments would result in a decrease in total invested assets and may decrease our net income (loss) and capitalization levels. Premature withdrawals may also cause us to accelerate amortization of DAC, which would also reduce our net income. An increase in market interest rates could also have a material adverse effect on the value of our investment portfolio by, for example, decreasing the estimated fair values of the fixed income

securities within our investment portfolio. An increase in market interest rates could also create a significant collateral posting requirement associated with our interest rate hedge programs, which could materially and adversely affect liquidity. In addition, an increase in market interest rates could require us to pay higher interest rates on debt securities we may issue in the financial markets from time to time to finance our operations, which would increase our interest expenses and reduce our results of operations. Lastly, an increase in interest rates could result in decreased fee income associated with a decline in the value of variable annuity account balances invested in fixed income funds.

***A downgrade or a potential downgrade in our financial strength or credit ratings could result in a loss of business and adversely affect our results of operations and financial condition.***

Ratings are important to our business. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. Our credit ratings are important to our ability to raise capital through the issuance of debt and to the cost of such financing. Financial strength ratings, which are sometimes referred to as claims-paying ratings, represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy. Financial strength ratings are important factors affecting public confidence in insurers, including our insurance company subsidiaries. The financial strength ratings of our insurance subsidiaries are important to our ability to sell our products and services to our customers. Ratings are not recommendations to buy our securities. Each of the rating agencies reviews its ratings periodically, and our current ratings may not be maintained in the future.

Our ratings could be downgraded at any time and without notice by any rating agency. For example, in December 2011, both S&P and Moody's downgraded the financial strength ratings of our insurance companies as a result of the announcement by ING Group regarding the financial impact of the change in policyholder behavior assumptions in our Closed Block Variable Annuity segment, which resulted in a charge of 1.1 billion against the results of that segment, as reflected in ING Group's 2011 financial statements reported under International Financial Reporting Standards (IFRS). For a description of material rating actions that have occurred from the beginning of 2011 through the date of this filing, see Management's Discussion and Analysis of Results of Operations and Financial Condition Ratings.

In addition, our ratings are implicitly supported by the credit ratings of our indirect parent companies, ING V and ING Group. A downgrade of the credit ratings of these entities could result in downgrades of our own credit and financial strength ratings. We received explicit guarantees of our commercial paper program and certain credit facilities from ING V. A downgrade of the credit rating of ING V could impact our ability to issue commercial paper or increase the amount of collateral that we are required to provide under these credit facilities. In addition, ING Bank N.V. (ING Bank) provides certain letter of credit facilities to the Company, including without limitation, the contingent capital letter of credit. See Management's Discussion and Analysis of Results of Operations and Financial Condition Liquidity and Capital Resources Letter of Credit Facilities and Subsidiary Credit Support Arrangements Reinsurance Subsidiaries Standalone Credit Facilities. A significant downgrade of ING Bank could negatively impact our ability to utilize these facilities as reinsurance collateral. On June 15, 2012, Moody's downgraded the long-term debt ratings of ING Group from A1 to A3 with negative outlook and ING Bank from Aa3 to A2 with negative outlook. At the same time, Moody's took negative ratings actions with respect to a number of European-based banking organizations. For information on additional collateral requirements in case of a downgrade of our or ING V's ratings, see Management's Discussion and Analysis of Results of Operations and Financial Condition Ratings Potential Impact of a Ratings Downgrade.

A downgrade of the financial strength rating of one of our principal insurance subsidiaries could affect our competitive position by making it more difficult for us to market our products as potential customers may select companies with higher financial strength ratings and by leading to increased withdrawals by current customers seeking companies with higher financial strength ratings. This could lead to a decrease in assets under management and result in lower fee income. Furthermore, sales of assets to meet customer withdrawal demands could also result in losses, depending on market conditions. In addition, a downgrade in either our financial

strength or credit ratings could potentially, among other things, increase our borrowing costs and make it more difficult to access financing; adversely affect access to the commercial paper market or the availability of letters of credit and other financial guarantees; result in additional collateral requirements, or other required payments or termination rights under derivative contracts or other agreements; and/or impair, or cause the termination of, our relationships with creditors, broker-dealers, distributors, reinsurers or trading counterparties, which could potentially negatively affect our profitability, liquidity and/or capital. In addition, we use assumptions of market participants in estimating the fair value of our liabilities, including insurance liabilities that are classified as embedded derivatives under GAAP. These assumptions include our non-performance risk, including our own credit risk, which we currently estimate using the credit spreads of the public debt of ING V. Subsequent to the issuance of the notes, we may use the credit spreads of the notes to estimate our own credit risk. Therefore, changes in our credit or financial strength ratings may affect the fair value of our liabilities.

As rating agencies continue to evaluate the financial services industry, it is possible that rating agencies will heighten the level of scrutiny that they apply to financial institutions, increase the frequency and scope of their credit reviews, request additional information from the companies that they rate and potentially adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels. It is possible that the outcome of any such review of us would have additional adverse ratings consequences, which could have a material adverse effect on our results of operations, financial condition and liquidity. We may need to take actions in response to changing standards or capital requirements set by any of the rating agencies which could cause our business and operations to suffer. We cannot predict what additional actions rating agencies may take, or what actions we may take in response to the actions of rating agencies.

***Because we operate in highly competitive markets, we may not be able to increase or maintain our market share, which may have an adverse effect on our results of operations.***

In each of our businesses we face intense competition, including from domestic and foreign insurance companies, broker-dealers, financial advisors, asset managers and diversified financial institutions, both for the ultimate customers for our products and for distribution through independent distribution channels. We compete based on a number of factors including brand recognition, reputation, quality of service, quality of investment advice, investment performance of our products, product features, scope of distribution, price, perceived financial strength and credit ratings. A decline in our competitive position as to one or more of these factors could adversely affect our profitability. Many of our competitors are large and well-established and some have greater market share or breadth of distribution, offer a broader range of products, services or features, assume a greater level of risk, or have higher claims-paying or credit ratings than we do.

In recent years, there has been substantial consolidation among companies in the financial services industry resulting in increased competition from large, well-capitalized financial services firms. Future economic turmoil may accelerate additional consolidation activity. Many of our competitors also have been able to increase their distribution systems through mergers or contractual arrangements. Furthermore, larger competitors may have lower operating costs and have an ability to absorb greater risk, while maintaining financial strength ratings, allowing them to price products more competitively. These competitive pressures could result in increased pressure on the pricing of certain of our products and services, and could harm our ability to maintain or increase profitability. In addition, if our financial strength and credit ratings are lower than our competitors, we may experience increased surrenders and/or a significant decline in sales. The competitive landscape in which we operate may be further affected by the government sponsored programs in the United States and similar governmental actions outside of the United States in response to the dislocations in financial markets. Competitors that receive governmental financing, guarantees or other assistance, or that are not subject to the same regulatory constraints, may have or obtain pricing or other competitive advantages. Due to the competitive nature of the financial services industry, there can be no assurance that we will continue to effectively compete within the industry or that competition will not have a material adverse impact on our business, results of operations and financial condition.

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***Our risk management policies and procedures, including hedging programs, may prove inadequate for the risks we face, which could negatively affect our business or result in losses.***

We have developed risk management policies and procedures, including hedging programs that utilize derivative financial instruments, and expect to continue to do so in the future. Nonetheless, our policies and procedures to identify, monitor and manage risks may not be fully effective, particularly during extremely turbulent times. Many of our methods of managing risk and exposures are based upon observed historical market behavior or statistics based on historical models. As a result, these methods may not predict future exposures, which could be significantly greater than historical measures indicate. Other risk management methods depend on the evaluation of information regarding markets, customers, catastrophe occurrence, or other matters, that is publicly available or otherwise accessible to us. This information may not always be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record and verify large numbers of transactions and events. These policies and procedures may not be fully effective.

We employ various economic hedging strategies with the objective of mitigating risks inherent in our business and operations. These risks include current or future changes in the fair value of our assets and liabilities, current or future changes in cash flows, the effect of interest rates, equity markets and credit spread changes, the occurrence of credit defaults, currency fluctuations and changes in mortality and longevity. We seek to control these risks by, among other things, entering into reinsurance contracts and derivative instruments, such as swaps, options, futures and forward contracts. See Reinsurance subjects us to the credit risk of reinsurers and may not be available, affordable or adequate to protect us against losses for a description of risks associated with our use of reinsurance. Developing an effective strategy for dealing with these risks is complex, and no strategy can completely insulate us from such risks. Our hedging strategies also rely on assumptions and projections regarding our assets, liabilities, general market factors and the creditworthiness of our counterparties that may prove to be incorrect or prove to be inadequate. Accordingly, our hedging activities may not have the desired beneficial impact on our results of operations or financial condition. Hedging strategies involve transaction costs and other costs, and if we terminate a hedging arrangement, we may also be required to pay additional costs, such as transaction fees or breakage costs. We may incur losses on transactions after taking into account our hedging strategies. In particular, certain of our hedging strategies focus on the protection of regulatory capital, rather than GAAP earnings. Because our regulatory reserves and the variable annuity guarantee hedge program target react differently to changes in market movements, in addition to our variable annuity guarantee hedge program, we have executed a capital hedge overlay program to generally target this differential. As GAAP accounting differs from the methods used to determine regulatory capital measures, our hedge programs may create earnings volatility in our GAAP financial statements. We will manage GAAP earnings volatility to the extent it does not conflict with our goal of protecting regulatory capital. Further, the nature, timing, design or execution of our hedging transactions could actually increase our risks and losses. Our hedging strategies and the derivatives that we use, or may use in the future, may not adequately mitigate or offset the hedged risk and our hedging transactions may result in losses.

Past or future misconduct by our employees, registered representatives of our broker-dealer subsidiaries or employees of our vendors could result in violations of law by us or our subsidiaries, regulatory sanctions and/or serious reputational or financial harm and the precautions we take to prevent and detect this activity may not be effective in all cases. Although we employ controls and procedures designed to monitor associates' business decisions and to prevent us from taking excessive or inappropriate risks, associates may take such risks regardless of such controls and procedures. Our compensation policies and practices are reviewed by us as part of our overall risk management program, but it is possible that such compensation policies and practices could inadvertently incentivize excessive or inappropriate risk taking. If our associates take excessive or inappropriate risks, those risks could harm our reputation and have a material adverse effect on our results of operations and financial condition.

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***The inability of counterparties to meet their financial obligations could have an adverse effect on our results of operations.***

Third-parties that owe us money, securities or other assets may not pay or perform under their obligations. These parties include the issuers or guarantors of securities we hold, customers, reinsurers, trading counterparties, securities lending and repurchase counterparties, counterparties under swaps, credit default and other derivative contracts, clearing agents, exchanges, clearing houses and other financial intermediaries. Defaults by one or more of these parties on their obligations to us due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure or other factors, or even rumors about potential defaults by one or more of these parties, could have a material adverse effect on our results of operations, financial condition and liquidity.

We routinely execute a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial and investment banks, mutual and hedge funds, institutional clients, insurance companies and other institutions, resulting in large daily settlement amounts and significant credit exposure. As a result, we face concentration risk with respect to specific counterparties and customers. A default by, or even concerns about the creditworthiness of, one or more of these counterparties or customers could have an adverse effect on our results of operations or liquidity. We also have exposure to a number of financial institutions in the form of unsecured debt instruments, derivative transactions and equity investments. There is no assurance that losses on, or impairments to the carrying value of, these assets would not materially and adversely affect our business, results of operations or financial condition.

In addition, we enter into a variety of derivative instruments with a number of counterparties in order to hedge various risks, including equity and interest rate market risk features within many of our insurance and annuity products. Amounts that we expect to collect under current and future contracts are subject to counterparty risk. Our obligations under our products are not changed by our hedging activities and we are liable for our obligations even if our derivative counterparties do not pay us.

We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. The deterioration or perceived deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses and/or adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. While in many cases we are permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral we are entitled to receive and the value of pledged assets. Our credit risk may also be exacerbated when the collateral we hold cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure that is due to us, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those recently experienced. The termination of contracts and the foreclosure on collateral may subject us to claims for the improper exercise of rights under the contracts. Bankruptcies, downgrades and disputes with counterparties as to the valuation of collateral tend to increase in times of market stress and illiquidity.

***Requirements to post collateral or make payments related to changes in market value of specified assets may adversely affect liquidity.***

The amount of collateral we may be required to post under short-term financing agreements and derivative transactions may increase under certain circumstances. Pursuant to the terms of some transactions, we could be required to make payment to our counterparties related to any change in the market value of the specified collateral assets. Such requirements could have an adverse effect on liquidity. Furthermore, with respect to any such payments, we may have unsecured risk to the counterparty as these amounts may not be required to be segregated from the counterparty's other funds, may not be held in a third-party custodial account and may not be required to be paid to us by the counterparty until the termination of the transaction. Additionally, the implementation of the Dodd-Frank Act and the resultant changes in collateral requirements may increase the need for liquidity and eligible collateral assets in excess of what is already being held.

For a discussion on certain obligations we have with respect to the posting of collateral upon the occurrence of certain events, see Management's Discussion and Analysis of Results of Operations and Financial Condition - Liquidity and Capital Resources - Ratings - Potential Impact of a Ratings Downgrade.

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***Our investment portfolio is subject to several risks that may diminish the value of our invested assets and the investment returns credited to customers, which could reduce our sales, revenues, assets under management and results of operations.***

Fixed income securities represent a significant portion of our investment portfolio. We are subject to the risk that the issuers, or guarantors, of fixed income securities we own may default on principal and interest payments they owe us. We are also subject to the risk that the underlying collateral within asset-backed securities, including mortgage-backed securities, may default on principal and interest payments causing an adverse change in cash flows. The occurrence of a major economic downturn, acts of corporate malfeasance, widening mortgage or credit spreads, or other events that adversely affect the issuers, guarantors or underlying collateral of these securities could cause the estimated fair value of our fixed income securities portfolio and our earnings to decline and the default rate of the fixed income securities in our investment portfolio to increase. A ratings downgrade affecting issuers or guarantors of securities in our investment portfolio, or similar trends that could worsen the credit quality of such issuers, could also have a similar effect. Similarly, a ratings downgrade affecting a security we hold could indicate the credit quality of that security has deteriorated and could increase the capital we must hold to support that security to maintain our risk-based capital ( RBC ) levels. See A decrease in the RBC or statutory surplus of our insurance subsidiaries could result in increased scrutiny by insurance regulators and rating agencies and have a material adverse effect on our business, results of operations and financial condition. We are also subject to the risk that cash flows resulting from the payments on pools of mortgages that serve as collateral underlying the mortgage-backed securities we own may differ from our expectations in timing or size. Cash flow variability arising from an unexpected acceleration in mortgage prepayment behavior can be significant, and could cause a decline in the estimated fair value of certain interest-only securities within our mortgage-backed securities portfolio. Any event reducing the estimated fair value of these securities, other than on a temporary basis, could have a material adverse effect on our business, results of operations and financial condition.

We derive operating revenues from providing investment management and related services. Our revenues depend largely on the value and mix of assets under management. Our investment management related revenues are derived primarily from fees based on a percentage of the value of assets under management. Any decrease in the value or amount of our assets under management because of market volatility or other factors negatively impacts our revenues and income. Global economic conditions, changes in the equity markets, currency exchange rates, interest rates, inflation rates, the yield curve, defaults by derivative counterparties and other factors that are difficult to predict affect the mix, market values and levels of our assets under management. The funds we manage may be subject to an unanticipated large number of redemptions as a result of such events, causing the funds to sell securities they hold, possibly at a loss, or draw on any available lines of credit to obtain cash, or use securities held in the applicable fund, to settle these redemptions. We may, in our discretion, also provide financial support to a fund to enable it to maintain sufficient liquidity in such an event. Additionally, changing market conditions may cause a shift in our asset mix towards fixed-income products and a related decline in our revenue and income, as we generally derive higher fee revenues and income from equity products than from fixed-income products we manage. Any decrease in the level of our assets under management resulting from price declines, interest rate volatility or uncertainty, increased redemptions or other factors could negatively impact our revenues and income.

From time to time we invest our capital to seed a particular investment strategy or investment portfolio. We may also co-invest in funds or take an equity ownership interest in certain structured finance/investment vehicles that we manage for our customers. Any decrease in the value of such investments could negatively affect our revenues and income.

Our investment performance is critical to the success of our investment management and related services business, as well as to the profitability of our insurance, annuity and retirement products. Poor investment performance as compared to third-party benchmarks or competitor products could lead to a decrease in sales of investment products we manage and lead to redemptions from existing products, generally lowering the overall

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level of assets under management and reducing the management fees we earn. We cannot assure you that past or present investment performance in the investment products we manage will be indicative of future performance. Any poor investment performance may negatively impact our revenues and income.

***Some of our investments are relatively illiquid and are in asset classes that have been experiencing significant market valuation fluctuations.***

We hold certain assets that may lack liquidity, such as privately placed fixed income securities, commercial mortgage loans, policy loans, limited partnership interests and the Dutch State obligations described in Related Party Transactions Alt-A Transaction (the Dutch State loan obligation ). These asset classes represented 29.7% of the carrying value of our total cash and invested assets as of March 31, 2012. If we require significant amounts of cash on short notice in excess of normal cash requirements or are required to post or return collateral in connection with our investment portfolio, derivatives transactions or securities lending activities, we may have difficulty selling these investments in a timely manner, be forced to sell them for less than we otherwise would have been able to realize, or both.

The reported values of our relatively illiquid types of investments do not necessarily reflect the current market price for the asset. If we were forced to sell certain of our assets in the current market, there can be no assurance that we would be able to sell them for the prices at which we have recorded them and we might be forced to sell them at significantly lower prices.

We invest a portion of our invested assets in investment funds, many of which make private equity investments. The amount and timing of income from such investment funds tends to be uneven as a result of the performance of the underlying investments, including private equity investments. The timing of distributions from the funds, which depends on particular events relating to the underlying investments, as well as the funds' schedules for making distributions and their needs for cash, can be difficult to predict. As a result, the amount of income that we record from these investments can vary substantially from quarter to quarter. Recent equity and credit market volatility may reduce investment income for these types of investments.

***Our CMO-B portfolio exposes us to market and behavior risks.***

We manage a portfolio of various collateralized mortgage obligation ( CMO ) tranches in combination with financial derivatives as part of a proprietary strategy we refer to as CMO-B, as described under Investments CMO-B Portfolio. As of March 31, 2012, our CMO-B portfolio had \$4.5 billion in total assets, consisting of notional or principal securities backed by mortgages secured by single-family residential real estate, and including interest-only securities, principal-only securities, inverse-floating rate (principal) securities and inverse interest-only securities. The CMO-B portfolio is subject to a number of market and behavior risks, including interest rate risk and prepayment risk. Interest rate risk represents the potential for adverse changes in portfolio value resulting from changes in the general level of interest rates. Prepayment risk represents the potential for adverse changes in portfolio value resulting from changes in residential mortgage prepayment speed, which in turn depends on a number of factors, including conditions in both credit markets and housing markets. In addition, government policy changes affecting residential housing and residential housing finance, such as government agency reform and government sponsored refinancing programs, could alter prepayment behavior and result in adverse changes to portfolio values. While we actively monitor our exposure to these and other risks inherent in this strategy, we cannot assure you that our hedging and risk management strategies will be effective; any failure to manage these risks effectively could materially and adversely affect our results of operations and financial condition. In addition, although we believe our CMO-B portfolio has performed well for a number of years, and particularly well since the 2008-2009 financial crisis, primarily due to persistently low levels of short-term interest rates and mortgage prepayments in an atmosphere of tightened housing-related credit availability, this portfolio may not continue to perform as well in the future.

***Defaults or delinquencies in our commercial mortgage loan portfolio may adversely affect our profitability.***

The commercial mortgage loans we hold face both default and delinquency risk. We establish loan specific valuation allowances for estimated impairments at the balance sheet date. These valuation allowances are based on the excess carrying value of the loan over the present value of expected future cash flows discounted at the loan's original effective interest rate, the estimated fair value of the loan's collateral if the loan is in the process of foreclosure or otherwise collateral dependent, or the loan's observable market price. We also establish valuation allowances for loan losses when, based on past experience, it is probable that a credit event has occurred and the amount of the loss can be reasonably estimated. These valuation allowances are based on loan risk characteristics, historical default rates and loss severities, real estate market fundamentals and outlook as well as other relevant factors. As of March 31, 2012, our commercial loan portfolio included \$16.6 million of commercial mortgage loans that were 90 or more days past due. The performance of our commercial mortgage loan investments may fluctuate in the future. In addition, legislative proposals that would allow or require modifications to the terms of commercial mortgage loans could be enacted. We cannot predict whether these proposals will be adopted, or what impact, if any, such laws, if enacted, could have on our business or investments. An increase in the delinquency and default rate of our commercial mortgage loan portfolio could adversely impact our results of operations and financial condition.

Further, any geographic or sector concentration of our commercial mortgage loans may have adverse effects on our investment portfolios and consequently on our results of operations or financial condition. While we generally seek to mitigate the risk of sector concentration by having a broadly diversified portfolio, events or developments that have a negative effect on any particular geographic region or sector may have a greater adverse effect on the investment portfolios to the extent that the portfolios are concentrated, which could affect our results of operations and financial condition.

In addition, liability under environmental protection laws resulting from our commercial mortgage loan portfolio and real estate investments could affect our results of operations or financial condition. Under the laws of several states, contamination of a property may give rise to a lien on the property to secure recovery of the costs of cleanup. In some states, such a lien has priority over the lien of an existing mortgage against the property, which would impair our ability to foreclose on that property should the related loan be in default. In addition, under the laws of some states and under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, we may be liable for costs of addressing releases or threatened releases of hazardous substances that require remedy at a property securing a mortgage loan held by us, regardless of whether or not the environmental damage or threat was caused by the obligor, which could harm our results of operations and financial condition. We also may face this liability after foreclosing on a property securing a mortgage loan held by us.

***Our investment management business operations are complex and a failure to properly perform services could have an adverse effect on our revenues and income.***

Our investment management and related services include, among other things, portfolio management, investment advice, fund administration, shareholder services, transfer agency, underwriting, distribution, custodial, trustee and other fiduciary services. In order to be competitive, we must properly perform our administrative and related responsibilities, including recordkeeping and accounting, security pricing, corporate actions, compliance with investment restrictions, daily net asset value computations, account reconciliations and required distributions to fund shareholders. Further, certain of our subsidiaries may act as general partner for various investment partnerships, which may subject them to liability for the partnerships' liabilities. If we fail to properly perform and monitor our investment management operations, our business could suffer and our revenues and income could be adversely affected.



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***Our products and services are complex and are frequently sold through intermediaries, and a failure to properly perform services or the misrepresentation of our products or services could have an adverse effect on our revenues and income.***

Many of our products and services are complex and are frequently sold through intermediaries. In particular, our insurance businesses are reliant on intermediaries to describe and explain their products to potential customers. The intentional or unintentional misrepresentation of our products and services in advertising materials or other external communications, or inappropriate activities by our personnel or an intermediary, could adversely affect our reputation and business prospects, as well as lead to potential regulatory actions or litigation.

***Revenues, earnings and income from our investment management business operations could be adversely affected if the terms of our asset management agreements are significantly altered or the agreements are terminated.***

Our revenues from our investment management business operations are dependent on fees earned under asset management and related services agreements that we have with the clients and funds we advise. These revenues could be adversely affected if these agreements are altered significantly or terminated. The decline in revenue that might result from alteration or termination of our asset management services agreements could have a material adverse impact on our results of operations or financial condition. In addition, under certain laws, most notably the Investment Company Act of 1940 and the Investment Advisers Act of 1940, advisory contracts may require approval or consent from clients or fund shareholders in the event of an assignment of the contract or a change in control of the investment adviser. Were a transaction to result in an assignment or change in control, the inability to obtain consent or approval from clients or shareholders of mutual funds or other investment funds could result in a significant reduction in advisory fees.

***The valuation of many of our financial instruments includes methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may materially and adversely affect our results of operations and financial condition.***

The following financial instruments are carried at fair value in our financial statements: fixed income securities, equity securities, derivatives, embedded derivatives and separate account assets. We have categorized these instruments into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3), while quoted prices in markets that are not active or valuation techniques requiring inputs that are observable for substantially the full term of the asset or liability are Level 2 .

Factors considered in estimating fair values of securities, and derivatives and embedded derivatives related to our securities include coupon rate, maturity, principal paydown including prepayments, estimated duration, call provisions, sinking fund requirements, credit rating, industry sector of the issuer and quoted market prices of comparable securities. Factors considered in estimating the fair values of embedded derivatives and derivatives related to product guarantees (collectively, guaranteed benefit derivatives ) include risk-free interest rates, long-term equity implied volatility, interest rate implied volatility, correlations among mutual funds associated with variable annuity contracts and actuarial assumptions such as mortality rates, lapse rates, benefit utilization, deposits and partial withdrawals. The impact of our risk of nonperformance (also known as our own credit risk) is also reflected in the estimated fair value of guaranteed benefit derivatives. In many situations, inputs used to measure the fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, we will determine the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value.

The determination of fair values are made at a specific point in time, based on available market information and judgments about financial instruments, including estimates of the timing and amounts of expected future

cash flows and the credit standing of the issuer or counterparty. The use of different methodologies and assumptions may have a material effect on the estimated fair value amounts.

During periods of market disruption, including periods of rapidly changing credit spreads or illiquidity, it has been and will likely continue to be difficult to value certain of our securities, such as certain mortgage-backed securities, if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that could become illiquid in a difficult financial environment. In such cases, more securities may fall to Level 3 and thus require more subjectivity and management judgment. As such, valuations may include inputs and assumptions that are less observable or require greater estimation, thereby resulting in values that may differ materially from the value at which the investments may be ultimately sold. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of securities as reported within the financial statements and the period-to-period changes in value could vary significantly. Decreases in value could have a material adverse effect on our results of operations and financial condition. As of March 31, 2012, 6.0%, 92.8% and 1.2% of our available-for-sale securities were considered to be Level 1, 2 and 3, respectively.

***The determination of the amount of allowances and impairments taken on our investments is subjective and could materially and adversely impact our results of operations or financial condition. Gross unrealized losses may be realized or result in future impairments, resulting in a reduction in our net income (loss).***

We evaluate investment securities held by us for impairment on a quarterly basis. This review is subjective and requires a high degree of judgment. For fixed income securities held, an impairment loss is recognized when the fair value of the debt security is less than the carrying value and we no longer have the intent to hold the debt security, if it is more likely than not that we will be required to sell the debt security before recovery of the amortized cost basis, or if a credit loss has occurred.

When we do not intend to sell a security in an unrealized loss position, potential credit related other-than-temporary impairments are considered using a variety of factors, including the length of time and extent to which the fair value has been less than cost, adverse conditions specifically related to the industry, geographic area in which the issuer conducts business, financial condition of the issuer or underlying collateral of a security, payment structure of the security, changes in credit rating of the security by the rating agencies, volatility of the fair value changes and other events that adversely affect the issuer. In addition, we take into account relevant broad market and economic data in making impairment decisions.

As part of the impairment review process, we utilize a variety of assumptions and estimates to make a judgment on how fixed income securities will perform in the future. It is possible that securities in our fixed income portfolio will perform worse than our expectations. There is an ongoing risk that further declines in fair value may occur and additional other-than-temporary impairments may be recorded in future periods, which could materially and adversely affect our results of operations and financial condition. Furthermore, historical trends may not be indicative of future impairments or allowances.

Fixed income and equity securities classified as available-for-sale are reported at their estimated fair value. Unrealized gains or losses on available-for-sale securities are recognized as a component of other comprehensive income (loss) and are therefore excluded from net income (loss). The accumulated change in estimated fair value of these available-for-sale securities is recognized in net income (loss) when the gain or loss is realized upon the sale of the security or in the event that the decline in estimated fair value is determined to be other-than-temporary ( OTTI ) and an impairment charge to earnings is taken. Such realized losses or impairments may have a material adverse effect on our net income (loss) in a particular quarterly or annual period. For example, for the three months ended March 31, 2012, we recorded OTTI of \$6.9 million in net realized capital losses, compared to \$158.9 million in OTTI in the comparable 2011 period. We recorded OTTI of \$502.7 million, \$890.8 million and \$1,618.6 million in net realized capital losses in 2011, 2010 and 2009, respectively.

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***Our participation in a securities lending program and a reverse repurchase program subjects us to potential liquidity and other risks.***

We participate in a securities lending program whereby blocks of securities, which are included in fixed income securities and short-term investments, are loaned to third party borrowers, primarily brokerage firms and commercial banks. We generally obtain cash collateral in an amount equal to 102% of the estimated fair value of the loaned securities, which is obtained at the inception of a loan and maintained at a level greater than or equal to 100% for the duration of the loan. The cash collateral received is typically invested in fixed income securities. A return of loaned securities by a borrower would require us to liquidate the investments held as collateral and return the cash collateral associated with such loaned securities.

We also participate in a reverse repurchase program for our general account whereby we sell fixed income securities to third party repurchase counterparties, primarily major brokerage firms and commercial banks, with a concurrent agreement to repurchase those same securities at a determined future date. Our policy requires that, at all times during the term of the reverse repurchase agreements, cash or other types of collateral types provided is sufficient to allow the counterparty to fund substantially all of the cost of purchasing replacement assets. The cash proceeds received under the reverse repurchase program are typically invested in fixed income securities and cannot be returned prior to the scheduled repurchase date; however, market conditions on the repurchase date may limit our ability to enter into new agreements. The repurchase of securities or our inability to enter into new reverse repurchase agreements would require us to return the cash collateral proceeds associated with such transactions on the repurchase or maturity date.

For both securities lending and reverse repurchase transactions, in some cases, the maturity of the securities held as invested collateral (i.e., securities that we have purchased with cash collateral received) may exceed the term of the related securities on loan and the estimated fair value may fall below the amount of cash received as collateral and invested. If we are required to return significant amounts of cash collateral on short notice and we are forced to sell securities to meet the return obligation, we may have difficulty selling such collateral that is invested in securities in a timely manner, be forced to sell securities in a volatile or illiquid market for less than we otherwise would have been able to realize under normal market conditions, or both. In addition, under adverse capital market and economic conditions, liquidity may broadly deteriorate, which would further restrict our ability to sell securities. If we decrease the amount of our securities lending and reverse repurchase activities over time, the amount of net investment income generated by these activities will also likely decline. See Management's Discussion and Analysis of Results of Operations and Financial Condition - Liquidity and Capital Resources - Securities Lending.

***Differences between actual claims experience and reserving assumptions may adversely affect our results of operations or financial condition.***

We establish and hold reserves to pay future policy benefits and claims. Our reserves do not represent an exact calculation of liability, but rather are actuarial or statistical estimates based on data and models that include many assumptions and projections, which are inherently uncertain and involve the exercise of significant judgment, including assumptions as to the levels and/or timing of receipt or payment of premiums, benefits, claims, expenses, interest credits, investment results (including equity market returns), retirement, mortality, morbidity and persistency. We periodically review the adequacy of reserves and the underlying assumptions. We cannot, however, determine with precision the amounts that we will pay for, or the timing of payment of, actual benefits, claims and expenses or whether the assets supporting our policy liabilities, together with future premiums, will grow to the level assumed prior to payment of benefits or claims. If actual experience differs significantly from assumptions or estimates, reserves may not be adequate. If we conclude that our reserves, together with future premiums, are insufficient to cover future policy benefits and claims, we would be required to increase our reserves and incur income statement charges for the period in which we make the determination, which could materially and adversely affect our results of operations and financial condition.

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*We may face significant losses if mortality rates, morbidity rates, persistency rates or other underwriting assumptions differ significantly from our pricing expectations.*

We set prices for many of our insurance and annuity products based upon expected claims and payment patterns, using assumptions for mortality rates, or likelihood of death, and morbidity rates, or likelihood of sickness of our policyholders. In addition to the potential effect of natural or man-made disasters, significant changes in mortality or morbidity could emerge gradually over time due to changes in the natural environment, the health habits of the insured population, technologies and treatments for disease or disability, the economic environment, or other factors. The long-term profitability of our insurance and annuity products depends upon how our actual mortality rates, and to a lesser extent actual morbidity rates, compare to our pricing assumptions. In addition, prolonged or severe adverse mortality or morbidity experience could result in increased reinsurance costs, and ultimately, reinsurers not willing to offer coverage. If we are unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient, we would either have to be willing to accept an increase in our net risk exposures or revise our pricing to reflect higher reinsurance premiums.

Pricing of our insurance and annuity products is also based in part upon expected persistency of these products, which is the probability that a policy will remain in force from one period to the next. Persistency of our annuity products may be significantly and adversely impacted by the increasing value of guaranteed minimum benefits contained in many of our variable annuity products due to poor equity market performance or extended periods of low interest rates as well as other factors. The minimum interest rate guarantees in our fixed annuities may also be more valuable in extended periods of low interest rates. Persistency could be adversely affected generally by developments adversely affecting customer perception of us. Results may also vary based on differences between actual and expected premium deposits and withdrawals for these products. Many of our deferred annuity products also contain optional benefits that may be exercised at certain points within a contract. We set prices for such products using assumptions for the rate of election of deferred annuity living benefits and other optional benefits offered to our contract owners. The profitability of our deferred annuity products depends upon how actual contract owner decisions to elect or delay the utilization of such benefits compare to our pricing assumptions. The development of a secondary market for life insurance, including stranger owned life insurance, life settlements or viaticals and investor owned life insurance, and third-party investor strategies in the annuities business, could also adversely affect the profitability of existing business and our pricing assumptions for new business. Actual persistency that is lower than our persistency assumptions could have an adverse effect on profitability, especially in the early years of a policy, primarily because we would be required to accelerate the amortization of expenses we deferred in connection with the acquisition of the policy. Actual persistency that is higher than our persistency assumptions could have an adverse effect on profitability in the later years of a block of business because the anticipated claims experience is higher in these later years. If actual persistency is significantly different from that assumed in our current reserving assumptions, our reserves for future policy benefits may prove to be inadequate. Although some of our products permit us to increase premiums or adjust other charges and credits during the life of the policy, the adjustments permitted under the terms of the policies may not be sufficient to maintain profitability. Many of our products, however, do not permit us to increase premiums or adjust charges and credits during the life of the policy. Even if permitted under the policy, we may not be able or willing to raise premiums or adjust other charges for regulatory or competitive reasons.

Pricing of our products is also based on long-term assumptions regarding interest rates, investment returns and operating costs. Management establishes target returns for each product based upon these factors, the other underwriting assumptions noted above and the average amount of regulatory and rating agency capital that we must hold to support in-force contracts. We monitor and manage pricing and sales to achieve target returns. Profitability from a new business emerges over a period of years, depending on the nature and life of the product, and is subject to variability as actual results may differ from pricing assumptions. Our profitability depends on multiple factors, including the comparison of actual mortality, morbidity and persistency rates and policyholder behavior to our assumptions; the adequacy of investment margins; our management of market and credit risks associated with investments; our ability to maintain premiums and contract charges at a level adequate to cover

mortality, benefits and contract administration expenses; the adequacy of contract charges and availability of revenue from providers of investment options offered in variable contracts to cover the cost of product features and other expenses; and management of operating costs and expenses.

***Unfavorable developments in interest rates, credit spreads and policyholder behavior can result in adverse financial consequences related to our stable value products, and our hedging program and risk mitigation features may not successfully offset these consequences.***

We offer stable value products as a fixed rate, liquid asset allocation option for employees of our plan sponsor customers within the defined contribution funding plans offered by our Retirement business. These products are designed to provide a guaranteed annual credited rate (currently between zero and three percent) on the invested assets in addition to enabling participants the right to withdraw and transfer funds at book value.

The sensitivity of our statutory reserves and surplus established for the stable value products to changes in interest rates, credit spreads and policyholder behavior will vary depending on the magnitude of these changes, as well as on the book value of assets, the market value of assets, the guaranteed credited rates available to customers and other product features. Realization of these risks may result in an increase in the reserves for stable value products, and could materially and adversely affect our financial position or results of operations. In particular, in low interest rate environments, we bear exposure to the risk that the credited rate exceeds the earned rate on guaranteed annual credited rate products, and, in a rising interest rate environment, we are exposed to the risk of financial disintermediation through a potential increase in the level of book value withdrawals.

To the extent that our hedging program and other risk mitigating features do not operate as intended, we remain exposed to the risks described above.

***We may be required to accelerate the amortization of deferred policy acquisition cost ( DAC ), deferred sales inducements ( DSI ) and/or the valuation of business acquired ( VOBA ), any of which could adversely affect our results of operations or financial condition.***

DAC represents the incremental, direct costs of contract acquisition, as well as costs related directly to the acquisition of new and renewal insurance and annuity contracts. DSI represents amounts that are credited to a policyholder's account balance as an inducement to purchase a contract. VOBA represents the present value of estimated cash flows embedded in acquired business, plus renewal commissions and certain other costs on such acquired business. Capitalized costs associated with DAC, DSI and VOBA are amortized in proportion to actual and estimated gross profits, gross premiums or gross revenues depending on the type of contract. Management, on an ongoing basis, tests the DAC, DSI and VOBA recorded on our balance sheets to determine if these amounts are recoverable under current assumptions. In addition, management regularly reviews the estimates and assumptions underlying DAC, DSI and VOBA. The projection of estimated gross profits, gross premiums or gross revenues requires the use of certain assumptions, principally related to separate account fund returns in excess of amounts credited to policyholders, policyholder behavior such as surrender and lapse rates, interest margin, expense margin, mortality, future impairments and hedging costs. Estimating future gross profits, gross premiums or gross revenues is a complex process requiring considerable judgment and the forecasting of events well into the future. If these assumptions prove to be inaccurate, an estimation technique used to estimate future gross profits, gross premiums or gross revenues is changed, or if significant or sustained equity market declines occur and/or persist, we could be required to accelerate the amortization of DAC, DSI and VOBA, which would result in a charge to earnings. Such adjustments could have a material adverse effect on our results of operations and financial condition.

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***Reinsurance subjects us to the credit risk of reinsurers and may not be available, affordable or adequate to protect us against losses.***

We cede life insurance policies and annuity contracts to other insurance companies through reinsurance. However, we remain liable to the underlying policyholders, even if the reinsurer defaults on its obligations with respect to the ceded business. If a reinsurer fails to meet its obligations under the reinsurance contract, we will be forced to cover the claims on the reinsured policies. In addition, a reinsurer insolvency may cause us to lose our reserve credits on the ceded business, in which case we would be required to establish additional reserves.

In addition, if a reinsurer loses its accredited reinsurer status in any state where we are licensed to do business, we will not be entitled to take credit for reinsurance in that state if the reinsurer does not post sufficient qualifying assets in a qualifying trust or post qualifying letters of credit, and we would be required to establish additional reserves. Similarly, the credit for reinsurance taken by our insurance subsidiaries under affiliated and unaffiliated offshore reinsurance agreements is, under certain conditions, dependent upon the offshore reinsurer's ability to obtain and provide sufficient qualifying assets in a qualifying trust or qualifying letters of credit issued by qualifying lending banks. The cost of letters of credit, when available, continues to be very expensive in the current economic environment. Because of this, our affiliated offshore reinsurer has established and will continue to pursue alternative sources for qualifying reinsurance collateral. If these steps are unsuccessful, or if unaffiliated non-accredited reinsurers that have reinsured business from our insurance subsidiaries are unsuccessful in obtaining sources of qualifying reinsurance collateral, our insurance subsidiaries might not be able to obtain full reserve credit. Loss of reserve credit by an insurance subsidiary would require it to establish additional reserves and would result in a decrease in the level of its capital, which could have a material adverse effect on our profitability, results of operations and financial condition.

We had \$467.2 million and \$609.6 million of unsecured unaffiliated reinsurance recoverable balances at December 31, 2011 and 2010, respectively. These reinsurance recoverable balances are periodically assessed for uncollectability and there were no significant allowances for uncollectible reinsurance as of December 31, 2011 and December 31, 2010.

The collectability of reinsurance recoverables is subject to uncertainty arising from a number of factors, including whether the insured losses meet the qualifying conditions of the reinsurance contract, whether reinsurers, or their affiliates, have the financial capacity and willingness to make payments under the terms of the reinsurance contract, and the degree to which our reinsurance balances are secured by sufficient qualifying assets in qualifying trusts or qualifying letters of credit issued by qualifying lender banks. Although a substantial portion of our reinsurance exposure is secured by assets held in trusts or letters of credit, the inability to collect a material recovery from a reinsurer could have a material adverse effect on our profitability, results of operation and financial condition.

The premium rates and other charges that we charge are based, in part, on the assumption that reinsurance will be available at a certain cost. Some of our reinsurance contracts contain provisions that limit the reinsurer's ability to increase rates on in-force business; however, some do not. If a reinsurer raises the rates that it charges on a block of in-force business, our profitability may be negatively impacted if we are not able to pass the increased costs on to the customer. If reinsurers raise the rates that they charge on new business, we may be forced to raise the premiums that we charge, which could have a negative impact on our competitive position.

***A decrease in the RBC or statutory surplus of our insurance subsidiaries could result in increased scrutiny by insurance regulators and rating agencies and have a material adverse effect on our business, results of operations and financial condition.***

The National Association of Insurance Commissioners ( NAIC ) has established regulations that provide minimum capitalization requirements based on RBC formulas for insurance companies. The RBC formula for life insurance companies establishes capital requirements relating to insurance, business, asset and interest rate risks, including equity, interest rate and expense recovery risks associated with variable annuities and group

annuities that contain death benefits. Each of our insurance subsidiaries is subject to RBC standards and other minimum statutory capital and surplus requirements imposed under the laws of its respective jurisdiction of domicile.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors – the amount of statutory income or losses generated by the insurance subsidiary (which itself is sensitive to equity market and credit market conditions), the amount of additional capital such insurer must hold to support business growth, changes in equity market levels, the value and credit ratings of certain fixed-income and equity securities in its investment portfolio, the value of certain derivative instruments that do not receive hedge accounting, changes in interest rates, as well as changes to the RBC formulas and the interpretation of the NAIC’s instructions with respect to RBC calculation methodologies. Many of these factors are outside of our control. Our financial strength and credit ratings are significantly influenced by statutory surplus amounts and RBC ratios. In addition, rating agencies may implement changes to their own internal models, which differ from the RBC capital model that have the effect of increasing or decreasing the amount of statutory capital we or our insurance subsidiaries should hold relative to the rating agencies’ expectations. In addition, in extreme scenarios of equity market declines, sustained periods of low interest rates, rapidly rising interest rates or credit spread widening, the amount of additional statutory reserves that an insurance subsidiary is required to hold for certain types of GICs and variable annuity guarantees and stable value contracts may increase at a greater than linear rate. This increase in reserves would decrease the statutory surplus available for use in calculating its RBC ratios. To the extent that an insurance subsidiary’s RBC ratios are deemed to be insufficient, we may seek to take actions to either increase the capitalization of the insurer or reduce the capitalization requirements. If we were unable to accomplish such actions, the rating agencies may view this as a reason for a ratings downgrade.

The failure of any of our insurance subsidiaries to meet its applicable RBC requirements or minimum capital and surplus requirements could subject it to further examination or corrective action imposed by insurance regulators, including limitations on its ability to write additional business, supervision by regulators or seizure or liquidation. Any corrective action imposed could have a material adverse effect on our business, results of operations and financial condition. A decline in RBC ratios also limits the ability of an insurance subsidiary to make dividends or distributions to us and could be a factor in causing ratings agencies to downgrade the insurer’s financial strength ratings, which could have a material adverse effect on our business, results of operations and financial condition.

***We receive a significant portion of our financing from two Federal Home Loan Banks, which subjects us to risks associated with sourcing a large concentration of our funding from two counterparties.***

We have received a significant amount of financing from the Federal Home Loan Bank of Topeka and the Federal Home Loan Bank of Des Moines (collectively – FHLBs ). As of March 31, 2012 we had received \$3.4 billion of cash financing and letters of credit in exchange for eligible collateral in the form of cash, mortgage backed securities and U.S. Treasury securities. Should the FHLBs choose to change their definition of eligible collateral, or if the market value of the pledged collateral decreases in value due to changes in interest rates or credit ratings, we may be required to post additional amounts of collateral in the form of cash or other eligible collateral. Additionally, we may be required to find other sources of financing to replace this funding if we lose access to FHLB financing. This could occur if either of the FHLBs negatively assesses our creditworthiness or if legislative or other political actions cause changes to the FHLBs’ mandate or the eligibility of life insurance companies to be eligible member/borrowers of the FHLB system.

***Any failure to protect the confidentiality of customer information could adversely affect our reputation and have a material adverse effect on our business, financial condition and results of operation.***

Our businesses and relationships with customers are dependent upon our ability to maintain the confidentiality of our and our customers’ trade secrets and confidential information (including customer transactional data and personal data about our employees, our customers and the customers of our customers).

Pursuant to federal laws, various federal regulatory and law enforcement agencies have established rules protecting the privacy and security of personal information. In addition, most states have enacted laws, which vary significantly from jurisdiction to jurisdiction, to safeguard the privacy and security of personal information. Certain of our employees and contractors and many sales representatives of our broker-dealer subsidiaries have access to and routinely process personal information of customers through a variety of media, including the internet and software applications. We rely on various internal processes and controls to protect the confidentiality of customer information that is accessible to, or in the possession of, us, our employees, contractors and sales representatives. It is possible that an employee, contractor or sales representative could, intentionally or unintentionally, disclose or misappropriate confidential customer information. If we fail to maintain adequate internal controls, including any failure to implement newly-required additional controls, or if our employees, contractors or sales representatives fail to comply with our policies and procedures, misappropriation or intentional or unintentional inappropriate disclosure or misuse of customer information could occur. Such internal control inadequacies or non-compliance could materially damage our reputation, result in regulatory action or lead to civil or criminal penalties, which, in turn, could have a material adverse effect on our business, results of operations and financial condition.

***Changes in accounting standards could adversely impact our reported results of operations and our reported financial condition.***

Our financial statements are subject to the application of GAAP, which is periodically revised or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the Financial Accounting Standards Board ( FASB ). For example, the adoption of the provision of ASU 2010-26 decreased our retained earnings by \$1.2 billion as of January 1, 2011. It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our results of operations and financial condition.

In addition, FASB is working on several projects with the International Accounting Standards Board, which could result in significant changes as GAAP converges with IFRS, including how we account for our insurance policies, annuity contracts and financial instruments and how our financial statements are presented. Furthermore, the SEC is considering whether and how to incorporate IFRS into the U.S. financial reporting system. The changes to GAAP and ultimate conversion to IFRS, if undertaken, could affect the way we account for and report significant areas of our business and could impose special demands on issuers in the areas of governance, employee training, internal controls and disclosure and/or will likely affect how we manage our business.

***We may be required to establish an additional valuation allowance against the deferred income tax asset if our business does not generate sufficient taxable income or if our tax planning strategies are modified. Increases in the deferred tax valuation allowance could have a material adverse effect on results of operations and financial condition.***

Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. We periodically evaluate and test our ability to realize our deferred tax assets. Deferred tax assets represent the tax benefit of future deductible temporary differences, operating loss carryforwards and tax credits carryforward. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. In assessing the more likely than not criteria, we consider future taxable income as well as prudent tax planning strategies. Future facts, circumstances, tax law changes and FASB developments may result in an increase in the valuation allowance. An increase in the valuation allowance could have a material adverse effect on the Company's results of operations and financial condition.

As of December 31, 2011, we have recognized deferred tax assets based on tax planning related to unrealized gains on investment assets. To the extent these unrealized gains decrease, the tax benefit will be



reduced by increasing the tax valuation allowance. For example, if interest rates increase, the amount of the unrealized gains will, most likely, decrease, with all other things constant. The decrease in the deferred tax asset may be recorded as a tax expense in tax on continuing operations based on the intra period tax allocation rules described in ASC 740, Income Taxes .

***Our ability to use beneficial U.S. tax attributes may be subject to limitation.***

Sections 382 and 383 of the U.S. Internal Revenue Code operate as anti-abuse rules, the general purpose of which is to prevent trafficking in tax losses and credits, but which can apply without regard to whether a loss trafficking transaction occurs or is intended. These rules are triggered when an ownership change (generally defined as when the ownership of a company, or its parent, changes by more than 50% (measured by value) on a cumulative basis in any three year period) occurs. For example, in November 2008, ING Group issued 10 billion of core Tier 1 securities to the Dutch State in connection with a capital infusion that would need to be taken into account for purposes of determining if an ownership change has occurred. In December 2009, ING Group redeemed approximately half of these securities and in May 2011, an additional 20 percent of the securities were redeemed. The redemption by ING Group of an additional amount of these securities in the near term may, depending on the facts and circumstances of such a redemption, trigger an ownership change. To the extent there is an ownership change, there most likely will be a reduction in the deferred tax asset established in recognition of tax planning for unrealized capital gains and carry forward items. The tax consequences will be recorded at the time of the ownership change. In addition, there may be a reduction in the deferred tax asset associated with other tax attributes (such as unrealized losses).

An ownership change could have an adverse effect on our future U.S. tax liabilities and could have a material adverse effect on our financial condition and results of operations. Although we are uncertain as to the ultimate financial impact of a reduction of the deferred tax asset resulting from an ownership change, we estimate that at the time of an ownership change, the deferred tax asset potentially subject to limitation is approximately \$900 million. The decrease in the deferred tax asset may be recorded as a tax expense in tax on continuing operations. Moreover, under statutory accounting, such a reduction may impact the ability of the affected insurance subsidiaries to pay a dividend and consequently could adversely impact the ability of ING U.S., Inc. to service debt. The determination as to whether an ownership change occurs is complex and subject to uncertainties, and we could in the future take additional actions that could result in an additional ownership change.

***We are unable to offset our U.S. taxable income against the losses of one of our reinsurance subsidiaries.***

As described in Risks Related to our Closed Block Variable Annuity Segment and Business Closed Blocks Closed Block Variable Annuity, we may incur losses in the future in our Closed Block Variable Annuity segment. We expect that a significant portion of any such loss would be realized in Security Life of Denver International Limited ( SLDI ), a subsidiary domiciled in the Cayman Islands. SLDI has made an election to be treated as a U.S. corporation for U.S. federal income tax purposes. However, U.S. federal income tax law does not allow the operating losses of a foreign company making such an election to offset the taxable income of its U.S. affiliates. Through a reinsurance arrangement, SLDI is obligated to indemnify our other U.S. subsidiaries in the event that certain annuity guarantees are paid to customers. To the extent SLDI remains a foreign entity and has operating losses that exceed its taxable income, the losses would not be available to offset taxable income for U.S. federal income tax purposes and would increase our effective tax rate.

***ING U.S., Inc. has in the past made substantial net cash payments to its subsidiaries under the Company's tax sharing agreement, and may be required to make net cash payments to subsidiaries in the future in the event they incur tax losses.***

ING U.S., Inc. and its subsidiaries are parties to an intercompany tax sharing agreement that requires ING U.S., Inc. to pay its subsidiaries for the tax benefits of ordinary and capital losses as they are incurred, and in turn requires its subsidiaries to pay ING U.S., Inc. for the taxes payable on their ordinary income and capital gains.

Under the agreement, ING U.S., Inc. is required to make payments to most subsidiaries that have such tax losses even though their losses do not offset other subsidiaries' ordinary income or capital gains. Accordingly, this tax sharing agreement can require ING U.S., Inc. to make cash payments to certain of its subsidiaries that exceed the amount of cash payments received from other subsidiaries under the tax sharing agreement. For the year ended December 31, 2009, ING U.S., Inc.'s payments made to its subsidiaries exceeded payments received from subsidiaries under the tax sharing agreement by the amount of \$1.245 billion. For the two years ended December 31, 2010 and December 2011, payments received from subsidiaries exceeded ING U.S., Inc.'s payments by the amounts of \$487 million and \$206 million, respectively.

The Company is considering amending this tax sharing agreement, to provide that such payment will be made to a subsidiary only in the event that the consolidated tax group actually uses the tax benefit of losses generated by the subsidiary, in order to balance the net cash flows received and paid by ING U.S., Inc. under the agreement. The approval of various state insurance regulators as well as agreements with certain providers of financing would be required for the Company to make this change. There can be no assurance that, if sought, any such regulatory approval or financing providers' agreement would be obtained.

***Our business may be negatively affected by adverse publicity or increased governmental and regulatory actions with respect to us, other well-known companies or the financial services industry in general.***

Governmental scrutiny with respect to matters relating to compensation and other business practices in the financial services industry has increased dramatically in the past several years and has resulted in more aggressive and intense regulatory supervision and the application and enforcement of more stringent standards. The financial crisis and the current political and public sentiment regarding financial institutions has resulted in a significant amount of adverse press coverage, as well as adverse statements or charges by regulators and elected officials. Press coverage and other public statements that assert some form of wrongdoing, regardless of the factual basis for the assertions being made, could result in some type of inquiry or investigation by regulators, legislators and/or law enforcement officials or in lawsuits. Responding to these inquiries, investigations and lawsuits, regardless of the ultimate outcome of the proceeding, is time consuming and expensive and can divert the time and effort of our senior management from its business. Future legislation or regulation or governmental views on compensation may result in us altering compensation practices in ways that could adversely affect our ability to attract and retain talented employees. Adverse publicity, governmental scrutiny, pending or future investigations by regulators or law enforcement agencies and/or legal proceedings involving us or our affiliates, including ING Group, can also have a negative impact on our reputation and on the morale and performance of employees, and on business retention and new sales, which could adversely affect our businesses and results of operations.

***Litigation may adversely affect our profitability and financial condition.***

We are, and may be in the future, subject to legal actions in the ordinary course of insurance, investment management and other business operations. Some of these legal proceedings may be brought on behalf of a class. Plaintiffs may seek large or indeterminate amounts of damage, including compensatory, liquidated, treble and/or punitive damages. Our reserves for litigation may prove to be inadequate. It is possible that our results of operations or cash flow in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation depending, in part, upon the results of operations or cash flow for such period. Given the large or indeterminate amounts sometimes sought, and the inherent unpredictability of litigation, it is also possible that in certain cases an ultimate unfavorable resolution of one or more pending litigation matters could have a material adverse effect on our financial condition.

***A loss of, or significant change in, key product distribution relationships could materially affect sales.***

We distribute certain products under agreements with affiliated distributors and other members of the financial services industry that are not affiliated with us. We compete with other financial institutions to attract and retain commercial relationships in each of these channels, and our success in competing for sales through

these distribution intermediaries depends upon factors such as the amount of sales commissions and fees we pay, the breadth of our product offerings, the strength of our brand, our perceived stability and financial strength ratings, and the marketing and services we provide to, and the strength of the relationships we maintain with, individual distributors. An interruption or significant change in certain key relationships could materially affect our ability to market our products and could have a material adverse effect on our business, operating results and financial condition. Distributors may elect to alter, reduce or terminate their distribution relationships with us, including for such reasons as changes in our distribution strategy, adverse developments in our business, adverse rating agency actions or concerns about market-related risks. Alternatively, we may terminate one or more distribution agreements due to, for example, a loss of confidence in, or a change in control of, one of the distributors, which could reduce sales.

We are also at risk that key distribution partners may merge or change their business models in ways that affect how our products are sold, either in response to changing business priorities or as a result of shifts in regulatory supervision or potential changes in state and federal laws and regulations regarding standards of conduct applicable to distributors when providing investment advice to retail and other customers.

***The occurrence of natural or man-made disasters may adversely affect our results of operations and financial condition.***

We are exposed to various risks arising from natural disasters, including hurricanes, climate change, floods, earthquakes, tornadoes and pandemic disease, as well as man-made disasters, including acts of terrorism and military actions, which may adversely affect assets under management, results of operations and financial condition by causing, among other things:

losses in our investment portfolio due to significant volatility in global financial markets or the failure of counterparties to perform;

changes in the rate of mortality, claims, withdrawals, lapses and surrenders of existing policies and contracts, as well as sales of new policies and contracts; and

disruption of our normal business operations due to catastrophic property damage, loss of life, or disruption of public and private infrastructure, including communications and financial services.

There can be no assurance that our business continuation and crisis management plan or insurance coverages would be effective in mitigating any negative effects on operations or profitability in the event of a disaster, nor can we provide assurance that the business continuation and crisis management plans of the independent distributors and outside vendors on whom we rely for certain services and products would be effective in mitigating any negative effects on the provision of such services and products in the event of a disaster.

Claims resulting from a catastrophic event could also materially harm the financial condition of our reinsurers, which would increase the probability of default on reinsurance recoveries. Our ability to write new business could also be adversely affected.

In addition, the jurisdictions in which our insurance subsidiaries are admitted to transact business require life insurers doing business within the jurisdiction to participate in guaranty associations, which raise funds to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. It is possible that a catastrophic event could require extraordinary assessments on our insurance companies, which may have a material adverse effect on our business, results of operations and financial condition.

***The loss of key personnel could negatively affect our financial results and impair our ability to implement our business strategy.***

Our success depends in large part on our ability to attract and retain key people. Intense competition exists for key employees with demonstrated ability, and we may be unable to hire or retain such employees. Due to

their skills, knowledge of our business, their years of industry experience and the potential difficulty of promptly finding qualified replacement employees, the unexpected loss of services of one or more of our key personnel could have a material adverse effect on our operations. We also rely upon the knowledge and experience of employees involved in functions that require technical expertise in order to provide for sound operational controls for our overall enterprise, including the accurate and timely preparation of required regulatory filings and GAAP and statutory financial statements and operation of internal controls. A loss of such employees could adversely impact our ability to execute key operational functions and could adversely affect our operational controls, including internal controls over financial reporting.

***Interruption or other operational failures in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems, including as a result of human error, could harm our business.***

We are highly dependent on automated and information technology systems to record and process our internal transactions and transactions involving our customers, as well as to calculate reserving requirements, investment asset valuations and certain other components of our GAAP and statutory financial statements. We could experience a failure of one of these systems, our employees or agents could fail to monitor and implement enhancements or other modifications to a system in a timely and effective manner, or our employees or agents could fail to complete all necessary data reconciliation or other conversion controls when implementing a new software system or implementing modifications to an existing system. Despite the implementation of security and back-up measures, our information technology systems may be vulnerable to physical or electronic intrusions, viruses or other attacks, programming errors and similar disruptions. We may also be subject to disruptions of any of these systems arising from events that are wholly or partially beyond our control (for example, natural disasters, acts of terrorism, epidemics, computer viruses and electrical/telecommunications outages). All of these risks are also applicable where we rely on outside vendors to provide services to us and our customers. The failure of any one of these systems for any reason, or errors made by our employees or agents, could in each case cause significant interruptions to our operations, which could harm our reputation, adversely affect our internal control over financial reporting, or have a material adverse effect on our business, results of operations and financial condition.

We retain confidential information in our information technology systems, and we rely on industry standard commercial technologies to maintain the security of those systems. Anyone who is able to circumvent our security measures and penetrate our information technology systems could access, view, misappropriate, alter, or delete information in the systems, including personally identifiable customer information and proprietary business information. Information security risks also exist with respect to the use of portable electronic devices, such as laptops, which are particularly vulnerable to loss and theft. In addition, an increasing number of jurisdictions require that customers be notified if a security breach results in the disclosure of personally identifiable customer information. Any compromise of the security of our information technology systems that results in inappropriate disclosure or use of personally identifiable customer information could damage our reputation in the marketplace, deter people from purchasing our products, subject us to heightened regulatory scrutiny or significant civil and criminal liability and require us to incur significant technical, legal and other expenses.

***We may not be able to protect our intellectual property and may be subject to infringement claims.***

We rely on a combination of contractual rights with third parties and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we endeavor to protect our rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, patents, trade secrets and know-how or to determine their scope, validity or enforceability. This would represent a diversion of resources that may be significant and our efforts may not prove successful. The inability to secure or protect our intellectual property assets could have a material adverse effect on our business and our ability to compete.

We may also be subject to claims by third parties for (i) patent, trademark or copyright infringement, (ii) breach of copyright, trademark or license usage rights, or (iii) misappropriation of trade secrets. Any such

claims and any resulting litigation could result in significant expense and liability for damages. If we were found to have infringed or misappropriated a third-party patent or other intellectual property right, we could in some circumstances be enjoined from providing certain products or services to our customers or from utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses. Alternatively, we could be required to enter into costly licensing arrangements with third parties or implement a costly work around. Any of these scenarios could have a material adverse effect on our business and results of operations.

***We may incur further liabilities in respect of our defined benefit retirement plans if the value of plan assets is not sufficient to cover potential obligations, including as a result of differences between results underlying actuarial assumptions and models.***

The Company operates various defined benefit retirement plans covering a significant number of our employees. The liability recognized in our consolidated balance sheet in respect of our defined benefit plans is the present value of the defined benefit obligations at the balance sheet date, less the fair value of each plan's assets, together with adjustments for unrecognized actuarial gains and losses and unrecognized past service costs. We determine our defined benefit plan obligations based on external actuarial models and calculations using the projected unit credit method. Inherent in these actuarial models are assumptions including discount rates, rates of increase in future salary and benefit levels, mortality rates, consumer price index and the expected return on plan assets. These assumptions are updated annually based on available market data and the expected performance of plan assets. Nevertheless, the actuarial assumptions may differ significantly from actual results due to changes in market conditions, economic and mortality trends and other assumptions. Any changes in these assumptions could have a significant impact on our present and future liabilities to and costs associated with our defined benefit retirement plans and may result in increased expenses and reduce our profitability.

***Although our retail variable annuity products are now managed within our Closed Block Variable Annuity segment, we continue to offer variable annuity products and other products with similar features in our core businesses.***

Although our retail variable annuity products are now managed within our Closed Block Variable Annuity segment, we continue to offer variable annuity products in our core businesses, as well as products that have some of the features of variable annuities such as guaranteed benefits. For example, certain of the deferred annuities sold by our Retirement segment are on group and individual variable annuity policy forms, since these product types allow customers to allocate their retirement savings to a variety of different investment options. These products may contain guaranteed death benefit features, but they do not offer guaranteed living benefit features of the type found within the Closed Block Variable Annuity segment.

The Retirement segment has recently introduced an optional guaranteed retirement income portfolio ( GRIP ) feature that, if elected by an employee of one of our plan sponsor customers, provides guaranteed lifetime withdrawal benefits ( GLWB ) to such employees. The GLWB is offered through a multi-insurer model, whereby we and two unaffiliated insurers provide GLWB coverage to participating employees. In contrast to the retail guaranteed minimum withdrawal benefits for life ( GMWBL ) provisions formerly offered by the Closed Block Variable Annuity segment, the GLWB provisions within GRIP do not offer rollup benefits; furthermore, we reprice the GLWB amount purchased by contributions to the GRIP feature on a quarterly basis. In addition, the investment elections available to participating employees have substantially less flexibility than the elections offered to retail customers of the Closed Block Variable Annuity segment. We also have the right to cease accepting new contributions to the GRIP feature, subject to providing 180 days advance notice to the plan sponsor.

Our Annuities business also offers optional GLWB provisions on its indexed annuity products.

To the extent that these risk-control provisions do not mitigate the risks of the GLWB and to the extent that we continue to offer variable annuity products and products with similar features in our core businesses, the risks described below under Risks Related to our Closed Block Variable Annuity Segment will impact our core businesses.

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**Risks Related to our Closed Block Variable Annuity Segment**

*Although we no longer actively market retail variable annuities, our business, results of operations, financial condition and liquidity will continue to be affected by our Closed Block Variable Annuity segment for the foreseeable future.*

Our Closed Block Variable Annuity segment consists of retail variable annuity insurance policies sold primarily from 2001 to early 2010, when the block entered run-off. This segment represented 19.0% of our total AUM as of March 31, 2012, and contributed segment operating losses before income taxes of \$18.3 million, \$324.8 million and \$683.9 million in 2011, 2010 and 2009, respectively. See **Business Closed Blocks Closed Block Variable Annuity**. These products offered long-term savings vehicles in which customers (policyholders) made deposits that were invested, largely at the customer's direction, in a variety of U.S. and international equity, fixed income, real estate and other investment options. In addition, these products provided customers with the option to purchase living benefit riders, including GMWBL, guaranteed minimum income benefits ( GMIB ), guaranteed minimum accumulation benefits ( GMAB ) and guaranteed minimum withdrawal benefits without lifetime guarantees ( GMWB ). All retail variable annuity products include guaranteed minimum death benefits ( GMDB ). In 2009, we decided to cease sales of retail variable annuity products with substantial guarantee features. In early 2010, we ceased all new sales of these products, although we continue to accept new deposits in accordance with, and subject to the limitations of, the provisions of existing contracts.

Because policyholders have various contractual rights to defer withdrawals, annuitization and/or maturity of their contracts, the nature of contractual maturity, and the period over which maturity can take place, is subject to policyholder behavior and is therefore indeterminate. As a result, although we no longer actively market retail variable annuities, our overall business is likely to be materially impacted by this segment for the foreseeable future. In particular, any of the risks described below could result in a material adverse impact to our results of operations, financial condition and liquidity.

*Our Closed Block Variable Annuity segment is subject to market risks.*

Our Closed Block Variable Annuity segment is subject to a number of market risks, primarily associated with U.S. and other global equity market values and interest rates. For example, declining equity market values, increasing equity market volatility and declining interest rates can result in an increase in the valuation of future policy benefits, reducing our net income. Declining market values for bonds and equities also reduce the account balances of our variable annuity contracts, and since we collect fees and risk charges based on these account balances, our net income may be further reduced.

Declining interest rates, increased equity market volatility and declining equity market values may also subject us to increased hedging costs. Market events can cause an increase in the amount of statutory reserves that our insurance subsidiaries are required to hold for variable annuity guarantees, lowering their statutory surplus, which would adversely impact their ability to pay dividends to us. See **Risks Related to the Notes** below.

*The performance of our Closed Block Variable Annuity segment depends on assumptions that may not be accurate.*

Our Closed Block Variable Annuity segment is subject to risks associated with the future behavior of policyholders and future claims payment patterns, using assumptions for mortality experience, lapse rates, GMIB annuitization rates, and GMWB/GMWBL withdrawal rates. We are required to make assumptions about these behaviors and patterns, which may not reflect the actual behaviors and patterns we experience in the future.

In particular, we have only minimal experience on policyholder behavior for our GMIB and GMWBL products; as a result, future experience could lead to significant changes in our assumptions. Most of our GMIB contracts were issued in 2004 to 2006 and have a ten year waiting period before annuitization is available for

policyholders and incentives exist for some policyholders to delay beyond ten years. As a result, with respect to the experience used to set annuitization rates, we have only a statistically small sample of experience to date. We do not expect observable experience data to be statistically credible until later this decade, when a large volume of GMIB begins to reach its maximum benefit over a four-year period from 2019-2022, and customers determine whether to elect to annuitize. Similarly, most of our GMWBL contracts are still in the first three to five policy years, so our assumptions for withdrawal from contracts with GMWBL benefits may change as experience emerges over the next five to seven years. We expect customer decisions on annuitization and withdrawal will be influenced by customers' existing financial plans and needs as well as by interest rate and market conditions over time and by the availability of competing products and their features. If emerging experience deviates from our assumptions, we could experience losses, significant reserve strengthening requirements and increased capital requirements.

We also make estimates of expected lapse of these products, which is the probability that a policy will not remain in force from one period to the next. Lapse rate of our annuity products may be significantly impacted by the value of guaranteed minimum benefits relative to the value of the underlying separate accounts (account value or account balance). In general, policies with guarantees that are in the money (i.e., where the notional benefit amount is in excess of the account value) are assumed to be less likely to lapse. Conversely, out of the money guarantees are assumed to be more likely to lapse as the policyholder has less incentive to retain the policy. Lapse rates could also be adversely affected generally by developments that affect customer perception of us.

We make estimates of expected election rates of living benefits for these products and of the rate of election of certain optional benefits that may be exercised. The profitability of our deferred annuity products depends upon actual contract owner decisions to elect or delay the utilization of such benefits. The development of a secondary market for third-party investor strategies in the annuities business could also adversely affect the profitability of existing business by reducing lapse rates of in-the-money contracts in excess of current expectations or by causing living benefits to be elected at points in time that are more unfavorable than our current expectations. Actual lapse rates that are lower than our lapse rates assumptions could have an adverse effect on profitability in the later years of a block of business because the anticipated claims experience may be higher than expected in these later years. If actual lapse rates are significantly different from that assumed in our current reserving assumptions, our reserves for future policy benefits may prove to be inadequate.

Our variable annuity lapse rate experience has varied significantly over the period from 2006 to the present, reflecting among other factors, both pre- and post-financial crisis experience. During the early years of this period, our variable annuity policyholder lapse rate experience was higher than our current best estimate of policyholder lapse behavior would have indicated; in the later part of this period, after mid-2009, it was lower. Management's current best estimate of variable annuity policyholder lapse behavior incorporates a blend of our actual experience over that entire period, as we believe that over the duration of the Closed Block Variable Annuity policies, we will experience the full range of policyholder behavior and market conditions. If our future experience over time, however, were to approximate our lapse experience from later in the period, we would likely need to increase reserves by an amount that could be material. Any such increase to reserves could require us to make material additional capital contributions to one or more of our insurance company subsidiaries or otherwise be material and adverse to the results of operations or financial condition of the Company.

We review policyholder experience annually, or more frequently if necessary. As customer experience continues to materialize, we may adjust our assumptions. The potential magnitude of any required changes may be material. For example, in late 2011, we refined our policyholder behavior assumptions to more closely align with recent experience, resulting in a strengthening of GAAP reserves by \$741 million in the fourth quarter of 2011. It is possible that future assumption changes could produce reserve changes of this magnitude or even greater.

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***Our Closed Block Variable Annuity hedging program currently focuses on the protection of regulatory capital and less on the GAAP earnings impact of this block, which could result in materially lower or more volatile GAAP earnings.***

Our Closed Block Variable Annuity hedging program currently focuses on the protection of regulatory capital and less on the GAAP earnings impact of this block. GAAP accounting differs from the methods used to determine regulatory and rating agency capital measures. Therefore our Closed Block Variable Annuity hedge program may create earnings volatility in our GAAP financial statements, or produce lower GAAP income or even GAAP losses compared to what our unhedged results would have been. In general, in any given period rising equity market values can produce losses in our Closed Block Variable Annuity hedging program that substantially exceed the benefit we derive from the associated decrease in valuation of the future policy benefits associated with Closed Block Variable Annuity products on a GAAP basis, and the impact of declining or neutral equity markets to future policy benefits can largely offset any gains produced by our Closed Block Variable Annuity hedging program. In this connection, we recorded GAAP net gains (losses) related to guaranteed benefit hedging in our Closed Block Variable Annuity hedging program of (\$899.5) million and \$(80.7) million in the three months ended March 31, 2012 and 2011, respectively, and (\$631.7) million, \$22.2 million and \$(977.2) million in the years ended December 31, 2011, 2010 and 2009, respectively. See Management's Discussion and Analysis of Results of Operations and Financial Condition Results of Operations Company Consolidated.

***Our Closed Block Variable Annuity hedging program may not be effective and may be more costly than anticipated.***

We periodically re-evaluate our Closed Block Variable Annuity hedging program to respond to changing market conditions and balance the trade-offs among several important factors, including regulatory capital, rating agency capital, underlying economics, earnings and other factors. While our Closed Block Variable Annuity hedging program is intended to balance numerous critical metrics, we are subject to the risk that our strategies and other management decisions may prove ineffective or that unexpected policyholder behavior, alone or in combination with unfavorable market events, may produce losses or unanticipated cash needs beyond the scope of the risk management strategies employed. In addition, our Closed Block Variable Annuity hedging program does not hedge certain non-market risks inherent in this segment, including business, credit, insurance and operational risks; any of these risks could cause us to experience unanticipated losses or cash needs. For example, hedging counterparties may fail to perform their obligations resulting in unhedged exposures and losses on positions that are not collateralized. Finally, the cost of the Closed Block Variable Annuity hedging program itself may be greater than anticipated as adverse market conditions can limit the availability and increase the costs of the hedging instruments we employ, and such costs may not be recovered in the pricing of the underlying products being hedged. For example, the cost of hedging guaranteed minimum benefits increases as market volatilities increase and/or interest rates decrease, resulting in a reduction to net income.

#### **Risks Related to Regulation**

***Our businesses are heavily regulated and changes in regulation may reduce our profitability.***

We are subject to detailed insurance, asset management and other financial services laws and government regulation. In addition to the insurance, asset management and other regulations and laws specific to the industries in which we operate, regulatory agencies have broad administrative power over many aspects of our business, which may include ethical issues, money laundering, privacy, record keeping and marketing and sales practices. Also, bank regulators and other supervisory authorities in the United States and elsewhere continue to scrutinize payment processing and other transactions under regulations governing such matters as money-laundering, prohibited transactions with countries subject to sanctions, and bribery or other anti-corruption measures. The financial market dislocations we have experienced have produced, and are expected to continue to produce, extensive changes in existing laws and regulations applicable to our businesses.

Compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in laws and regulations may materially increase the cost of compliance and other expenses of doing business. There



are a number of risks that may arise where applicable regulations may be unclear, subject to multiple interpretations or under development or where regulations may conflict with one another, where regulators revise their previous guidance or courts overturn previous rulings, which could result in our failure to meet applicable standards. Regulators and other authorities have the power to bring administrative or judicial proceedings against us, which could result, among other things, in suspension or revocation of our licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action which could materially harm our results of operations and financial condition. If we fail to address, or appear to fail to address, appropriately any of these matters, our reputation could be harmed and we could be subject to additional legal risk, which could increase the size and number of claims and damages asserted against us or subject us to enforcement actions, fines and penalties. See Regulation for further discussion of the impact of regulations on our businesses.

***Our insurance businesses are heavily regulated, and changes in regulation in the United States and regulatory investigations may reduce profitability.***

Our insurance operations are subject to comprehensive regulation and supervision throughout the United States. State insurance laws regulate most aspects of our insurance businesses, and our insurance subsidiaries are regulated by the insurance departments of the states in which they are domiciled and the states in which they are licensed. The primary purpose of state regulation is to protect policyholders, and not necessarily to protect creditors and investors. See Regulation Insurance Regulation.

State insurance guaranty associations have the right to assess insurance companies doing business in their state in order to help pay the obligations of insolvent insurance companies to policyholders and claimants. Because the amount and timing of an assessment is beyond our control, liabilities we have currently established for these potential liabilities may not be adequate.

State insurance regulators and the NAIC regularly reexamine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer at the expense of the insurer and could materially and adversely affect our business, results of operations or financial condition.

Insurance regulators have begun to implement significant changes in the way in which insurers must determine statutory reserves and capital, particularly for products with contractual guarantees such as variable annuities and universal life policies, and are considering further potentially significant changes in these requirements. The NAIC is currently working on comprehensive reforms related to life insurance reserves and the accounting for such reserves. The timing and extent of further changes to statutory reserves and reporting requirements are uncertain.

In addition, state insurance regulators are becoming more active in adopting and enforcing suitability standards with respect to sales of fixed, indexed and variable annuities. In particular, the NAIC has adopted a revised Suitability in Annuity Transactions Model Regulation ( SAT ), which will, if enacted by the states, place new responsibilities upon issuing insurance companies with respect to the suitability of annuity sales, including responsibilities for training agents. Several states have already enacted laws based on the SAT.

In addition to the foregoing risks, the financial services industry is the focus of increased regulatory scrutiny as various state and federal governmental agencies and self-regulatory organizations conduct inquiries and investigations into the products and practices of the financial services industries. Refer to Note 10, *Commitments and Contingencies*, to our Condensed Consolidated Financial Statements for the three months ended March 31, 2012 for a description of certain regulatory inquiries affecting the Company. It is possible that future regulatory inquiries or investigations involving the insurance industry generally, or the Company specifically, could materially and adversely affect our business, results of operations or financial condition.

In some cases, this regulatory scrutiny has led to legislation and regulation, or proposed legislation and regulation, that could significantly affect the financial services industry, or has resulted in regulatory penalties,

settlements and litigation. New laws, regulations and other regulatory actions aimed at the business practices under scrutiny could materially and adversely affect our business, results of operations or financial condition. The adoption of new laws and regulations, enforcement actions, or litigation, whether or not involving us, could influence the manner in which we distribute our products, result in negative coverage of the industry by the media, cause significant harm to our reputation and materially and adversely affect our business, results of operations or financial condition.

***Our products are subject to extensive regulation and failure to meet any of the complex product requirements may reduce profitability.***

Our insurance, annuity, retirement and investment products are subject to a complex and extensive array of state and federal tax, securities, insurance and employee benefit plan laws and regulations, which are administered and enforced by a number of different governmental and self-regulatory authorities, including state insurance regulators, state securities administrators, the SEC, the Financial Industry Regulatory Authority ( FINRA ), the Department of Labor ( DOL ) and the IRS.

For example, U.S. federal income tax law imposes requirements relating to insurance and annuity product design, administration and investments that are conditions for beneficial tax treatment of such products under the Internal Revenue Code. Additionally, state and federal securities and insurance laws impose requirements relating to insurance and annuity product design, offering and distribution and administration. Failure to administer product features in accordance with contract provisions or applicable law, or to meet any of these complex tax, securities, or insurance requirements could subject us to administrative penalties imposed by a particular governmental or self-regulatory authority, unanticipated costs associated with remedying such failure or other claims, harm to our reputation, interruption of our operations or adversely impact profitability.

***The Dodd-Frank Act, its implementing regulations and other financial regulatory reform initiatives could have adverse consequences for the financial services industry, including us and/or materially affect our results of operations, financial condition or liquidity.***

On July 21, 2010, the Dodd-Frank Act was signed into law. It effects comprehensive changes to the regulation of financial services in the United States. The Dodd-Frank Act directs existing and newly-created government agencies and bodies to perform studies and promulgate a multitude of regulations implementing the law, a process that is underway and is expected to continue over the next few years. While some studies have already been completed and the rule-making process has begun, there continues to be significant uncertainty regarding the results of ongoing studies and the ultimate requirements of regulations that have not yet been adopted. We cannot predict with certainty how the Dodd-Frank Act and such regulations will affect the financial markets generally, or impact our business, ratings, results of operations, financial condition or liquidity. Key aspects we have identified to date of the Dodd-Frank Act's potential impact on us include:

If designated by the Financial Stability Oversight Council ( FSOC ) as a nonbank financial company subject to supervision by the Board of Governors of the Federal Reserve System ( Federal Reserve ), we would become subject to a comprehensive system of prudential regulation, including, among other matters, minimum capital requirements, liquidity standards, credit exposure requirements, overall risk management requirements, management interlock prohibitions, a requirement to maintain a plan for rapid and orderly dissolution in the event of severe financial distress, stress testing, additional fees and assessments and restrictions on proprietary trading and certain investments. The exact scope and consequences of these standards are subject to ongoing rulemaking activity by various federal banking regulators and therefore are currently unclear. However, this comprehensive system of prudential regulation, if applied to us, would significantly impact the manner in which we operate and could materially and adversely impact the profitability of one or more of our business lines or the level of capital required to support our activities. In designating non-bank financial companies for heightened prudential regulation by the Federal Reserve, the FSOC considers, among other matters, their size and

potential impact on the financial stability of the United States. So long as the Company continues to be controlled by ING Group, the FSOC may consider the Company together with ING Group's other operations in the United States for purposes of making this determination. Therefore, while we believe it is unlikely that the Company, either on a standalone basis or together with ING Group's other operations in the United States, will ultimately receive this designation, there is a greater likelihood of such a designation being made for so long as we are controlled by ING Group.

Title II of the Dodd-Frank Act provides that a financial company, such as us, may be subject to a special orderly liquidation process outside the federal bankruptcy code, administered by the Federal Deposit Insurance Corporation as receiver, upon a determination that it is in default or in danger of default and presents a systemic risk to U.S. financial stability. We cannot predict how rating agencies, or creditors of us or our subsidiaries, will evaluate this potential or whether it will impact our financing or hedging costs.

Title VII of the Dodd-Frank Act creates a new framework for regulation of the over-the-counter (OTC) derivatives markets. New margin and capital requirements on market participants contained in final regulations to be adopted by the SEC and the U.S. Commodity Futures Trading Commission (CFTC) could substantially increase the cost of hedging and related operations, affect the profitability of our products or their attractiveness to our customers, or cause us to alter our hedging strategy or change the composition of the risks we do not hedge.

Pursuant to requirements of the Dodd-Frank Act, the SEC and CFTC are currently considering whether stable value contracts should be regulated as swaps. In the event that stable value contracts become subject to such regulation, certain aspects of our business could be adversely impacted, including issuance of stable value contracts and management of assets pursuant to stable value mandates.

The Dodd-Frank Act establishes a Federal Insurance Office within the United States Department of the Treasury (Treasury Department) to be headed by a director appointed by the Secretary of the Treasury. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office would perform various functions with respect to insurance, including participating in the FSOC's decisions regarding insurers to be designated for stricter regulation by the FRB. The Federal Insurance Office may recommend enhanced regulations to the states.

The Dodd-Frank Act also includes various securities law reforms that may affect our business practices. See [Changes in U.S. federal and state securities laws and regulations may affect our operations and profitability](#) below.

The Dodd-Frank Act could result in various ex-post assessments being imposed on us, the costs of which we are unable to estimate at this time.

Although the full impact of the Dodd-Frank Act cannot be determined until the various studies mandated by the law are conducted and implementing regulations are adopted, many of the legislation's requirements could have profound and/or adverse consequences for the financial services industry, including for us. The Dodd-Frank Act could make it more expensive for us to conduct business, require us to make changes to our business model or satisfy increased capital requirements, subject us to greater regulatory scrutiny or to potential increases in whistleblower claims in light of the increased awards available to whistleblowers under the Act and have a material adverse effect on our results of operations or financial condition.

See [Regulation](#) for further discussion of the impact of the Dodd-Frank Act on our businesses.

In addition to the Dodd-Frank Act, regulators and lawmakers in non-U.S. jurisdictions are engaged in addressing the causes of the financial crisis and means of avoiding such crises in the future. Although currently we are not directly subject to non-U.S. regulation, we may be significantly affected by foreign regulatory actions, including due to our being under control of ING Group. We are unable to predict how any such regulations could

affect the way ING Group conducts its business and manages capital, or to what extent any resulting changes in the way ING Group conducts its business or manages capital could affect our business, our relationship with ING Group or our results of operations, financial condition and liquidity. For a further discussion of foreign regulation and its potential effect on us while we are controlled by ING Group, including the impact of the Solvency II Directive, see Regulation Certain International and National Regulatory Initiatives that May Affect Us as a Consequence of our Affiliation with ING Group.

***Changes in U.S. federal and state securities laws and regulations may affect our operations and our profitability.***

U.S. federal and state securities laws apply to our sales of mutual funds and to our variable annuity and variable life insurance products (which are considered to be both insurance products and securities). As a result, some of our subsidiaries and the products they offer are subject to regulation under these federal and state securities laws. Our insurance subsidiaries' separate accounts are registered as investment companies under the Investment Company Act of 1940. Some variable annuity contracts and variable life insurance policies issued by our insurance subsidiaries also are registered under the Securities Act. Other subsidiaries are registered as broker-dealers under the Exchange Act, are members of, and subject to, regulation by FINRA, and are also registered as broker-dealers in various states, as applicable. In addition, some of our subsidiaries are registered as investment advisers under the Investment Advisers Act of 1940.

Securities laws and regulations are primarily intended to ensure the integrity of the financial markets and to protect investors in the securities markets or investment advisory or brokerage clients. These laws and regulations generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the conduct of business for failure to comply with those laws and regulations. A number of changes have recently been proposed to the laws and regulations that govern the conduct of our variable insurance products business and our distributors that could have a material adverse effect on our results of operations and financial condition. For example, the Dodd-Frank Act authorizes the SEC to establish a standard of conduct applicable to brokers and dealers when providing personalized investment advice to retail customers. This standard of conduct would be to act in the best interest of the customer without regard to the financial or other interest of the broker or dealer providing the advice. Further, proposals have been made that the SEC establish a self-regulatory organization with respect to registered investment advisers, which could increase the level of regulatory oversight over them. Changes to these laws or regulations that restrict the conduct of our business could have an adverse effect on our results of operations and financial condition.

***Changes to regulations under the Employee Retirement Income Security Act of 1974 ( ERISA ) could adversely affect our distribution model by restricting our ability to provide customers with advice.***

The prohibited transaction rules of ERISA and the Internal Revenue Code generally restrict the provision of investment advice to ERISA plans and participants and IRAs if the investment recommendation results in fees paid to the individual advisor, his or her firm or their affiliates that vary according to the investment recommendation chosen. In March 2010, the DOL issued proposed regulations which provide limited relief from these investment advice restrictions. The DOL issued final rules in October of 2011 and did not provide additional relief regarding these restrictions. As a result, the ability of our investment advisory subsidiaries and their advisory representatives to provide investment advice to ERISA plans and participants, and with respect to IRAs, will likely be significantly restricted. Also, the fee and revenue arrangements of certain advisory programs may be required to be revenue neutral, resulting in potential lost revenues for these investment advisers and their affiliates.

Other proposed regulatory initiatives under ERISA may negatively impact our broker-dealer subsidiaries. In particular, the DOL issued a proposed regulation in October 2010 that would, if adopted as proposed, significantly broaden the circumstances under which a person or entity providing investment advice with respect to ERISA plans or IRAs would be deemed a fiduciary under ERISA or the Internal Revenue Code. Although the DOL has withdrawn this proposal, it has indicated its intent to re-propose the regulation in a modified form. If

adopted, the proposed regulations may make it easier for the DOL in enforcement actions, and for plaintiffs' attorneys in ERISA litigation, to attempt to extend fiduciary status to advisors who would not be deemed fiduciaries under current regulations.

In addition, the DOL has issued a number of regulations recently, and may issue additional similar regulations, that increase the level of disclosure that must be provided to plan sponsors and participants. These ERISA disclosure requirements will likely increase the regulatory and compliance burden upon us, resulting in increased costs.

***Changes in U.S. pension laws and regulations may affect our results of operations and our profitability.***

Congress from time to time considers pension reform legislation that could decrease the attractiveness of certain of our retirement products and services to retirement plan sponsors and administrators or have an unfavorable effect on our ability to earn revenues from these products and services. In this regard, the Pension Protection Act of 2006 ( PPA ) made significant changes in employer pension funding obligations associated with defined benefit pension plans that are likely to increase sponsors' costs of maintaining these plans and imposed certain requirements on defined contribution plans. Over time, these changes could negatively impact our sales of defined benefit or defined contribution plan products and services and cause sponsors to discontinue existing plans for which we provide insurance, asset management, administrative, or other services. Certain tax-favored savings initiatives that have been proposed could hinder sales and persistency of our products and services that support employment based retirement plans.

The Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 also includes certain provisions for defined benefit pension plan funding relief. These provisions may impact the likelihood of corporate plan sponsors terminating their plans and/or engaging in transactions to partially or fully transfer pension obligations to an insurance company. As part of our retirement services segment, we offer general account and separate account group annuity products that enable a plan sponsor to transfer these risks, often in connection with the termination of defined benefit pension plans. Consequently, this legislation could indirectly affect the mix of our business, with fewer closeouts and more non-guaranteed funding products, and adversely impact our results of operations.

***We may not be able to mitigate the reserve strain associated with Regulation XXX and Actuarial Guideline 38, potentially resulting in a negative impact on our capital position or in a need to increase prices and/or reduce sales of term or universal life products.***

The Model Regulation entitled Valuation of Life Insurance Policies, commonly known as Regulation XXX or XXX, requires insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and universal life policies with secondary guarantees. In addition, Actuarial Guideline 38 ( AG38 ) clarifies the application of XXX with respect to certain universal life insurance policies with secondary guarantees. Many of our newly issued term insurance products and an increasing number of our universal life insurance products are affected by XXX and AG38, respectively. The application of both AG38 and XXX involves numerous interpretations. At times, there may be differences of opinion between management and state insurance departments regarding the application of these and other actuarial standards. Such differences of opinion may lead to a state insurance regulator requiring greater reserves to support insurance liabilities than management estimated.

We have implemented reinsurance and capital management actions to mitigate the capital impact of XXX and AG38, including the use of letters of credit and the implementation of other transactions that provide acceptable collateral to support the reinsurance provided by captive reinsurance subsidiaries. Rating agencies may require a portion of these letters of credit or other collateral to be included in our leverage calculations, which would pressure our leverage ratios and potentially our ratings. We cannot provide assurance that there will not be regulatory or rating agency challenges to the reinsurance and capital management actions we have taken to

date or that acceptable collateral obtained through such transactions will continue to be available or available on a cost effective basis. The result of those potential challenges or inability to obtain acceptable collateral could require us to increase statutory reserves, incur higher operating and/or tax costs or reduce sales.

We also cannot provide assurance that we will be able to continue to implement actions to mitigate the impact of XXX and AG38 on future sales of term and universal life insurance products. If we are unable to continue to implement those actions, we may be required to increase statutory reserves or incur higher operating costs than we currently anticipate. Because term and universal life insurance are particularly price-sensitive products, any increase in premiums charged on these products in order to compensate us for the increased statutory reserve requirements or higher costs of reinsurance may result in a significant loss of volume and materially and adversely affect our life insurance business.

***Changes in tax laws could increase our tax costs or make our insurance, annuity and investment products less attractive to customers.***

Changes in tax laws could increase our taxes and our effective tax rates. For example, the Obama Administration has proposed modifying the dividends received deduction for life insurance company separate accounts, and such a modification could significantly reduce the dividends received deduction that we are able to claim for dividends received in separate accounts. We have also entered into agreements with the IRS to resolve issues related to tax accounting matters, such as hedge gains and losses and other than temporary impairment losses, which agreements may be superseded by future regulations or public guidance that increases our taxes and our effective tax rates. Further, changes in tax rates could affect the amount of our deferred tax assets and deferred tax liabilities.

Changes in tax laws could make some of our insurance, annuity and investment products less attractive to customers. Current U.S. federal income tax law permits tax-deferred accumulation of income earned under life insurance and annuity products, and permits exclusion from taxation of death benefits paid under life insurance contracts. Changes in tax laws that restrict these tax benefits could make some of our products less attractive to customers. Reductions in individual income tax rates or estate tax rates could also make some of our products less advantageous to customers.

**Risks Related to Our Proposed Separation from, and Continuing Relationship With, ING Group**

***Our continuing relationship with ING Group, our ultimate parent, and ING Bank, our affiliate, may affect our ability to operate and finance our business as we deem appropriate and changes with respect to ING Group could negatively impact us.***

ING Group currently owns all of our outstanding common stock. Even following any Divestment Transaction, it is likely that ING Group will continue to own a significant percentage of our common stock and that we will continue to be a consolidated subsidiary of ING Group for purposes of its financial reporting. Circumstances affecting ING Group, and ING Bank, our affiliate, may have an impact on us and we cannot be certain how further changes in circumstances affecting ING Group or ING Bank may impact us.

In November 2008, the Dutch State purchased non-voting core Tier 1 securities from ING Group for a total consideration of 10 billion and in the first quarter of 2009 ING Group entered into an Illiquid Asset Back-up Facility with the Dutch State (the Dutch State Transactions). In connection with the Dutch State Transactions, ING Group accepted certain restrictions regarding the compensation of certain of its senior management positions. In addition, the Dutch State was granted the right to nominate two candidates for appointment to ING Group's Supervisory Board and the Dutch State's nominees have veto rights over certain material transactions, including the issuance or repurchase by ING Group of its shares.

In 2009, ING Group was required to submit a Restructuring Plan to the EC to obtain EC approval for the Dutch State Transactions under the EC state aid rules. On October 26, 2009, ING Group announced its

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Restructuring Plan, pursuant to which ING Group is required to divest by the end of 2013 all of its insurance and investment management businesses, including the Company.

ING Group has announced that the base case for divesting the Company is an initial public offering of ING U.S., Inc. common stock, in which ING Group anticipates selling a portion of its ownership interest in the Company and thereafter divesting its remaining ownership interest over time. The Company is actively engaged in numerous projects across the enterprise to become ready for an initial public offering. While the base case is an initial public offering, it is possible that ING Group's divestment of the Company may take place by means of a sale, to a single buyer or group of buyers. In case the divestment is not completed before the mandated deadline, the EC may require additional restructuring measures or take enforcement action against ING Group, or, at the request of ING Group, could allow ING Group more time to complete the divestment.

There is continuing legal action taking place involving the EC and ING Group concerning the Restructuring Plan, as described under Regulation Dutch State Transactions and Restructuring Plan. In the event ING Group, after any court ruling or is otherwise no longer required, or is allowed more time, to direct its U.S. insurance and investment management businesses, ING Group may retain an interest in the Company or significantly delay any divestiture which could result in conflicts between the interests of ING Group and the interests of other holders of our securities, including the notes.

We cannot accurately predict whether any restrictions and limitations imposed on ING Group on account of the Dutch State Transactions, or the implementation of the Restructuring Plan (or any amendment thereof), will have a negative effect on our businesses and financial flexibility or result in conflicts between the interests of ING Group and our interests. In addition, it is difficult for us to predict whether any changes to, or termination of, the Dutch State Transactions could occur as a result of the Restructuring Plan (or any amendment thereof) and any effect on our business that would result. We also note that we cannot predict the possible effect of ING Group having a remaining ownership interest in the Company and its subsidiaries beyond 2013, or any other deadline agreed upon with the EC.

***Our strategy may be modified in a manner that is adverse to holders of the notes in the event that the Divestment Transaction is not consummated as currently anticipated.***

As discussed in Summary Anticipated Separation from ING Group, the base case for consummation of a Divestment Transaction is an initial public offering of ING U.S., Inc., in which ING Group anticipates selling a portion of its ownership interest in the Company and thereafter divesting its remaining ownership stake over time, but all options remain open. In the event that the Divestment Transaction takes place by means of a sale to a single buyer of all of, or a controlling stake in, the Company, or is not completed, our business strategy, capital structure, management or other matters discussed in this offering memorandum may be materially modified, either to adjust to ownership by a new owner or controlling stockholder or to reflect longer-term ownership by ING Group. It is possible that any such changes would be material and adverse to holders of the notes. For example, a change in our capitalization could, if perceived by investors as negatively affecting the creditworthiness of the Company, adversely affect the market price of the notes.

***Our proposed divestment from ING Group could adversely affect our business and profitability due to ING Group's strong brand and reputation.***

We have been, and prior to the completion of any Divestment Transaction we will continue to be, a wholly owned subsidiary of ING Group. We have historically marketed our products and services using the ING brand name and logo. We believe the association with ING Group has provided us with preferred status among our customers, vendors and other persons due to ING Group's globally recognized brand, perceived high quality products and services and strong capital base and financial strength.

To the extent that any Divestment Transaction affects our ability to use ING Group brand names, trademarks, logos or other branding, it could adversely affect our ability to attract and retain customers, which could result in

reduced sales of our products. After any separation from ING Group, some of our existing policyholders, contract owners and other customers may choose to stop doing business with us, which could increase the rate of surrenders and withdrawals in our policies and contracts. In addition, other potential policyholders and contract owners may decide not to purchase our products if we no longer will be a part of ING Group.

Any separation from ING Group could also prompt some third parties to re-price, modify or terminate their distribution or vendor relationships with us. Our ability to attract and retain highly qualified independent sales intermediaries and dedicated sales specialists for our products may also be affected. We may be required to lower the prices of our products, increase our sales commissions and fees, change long-term selling and marketing agreements and take other action to maintain our relationship with our sales intermediaries and distribution partners, all of which could have an adverse effect on our results of operations and financial condition.

Further, following the consummation of any Divestment Transaction, certain services previously provided to us by ING Group may have to be performed by third-party providers or us. We may have to obtain these services from third parties or hire additional personnel to perform these services. In addition, we may fail to identify and transition some services in an orderly manner, fail to perform such services internally or fail to procure third parties to perform services previously provided by ING Group.

***The terms of our arrangements with ING Group may be more favorable than we will be able to obtain from an unaffiliated third party. We may be unable to replace the services ING Group provides us in a timely manner or on comparable terms.***

We have, and after any Divestment Transaction expect to continue to have, contractual arrangements that require ING Group and its affiliates to provide certain services to us. There is no assurance that, following any Divestment Transaction, these services will be sustained at the same levels as they were when we were receiving such services from ING Group or that we will obtain the same benefits. We may not be able to replace services and arrangements in a timely manner or on terms and conditions, including cost, as favorable as those we have received from ING Group. Our agreements with ING Group and its affiliates have been entered into in the context of a parent-wholly owned subsidiary relationship, and we may have to pay higher prices for similar services from ING Group or unaffiliated third parties in the future.

***If we become a public company, we expect to expend additional time and resources to comply with rules and regulations that do not currently apply to us.***

If, as a result of a Divestment Transaction, we become a public company, the various rules and regulations of the SEC, as well as the rules of the exchange on which we list, will require us to implement additional corporate governance practices and adhere to a variety of reporting requirements. Compliance with these public company obligations will increase our legal and financial compliance costs and could place additional demands on our finance and accounting staff and on our financial, accounting and information systems.

In particular, as a public company, our management will be required to conduct an annual evaluation of our internal controls over financial reporting and include a report of management on our internal controls in our annual reports on Form 10-K. In addition, we will be required to have our independent auditors attest to the effectiveness of our internal controls over financial reporting pursuant to Auditing Standard No. 5. If we are unable to conclude that we have effective internal controls over financial reporting, or if our registered public accounting firm is unable to provide us with an attestation and an unqualified report as to the effectiveness of our internal controls over financial reporting, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the market price of the notes.



*Our historical consolidated financial data are not necessarily representative of the results we would achieve as a stand-alone company and may not be a reliable indicator of our future results.*

Our historical consolidated financial data included in this offering memorandum do not reflect the results of operations, financial condition or liquidity we would have achieved as a stand-alone company during the periods presented and, accordingly, may not be indicative of our financial performance following any Divestment Transaction. For example, our historical consolidated financial data do not reflect:

that costs of certain corporate services provided by our parent may not reflect costs to replace those services in the future;

we historically operated against a background of both implicit and explicit parental capital support which provided a cushion against unexpected events, that as a stand-alone company we may be required to maintain higher levels of working capital and lower levels of leverage with a lower proportion of short term financing, because we would no longer have a parent that could provide capital support;

significant increases that may occur in our cost structure as a result of any IPO, including costs related to public company reporting, investor relations and compliance with the Sarbanes-Oxley Act of 2002;

any adverse effect on separation from ING Group may have on our relationships with customers, distributors, employees, regulators and other business relationships, which could result in the loss of preferred pricing available by virtue of our relationship with ING Group, reduced sales, increased policyholder terminations and withdrawals, increased regulatory scrutiny and disruption to our business operations; and

the effect that any change of control created by a Divestment Transaction would have under third-party contracts.

Our financial condition and future results of operations after any Divestment Transaction may be materially different from amounts reflected in our consolidated financial statements. Any such transaction may make it difficult for investors to compare our future results to historical results or to evaluate our relative performance or trends in our business.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements included elsewhere in this offering memorandum. In addition to historical data, this discussion contains forward-looking statements about our business, operations and financial performance based on current expectations that involve risks, uncertainties and assumptions. Actual results may differ materially from those discussed in the forward-looking statements as a result of various factors. Refer to Note Regarding Forward-Looking Statements included elsewhere in this offering memorandum.*

### Overview

We provide our principal products and services in three core businesses, Retirement Solutions, Investment Management and Insurance Solutions, and report our results for the core businesses through five segments.

The Retirement Solutions business provides its products and services through two segments: Retirement and Annuities:

Our Retirement segment provides tax deferred, employer-sponsored retirement savings plans and administrative services in corporate, health, education and government markets through our Institutional Retirement Plans division. Our Retirement segment also provides comprehensive financial advisory services to individual customers, including rollover IRAs and other retail financial products through our Individual Markets division. Our retirement products and services are distributed through multiple intermediary channels, including third-party administrators, independent and national wirehouse affiliated brokers and registered investment advisors, in addition to independent sales agents and consulting firms. We also have a direct sales team for large defined contribution plans and stable value business, as well as a team of affiliated brokers who sell our products both in person and via telephone.

Our Annuities segment provides fixed, indexed and payout annuities and custodial mutual funds for pre-retirement wealth accumulation and post-retirement income management. Annuity products are primarily distributed by independent marketing organizations, independent broker-dealers, banks, independent insurance agents, pension professionals and affiliated broker-dealers.

The Investment Management business provides its products and services through a single segment, also called Investment Management:

Our Investment Management business provides investment products and retirement solutions to both individual and institutional customers by offering domestic and international fixed income, equity, multi-asset and alternative products and solutions across a range of asset classes, geographies, market sectors, investment styles and capitalization spectrums. Investment Management products and services are primarily marketed to institutional clients, including public, corporate and union retirement plans, endowments and foundations and insurance companies, as well as individual investors and the general accounts of our insurance company subsidiaries. Investment Management products and services are distributed through a combination of our direct sales force, consultant channel and intermediary partners (such as banks, broker-dealers and independent financial advisers).

The Insurance Solutions business provides its products and services through two segments: Individual Life and Employee Benefits:

Our Individual Life segment provides wealth protection and transfer opportunities through universal, variable and term life products. Our customers range across a variety of age groups and income levels. We distribute our product offering through three main channels: our independent sales channel, our strategic distribution channel and our specialty markets channel. Our independent sales channel consists of a large network of independent general agents and marketing companies who interact with the majority of licensed independent life insurance agents in the United States. Our strategic distribution channel encompasses a network of independent managing directors who support a large team of producers who

engage with our broker dealers to sell a range of products including our branded life, annuity and mutual funds. Finally, our specialty markets channel focuses on alternative distribution and consists of a large team of producers, in addition to banks, life insurance quote agencies and internet direct marketers.

Our Employee Benefits segment provides life, stop loss, disability and voluntary employee-paid products to mid-sized and large businesses. We reinsure substantially all of our new disability sales to a third party. To distribute our products, we utilize brokers, consultants and our direct sales team. In the voluntary market, policies are marketed to employees at the worksite through enrollment firms.

In addition to our core businesses, we also have Closed Blocks and Corporate reporting segments. Corporate includes our corporate operations and corporate level assets and financial obligations. The Corporate segment includes investment income on assets backing surplus in excess of amounts held at the segment level, financing and interest expenses, other items not allocated to segments, such as certain expenses and liabilities of employee benefit plans, and intercompany eliminations.

Closed Blocks consists of three separate reporting segments that include run-off and non-core business lines that are no longer being actively marketed or sold, and that we manage to minimize capital risk as they run-off. The Closed Block Variable Annuity segment consists of variable annuity contracts that were designed to offer long-term savings products in which individual contract owners made deposits that are maintained in separate accounts. These products included options for policyholders to purchase living benefit riders. Sales in this segment have been closed to new business since early 2010. The Closed Block Institutional Spread Products segment historically issued guaranteed investment contracts and funding agreements, collectively referred to as GICs and invested amounts raised to earn a spread. This segment shifted to a non-core business in early 2009. While the business in this segment is being managed in active run-off, liabilities continue to be issued from time to time to replace liabilities that are maturing. The Closed Block Other segment consists primarily of retained and run-off activity related to divestments, including our group reinsurance and individual reinsurance businesses, three broker dealers and Life Insurance Company of Georgia. Closed Block Other also includes certain unreimbursed expenses related to ING Group's Latin America business, which was sold in December 2011.

#### **Trends and Uncertainties**

The following factors represent some of the key trends and uncertainties that have influenced the development of our business and our historical financial performance, and that we believe will continue to influence our business and financial performance in the future.

#### ***The impact of our Closed Block Variable Annuity Segment on GAAP Earnings***

Our ongoing management of our Closed Block Variable Annuity segment is focused on preserving our current capitalization status through careful risk management and hedging. Because GAAP accounting differs from the methods used to determine regulatory and rating agency capital measures, our hedge programs may create earnings volatility in our GAAP financial statements. We will attempt to manage GAAP earnings volatility to the extent that it does not conflict with our goal of protecting regulatory capital.

In addition to market impacts, the GAAP earnings of our Closed Block Variable Annuity segment depends upon estimates of future claims payment patterns, using assumptions for mortality rates, persistency and utilization of living benefit guarantees. GAAP earnings of our variable annuity products depends upon the actual experience observed over any period. The pattern of GAAP earnings will be affected by how actual experience compares with our assumptions throughout the life of the block.

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***Governmental and Public Policy Impact on Demand for Our Products***

The demand for our products is influenced by a dynamic combination of governmental and public policy factors. We anticipate that legislative and other governmental activity and our ability to flexibly respond to changes resulting from such activity will be a crucial to our long-term financial performance. In particular, the demand for our products is influenced by the following factors:

*Availability and quality of public retirement solutions:* The lack of comprehensive or sufficient government-sponsored retirement solutions has been a significant driver of the popularity of private sector retirement products. We believe that concerns regarding Social Security and the reduced enrollment in defined benefit retirement plans may further increase the demand for private-sector retirement solutions. The impact of any legislative actions or new government programs relating to retirement solutions on our business and financial performance will depend substantially on the level of private-sector involvement and our ability to participate in any such programs. We believe we are well positioned to take advantage of any future developments involving participation in any such programs by private sector providers.

*Tax-advantaged status:* Many of the retirement savings, accumulation and protection products we sell qualify for tax-advantaged status. Changes in U.S. tax laws that alter the tax benefits of certain investment vehicles could have a material effect on demand for our products.

***Market Conditions***

The recent increase in market volatility, which we believe may continue for some time, has affected and may continue to affect our business and financial performance in varying ways. In the short to medium-term, this increased volatility, coupled with prevailing low interest rates, can pressure sales and reduce demand as consumers hesitate to make financial decisions. In addition, this environment makes it difficult to manufacture products that are both attractive to customers and profitable. In the long-term, however, we believe the financial crisis and resultant lingering uncertainty will motivate individuals to seek solutions combining elements of capital preservation, income and growth. Thus, as a company with strong retirement, investment management and insurance capabilities, we believe current market conditions may ultimately enhance the attractiveness of our broad portfolio of products and services. We will need to continue to monitor the behavior of our customers including mortality rates, morbidity rates, annuitization rates and lapse rates, which adjusts in response to changes in market conditions in order to ensure that our products and services remain attractive as well as profitable.

***Aging of the U.S. Population***

We believe that the aging of the U.S. population will affect both the demand for our products and the levels of our AUM and AUA. As the baby boomer generation prepares for retirement, we believe that demand for retirement savings, growth and income products will grow. The impact of this growth may be offset to some extent by asset outflows as an increasing percentage of the population begins withdrawing assets to convert their savings into income.

***Competition***

Our core businesses operate in highly competitive markets. We face a variety of large and small industry participants, including diversified financial institutions, investment managers and insurance companies. These companies compete in one form or another for the growing pool of retirement assets driven by a number of exogenous factors such as the continued aging of the U.S. population and the reduction in safety nets provided by governments and corporations. In many segments, product differentiation is difficult as product development and life cycles have shortened. In addition, we have experienced pressure on fees as product unbundling and lower cost alternatives have emerged. As a result, scale and the ability to provide value-added services and relationships are important factors to compete effectively. We believe that our leading presence in the retirement market and resulting relationships with millions of participants, diverse range of capabilities (as a provider of

retirement, investment management and insurance products and services), and broad distribution network uniquely position us to effectively serve consumers' increasing demand for retirement savings, income and protection solutions.

### **Operating Measures**

This management's discussion and analysis includes discussion of operating income (loss) before income taxes and operating revenues each of which is a measure that is not determined in accordance with GAAP because our management uses non-GAAP financial measures to manage our businesses and allocate our resources, and we discuss non-GAAP financial measures generally because we believe that they provide our investors with useful information regarding our financial performance. In particular, these measures facilitate a comparison of period-to-period results without the effect of the volatility created by certain changes in the financial markets that affect our financial results as reported under GAAP. Other companies may use similarly titled non-GAAP measures that are calculated differently from the way we calculate them; accordingly, our non-GAAP financial measures may not be comparable to similar measures used by other companies.

We also discuss certain operating measures, described below, which provide useful information about our businesses and the operational factors underlying our financial performance.

#### ***Operating Income (Loss) before Income Taxes***

*Operating income (loss) before income taxes* is an internal measure we use to evaluate segment performance. Operating income (loss) before income taxes does not replace net income (loss) as the GAAP measure of the consolidated results of operations, and consists of operating revenues less operating benefits and expenses. Each segment's operating income (loss) before income taxes is calculated by adjusting each segment's income (loss) before income taxes for the following items:

Net investment gains (losses), net of related amortization of DAC, VOBA, sales inducements and unearned revenue. Net investment gains (losses) include gains (losses) on the sale of securities, impairments, changes in the fair value of investments using the fair value option ( FVO ) unrelated to the implied loan-backed security income recognition for certain mortgage-backed obligations and changes in the fair value of derivative instruments, excluding realized gains (losses) associated with swap settlements and accrued interest;

Net guaranteed benefit hedging gains (losses), which include changes in the fair value of derivatives related to guaranteed benefits, net of related reserve increases (decreases) and net of related amortization of DAC, VOBA and sales inducements, less the estimated cost of these benefits. The estimated cost, which is reflected in operating results, reflects the expected cost of these benefits if markets perform in line with our long-term expectations and includes the cost of hedging. All other derivative and reserve changes related to guaranteed benefits are excluded from operating results, including the impacts related to changes in our non-performance spread, assumption changes and the gains or losses associated with our capital hedge overlay program;

Income (loss) related to business exited through reinsurance or divestment;

Income (loss) attributable to noncontrolling interests;

Income (loss) related to early extinguishment of debt;

Impairment of goodwill, value of managements contracts ( VMCR ) and value of customer relationships acquired ( VOCRA );

Immediate recognition of net actuarial gains (losses) related to our pension and other post-employment benefit obligations and gains (losses) from plan amendments and curtailments; and

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Other items, including restructuring expenses (severance, lease write-offs, etc.), integration expenses related to our acquisition of CitiStreet and certain third-party expenses related to our anticipated Divestment Transaction.

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The most directly comparable GAAP measure to operating income (loss) before income taxes is income (loss) before income taxes. For a reconciliation of operating income (loss) before income taxes to income (loss) before income taxes, see Results of Operations Company Consolidated below.

### ***Operating Revenues***

*Operating revenues* is a measure of our segment revenues. We calculate operating revenues by adjusting each segment's revenue for the following items:

Net realized investment gains (losses) and related charges and adjustments include gains (losses) on the sale of securities, impairments, changes in the fair value of investments using the fair value option ( FVO ) unrelated to the implied loan-backed security income recognition for certain mortgage-backed obligations and changes in the fair value of derivative instruments, excluding realized gains (losses) associated with swap settlements and accrued interest;

Loss on change in fair value of derivatives related to guaranteed benefits include changes in the fair value of derivatives related to guaranteed benefits, less the estimated cost of these benefits. The estimated cost, which is reflected in operating results, reflects the expected cost of these benefits if markets perform in line with our long-term expectations and includes the cost of hedging. All other derivative and reserve changes related to guaranteed benefits are excluded from operating revenues, including the impacts related to changes in our non-performance spread, assumption changes and the gains or losses associated with our capital hedge overlay program;

Revenues related to businesses exited through reinsurance or divestment;

Revenues attributable to non-controlling interests;

Other adjustments to operating revenues primarily reflect fee income earned by our broker dealers for sales of non-proprietary products, which are reflected net of commission expense in our segments' operating revenues.

The most directly comparable GAAP measure to operating revenues is total revenues. For a reconciliation of operating revenue to total revenues, see Results of Operations Company Consolidated below.

### ***Assets Under Management and Assets Under Administration***

A substantial portion of our fees, other charges and margins are based on AUM. AUM represents on-balance sheet assets supporting customer account values/liabilities, and surplus as well as off-balance sheet institutional/mutual funds. Customer account values reflect the amount of policyholder equity that has accumulated within retirement, annuity and universal life products. AUM includes general account assets managed by our Investment Management segment in which we bear the investment risk, separate account assets in which the contract owner bears the investment risk and institutional/mutual funds which are excluded from our balance sheet. AUM-based revenues increase or decrease with a rise or fall in the amount of AUM, whether caused by changes in capital markets or by net flows.

AUM is principally affected by net deposits (i.e., new deposits, less surrenders and other outflows) and investment performance (i.e., interest credited to contract owner accounts for assets that earn a fixed return or market performance for assets that earn a variable return). Separate account AUM and institutional/mutual fund AUM include assets managed by our Investment Management segment, as well as assets managed by third-party investment managers. Our Investment Management segment reflects the revenues earned for managing affiliated assets for our other segments (based on arm's length agreements) as well as assets managed for third parties. Our consolidated AUM includes eliminations of AUM managed by our Investment Management segment that is also reflected in other segments' AUM and adjustments for AUM not reflected in any segments.

AUA represents accumulated assets on contracts under which we only provide administrative services, such as recordkeeping and/or product guarantees. These contracts are not insurance contracts and the assets are excluded from the Consolidated Financial Statements. Fees earned on AUA can be based on the number of participants, asset levels and/or the level of services or product guarantees that are provided.





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### ***Adjusted Debt to Capital***

We measure the ratio of our debt to our total capital by making certain adjustments to short-term and long-term debt as presented on our consolidated balance sheets. We believe these adjustments present a more transparent picture of our total indebtedness and its position in our capital structure. In recent years, ING U.S., Inc. has been partially funded through internal reciprocal lending arrangements with its subsidiaries. While these lending arrangements are eliminated in producing our consolidated balance sheets, they replace indebtedness that we would otherwise have had to obtain through external sources, therefore we believe it is appropriate to increase the debt shown in our capital ratio by these amounts. Additionally, we eliminate certain items from short-term and long-term debt as stated on our consolidated balance sheets which we deemed to represent operating leverage. These items include self-liquidating forms of financing such as securities lending, reverse repurchase, and captive reinsurance reserve financing arrangements.

### ***Sales Statistics***

In our discussion of our segment results under *Results of Operations Segment by Segment*, we sometimes refer to sales activity for various products. The term *sales* is used differently for different products, as described more fully below. These sales statistics do not correspond to revenues under GAAP and are used by us as operating measures underlying our financial performance.

*Net flows* are deposits less redemptions (including benefits and other product charges).

*Sales* for Individual Life products are based on a calculation of weighted average annual premiums. *Sales* for Employee Benefits products are based on a calculation of annual premiums, which represents regular premiums on new policies, plus a portion of new single premiums.

*Weighted average annual premiums* ( *WAP* ) is defined as the amount of premium for a policy's first year that is eligible for the highest first year commission rate, plus a varying portion of any premium in excess of this base amount, depending on the product. *WAP* is a key measure of recent sales performance of our products and is an indicator of the general growth or decline in certain lines of business. *WAP* is not equal to premium revenue under GAAP. Renewal premiums on existing policies are included in GAAP premium revenue in addition to first year premiums and thus changes in persistency of existing in-force business can potentially offset growth from current year sales.

*Total gross premiums* are defined as premium revenue on a GAAP basis for policies we have directly written. Ceded premiums are not considered in the calculation of total gross premiums. This measure provides information as to growth and persistency trends in premium revenue.

### ***Other Measures***

*Total annualized in-force premiums* are defined as a full year of premium at the rate in effect at the end of the period. This measure provides information as to the growth and persistency trends in premium revenue.

*Interest adjusted loss ratios* are defined as the ratio of benefits expense to premium revenue exclusive of the discount component in the change in benefit reserve. This measure reports the loss ratio related to mortality on life products and morbidity on health products.

*In-force face amount* is defined as the total life insurance coverage in effect as of the end of the period presented. This measure provides information as to changes in policy growth and persistency with respect to death benefit coverage.

*In-force policy count* is defined as the number of policies with coverage in effect as of the end of the period. This measure provides information as to policy growth and persistency.

*New business policy count (paid)* is defined as the number of policies issued during the period for which initial and renewal premiums have been paid by the policyholder. This measure provides information as to policy growth from sales during the period.

**Results of Operations Company Consolidated**

The following table presents summary condensed consolidated financial information for the periods indicated:

(\$ in millions)	Three Months Ended March 31,		Year Ended December 31,		
	2012	2011	2011	2010	2009
<b>Revenues:</b>					
Net investment income	\$ 1,277.4	\$ 1,284.9	\$ 4,968.8	\$ 4,987.0	\$ 5,568.6
Fee income	923.5	937.6	3,743.2	3,662.4	3,478.2
Premiums	461.6	443.1	1,770.0	1,707.5	1,985.5
Net realized capital gains (losses)	(1,249.9)	(466.2)	(1,531.4)	(1,678.0)	(2,178.7)
Other revenue	95.1	119.6	456.5	584.4	988.1
Income (loss) related to consolidated investment entities:					
Net investment income (loss)	34.9	24.9	528.4	316.0	(284.1)
Changes in fair value related to collateralized loan obligations	(16.7)	(55.0)	(48.8)	(121.8)	
<b>Total revenues</b>	<b>1,525.9</b>	<b>2,288.9</b>	<b>9,886.7</b>	<b>9,457.5</b>	<b>9,557.6</b>
<b>Benefits and expenses:</b>					
Interest credited and other benefits to contract owners/policyholders	1,058.8	1,257.9	5,909.9	5,210.6	5,823.3
Operating expenses	759.4	681.1	3,030.8	3,033.5	3,352.2
Net amortization of deferred policy acquisition costs and value of business acquired	173.7	130.3	387.0	746.6	1,052.3
Interest expense	24.3	40.2	139.3	332.5	385.5
Operating expenses related to consolidated investment entities:					
Interest expense	22.2	14.8	68.4	49.8	
Other expense	0.4	2.1	73.5	46.7	52.9
<b>Total benefits and expenses</b>	<b>2,038.8</b>	<b>2,126.4</b>	<b>9,608.9</b>	<b>9,419.7</b>	<b>10,666.2</b>
Income (loss) before income taxes	(512.9)	162.5	277.8	37.8	(1,108.6)
Income tax expense (benefit)	7.9	(80.9)	175.0	171.0	(298.0)
<b>Net income (loss)</b>	<b>(520.8)</b>	<b>243.4</b>	<b>102.8</b>	<b>(133.2)</b>	<b>(810.6)</b>
Less: Net income (loss) attributable to noncontrolling interest	(15.6)	(51.3)	190.9	(10.3)	(207.4)
<b>Net income (loss) available to the Company's common shareholder</b>	<b>\$ (505.2)</b>	<b>\$ 294.7</b>	<b>\$ (88.1)</b>	<b>\$ (122.9)</b>	<b>\$ (603.2)</b>

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The following table presents AUM and AUA as of the dates indicated:

(\$ in millions)	As of March 31,			As of December 31,	
	2012	2011	2011	2010	2009
<b>Assets under Management and Administration</b>					
<i>Retirement Solutions:</i>					
Retirement	\$ 300,628.4	\$ 301,151.0	\$ 287,726.7	\$ 290,811.8	\$ 271,925.4
Annuities	27,592.6	28,014.5	27,690.2	27,849.3	26,368.7
<i>Investment Management</i>	229,063.2	228,105.3	225,114.0	223,140.9	215,459.2
<i>Insurance Solutions:</i>					
Individual Life	15,060.9	14,966.6	14,769.8	14,846.3	14,750.6
Employee Benefits	1,739.8	1,734.4	1,741.2	1,736.4	1,823.7
<i>Eliminations/Other</i>	(171,612.0)	(171,322.7)	(167,939.3)	(168,316.3)	(163,089.1)
Total Core Businesses	402,472.9	402,649.1	389,102.6	390,068.4	367,238.5
<i>Closed Blocks:</i>					
Closed Block Variable Annuity	45,133.8	48,670.1	42,645.5	47,978.0	46,644.0
Closed Block Institutional Spread Products	5,242.0	7,297.8	5,581.7	7,002.4	8,715.8
Closed Block Other	612.4	607.7	599.6	606.5	1,289.3
Total Closed Blocks	50,988.2	56,575.6	48,826.8	55,586.9	56,649.1
Total Assets under Management and Administration	\$ 453,461.1	\$ 459,224.7	\$ 437,929.4	\$ 445,655.3	\$ 423,887.6
AUM	\$ 237,912.5	\$ 237,293.0	\$ 229,680.4	\$ 231,381.3	\$ 220,847.3
AUA	215,548.6	221,931.7	208,249.0	214,274.0	203,040.3
Total AUM and AUA	\$ 453,461.1	\$ 459,224.7	\$ 437,929.4	\$ 445,655.3	\$ 423,887.6

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The following table presents the relative contributions of each segment to operating income (loss) before income taxes for the periods indicated, and a reconciliation of operating income (loss) before income taxes to income (loss) before income taxes:

(\$ in millions)	Three Months Ended March 31,		Year Ended December 31,		
	2012	2011	2011	2010	2009
<i>Retirement Solutions:</i>					
Retirement	\$ 123.9	\$ 125.5	\$ 441.9	\$ 469.6	\$ 358.3
Annuities	36.4	39.4	387.6	115.0	48.7
<i>Investment Management</i>	33.0	25.3	87.5	50.1	44.4
<i>Insurance Solutions:</i>					
Individual Life	54.4	76.3	290.1	267.5	317.2
Employee Benefits	15.6	13.3	83.3	82.0	37.2
Total Core Businesses	263.3	279.8	1,290.4	984.2	805.8
Corporate	(48.2)	(44.5)	(230.2)	(399.1)	(470.5)
<i>Closed Blocks:</i>					
Closed Block Variable Annuity	(30.3)	21.2	(18.3)	(324.8)	(683.9)
Closed Block Institutional Spread Products	22.1	19.5	83.2	(3.8)	1.8
Closed Block Other	2.2	(4.0)	(13.0)	(6.7)	6.9
Total Closed Blocks	(6.0)	36.7	51.9	(335.3)	(675.2)
Total operating income (loss) before income taxes	\$ 209.1	\$ 272.0	\$ 1,112.1	\$ 249.8	\$ (339.9)
<i>Adjustments:</i>					
Net investment gains (losses) and related charges and adjustments	82.8	32.8	146.5	32.2	318.2
Net guaranteed benefit hedging losses and related charges and adjustments	(762.1)	(75.7)	(901.1)	(7.8)	(790.8)
Loss related to businesses exited through reinsurance or divestment	(12.6)	(8.2)	(35.1)	(3.3)	(20.4)
Income (loss) attributable to noncontrolling interests	(15.6)	(51.3)	190.9	(10.3)	(207.4)
Loss on early extinguishment of debt				(108.3)	
Immediate recognition of net actuarial gains (losses) related to pension and other post-employment benefit obligations and gains (losses) from plan amendments and curtailments			(157.8)	(47.5)	2.6
Other adjustments to operating income	(14.5)	(7.1)	(77.7)	(67.0)	(70.9)
Income (loss) before income taxes	\$ (512.9)	\$ 162.5	\$ 277.8	\$ 37.8	\$ (1,108.6)

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The following table presents the relative contributions of each segment to operating revenues for the periods indicated, and a reconciliation of operating revenues to Total revenues:

(\$ in millions)	Three Months Ended March 31,		Year Ended December 31,		
	2012	2011	2011	2010	2009
<i>Retirement Solutions:</i>					
Retirement	\$ 580.4	\$ 560.9	\$ 2,225.4	\$ 2,179.0	\$ 2,024.5
Annuities	351.2	360.4	1,401.4	1,482.5	1,442.7
<i>Investment Management</i>	130.6	128.6	491.9	454.5	392.0
<i>Insurance Solutions:</i>					
Individual Life	753.6	721.0	2,962.7	2,801.8	2,724.2
Employee Benefits	313.3	321.5	1,246.2	1,277.8	1,357.2
Total Core Businesses	2,129.1	2,092.4	8,327.6	8,195.6	7,940.6
Corporate	14.4	(27.1)	(13.7)	(132.3)	(73.8)
<i>Closed Blocks:</i>					
Closed Block Variable Annuity	193.8	237.7	857.5	838.2	933.7
Closed Block Institutional Spread Products	43.0	47.8	188.1	167.6	308.6
Closed Block Other	10.4	14.2	52.2	64.3	88.4
Total Closed Blocks	247.2	299.7	1,097.8	1,070.1	1,330.7
Total operating revenues	\$ 2,390.7	\$ 2,365.0	\$ 9,411.7	\$ 9,133.4	\$ 9,197.5
<i>Adjustments:</i>					
Net realized investment gains (losses) and related charges and adjustments	124.2	50.4	272.9	125.2	154.2
Loss on change in fair value of derivatives related to guaranteed benefits	(1,069.3)	(161.1)	(525.3)	(309.7)	(900.8)
Revenues related to businesses exited through reinsurance or divestment	7.5	4.7	116.1	137.6	1,049.4
Revenues (loss) attributable to non-controlling interests	21.3	(18.2)	399.1	143.2	(99.7)
Other adjustments to operating revenues	51.5	48.1	212.2	227.8	157.0
Total revenues	\$ 1,525.9	\$ 2,288.9	\$ 9,886.7	\$ 9,457.5	\$ 9,557.6

The following table presents operating income (loss) excluding interest expense (net of interest rate swaps), DAC/VOBA and other intangible unlocking, and the reserve increase related to use of the U.S. Social Security Death Master File:

(\$ in millions)	Three Months Ended March 31,		Year Ended December 31,		
	2012	2011	2011	2010	2009
Operating Income As Reported	\$ 209.1	\$ 272.0	\$ 1,112.1	\$ 249.8	\$ (339.9)
<i>Less:</i>					
Interest Expense (net of interest rate swaps)	(16.7)	(71.0)	(185.7)	(384.9)	(506.3)
DAC/VOBA, and other intangible unlocking	(20.7)	28.1	302.9	(24.9)	(522.7)
Reserve increase related to use of U.S. Social Security Death Master File			(68.9)		
Operating Income Adjusted for Items Above	\$ 246.5	\$ 314.9	\$ 1,063.8	\$ 659.6	\$ 689.1

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The following table presents the adjustment to income (loss) before taxes related to total realized investment gains (losses) and the related net amortization of DAC/VOBA and other intangibles:

(\$ in millions)	Three Months Ended March 31,		Year Ended December 31,		
	2012	2011	2011	2010	2009
Other than temporary impairments	\$ (6.9)	\$ (158.9)	\$ (502.7)	\$ (890.8)	\$ (1,618.6)
CMO-B fair value adjustments <sup>(1)</sup>	(15.7)	121.6	345.9	451.3	498.0
Gains (losses) on the sale of securities	137.8	45.4	577.7	599.5	1,303.6
Other, including changes in the fair value of derivatives	9.0	42.3	(148.0)	(34.8)	(28.8)
<b>Total realized investment gains (losses)</b>	<b>124.2</b>	<b>50.4</b>	<b>272.9</b>	<b>125.2</b>	<b>154.2</b>
Net amortization of DAC/VOBA and other intangibles on above	(41.4)	(17.6)	(126.4)	(93.0)	164.0
<b>Net realized investment gains (losses)</b>	<b>\$ 82.8</b>	<b>\$ 32.8</b>	<b>\$ 146.5</b>	<b>\$ 32.2</b>	<b>\$ 318.2</b>

(1) For a description of our CMO-B portfolio, see Investments CMO-B Portfolio.

The following table presents the adjustment to income (loss) before taxes related to guaranteed benefit hedging gains (losses) net of DAC/VOBA and other intangible amortization:

(\$ in millions)	Three Months Ended March 31,		Year Ended December 31,		
	2012	2011	2011	2010	2009
Net guaranteed benefit hedging losses and related charges and adjustments					
Closed Block Variable Annuity					
Decrease (increase) in liabilities <sup>(1)</sup>					
Decrease (increase) in the fair value of embedded derivative liabilities, excluding non-performance	\$ 1,039.6	\$ 294.0	\$ (2,135.5)	\$ (318.3)	\$ 2,349.1
Decrease (increase) in reserves	295.1	80.5	(505.4)	264.9	170.7
<b>Total<sup>(2)</sup></b>	<b>1,334.7</b>	<b>374.5</b>	<b>(2,640.9)</b>	<b>(53.4)</b>	<b>2,519.8</b>
Change in fair value of hedge positions <sup>(3)</sup>					
Guarantee hedge program	(1,375.3)	(289.5)	1,622.1	(370.3)	(1,287.7)
Capital hedge overlay program	(287.4)	(9.0)	(129.9)	(2.3)	(1,083.1)
<b>Total</b>	<b>(1,662.7)</b>	<b>(298.5)</b>	<b>1,492.2</b>	<b>(372.6)</b>	<b>(2,370.8)</b>
Decrease (increase) in embedded derivative liabilities due to non-performance	(571.5)	(156.7)	517.0	448.2	(1,017.7)
Net gain (loss) prior to related amortization of DAC, VOBA and sales inducements	(899.5)	(80.7)	(631.7)	22.2	(868.7)
Net amortization of DAC, VOBA and sales inducements					(108.5)
<b>Net gain (loss)</b>	<b>(899.5)</b>	<b>(80.7)</b>	<b>(631.7)</b>	<b>22.2</b>	<b>(977.2)</b>
Other Segments					
Gain (loss), excluding non-performance risk	225.9	26.9	(377.9)	(264.8)	513.2
Decrease (increase) due to non-performance	(100.5)	(26.1)	(21.3)	197.9	(285.9)
Net gain (loss) prior to related amortization of DAC, VOBA and sales inducements	125.4	0.8	(399.2)	(66.9)	227.3
Net amortization of DAC, VOBA and sales inducements	12.0	4.2	129.8	36.9	(40.9)

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Net gain (loss)	137.4	5.0	(269.4)	(30.0)	186.4
Net guaranteed benefit hedging losses and related charges and adjustments	\$ (762.1)	\$ (75.7)	\$ (901.1)	\$ (7.8)	\$ (790.8)

- (1) Excluding estimated costs reflected in operating income before income taxes and impacts related to non-performance
- (2) Decrease (increase) in total liabilities includes approximately (\$741.2 million) in the fourth quarter of 2011 related to changes in policyholder behavior assumptions and approximately (\$246.0 million) in 2009 related to a change in GMIB annuitization assumptions
- (3) Excluding estimated costs reflected in operating income before income taxes

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**Terminology Definitions**

*Net realized capital gains (losses), net realized investment gains (losses) and related charges and adjustments and net guaranteed benefit hedging losses and related charges and adjustments* include changes in the fair value of derivatives. Increases in the fair value of derivative assets or decreases in the fair value of derivative liabilities result in gains. Decreases in the fair value of derivative assets or increases in the fair value of derivative liabilities result in losses.

In addition, we have certain products that contain guarantees that are embedded derivatives related to guaranteed benefits, while other products contain such guarantees that are considered derivatives (collectively *guaranteed benefit derivatives*).

**Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011****Net Income (Loss)**

*Net investment income* decreased \$7.5 million from \$1,284.9 million to \$1,277.4 million as an increase in assets in our Retirement segment driven by positive net flows, including customer transfers from variable separate accounts, was offset by a decline in average assets by approximately 24% in our Closed Block Institutional Spread Products segment and due to lapses in multi-year guaranteed annuities (*MYGAs*). Certain MYGAs, mostly sold in 2002, will reach the end of their initial term in 2012. Most of these MYGAs have high crediting rates and the supporting assets generate returns below the targets set when the policies were issued, negatively impacting returns in our Annuities segment. During the three months ended March 31, 2012, portions of the block lapsed and we expect that portions of the block will lapse during the rest of 2012, as renewal crediting rates offered will be lower than current rates. The run-off of these MYGA contracts is expected to enhance the margin of our Annuities segment in future periods.

*Fee income* decreased \$14.1 million from \$937.6 million to \$923.5 million primarily due to a decline in AUM in the Closed Block Variable Annuity segment and to a reduction in large Retirement recordkeeping cases due to terminated contracts. These decreases were partially offset by growth in the Retirement full service products and the Individual Life segment.

*Premiums* increased \$18.5 million from \$443.1 million to \$461.6 million primarily due to growth in our Individual Life segment, partially offset by slight decreases in Employee Benefits premiums and sales of immediate annuities with life contingencies in our Retirement segment.

*Net realized capital losses* increased \$783.7 million from \$466.2 million to \$1,249.9 million primarily due to an increase in hedge losses in our Closed Block Variable Annuity segment. The hedge program in the Closed Block Variable Annuity segment focuses on protecting regulatory capital rather than mitigating earnings volatility, and as a result the losses for the first quarter of 2012 are only partially offset by a reduction in reserves. The derivative losses from Closed Block Variable Annuity segment liability hedges increased \$1,097.4 million due primarily to the strong equity market returns and increases in interest rates in the first quarter of 2012. In addition, derivative losses on the capital hedge overlay were \$278.4 million higher in the first quarter of 2012 due primarily to stronger equity markets and higher notional amounts for hedging the associated underlying risk. The higher capital losses for the first quarter of 2012 were partially offset by a \$152.0 million reduction in OTTI, an increase of \$92.4 million in trading gains, \$144.3 million in higher gains on guaranteed benefit derivatives related to certain Stabilizer contracts in our Retirement segment and \$330.8 million in higher gains on the Closed Block Variable Annuity guaranteed benefit derivatives. The gains on guaranteed benefit derivatives in Retirement is primarily related to a reduction in expected future guaranteed interest rates on certain Stabilizer contracts. Changes in the Retirement, Annuities and Closed Block Variable Annuity segment guaranteed benefit derivatives are net of \$489.2 million in increased losses due to changes in the nonperformance risk primarily as a result of the narrowing of ING V's credit spreads.

*Other revenue* decreased \$24.5 million from \$119.6 million to \$95.1 million due to unfavorable market value adjustments on certain retirement plan customer surrenders, lower surrender fees on the Individual Life



segment as we experienced higher persistency with the in-force block, lower surrender fees on the Closed Block Variable Annuity segment as that business declined and a reduction in the deferred gain amortization on the divested group reinsurance business.

*Interest credited and other benefits to contract owners/policyholders* decreased \$199.1 million from \$1,257.9 million to \$1,058.8 million primarily due to a reduction in reserves in the Closed Block Variable Annuity segment and, to a lesser extent, a reduction in interest credited due to declining reserves for the Closed Block Institutional Spread Products segment and for MYGAs. A reduction in average crediting rates across several product lines also contributed to the decrease. The higher reduction in reserves in the Closed Block Variable Annuity segment was driven by the stronger equity market returns, as favorable equity markets decreased the guaranteed benefit reserves. However, the change in reserves is less sensitive to equity market changes than the derivatives that hedge these guarantees. These reductions were partially offset by adverse mortality results in our Individual Life segment, where the percentage of claims subject to reinsurance recoveries in the first quarter of 2012 was lower than expected.

*Operating expenses* increased \$78.3 million from \$681.1 million to \$759.4 million primarily due to a reduction in incentive compensation expense in the first quarter of 2011, an increase in letter of credit costs in the first quarter of 2012 primarily related to the contingent capital letter of credit for the Closed Block Variable Annuity segment and due to growth in our Individual Life segment.

*Net amortization of DAC/VOBA* increased \$43.4 million from \$130.3 million to \$173.7 million primarily due to unfavorable unlocking in the first quarter of 2012 in our Annuities segment primarily due to a decrease in projected investment margins on the MYGA block compared to favorable unlocking in the first quarter of 2011 in both the Retirement and Annuities segments.

*Interest expense* decreased \$15.9 million from \$40.2 million to \$24.3 million primarily due to the conversion of \$2.7 billion and \$1.3 billion of debt to equity in the second and fourth quarters of 2011, respectively, related to capital contributions from ING V, our indirect parent, which resulted in the extinguishment of such debt previously owed to ING V.

*Income (loss) before income taxes* decreased \$675.4 million from income of \$162.5 million to a loss of \$512.9 million primarily due to the increase in hedging losses related to our Closed Block Variable Annuity segment, which was partially offset by a reduction in the reserves for guaranteed variable annuity benefits.

*Income tax expense (benefit)* of \$7.9 million was primarily due to an increase in a valuation allowance of \$217.2 million resulting from the inability to support deferred tax assets due to continued tax losses. This unfavorable item was partially offset by the favorable dividends received deduction of \$18.6 million and a state tax benefit of \$17.3 million associated with state operating losses. The income tax expense (benefit) of (\$80.9) million in the first quarter of 2011 was due primarily to the decrease of \$146.8 million in valuation allowances and a favorable dividends received deduction of \$18.8 million. These favorable items were offset by the \$17.3 million impact of an audit settlement and decreasing losses on noncontrolling interests.

#### ***Operating Income (Loss) before Income Taxes***

*Operating income before income taxes* decreased \$62.9 million from \$272.0 million to \$209.1 million due to a reduction in incentive compensation expense in the first quarter of 2011, an increase in letter of credit costs in the first quarter of 2012 primarily related to the contingent capital letter of credit for the Closed Block Variable Annuity segment and adverse mortality results in our Individual Life segment, where the percentage of claims subject to reinsurance recoveries in the first quarter of 2012 was lower than expected. In addition, unfavorable DAC/VOBA unlocking in the first quarter of 2012 in our Annuities segment compared to favorable unlocking in the first quarter of 2011 in both the Annuities and Retirement segments and lower results in our Closed Block Variable Annuity segment due to lower fee income and higher hedge and reserve costs contributed to the decrease. These decreases were partially offset by improved investment income results, lower credited rates and growth in our Retirement, Investment Management and Individual Life segments.

**Adjustments from Income (Loss) before Income Taxes to Operating Income (Loss) before Taxes**

*Net investment gains* increased \$50.0 million from \$32.8 million to \$82.8 million due to higher realized trading gains and lower impairments on invested assets, partially offset by lower fair value adjustments on our CMO-B portfolio and by lower derivative mark to market adjustments net of DAC/VOBA amortization.

*Net guaranteed benefit hedging losses and related charges and adjustments* increased \$686.4 million from \$75.7 million to \$762.1 million. Losses in the Closed Block Variable Annuity segment increased \$818.8 million, but were partially offset by an increase in gains in the core business segments of \$132.4 million, primarily related to gains on guaranteed benefit derivatives as a result of a reduction in expected future guaranteed interest rates to certain Retirement Stabilizer contracts. The higher loss in the Closed Block Variable Annuity segment was primarily due to a \$414.8 million increase in the loss on guaranteed benefit derivatives for non-performance risk and a \$278.4 million higher loss on the capital hedge overlay derivatives, due to the impact of equity market movements in the quarter. The Closed Block Variable Annuity capital hedge overlay program is designed to protect regulatory capital and is not designed to mitigate earnings volatility. Excluding the losses related to non-performance risk and the capital hedge overlay program, the loss in the first quarter of 2012 was \$40.6 million. A \$276.0 million net gain on Closed Block Variable Annuity hedges versus reserves carried at fair value was more than offset by a \$316.6 million net loss on Closed Block Variable Annuity hedges versus reserves accounted for as insurance contracts. Changes in reserves accounted for as insurance contracts are less sensitive to market movements than the underlying hedge results.

*Losses related to businesses exited through reinsurance or divestment* increased \$4.4 million from \$8.2 million to \$12.6 million primarily due to a reduction in the deferred gain amortization on the divested group reinsurance business as the business runs off.

*Other adjustments to operating income* changed (\$7.4) million from (\$7.1) million to (\$14.5) million due to increased third party expenses related to the anticipated Divestment Transaction.

**Year Ended December 31, 2011 Compared to Year Ended December 31, 2010****Net Income (Loss)**

*Net investment income* decreased \$18.2 million from \$4,987.0 million to \$4,968.8 million due to a decline in assets in our Closed Block Institutional Spread Products segment and lower earned rates driven by the low interest rate environment. This decline was partially offset by an increase in assets in our Retirement segment, which was driven by positive net flows, including customer transfers from variable separate accounts and the favorable impact of reinvesting short-term investments into longer duration fixed income securities.

*Fee income* increased \$80.8 million from \$3,662.4 million to \$3,743.2 million primarily due to growth in our Retirement full service products, as well as our Investment Management and Individual Life segments due to a combination of strong sales and an improvement in the equity market, partially offset by a reduction in large Retirement recordkeeping cases resulting from terminated contracts and the continuing run-off of the Closed Block Other segment.

*Premiums* increased \$62.5 million from \$1,707.5 million to \$1,770.0 million primarily due to growth in our Individual Life segment, partially offset by decreases in Employee Benefits due to competitor pricing actions and sales of immediate annuities with life contingencies in our Annuities segment.

*Net realized capital losses* decreased \$146.6 million from \$1,678.0 million to \$1,531.4 million primarily due to a reduction of \$388.1 million in OTTI, partially offset by a \$242.5 million increase in net derivative losses as follows. Net gains on derivatives increased \$1,662.1 million from a loss of \$1,243.5 million to a gain of \$418.6 million. Our Closed Block Variable Annuity segment was the largest driver of this variance. Our Closed Block Variable Annuity segment reported a net gain of \$945.9 million for the year ended December 31, 2011 compared to a net loss of \$908.7 million for the year ended December 31, 2010. Losses on equity derivative

contracts were \$513.5 million lower due to the relative equity market movements in each year and changes in notional amounts. Gains on interest rate derivative contracts were \$1,331.8 million higher in 2011 primarily due to decreasing interest rates and changes in notional amounts. These gains were largely offset by losses on guaranteed benefit derivatives, which increased \$1,872.4 million from 2010 to 2011, primarily in Closed Block Variable Annuity, but also in our Retirement Solutions business (stable value products and fixed indexed annuities).

*Other revenue* decreased \$127.8 million from \$584.4 million to \$456.5 million primarily due to the reduction in a deferred gain amortization on the divested group reinsurance business caused by the continuing run-off of the business and the divestment of three broker dealers in early 2010.

*Interest credited and other benefits to contract owners/policyholders* increased \$699.3 million from \$5,210.6 million to \$5,909.9 million primarily due to an increase in reserves for the Closed Block Variable Annuity segment, which was largely due to updating lapse and other policyholder behavior assumptions in the fourth quarter of 2011, unfavorable claims experience in the Individual Life segment, an incurred-but-not-reported ( IBNR ) reduction in 2010 and an increase in 2011 related to our use of the U.S. Social Security Death Master File ( SSDMF ) to accrue for unfiled death claims. These increases were partially offset by a reduction in credited rates, a decrease in Employee Benefits reserves resulting from lower premiums, declining contract account balances in the Closed Blocks Institutional Spread Products segment and a decline in sales of immediate annuities with life contingencies in our Annuities segment.

*Operating expenses* decreased \$2.7 million from \$3,033.5 million to \$3,030.8 million. Significant expense decreased due to restructuring initiatives, a reduction in incentive compensation expense, the divestment of three broker dealers in early 2010 and the continuing run-off of our Closed Block Other segment were entirely offset by a \$110.3 million increase in the portion of our pension expense that is related to the immediate recognition of actuarial losses due primarily to changes in interest rates.

*Net amortization of DAC/VOBA* decreased \$359.6 million from \$746.6 million to \$387.0 million due to favorable unlocking in 2011, which was primarily due to prospective assumption changes related to investment margins, which caused favorable unlocking in our Annuities segment. Unlocking was minimal in 2010 with unfavorable unlocking in our Closed Block Variable Annuity segment due to loss recognition being offset by favorable unlocking in our Retirement segment.

*Interest expense* decreased \$193.2 million from \$332.5 million to \$139.3 million primarily due to the conversion of \$4.0 billion of debt to equity in 2011.

*Income before income taxes* increased \$240.0 million from \$37.8 million to \$277.8 million primarily due to growth in core businesses, reduction in impairments, reduction in interest cost and favorable DAC/VOBA and other intangible unlocking, partially offset by an increase in reserves for our Closed Block Variable Annuity segment.

*Income tax expense (benefit)* for the year ended December 31, 2011 was \$77.8 million greater than the tax at the statutory rate primarily due to an increase in the valuation allowance of \$175.0 million, the tax impact of non-deductible expenses of \$32.0 million, offset by the \$74.0 million favorable impact of the dividends received deduction and \$67.0 million of favorable impact from net income noncontrolling interests. The increase in the valuation allowance was due primarily to continued tax losses, the benefit of which is uncertain. The income tax expense (benefit) for 2010 was \$157.8 million greater than the tax at the statutory rate primarily due to an increase in the valuation allowance of \$547.0 million and the \$38.0 million tax effect of a loss from early extinguishment of debt. These increases in tax expense were partially offset by \$312.0 million release of tax liabilities related to settlement of IRS examinations and the \$108.0 million favorable impact of the dividends received deduction. The increase in the valuation allowance was primarily due to continued tax losses, the benefit of which is uncertain.

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***Operating Income (Loss) before Income Taxes***

*Operating income before income taxes* increased \$862.3 million from \$249.8 million to \$1,112.1 million primarily due to growth in our core businesses, improved investment margins (investment income less credited interest), expense reduction initiatives, reduction in interest expense as a result of an aggregate \$4.0 billion of debt to equity conversion during 2011. Furthermore, favorable DAC/VOBA and other intangible unlocking was \$302.9 million in 2011 compared to an unfavorable impact of \$24.9 million in 2010.

***Adjustments from Income (Loss) before Income Taxes to Operating Income before Taxes***

*Net investment gains* increased \$114.3 million from \$32.2 million to \$146.5 million due to reductions in impairments, partially offset by lower realized trading gains net of applicable and lower derivative mark to market adjustments and fair value adjustments on our CMO-B portfolio and DAC/VOBA amortization.

*Losses related to guaranteed benefit hedging and related changes / adjustments* increased \$893.3 million from \$7.8 million to \$901.1 million primarily due to a \$741.2 million reserve increase in our Closed Block Variable Annuity segment in the fourth quarter of 2011 related to updating lapse and other policyholder behavior assumptions, as well as a \$127.6 million increase in the losses on derivatives supporting the Closed Block Variable Annuity capital hedge overlay program, which focuses on protecting regulatory capital rather than mitigating earnings volatility. Guaranteed benefit derivative losses in our Retirement and Annuities segments driven by low interest rates contributed to the loss in 2011. The guaranteed benefit derivatives on Retirement's stable value products decreased from a gain of \$9.0 million in 2010 to a loss of \$212.5 million in 2011, while the guaranteed benefit derivatives in our fixed indexed annuity products increased from a loss of \$75.9 million in 2010 to a loss of \$186.6 million in 2011, net of hedging gains (losses).

*Losses related to businesses exited through reinsurance or divestment* increased \$31.8 million from \$3.3 million to \$35.1 million primarily due to a reduction in the deferred gain amortization on the divested group reinsurance business.

*Other adjustments to operating income* changed (\$10.7) million from (\$67.0) million to (\$77.7) million due to increased third party expenses related to the anticipated Divestment Transaction.

*Losses related to early extinguishment of debt* was \$108.3 million due to a \$3.0 billion debt to equity conversion in 2010.

*Immediate recognition of net actuarial gains (losses) related to pension and other post-employment benefit obligations and gains (losses) from plan amendments and curtailments* changed \$110.3 million from a loss of \$47.5 million to a loss of \$157.8 million due primarily to changes in interest rates.

***Year Ended December 31, 2010 Compared to Year Ended December 31, 2009***

***Net Income (Loss)***

*Net investment income* decreased \$581.6 million from \$5,568.6 million to \$4,987.0 million primarily due to the run-off of assets in our Closed Block Institutional Spread Products segment, the divestment of the group reinsurance business and lower earned rates due to a combination of changes in asset mix to reduce risk in the portfolio and the impacts related to the low interest rate environment. These reductions were partially offset by an increase in assets in our Retirement and Annuities segments.

*Fee income* increased \$184.2 million from \$3,478.2 million to \$3,662.4 million primarily due to higher AUM in the Closed Block Variable Annuity, Retirement and Investment Management segments. The increase in AUM was primarily driven by an improvement in the equity markets in 2010 compared to 2009. These increases were partially offset by a reduction in large Retirement recordkeeping cases due to terminated contracts and the continuing run-off of the Closed Block Other segment.

*Premiums* decreased \$278.0 million from \$1,985.5 million to \$1,707.5 million due to the divestment of the group reinsurance business and a significant reduction in Employee Benefits premiums, primarily related to the reinsurance of long-term disability business written after September 1, 2009. These decreases were partially offset by growth in the sale of term life products in our Individual Life segment and an increase in sales of annuities with life contingencies in our Annuities segment.

*Net realized capital losses* decreased \$500.7 million from \$2,178.7 million to \$1,678.0 million primarily due to lower OTTI of \$727.8 million driven by the improved economic and interest rate environment, offset by a \$704.1 million decrease in trading gains. Trading gains in 2009 included assets involved in the Illiquid Assets Back-up Facility transaction generating gains of \$870.0 million. An OTTI loss of \$889.5 million was recorded on these assets in 2008 since we did not have the intent to hold the assets until full recovery. In addition, we experienced lower losses on derivatives of \$693.1 million, consisting of \$1,814.8 million in derivatives, \$(1,448.9) million in guaranteed benefit derivatives, and \$327.2 million on embedded derivatives on fixed income instruments. Our Closed Block Variable Annuity segment was the largest driver of this \$1,814.8 million change. Our Closed Block Variable Annuity segment reported a net loss on derivatives of \$908.7 million for 2010 compared to a net loss on derivatives of \$2,717.4 million for 2009. Equity contracts accounted for \$996.8 million of the Closed Block Variable Annuity losses in 2010 and \$2,621.4 million in 2009, offset by gains on interest rate contracts, which accounted for \$103.3 million in 2010 and losses of \$86.3 million in 2009. Gains (losses) on guaranteed benefit derivatives changed by \$(1,448.9) million (from a gain of \$1,376.2 million to a loss of \$72.7 million).

*Other revenue* decreased \$403.7 million from \$988.1 million to \$584.4 million primarily due to the divestment of three broker dealers in early 2010.

*Interest credited and other benefits to contract owners/policyholders* decreased \$612.7 million from \$5,823.3 million to \$5,210.6 million due to the divestment of the group reinsurance business, a smaller increase in reserves for our Closed Block Variable Annuity segment compared to 2009, the run-off of our Closed Block Institutional Spread Products segment, improved Employee Benefits disability claim development in 2010 compared to 2009, reinsurance of long-term disability business written after September 1, 2009 and a reduction in average credited rates in our Retirement and Annuities segments. These decreases were partially offset by growth in our Individual Life segment and an increase in sales of annuities with life contingencies.

*Operating expenses* decreased \$318.7 million from \$3,352.2 million to \$3,033.5 million due to the divestment of three broker dealers and the group reinsurance business, the continuing run-off of our Closed Block Other segment and a decline in commission expense in our Employee Benefits segment due to a decline in premiums. These decreases were partially offset by higher commissions due to the increase in AUM and mutual fund sales, costs of restructuring within the Retirement segment that resulted in a significant reduction in headcount in the fourth quarter of 2010, an increase in pension expense related to the immediate recognition of actuarial losses primarily due to changes in interest rates, differences in incentive compensation and retention expenses between 2009 and 2010 and growth in our Individual Life segment.

*Net amortization of DAC/VOBA* decreased \$305.7 million from \$1,052.3 million to \$746.6 million primarily due to a smaller DAC/VOBA write-down in our Closed Block Variable Annuity segment. Both years reflected charges primarily related to loss recognition. Sharp declines in equity markets in the first quarter of 2009 and the second quarter of 2010 caused a portion of our Closed Block Variable Annuity segment DAC/VOBA to become unrecoverable from the present value of expected future gross profits. The write-down related to unlocking/loss recognition in the second quarter of 2010 was \$158.6 million compared to \$423.8 million in the first quarter of 2009.

*Interest expense* decreased \$53.0 million from \$385.5 million to \$332.5 million primarily due to the conversion of \$3.0 billion of debt to equity in 2010, reflecting the reduction in interest expense net of prepayment fees.

*Income (loss) before income taxes* increased \$1,146.4 million from a loss of \$1,108.6 million to income of \$37.8 million due to a reduction in investment losses, a smaller loss recognition in Closed Block Variable

Annuity segment, an increase in fee income due to improved equity markets, lower interest expense, improved disability claim development in 2010 compared to 2009 and growth in our core businesses.

*Income tax expense (benefit)* for the year ended December 31, 2010 was \$157.8 million greater than the tax at the statutory rate as described above. The income tax expense (benefit) for the year ended December 31, 2009 was \$90.0 million less than the benefit at the statutory rate primarily due to the establishment of \$90.0 million for valuation allowance for net operating losses, the benefit of which is uncertain. All other items were allocated to Other comprehensive income in accordance with the exception described in ASC 740-20-45-7.

***Operating Income (Loss) before Income Taxes***

*Operating income (loss) before income taxes* increased \$589.7 million from a loss of \$339.9 million to income of \$249.8 million primarily due to improving equity markets, which increased fee income and investment returns on alternative investments, a reduction in interest expense and favorable DAC/VOBA and other intangible unlocking in our Retirement and Individual Life segments and a smaller DAC/VOBA and other intangible write-down in our Closed Block Variable Annuity segment. As described above, both years reflected DAC/VOBA and other intangible charges related to Closed Block Variable Annuity loss recognition, with the write-down in 2010 being smaller than 2009.

***Adjustments from Income (Loss) before Income Taxes to Operating Income before Taxes***

*Net investment gains* decreased \$286.0 million from \$318.2 million to \$32.2 million due to reduction in gains on the sale of securities and were partially offset by a reduction in impairments.

*Net guaranteed benefit hedging losses and related charges and adjustments* decreased \$783.0 million from \$790.8 million to \$7.8 million. Losses in 2010 were close to zero as hedge losses were essentially offset by reserve reductions, but we incurred a \$1,083.1 million loss in 2009 due to the capital hedge overlay program from equity market appreciation. As discussed above, the Closed Block Variable Annuity capital hedge overlay program focuses on protecting regulatory capital rather than mitigating earnings volatility. Improving credit spreads in 2009 drove a fair value loss on embedded derivatives of \$1,303.6 million for non-performance risk. These losses in 2009 were partially offset by gains on embedded derivatives from increasing interest rates.

*Losses related to businesses exited through reinsurance or divestment* decreased \$17.1 million from \$20.4 million to \$3.3 million primarily due to the deferred gain amortization on the group reinsurance business that was divested at the end of 2009, partially offset by higher letter of credit costs on the individual reinsurance business that was divested in prior years, but where we remain responsible for a portion of the letter of credit costs.

*Other adjustments to operating income* changed (\$3.9) million from (\$70.9) million to (\$67.0) million due to reduction in projects related to the CitiStreet integration, which was acquired in 2008.

*Losses related to early extinguishment of debt* was \$108.3 million in 2010 due to the difference in the book value versus market value of \$3.0 billion of debt that was converted to equity in 2010. There was no similar conversion in 2009.

*Immediate recognition of net actuarial gains (losses) related to pension and other post-employment benefit obligations and gains (losses) from plan adjustments and curtailments* increased \$50.1 million from a gain of \$2.6 million to a loss of \$47.5 million due primarily to changes in interest rates.

**Results of Operations Segment by Segment**

**Retirement Solutions Retirement**

The following table reflects operating income before income taxes of our Retirement segment for the periods indicated:

(\$ in millions)	Three Months Ended March 31,		Year Ended December 31,		
	2012	2011	2011	2010	2009
<b>Operating revenues:</b>					
Net investment income and net realized gains (losses)	\$ 388.1	\$ 353.7	\$ 1,435.9	\$ 1,405.2	\$ 1,304.4
Fee income	177.1	183.3	713.5	711.4	657.0
Premiums	0.5	4.3	8.1	3.0	2.4
Other revenue	14.7	19.6	67.9	59.4	60.7
Total operating revenues	580.4	560.9	2,225.4	2,179.0	2,024.5
<b>Operating benefits and expenses:</b>					
Interest credited and other benefits to contract owners/policyholders	208.4	200.2	826.2	797.9	781.9
Operating expenses	213.9	213.0	844.5	900.3	821.8
Net amortization of DAC/VOBA	33.8	21.7	111.1	9.2	60.4
Interest expense	0.4	0.5	1.7	2.0	2.1
Total operating benefits and expenses	456.5	435.4	1,783.5	1,709.4	1,666.2
<b>Operating income (loss) before income taxes</b>	<b>\$ 123.9</b>	<b>\$ 125.5</b>	<b>\$ 441.9</b>	<b>\$ 469.6</b>	<b>\$ 358.3</b>

The following tables present AUM and AUA for our Retirement segment at the dates indicated:

(\$ in millions)	As of March 31,		As of December 31,		
	2012	2011	2011	2010	2009
Corporate market	\$ 31,680.7	\$ 30,309.6	\$ 29,134.4	\$ 29,486.0	\$ 26,749.5
Tax exempt market	45,304.0	42,979.6	42,691.3	43,221.9	39,942.7
Total full service plans	76,984.7	73,289.2	71,825.7	72,707.9	66,692.2
Stable value <sup>(1)</sup>	5,838.4	3,947.8	5,560.9	1,987.7	810.0
Individual market	2,256.7	1,982.3	2,091.1	1,842.2	1,382.9
Total AUM	85,079.8	79,219.3	79,477.7	76,537.8	68,885.1
AUA	215,548.6	221,931.7	208,249.0	214,274.0	203,040.3
Total AUM and AUA	\$ 300,628.4	\$ 301,151.0	\$ 287,726.7	\$ 290,811.8	\$ 271,925.4

	As of March 31,		As of December 31,		
	2012	2011	2011	2010	2009
General Account	\$ 25,784.5	\$ 23,838.0	\$ 25,528.3	\$ 23,588.1	\$ 22,755.4
Separate Account	47,053.1	45,188.1	42,920.8	43,284.1	38,585.0
Mutual Funds/Institutional Funds	12,242.2	10,193.2	11,028.6	9,665.6	7,544.7
AUA	215,548.6	221,931.7	208,249.0	214,274.0	203,040.3

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Total AUM and AUA	\$ 300,628.4	\$ 301,151.0	\$ 287,726.7	\$ 290,811.8	\$ 271,925.4
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(1) Where we are the investment manager



The following table presents a rollforward of AUM for our Retirement segment for the periods indicated:

(\$ in millions)	Three Months Ended		Year Ended December 31,		
	March 31,		2011	2010	2009
	2012	2011	2011	2010	2009
Balance as of beginning of year	\$ 79,477.7	\$ 76,537.8	\$ 76,537.8	\$ 68,885.1	\$ 58,273.5
Deposits	3,142.1	2,967.3	11,927.4	12,575.3	9,597.6
Surrenders, benefits and product charges	(2,522.5)	(2,674.5)	(8,926.4)	(11,129.9)	(8,740.0)
Net flows	619.6	292.8	3,001.0	1,445.4	857.6
Interest credited and investment performance	4,982.5	2,388.7	(61.1)	6,207.3	9,754.0
Balance as of end of year	\$ 85,079.8	\$ 79,219.3	\$ 79,477.7	\$ 76,537.8	\$ 68,885.1

**Retirement Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011**

*Operating revenues*

*Net investment income and net realized gains (losses)* increased \$34.4 million from \$353.7 million to \$388.1 million primarily due to an increase in general account assets, which increased \$2.0 billion from \$23.8 billion to \$25.8 billion. The volatility in the equity market during the second half of 2011 resulted in participants transferring funds from variable investment options into the fixed investment option, which contributed to an increase in average general account assets.

*Fee income* decreased \$6.2 million from \$183.3 million to \$177.1 million. The decrease in fee income was primarily due to a decrease in pricing for certain full service retirement plans as a result of competition. Additionally, recordkeeping fees decreased due to an increase in terminated contracts.

*Premiums* decreased \$3.8 million from \$4.3 million to \$0.5 million primarily due to a decline in the issuance of single premium immediate annuities with life contingencies.

*Other revenue* decreased \$4.9 million from \$19.6 million to \$14.7 million due to a change in contractual amounts paid to/from retirement plan customers upon surrender.

*Operating benefits and expenses*

*Interest credited and other benefits to contract owners/policyholders* increased \$8.2 million from \$200.2 million to \$208.4 million primarily due to an increase in general account liabilities, which corresponded to the increase in general account assets as described above. The increase was partially offset by a decrease in average credited rates on general account liabilities due to actions taken in January 2012 to reflect the low interest rate environment.

*Net amortization of DAC/VOBA* increased \$12.1 million from \$21.7 million to \$33.8 million as a result of \$13.3 million of lower favorable DAC/VOBA and other intangible unlocking.

*Operating income (loss) before income taxes*

*Operating income (loss) before income taxes* for our Retirement segment was essentially flat. Significant growth in net investment income (loss), due to an increase in general account asset volume, was offset by reductions in other revenue items and lower favorable DAC unlocking. Retirement net flows improved to \$619.6 million from \$292.8 million. The improvement was attributable to strong corporate and tax exempt market sales performance and persistency. Retirement account values totaled \$85.1 billion, up from \$79.2 billion at the end of the first quarter in 2011 and \$79.5 billion at the end of the fourth quarter of 2011, driven by the increase in the equity market and positive net flows.

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**Retirement Year Ended December 31, 2011 Compared to Year Ended December 31, 2010**

*Operating revenues*

*Net investment income and net realized gains (losses)* increased \$30.7 million from \$1,405.2 million to \$1,435.9 million primarily due to an increase in account values (\$1.9 billion increase in general account assets as provided in the table above), partially offset by a \$34.1 million decrease in alternative investment income. New sales, customer transfers from variable to fixed investment options in qualified and nonqualified annuity and funding agreement products and positive net flows through improved persistency contributed to the increase in general account assets. Overall yields for the general account, net of investment expense and excluding alternative investment results, remained consistent with 2010 and were approximately 5.7%. The decrease in alternative investment returns reflects the market declines and volatility in 2011.

*Fee income* increased \$2.1 million from \$711.4 million to \$713.5 million. Increases in full service retirement plan and individual retirement product revenues of \$17.8 million which were driven by net increases in separate account and institutional /mutual fund AUM were offset by a \$17.8 million decrease in recordkeeping fees primarily due to terminated contracts.

*Premiums* increased \$5.1 million from \$3.0 million to \$8.1 million primarily due to the timing of the sale of immediate annuity products with lifetime contingencies.

*Other revenue* increased \$8.5 million from \$59.4 million to \$67.9 million primarily due to increases in broker dealer revenue

*Operating benefits and expenses*

*Interest credited and other benefits to contract owners/policyholders* increased \$28.3 million from \$797.9 million to \$826.2 million primarily due to a \$1.9 billion increase in general account AUM as provided in the table above. The increase was partially offset by a slight decrease in average credited rates on fixed fund options in qualified and nonqualified annuity and funding agreement products compared to 2010 due to management actions. Most of our fixed fund options contain guaranteed minimum credited rates ranging from 1% to 4%. As of December 31, 2011, approximately 70% of these funds were at the minimum credited rates.

*Operating expenses* decreased \$55.8 million from \$900.3 million to \$844.5 million primarily driven by a \$33.6 million decrease as a result of a restructuring effort in late 2010, which included the elimination of the wholesale distribution channel. Expenses in the recordkeeping business decreased \$24.7 million commensurate with terminated contracts.

*Net amortization of DAC/VOBA* increased \$101.9 million from \$9.2 million to \$111.1 million primarily as a result of \$116.2 million of lower favorable DAC unlocking in 2011. The 2011 results include a favorable impact of \$44.2 million compared to a favorable impact of \$160.4 million in 2010 due to unlocking. Favorable unlocking in 2011 was driven by future assumption changes and greater than expected net flows into fixed investment option funds. Favorable unlocking in 2010 was driven by equity market growth above expectations and assumption updates resulting in an increase in future gross profit projections. Excluding the impact from the unlocking of DAC/VOBA, net amortization of DAC/VOBA decreased \$14.3 million due to lower amortization rates resulting from favorable assumption updates.

*Operating income (loss) before income taxes*

Full-service retirement plan sales growth, together with our emphasis on strengthening net flows and implementing cost reductions, were the primary underlying drivers of improved results, absent DAC impacts. Favorable net flows of \$3.0 billion in 2011 resulted in higher levels of AUM leading to both additional net investment income (loss) and fee income. The implementation of expense reduction initiatives resulted in lower

operating expenses in 2011 as further distribution efficiencies were realized. However, the drivers of 2011 results were offset by a lower favorable DAC and other intangible unlocking of \$116.2 million compared to 2010 resulting in a decrease in operating income before income taxes.

***Retirement Year Ended December 31, 2010 Compared to Year Ended December 31, 2009***

*Operating revenues*

*Net investment income and net realized gains (losses)* increased \$100.8 million from \$1,304.4 million to \$1,405.2 million primarily due to \$137.1 million of higher alternative investment income, as the equity markets improved in 2010. This was partially offset by a decline in yields on general account assets as a result of the low interest rate environment. Overall yields on general account assets, net of investment expense and excluding alternative investments were approximately 5.7% in 2010 compared to 5.9% in 2009.

*Fee income* increased \$54.4 million from \$657.0 million to \$711.4 million primarily due to a \$76.8 million increase in fee revenue associated with full service retirement plans and individual retirement products. This was driven by higher average separate account and institutional/mutual fund AUM due to improved equity market performance. This increase was partially offset by a \$23.9 million decrease in recordkeeping fees primarily due to an increase in terminated contracts.

*Operating benefits and expenses*

*Interest credited and other benefits to contract owners/policyholders* increased \$16.0 million from \$781.9 million to \$797.9 million due to an increase in account values (\$0.8 billion in general account AUM as provided in the table above) along with higher premium and interest bonuses paid on accounts. The increase was partially offset by a slight decrease in average credited rates on fixed fund options in qualified and nonqualified annuity and funding agreement products compared to 2009 due to management actions.

*Operating expenses* increased \$78.5 million from \$821.8 million to \$900.3 million due to the transfer of the wholesale distribution force in early 2010 from our Closed Block Variable Annuity segment to support sales of the individual retirement rollover products and non-deferrable project spending to improve the then current infrastructure and prepare for anticipated future growth. Subsequently, the individual retirement product business was restructured in late 2010, which resulted in a significant reduction in headcount in the fourth quarter of 2010 and a reduction in the expense run rate heading into 2011. The remaining increase relates to a \$13.6 million increase in AUM-based commissions driven by higher AUM levels.

*Net amortization of DAC/VOBA* decreased \$51.2 million from \$60.4 million to \$9.2 million primarily due to \$93.2 million in favorable unlocking. The 2010 results included a favorable unlocking impact of \$160.4 million compared to \$67.2 million in 2009. Favorable unlocking in both 2010 and 2009 was driven by higher than expected equity market appreciation, as well as assumption updates resulting in an increase in future gross profit projections. Excluding the impact from the unlocking of DAC/VOBA, net amortization of DAC/VOBA increased \$42.0 million due primarily to a higher level of gross profits in 2010.

*Operating income (loss) before income taxes*

Markets continued their recovery into 2010, laying the groundwork for improvement in operating income. The higher equity market levels in 2010 compared to early 2009 contributed to higher favorable DAC/VOBA and other intangible unlocking and improved AUM-based fee income. The increase in operating income also reflected better net investment income, as returns on alternative investments improved.

**Retirement Solutions Annuities**

The following table reflects operating income before income taxes of the Annuities segment for the periods indicated:

(\$ in millions)	Three Months Ended		Year Ended December 31,		
	2012	2011	2011	2010	2009
<b>Operating revenues:</b>					
Net investment income and net realized gains (losses)	\$ 329.0	\$ 339.2	\$ 1,321.9	\$ 1,369.4	\$ 1,381.8
Fee income	7.4	5.7	29.8	24.1	14.9
Premiums	11.8	9.7	34.1	67.3	34.5
Other revenue	3.0	5.8	15.6	21.7	11.5
Total operating revenues	351.2	360.4	1,401.4	1,482.5	1,442.7
<b>Operating benefits and expenses:</b>					
Interest credited and other benefits to contract owners/policyholders	241.9	268.0	978.0	1,091.9	1,100.4
Operating expenses	31.2	30.3	126.7	131.0	114.4
Net amortization of DAC/VOBA	41.6	22.5	(91.5)	143.9	178.4
Interest expense	0.1	0.2	0.6	0.7	0.8
Total operating benefits and expenses	314.8	321.0	1,013.8	1,367.5	1,394.0
<b>Operating income (loss) before income taxes</b>	<b>\$ 36.4</b>	<b>\$ 39.4</b>	<b>\$ 387.6</b>	<b>\$ 115.0</b>	<b>\$ 48.7</b>

The following table presents AUM for our Annuities segment at the dates indicated:

(\$ in millions)	As of March 31,		As of December 31,		
	2012	2011	2011	2010	2009
<b>AUM</b>					
General account	\$ 24,770.2	\$ 25,801.1	\$ 25,198.5	\$ 25,925.0	\$ 25,302.9
Separate account	795.5	847.6	730.4	835.3	805.4
Mutual funds	2,026.9	1,365.8	1,761.3	1,089.0	260.4
Total AUM	\$ 27,592.6	\$ 28,014.5	\$ 27,690.2	\$ 27,849.3	\$ 26,368.7

The following table presents a rollforward of AUM for our Annuities segment for the periods indicated:

(\$ in millions)	Three Months Ended		Year Ended December 31,		
	2012	2011	2011	2010	2009
Balance as of beginning of year	\$ 27,690.2	\$ 27,849.3	\$ 27,849.3	\$ 26,368.7	\$ 25,150.5
Deposits	596.1	756.1	2,716.8	2,855.6	3,204.6
Surrenders, benefits and product charges	(1,107.7)	(948.1)	(3,935.1)	(2,897.1)	(3,069.7)
Net flows	(511.6)	(192.0)	(1,218.3)	(41.5)	134.9
Interest credited and investment performance	414.0	357.2	1,059.2	1,522.1	1,083.3
Balance as of end of year	\$ 27,592.6	\$ 28,014.5	\$ 27,690.2	\$ 27,849.3	\$ 26,368.7

*Annuities Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011*

*Operating revenues*

*Net investment income and net realized gains (losses)* decreased \$10.2 million from \$339.2 million to \$329.0 million primarily due to lower general account assets, which were partially offset by higher yields on our

CMO-B portfolio. General account assets decreased as a result of MYGAs lapsing at the end of their initial terms, largely due to crediting rates that were lower than the crediting rates during the initial term.

*Fee income* increased \$1.7 million from \$5.7 million to \$7.4 million due to growth in assets of custodial mutual fund products, which are sold by the annuity distribution channel as an alternative retirement product. The growth in these products was due to new deposits and investment performance in the first quarter of 2012.

*Operating benefits and expenses*

*Interest credited and other benefits to contract owners/policyholders* decreased \$26.1 million from \$268.0 million to \$241.9 million. The decrease was primarily a result of lower option costs on fixed index annuities ( FIA ) as well as a result of lapses of MYGA policies (as discussed above).

*Net amortization of DAC/VOBA* increased \$19.1 million from \$22.5 million to \$41.6 million primarily due to an unfavorable change in unlocking being partially offset by lower amortization during the first quarter of 2012. The unfavorable unlocking is mainly due to a decrease in projected investment margins on the MYGA block in the first quarter of 2012 as well as an unfavorable variance between actual and expected gross profits in the first quarter of 2012. The favorable variance in amortization is mostly a result of a lower amortization rate due to revisions to the future gross profit projections as of December 31, 2011.

*Operating income before income taxes*

*Operating income before income taxes* decreased \$3.0 million from \$39.4 million to \$36.4 million. The decrease was primarily driven by lower net investment income (loss) and higher amortization of DAC/VOBA, which was partially offset by higher fee income and lower interest credited and other benefits to contract owners/policyholders.

***Annuities Year Ended December 31, 2011 Compared to Year Ended December 31, 2010***

*Operating revenues*

*Net investment income and net realized gains (losses)* decreased \$47.5 million from \$1,369.4 million to \$1,321.9 million due to lower yields. The decrease in yield reflects the impact of lower interest rates in 2011.

*Fee income* increased \$5.7 million from \$24.1 million to \$29.8 million due to growth in assets of mutual fund products, which are sold by the annuity distribution force as an alternative retirement product. Sales of mutual fund products increased from \$859.9 million to \$977.6 million during 2011, or a growth of 13.7%.

*Premiums* declined by \$33.2 million from \$67.3 million to \$34.1 million due to lower sales of immediate annuities with life contingencies.

*Operating benefits and expenses*

*Interest credited and other benefits to contract owners/policyholders* decreased \$113.9 million from \$1,091.9 million to \$978.0 million primarily due to a decrease in average crediting rates resulting from contracts with higher rates reaching maturity. The decrease also reflects lower sales of annuities with life contingencies, which results in a decrease in the related reserve associated with those products. In addition, amortization of sales inducements decreased due to an increase in estimated gross profits.

*Operating expenses* decreased \$4.3 million from \$131.0 million to \$126.7 million due to slightly lower commission expenses in 2011.

*Net amortization of DAC/VOBA* decreased \$235.4 million from \$143.9 million to (\$91.5) million primarily due to a favorable change in unlocking in 2011 compared to unfavorable unlocking in 2010. The favorable unlocking of DAC/VOBA in 2011 resulted from prospective assumption changes related to investment margins, or earned investment income less credited interest. The projections of this assumption were updated using improved modeling techniques, which provided for a better estimate of future cash flows.

*Operating income before income taxes*

*Operating income before income taxes* in 2011 increased \$272.6 million from \$115.0 million to \$387.6 million primarily impacted by increased investment margins as well as updated actuarial assumptions and resulted in favorable unlocking of DAC/VOBA as described above.

**Annuities Year Ended December 31, 2010 Compared to Year Ended December 31, 2009**

*Operating revenues*

*Net investment income and net realized gains (losses)* decreased \$12.4 million from \$1,381.8 million to \$1,369.4 million primarily due to lower yields reflecting a portfolio restructuring that we conducted in mid-2009 to early 2010 in order to maintain a strong liquidity profile. See Investments Investment Strategy.

*Fee income* increased \$9.2 million from \$14.9 million to \$24.1 million due to growth in assets of custodial mutual fund products, which the annuity distribution channel sells as an alternative retirement product.

*Premiums* increased \$32.8 million from \$34.5 million to \$67.3 million due to higher sales of immediate annuities with life contingencies.

*Operating benefits and expenses*

*Interest credited and other benefits to contract owners/policyholders* decreased \$8.5 million from \$1,100.4 million to \$1,091.9 million primarily due to a decrease in average crediting rates as more contracts were established at lower rates as a result of the low interest rate environment, partially offset by an increase in annuities with life contingencies reserves due to higher sales.

*Operating expenses* increased \$16.6 million from \$114.4 million to \$131.0 million as a result of higher commissions driven by a growth in sales of custodial mutual fund products as well as higher trail commissions on indexed annuities.

*Net amortization of DAC/VOBA* decreased \$34.5 million from \$178.4 million to \$143.9 million primarily due to lower amortization rates and lower gross profits.

*Operating income before income taxes*

*Operating income before income taxes* increased \$66.3 million from \$48.7 million to \$115.0 million. The increase was primarily driven by lower net amortization of DAC/VOBA, being partially offset by a decrease in investment margins as a result of the portfolio restructuring described above.

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**Investment Management**

The following table reflects operating income before income taxes of our Investment Management segment for the periods indicated:

(\$ in millions)	Three Months Ended March 31,		Year Ended December 31,		
	2012	2011	2011	2010	2009
<b>Operating revenues:</b>					
Net investment income and net realized gains (losses)	\$ 5.4	\$ 6.2	\$ 8.8	\$ 2.2	\$ (46.4)
Fee income	117.9				