GENWORTH FINANCIAL INC
Form 10-Q
October 29, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from to

Commission file number 001-32195

GENWORTH FINANCIAL, INC.

(Exact Name of Registrant as Specified in its Charter)

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

(804) 281-6000

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

At October 25, 2010, 489,595,629 shares of Class A Common Stock, par value $0.001 per share, were outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in millions, except per share amounts)

(Unaudited)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Revenues:				
Premiums	$ 1,447	$ 1,492	$ 4,387	$ 4,496
Net investment income	815	759	2,403	2,251
Net investment gains (losses)	105	(122)	(104)	(945)
Insurance and investment product fees and other	300	262	812	806
Total revenues	2,667	2,391	7,498	6,608
Benefits and expenses:				
Benefits and other changes in policy reserves	1,502	1,450	4,157	4,450
Interest credited	212	225	636	763
Acquisition and operating expenses, net of deferrals	472	484	1,446	1,381
Amortization of deferred acquisition costs and intangibles	227	143	590	602
Interest expense	114	96	338	306
Total benefits and expenses	2,527	2,398	7,167	7,502
Income (loss) before income taxes	140	(7)	331	(894)
Provision (benefit) for income taxes	18	(52)	(80)	(420)
Net income (loss)	122	45	411	(474)
Less: net income attributable to noncontrolling interests	39	26	108	26
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ 83	$ 19	$ 303	$ (500)
Net income (loss) available to Genworth Financial, Inc. s common stockholders per common share:				
Basic	$ 0.17	$ 0.04	$ 0.62	$ (1.14)
Diluted	$ 0.17	$ 0.04	$ 0.61	$ (1.14)
Weighted-average common shares outstanding:				
Basic	489.5	448.9	489.1	438.5

Diluted	493.9	451.6	493.9	438.5
Supplemental disclosures:				
Total other-than-temporary impairments	$ (7)	$ (285)	$ (108)	$ (1,358)
Portion of other-than-temporary impairments included in other comprehensive income (loss)	(30)	89	(60)	413
Net other-than-temporary impairments	(37)	(196)	(168)	(945)
Other investment gains (losses)	142	74	64	
Total net investment gains (losses)	$ 105	$ (122)	$ (104)	$ (945)

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except per share amounts)

	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	$ 56,356	$ 49,752
Equity securities available-for-sale, at fair value	223	159
Commercial mortgage loans	6,929	7,499
Restricted commercial mortgage loans related to securitization entities	522	
Policy loans	1,480	1,403
Other invested assets	5,320	4,702
Restricted other invested assets related to securitization entities ($376 at fair value)	378	
Total investments	71,208	63,515
Cash and cash equivalents	3,598	5,002
Accrued investment income	760	691
Deferred acquisition costs	7,055	7,341
Intangible assets	647	934
Goodwill	1,321	1,324
Reinsurance recoverable	17,223	17,332
Other assets	958	954
Deferred tax asset	867	92
Separate account assets	11,063	11,002
Total assets	$ 114,700	$ 108,187
Liabilities and stockholders equity		
Liabilities:		
Future policy benefits	$ 30,758	$ 29,469
Policyholder account balances	27,714	28,470
Liability for policy and contract claims	6,448	6,567
Unearned premiums	4,492	4,714
Other liabilities ($166 and $ other liabilities related to securitization entities)	6,949	6,298
Borrowings related to securitization entities ($44 at fair value)	502	
Non-recourse funding obligations	3,437	3,443
Short-term borrowings	730	930
Long-term borrowings	4,373	3,641
Deferred tax liability	2,163	303
Separate account liabilities	11,063	11,002
Total liabilities	98,629	94,837
Commitments and contingencies		
Stockholders equity:		
Class A common stock, $0.001 par value; 1.5 billion shares authorized; 578 million and 577 million shares issued as of September 30, 2010 and December 31, 2009, respectively; 490 million and 489 million shares outstanding as of September 30, 2010 and December 31, 2009, respectively	1	1
Additional paid-in capital	12,084	12,034
Accumulated other comprehensive income (loss):		

Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	730	(1,151)
Net unrealized gains (losses) on other-than-temporarily impaired securities	(143)	(247)
Net unrealized investment gains (losses)	587	(1,398)
Derivatives qualifying as hedges	1,354	802
Foreign currency translation and other adjustments	543	432
Total accumulated other comprehensive income (loss)	2,484	(164)
Retained earnings	3,133	3,105
Treasury stock, at cost (88 million shares as of September 30, 2010 and December 31, 2009)	(2,700)	(2,700)
Total Genworth Financial, Inc. s stockholders equity	15,002	12,276
Noncontrolling interests	1,069	1,074
Total stockholders equity	16,071	13,350
Total liabilities and stockholders equity	$ 114,700	$ 108,187

See Notes to Condensed Consolidated Financial Statements

GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Amounts in millions)

(Unaudited)

	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury stock, at cost	Total Genworth Financial, Inc. s stockholders equity	Noncontrolling interests	Total stockholders equity
Balances as of December 31, 2009	$ 1	$ 12,034	$ (164)	$ 3,105	$ (2,700)	$ 12,276	$ 1,074	$ 13,350
Cumulative effect of change in accounting, net of taxes and other adjustments			260	(275)		(15)		(15)
Repurchase of subsidiary shares							(131)	(131)
Comprehensive income (loss):								
Net income (loss)				303		303	108	411
Net unrealized gains (losses) on securities not other-than-temporarily impaired			1,621			1,621	28	1,649
Net unrealized gains (losses) on other-than-temporarily impaired securities			104			104		104
Derivatives qualifying as hedges			552			552		552
Foreign currency translation and other adjustments			111			111	22	133
Total comprehensive income (loss)								2,849
Dividends to noncontrolling interests							(32)	(32)
Stock-based compensation expense and exercises and other		30				30		30
Other capital transactions		20				20		20
Balances as of September 30, 2010	$ 1	$ 12,084	$ 2,484	$ 3,133	$ (2,700)	$ 15,002	$ 1,069	$ 16,071
Balances as of December 31, 2008	$ 1	$ 11,477	$ (3,062)	$ 3,210	$ (2,700)	$ 8,926	$	$ 8,926
Cumulative effect of change in accounting, net of taxes and other adjustments			(349)	355		6		6
Initial sale of subsidiary shares to noncontrolling interests		(85)	(60)			(145)	828	683
Additional sale of subsidiary shares to noncontrolling interests		(3)	(12)			(15)	99	84
Issuance of common stock		622				622		622
Comprehensive income (loss):								
Net income (loss)				(500)		(500)	26	(474)
Net unrealized gains (losses) on securities not other-than-temporarily impaired			3,027			3,027	19	3,046
Net unrealized gains (losses) on other-than-temporarily impaired securities			(19)			(19)		(19)
Derivatives qualifying as hedges			(148)			(148)		(148)
			646			646	56	702

Foreign currency translation and other adjustments								
Total comprehensive income (loss)								3,107
Stock-based compensation expense and exercises and other		17				17		17
Balances as of September 30, 2009	$ 1	$ 12,028	$ 23	$ 3,065	$ (2,700)	$ 12,417	$ 1,028	$ 13,445

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Nine months ended September 30, 2010	2009
Cash flows from operating activities:		
Net income (loss)	$ 411	$ (474)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Amortization of fixed maturity discounts and premiums	(11)	103
Net investment losses (gains)	104	945
Charges assessed to policyholders	(367)	(332)
Acquisition costs deferred	(610)	(540)
Amortization of deferred acquisition costs and intangibles	590	602
Deferred income taxes	(111)	(634)
Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments	113	(4)
Gain on sale of subsidiary		(4)
Stock-based compensation expense	31	17
Change in certain assets and liabilities:		
Accrued investment income and other assets	(31)	(135)
Insurance reserves	1,767	2,153
Current tax liabilities	(313)	55
Other liabilities and other policy-related balances	(597)	102
Net cash from operating activities	976	1,854
Cash flows from investing activities:		
Proceeds from maturities and repayments of investments:		
Fixed maturity securities	3,302	3,157
Commercial mortgage loans	493	519
Restricted commercial mortgage loans related to securitization entities	40	
Proceeds from sales of investments:		
Fixed maturity and equity securities	3,329	3,343
Purchases and originations of investments:		
Fixed maturity and equity securities	(10,223)	(5,091)
Commercial mortgage loans	(35)	
Other invested assets, net	1,483	122
Policy loans, net	(77)	426
Net cash transferred related to the sale of a subsidiary		(90)
Net cash from investing activities	(1,688)	2,386
Cash flows from financing activities:		
Deposits to universal life and investment contracts	1,832	1,801
Withdrawals from universal life and investment contracts	(2,950)	(6,669)
Short-term borrowings and other, net	(86)	(363)
Repayment and repurchase of long-term borrowings	(6)	(809)

Proceeds from the issuance of long-term borrowings	660	
Redemption of non-recourse funding obligations	(6)	(12)
Repayment of borrowings related to securitization entities	(46)	
Proceeds from issuance of common stock		622
Proceeds from the sale of subsidiary shares to noncontrolling interests		771
Repurchase of subsidiary shares	(131)	
Dividends paid to noncontrolling interests	(32)	
Net cash from financing activities	(765)	(4,659)
Effect of exchange rate changes on cash and cash equivalents	73	235
Net change in cash and cash equivalents	(1,404)	(184)
Cash and cash equivalents at beginning of period	5,002	7,328
Cash and cash equivalents at end of period	$ 3,598	$ 7,144

See Notes to Condensed Consolidated Financial Statements

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Formation of Genworth and Basis of Presentation

Genworth Financial, Inc. (Genworth) was incorporated in Delaware on October 23, 2003. The accompanying condensed financial statements include on a consolidated basis the accounts of Genworth and our affiliate companies in which we hold a majority voting interest or where we are the primary beneficiary of a variable interest entity, which we refer to as the Company, we, us or our unless the context otherwise requires. All intercompany accounts and transactions have been eliminated in consolidation.

We have the following three operating segments:

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

- ***International.*** We offer mortgage and lifestyle protection insurance products and related services in multiple markets. We are a leading provider of mortgage insurance products in Canada, Australia, Mexico and multiple European countries. Our products predominantly insure prime-based, individually underwritten residential mortgage loans, also known as flow mortgage insurance. On a limited basis, we also provide mortgage insurance on a structured, or bulk, basis that aids in the sale of mortgages to the capital markets and helps lenders manage capital and risk. Additionally, we offer services, analytical tools and technology that enable lenders to operate efficiently and manage risk. We are a leading provider of payment protection coverages (referred to as lifestyle protection) in multiple European countries, Canada and Mexico. Our lifestyle protection insurance products primarily help consumers meet specified payment obligations should they become unable to pay due to accident, illness, involuntary unemployment, disability or death.

- ***U.S. Mortgage Insurance.*** In the U.S., we offer mortgage insurance products predominantly insuring prime-based, individually underwritten residential mortgage loans, also known as flow mortgage insurance. We selectively provide mortgage insurance on a structured, or bulk, basis with essentially all of our bulk writings prime-based. Additionally, we offer services, analytical tools and technology that enable lenders to operate efficiently and manage risk.

We also have Corporate and Other activities which include debt financing expenses that are incurred at our holding company level, unallocated corporate income and expenses, eliminations of inter-segment transactions and the results of non-core businesses and non-strategic products that are managed outside of our operating segments. Our non-strategic products include our institutional and corporate-owned life insurance products. Institutional products consist of funding agreements, funding agreements backing notes (FABNs) and guaranteed investment contracts (GICs).

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

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. The condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and related notes contained in our 2009 Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) Accounting Pronouncements

Recently Adopted

Scope Exception for Embedded Credit Derivatives

On July 1, 2010, we adopted new accounting guidance related to embedded credit derivatives. This accounting guidance clarified the scope exception for embedded credit derivatives and when those features would be bifurcated from the host contract. Under the new accounting guidance, only embedded credit derivative features that are in the form of subordination of one financial instrument to another would not be subject to the bifurcation requirements. Accordingly, upon adoption, we were required to bifurcate embedded credit derivatives that no longer qualified under the amended scope exception. In conjunction with our adoption, we elected fair value option for certain fixed maturity securities. On July 1, 2010, we recorded a net cumulative effect adjustment of $171 million to retained earnings with an offset to accumulated other comprehensive income (loss) of $169 million. The following summarizes the components for the cumulative effect adjustment:

(Amounts in millions)	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholders equity
Investment securities	$ 267	$ (267)	$
Adjustment to deferred acquisition costs	(4)	1	(3)
Adjustment to sales inducements	(1)	1	
Provision for income taxes	(93)	94	1
Net cumulative effect adjustment	$ 169	$ (171)	$ (2)

For certain securities where the embedded credit derivative would require bifurcation, we elected the fair value option to carry the entire instrument at fair value to reduce the cost of calculating and recording the fair value of the embedded derivative feature separate from the debt security. Additionally, we elected the fair value option for a portion of our other asset-backed securities for operational ease and to record and present the securities at fair value in future periods. Upon electing fair value option on July 1, 2010, these securities were reclassified into the trading category included in other invested assets and had a fair value of $407 million. Prior to electing fair value option, these securities were classified as available-for-sale fixed maturity securities.

Accounting for Transfers of Financial Assets

On January 1, 2010, we adopted new accounting guidance related to accounting for transfers of financial assets. This accounting guidance amended the previous guidance on transfers of financial assets by eliminating the qualifying special-purpose entity concept, providing certain conditions that must be met to qualify for sale accounting, changing the amount of gain or loss recognized on certain transfers and requiring additional disclosures. The adoption of this accounting guidance did not have a material impact on our consolidated financial statements. The elimination of the qualifying special-purpose entity concept required that these entities be considered for consolidation as a result of the new guidance related to variable interest entities (VIEs) as discussed below.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Improvements to Financial Reporting by Enterprises Involved with VIEs

On January 1, 2010, we adopted new accounting guidance for determining which enterprise, if any, has a controlling financial interest in a VIE and required additional disclosures about involvement in VIEs. Under this new accounting guidance, the primary beneficiary of a VIE is the enterprise that has the power to direct the activities of a VIE that most significantly impacts the VIE s economic performance and has the obligation to absorb losses or receive benefits that could potentially be significant to the VIE. Upon adoption of this new accounting guidance, we were required to consolidate certain VIEs, including previously qualifying special-purpose entities and investment structures. We recorded a transition adjustment for the impact upon adoption to reflect the difference between the assets and liabilities of the newly consolidated entities and the amounts recorded for our interests in these entities prior to adoption. On January 1, 2010, we recorded a net cumulative effect adjustment of $104 million to retained earnings with a partial offset to accumulated other comprehensive income (loss) of $91 million related to the adoption of this new accounting guidance.

The assets and liabilities of the newly consolidated entities were as follows as of January 1, 2010:

(Amounts in millions)	Carrying value (1)	Adjustment for election of fair value option (2)	Amounts recorded upon consolidation
Assets			
Restricted commercial mortgage loans	$ 564	$	$ 564
Restricted other invested assets	409	(30)	379
Accrued investment income	2		2
Total assets	975	(30)	945
Liabilities			
Other liabilities	138		138
Borrowings related to securitization entities	644	(80)	564
Total liabilities	782	(80)	702
Net assets and liabilities of newly consolidated entities	$ 193	$ 50	243
Less: amortized cost of fixed maturity securities previously recorded (3)			404
Cumulative effect adjustment to retained earnings upon adoption, pre-tax			(161)
Tax effect			57
Net cumulative effect adjustment to retained earnings upon adoption			$ (104)

(1) Carrying value represents the amounts that would have been recorded in the consolidated financial statements on January 1, 2010 had we recorded the assets and liabilities in our financial statements from the date we first met the conditions for consolidation based on the criteria in the new accounting guidance.

(2) Amount represents the difference between book value and fair value of the investments and borrowings related to consolidated securitization entities where we have elected fair value option.

(3) Fixed maturity securities that were previously recorded had net unrealized investment losses of $91 million included in accumulated other comprehensive income (loss) as of December 31, 2009.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

For commercial mortgage loans, the carrying amounts represent the unpaid principal balance less any reserve. Restricted other invested assets are comprised of trading securities that are recorded at fair value. Trading securities represent asset-backed securities where we elected fair value option. Borrowings related to securitization entities are recorded at unpaid principal except for the borrowings related to entities where we elected fair value option for all assets and liabilities.

For certain entities consolidated upon adoption of the new accounting guidance on January 1, 2010, we elected fair value option to measure all assets and liabilities at current fair value with future changes in fair value being recorded in income (loss). We elected fair value option for certain entities as a method to better present the offsetting changes in assets and liabilities related to third-party interests in those entities and eliminated the potential accounting mismatch between the measurement of the assets and derivatives of the entity compared to the borrowings issued by the entity. The entities where we did not elect fair value option did not have the same accounting mismatch since the assets held by the securitization entity and the borrowings of the entity were recorded at cost. See note 7 for additional information related to consolidation of VIEs.

The new accounting guidance related to consolidation of VIEs has been deferred for a reporting entity s interest in an entity that has all of the attributes of an investment company as long as there is no implicit or explicit obligation to fund losses of the entity. For entities that meet these criteria, the new accounting guidance related to VIE consolidation would not be applicable until further guidance is issued. Accordingly, we did not have any impact upon adoption related to entities that meet the deferral criteria, such as certain limited partnership and fund investments.

Fair Value Measurements and Disclosures Improving Disclosures about Fair Value Measurements

On January 1, 2010, we adopted new accounting guidance requiring additional disclosures for significant transfers between Level 1 and 2 fair value measurements and clarifications to existing fair value disclosures related to the level of disaggregation, inputs and valuation techniques. The adoption of this new accounting guidance did not have a material impact on our consolidated financial statements.

Not Yet Adopted

In October 2010, the Financial Accounting Standards Board (FASB) issued new accounting guidance related to accounting for costs associated with acquiring or renewing insurance contracts. This new accounting guidance will be effective for us on January 1, 2012. When adopted, we expect to defer fewer costs. The new guidance is effective prospectively with retrospective adoption allowed. We have not yet determined the method nor impact this accounting guidance will have on our consolidated financial statements.

In July 2010, the FASB issued new accounting guidance that will require additional disclosures about the credit quality of loans, lease receivables and other long-term receivables and the related allowance for credit losses. Certain additional disclosures in this new accounting guidance will be effective for us on December 31, 2010 with certain other additional disclosures that will be effective for us on March 31, 2011. We do not expect the adoption of this new accounting guidance to have a material impact on our consolidated financial statements.

In April 2010, the FASB issued new accounting guidance on how investments held through separate accounts affect an insurer s consolidation analysis of those investments. This new accounting guidance will be effective for us on January 1, 2011. We do not expect the adoption of this new accounting guidance to have a material impact on our consolidated financial statements.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In January 2010, the FASB issued new accounting guidance to require additional disclosures about purchases, sales, issuances and settlements in the rollforward of Level 3 fair value measurements. This new accounting guidance will be effective for us on January 1, 2011. We do not expect the adoption of this new accounting guidance to have a material impact on our consolidated financial statements.

(3) Earnings (Loss) Per Share

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

(Amounts in millions, except per share amounts)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net income (loss)	$ 122	$ 45	$ 411	$ (474)
Less: net income attributable to noncontrolling interests	39	26	108	26
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ 83	$ 19	$ 303	$ (500)
Basic per common share:				
Net income (loss)	$ 0.25	$ 0.10	$ 0.84	$ (1.08)
Less: net income attributable to noncontrolling interests	0.08	0.06	0.22	0.06
Net income (loss) available to Genworth Financial, Inc. s common stockholders[1]	$ 0.17	$ 0.04	$ 0.62	$ (1.14)
Diluted per common share:				
Net income (loss)	$ 0.25	$ 0.10	$ 0.83	$ (1.08)
Less: net income attributable to noncontrolling interests	0.08	0.06	0.22	0.06
Net income (loss) available to Genworth Financial, Inc. s common stockholders[1]	$ 0.17	$ 0.04	$ 0.61	$ (1.14)
Weighted-average shares used in basic earnings (loss) per common share calculations	489.5	448.9	489.1	438.5
Potentially dilutive securities:				
Stock options, restricted stock units and stock appreciation rights	4.4	2.7	4.8	
Weighted-average shares used in diluted earnings (loss) per common share calculations [2]	493.9	451.6	493.9	438.5

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

(2)

Under applicable accounting guidance, companies in a loss position are required to use basic weighted-average common shares outstanding in the calculation of diluted loss per share. Therefore, as a result of our net loss for the nine months ended September 30, 2009, we were required to use basic weighted-average common shares outstanding in the calculation of diluted loss per share for the nine months ended September 30, 2009, as the inclusion of shares for stock options, restricted stock units and stock appreciation rights of 1.3 million would have been antidilutive to the calculation. If we had not incurred a net loss for the nine months ended September 30, 2009, dilutive potential common shares would have been 439.8 million.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) Investments

(a) Net Investment Income

Sources of net investment income were as follows for the periods indicated:

(Amounts in millions)	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009
Fixed maturity securities taxable	$ 658	$ 610	$ 1,930	$ 1,837
Fixed maturity securities non-taxable	14	27	46	85
Commercial mortgage loans	95	106	298	329
Restricted commercial mortgage loans related to securitization entities [(1)]	10		30	
Equity securities	4	6	11	12
Other invested assets	24	4	61	(102)
Restricted other invested assets related to securitization entities [(1)]	1		2	
Policy loans	28	19	83	115
Cash, cash equivalents and short-term investments	6	9	15	40
Gross investment income before expenses and fees	840	781	2,476	2,316
Expenses and fees	(25)	(22)	(73)	(65)
Net investment income	$ 815	$ 759	$ 2,403	$ 2,251

(1) See note 7 for additional information related to consolidated securitization entities.

(b) Net Investment Gains (Losses)

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

(Amounts in millions)	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009
Available-for-sale securities:				
Realized gains on sale	$ 38	$ 122	$ 114	$ 172
Realized losses on sale	(35)	(81)	(109)	(192)
Net realized gains (losses) on sale of available-for-sale securities	3	41	5	(20)

Impairments:				
Total other-than-temporary impairments	(7)	(285)	(108)	(1,358)
Portion of other-than-temporary impairments recognized in other comprehensive income (loss)	(30)	89	(60)	413
Net other-than-temporary impairments	(37)	(196)	(168)	(945)
Trading securities	23	16	25	15
Commercial mortgage loans	(9)	(8)	(31)	(19)
Net gains (losses) related to securitization entities [1]	30		(6)	
Derivative instruments [2]	94	19	48	12
Other	1	6	23	12
Net investment gains (losses)	$ 105	$ (122)	$ (104)	$ (945)

(1) See note 7 for additional information related to consolidated securitization entities.

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

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The aggregate fair value of securities sold at a loss during the three months ended September 30, 2010 and 2009 was $275 million and $354 million, respectively, which was approximately 89% and 84%, respectively, of book value. The aggregate fair value of securities sold at a loss during the nine months ended September 30, 2010 and 2009 was $1,691 million and $1,091 million, respectively, which was approximately 94% and 86%, respectively, of book value.

The following represents the activity for credit losses recognized in net income (loss) on debt securities where an other-than-temporary impairment was identified and a portion of other-than-temporary impairments was included in other comprehensive income (loss) (OCI) as of or for the periods indicated:

(Amounts in millions)	As of or for the three months ended September 30, 2010	2009
Cumulative credit loss beginning balance	$ 978	$ 1,085
Additions:		
Other-than-temporary impairments not previously recognized	13	25
Increases related to other-than-temporary impairments previously recognized	22	74
Reductions:		
Securities sold, paid down or disposed	(126)	(103)
Securities where there is intent to sell		(5)
Cumulative credit loss ending balance	$ 887	$ 1,076

(Amounts in millions)	As of or for the nine months ended September 30, 2010	2009
Cumulative credit loss beginning balance	$ 1,059	$
Impact upon adoption of new accounting guidance		1,204
Additions:		
Other-than-temporary impairments not previously recognized	44	81
Increases related to other-than-temporary impairments previously recognized	100	169
Reductions:		
Securities sold, paid down or disposed	(316)	(373)
Securities where there is intent to sell		(5)
Cumulative credit loss ending balance	$ 887	$ 1,076

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(c) Unrealized Investment Gains and Losses

Net unrealized gains and losses on available-for-sale investment securities reflected as a separate component of accumulated other comprehensive income (loss) were as follows as of the dates indicated:

(Amounts in millions)	September 30, 2010	December 31, 2009
Net unrealized gains (losses) on investment securities:		
Fixed maturity securities	$ 2,075	$ (2,245)
Equity securities	15	20
Other invested assets	(27)	(29)
Subtotal	2,063	(2,254)
Adjustments to present value of future profits, deferred acquisition costs, sales inducements and benefit reserves	(1,057)	138
Income taxes, net	(352)	757
Net unrealized investment gains (losses)	654	(1,359)
Less: net unrealized investment gains (losses) attributable to noncontrolling interests	67	39
Net unrealized investment gains (losses) attributable to Genworth Financial, Inc.	$ 587	$ (1,398)

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

	As of or for the three months ended September 30,	
(Amounts in millions)	2010	2009
Beginning balance	$ 29	$ (3,023)
Cumulative effect of change in accounting	169	
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	1,486	2,796
Adjustment to deferred acquisition costs	(187)	(264)
Adjustment to present value of future profits	(101)	(93)
Adjustment to sales inducements	(21)	(13)
Adjustment to benefit reserves	(581)	
Provision for income taxes	(210)	(863)
Change in unrealized gains (losses) on investment securities	386	1,563
Reclassification adjustments to net investment (gains) losses, net of taxes of $(12) and $(51)	22	100

Change in net unrealized investment gains (losses)	577	1,663
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	(19)	(41)
Ending balance	$ 587	$ (1,401)

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Amounts in millions)	As of or for the nine months ended September 30, 2010	2009
Beginning balance	$ (1,398)	$ (4,038)
Cumulative effect of change in accounting	260	(349)
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	3,747	4,352
Adjustment to deferred acquisition costs	(381)	(448)
Adjustment to present value of future profits	(182)	(164)
Adjustment to sales inducements	(46)	(12)
Adjustment to benefit reserves	(581)	
Provision for income taxes	(910)	(1,328)
Change in unrealized gains (losses) on investment securities	1,647	2,400
Reclassification adjustments to net investment (gains) losses, net of taxes of $(57) and $(337)	106	627
Change in net unrealized investment gains (losses)	2,013	2,678
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	(28)	(41)
Ending balance	$ 587	$ (1,401)

(d) Fixed Maturity and Equity Securities

As of September 30, 2010, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

(Amounts in millions)	Amortized cost or cost	Gross unrealized gains: Not other-than-temporarily impaired	Gross unrealized gains: Other-than-temporarily impaired	Gross unrealized losses: Not other-than-temporarily impaired	Gross unrealized losses: Other-than-temporarily impaired	Fair value
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 3,508	$ 414	$	$	$	$ 3,922
Tax-exempt	1,288	55		(72)		1,271
Government non-U.S.	2,188	169		(5)		2,352
U.S. corporate	22,979	1,858	10	(322)		24,525
Corporate non-U.S.	13,282	730	15	(209)	(3)	13,815
Residential mortgage-backed	4,629	228	14	(312)	(225)	4,334
Commercial mortgage-backed	4,011	188	5	(389)	(58)	3,757
Other asset-backed	2,391	25		(34)	(2)	2,380

Total fixed maturity securities	54,276	3,667	44	(1,343)	(288)	56,356
Equity securities	208	18		(3)		223
Total available-for-sale securities	$ 54,484	$ 3,685	$ 44	$ (1,346)	$ (288)	$ 56,579

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

As of December 31, 2009, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

		Gross unrealized gains		Gross unrealized losses		
(Amounts in millions)	**Amortized cost or cost**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Fair value**
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 2,673	$ 25	$	$ (96)	$	$ 2,602
Tax-exempt	1,606	42		(104)		1,544
Government non-U.S.	2,310	96		(22)		2,384
U.S. corporate	21,598	628	3	(814)	(3)	21,412
Corporate non-U.S.	12,530	366	11	(356)		12,551
Residential mortgage-backed	3,989	41	7	(484)	(326)	3,227
Commercial mortgage-backed	4,404	44	4	(738)	(97)	3,617
Other asset-backed	2,887	8		(466)	(14)	2,415
Total fixed maturity securities	51,997	1,250	25	(3,080)	(440)	49,752
Equity securities	139	23		(3)		159
Total available-for-sale securities	$ 52,136	$ 1,273	$ 25	$ (3,083)	$ (440)	$ 49,911

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table presents the gross unrealized losses and fair values of our investment securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, as of September 30, 2010:

	Less than 12 months			12 months or more		
(Dollar amounts in millions)	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities
Description of Securities						
Fixed maturity securities:						
Tax-exempt	$	$		$ 277	$ (72)	92
Government non-U.S.	141	(4)	32	21	(1)	2
U.S. corporate	631	(17)	89	2,572	(305)	199
Corporate non-U.S.	836	(20)	130	1,443	(192)	109
Residential mortgage-backed	170	(2)	46	1,051	(535)	432
Commercial mortgage-backed	78	(1)	16	1,135	(446)	239
Other asset-backed	287	(1)	19	470	(35)	53
Subtotal, fixed maturity securities	2,143	(45)	332	6,969	(1,586)	1,126
Equity securities	34	(3)	18			
Total for securities in an unrealized loss position	$ 2,177	$ (48)	350	$ 6,969	$ (1,586)	1,126
% Below cost fixed maturity securities:						
<20% Below cost	$ 2,139	$ (42)	311	$ 5,128	$ (375)	603
20-50% Below cost	3	(1)	8	1,593	(714)	310
>50% Below cost	1	(2)	13	248	(497)	213
Total fixed maturity securities	2,143	(45)	332	6,969	(1,586)	1,126
% Below cost equity securities:						
<20% Below cost	28	(1)	17			
20-50% Below cost	6	(2)	1			
Total equity securities	34	(3)	18			
Total for securities in an unrealized loss position	$ 2,177	$ (48)	350	$ 6,969	$ (1,586)	1,126
Investment grade	$ 2,070	$ (43)	294	$ 5,224	$ (796)	689
Below investment grade	107	(5)	56	1,745	(790)	437
Not rated fixed maturity securities						
Not rated equity securities						

Total for securities in an unrealized loss position	$ 2,177	$ (48)	350	$ 6,969	$ (1,586)	1,126

The investment securities in an unrealized loss position as of September 30, 2010 consisted of 1,476 securities and accounted for unrealized losses of $1,634 million. Of these unrealized losses of $1,634 million, 51% were investment grade (rated AAA through BBB-) and 26% were less than 20% below cost. The securities less than 20% below cost were primarily attributable to credit spreads that have widened since acquisition for certain mortgage-backed and asset-backed securities and corporate securities in the finance and insurance sector. Included in these unrealized losses as of September 30, 2010 was $288 million of unrealized losses on other-than-temporarily impaired securities. Of the total unrealized losses on other-than-temporarily impaired securities, $286 million have been in an unrealized loss position for more than 12 months.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Of the unrealized losses of $1,634 million, $1,020 million were related to structured securities and $395 million were related to corporate securities in the finance and insurance sector. Of the remaining gross unrealized losses of $219 million, $77 million were related to tax-exempt and government non-U.S. securities and $142 million were primarily related to other corporate securities that were spread evenly across all other sectors with no individual sector exceeding $28 million.

Of the $1,020 million unrealized losses in structured securities, 53% were in residential mortgage-backed securities and 44% were in commercial mortgage-backed securities with the remainder in other asset-backed securities. Approximately 39% of the total unrealized losses in structured securities were on securities that have retained investment grade ratings. Most of these securities have been in an unrealized loss position for 12 months or more. Given ongoing concern about the housing market and unemployment, the fair value of these securities has declined due to credit spreads that have widened since acquisition. We examined the performance of the underlying collateral and developed our estimate of cash flows expected to be collected. In doing so, we identified certain securities where the non-credit portion of other-than-temporary impairments was recorded in OCI. Based on this evaluation, we determined that the unrealized losses on our mortgage-backed and asset-backed securities represented temporary impairments as of September 30, 2010.

Of the $395 million unrealized losses in the finance and insurance sector, most have been in an unrealized loss position for 12 months or more. Most of these securities have retained a credit rating of investment grade. A portion of the unrealized losses included securities where an other-than-temporary impairment was recorded in OCI. Given the current market conditions, including current financial industry events and uncertainty around global economic conditions, the fair value of these securities has declined due to credit spreads that have widened since acquisition. In our examination of these securities, we considered all available evidence, including the issuers financial condition and current industry events to develop our conclusion on the amount and timing of the cash flows expected to be collected. Based on this evaluation, we determined that the unrealized losses on these securities represented temporary impairments as of September 30, 2010. A subset of the securities issued by banks and other financial institutions represent investments in financial hybrid securities on which a debt impairment model was employed. Most of these securities retain a credit rating of investment grade. The majority of these securities were issued by foreign financial institutions. The fair value of these securities has been impacted by credit spreads that have widened since acquisition and reflect uncertainty surrounding the extent and duration of government involvement, potential capital restructuring of these institutions, and continued but diminishing risk that income payments may be deferred. The remaining unrealized losses in our U.S. and non-U.S. corporate securities were evenly distributed across all other major industry types that comprise our corporate bond holdings.

Of the investment securities in an unrealized loss position for 12 months or more as of September 30, 2010, 523 securities were 20% or more below cost, of which 323 securities were also below investment grade (rated BB+ and below) and accounted for unrealized losses of $701 million. These securities were primarily structured securities or securities issued by corporations in the finance and insurance sector. Included in this amount are other-than-temporarily impaired securities where the non-credit loss of $228 million was recorded in OCI.

While certain securities included in the preceding table were considered other-than-temporarily impaired, we expect to recover the new amortized cost based on our estimate of cash flows to be collected. We do not intend to sell and it is not more likely than not that we will be required to sell these securities prior to recovering our amortized cost.

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

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

The following table presents the gross unrealized losses and fair values of our investment securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, as of December 31, 2009:

	Less than 12 months			12 months or more		
(Dollar amounts in millions)	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities
Description of Securities						
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 1,759	$ (95)	81	$ 6	$ (1)	2
Tax-exempt	152	(6)	48	346	(98)	113
Government non-U.S.	341	(3)	60	105	(19)	35
U.S. corporate	2,823	(81)	317	5,660	(736)	510
Corporate non-U.S.	1,721	(55)	221	2,245	(301)	258
Residential mortgage-backed	941	(252)	256	1,012	(558)	348
Commercial mortgage-backed	714	(64)	81	1,720	(771)	345
Other asset-backed	329	(6)	43	1,727	(474)	183
Subtotal, fixed maturity securities	8,780	(562)	1,107	12,821	(2,958)	1,794
Equity securities	2	(1)	3	12	(2)	9
Total for securities in an unrealized loss position	$ 8,782	$ (563)	1,110	$ 12,833	$ (2,960)	1,803
% Below cost fixed maturity securities:						
<20% Below cost	$ 8,437	$ (245)	920	$ 9,699	$ (762)	1,055
20-50% Below cost	267	(137)	91	2,637	(1,246)	455
>50% Below cost	76	(180)	96	485	(950)	284
Total fixed maturity securities	8,780	(562)	1,107	12,821	(2,958)	1,794
% Below cost equity securities:						
<20% Below cost	2	(1)	3	11	(1)	5
>50% Below cost				1	(1)	4
Total equity securities	2	(1)	3	12	(2)	9
Total for securities in an unrealized loss position	$ 8,782	$ (563)	1,110	$ 12,833	$ (2,960)	1,803
Investment grade	$ 8,391	$ (320)	891	$ 10,897	$ (2,122)	1,390

Below investment grade	391	(243)	219	1,936	(838)	413
Total for securities in an unrealized loss position	$ 8,782	$ (563)	1,110	$ 12,833	$ (2,960)	1,803

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The scheduled maturity distribution of fixed maturity securities as of September 30, 2010 is set forth below. Actual maturities may differ from contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

(Amounts in millions)	Amortized cost or cost	Fair value
Due one year or less	$ 2,591	$ 2,613
Due after one year through five years	12,156	12,562
Due after five years through ten years	8,818	9,454
Due after ten years	19,680	21,256
Subtotal	43,245	45,885
Residential mortgage-backed	4,629	4,334
Commercial mortgage-backed	4,011	3,757
Other asset-backed	2,391	2,380
Total	$ 54,276	$ 56,356

As of September 30, 2010, $4,985 million of our investments (excluding mortgage-backed and asset-backed securities) were subject to certain call provisions.

As of September 30, 2010, securities issued by finance and insurance, utilities and energy, and consumer non-cyclical industry groups represented approximately 24%, 22% and 12% of our domestic and foreign corporate fixed maturity securities portfolio, respectively. No other industry group comprised more than 10% of our investment portfolio. This portfolio is widely diversified among various geographic regions in the U.S. and internationally, and is not dependent on the economic stability of one particular region.

As of September 30, 2010, we did not hold any fixed maturity securities in any single issuer, other than securities issued or guaranteed by the U.S. government, which exceeded 10% of stockholders equity.

(e) Commercial Mortgage Loans

Our mortgage loans are collateralized by commercial properties, including multi-family residential buildings. The carrying value of commercial mortgage loans is stated at original cost net of prepayments, amortization and allowance for loan losses.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	September 30, 2010		December 31, 2009	
(Amounts in millions)	Carrying value	% of total	Carrying value	% of total
Property Type				
Retail	$ 2,015	29%	$ 2,115	28%
Office	1,897	27	2,025	27
Industrial	1,861	27	1,979	26
Apartments	776	11	832	11
Mixed use/other	437	6	590	8
Total principal balance	6,986	100%	7,541	100%
Unamortized balance of loan origination fees and costs	5		6	
Allowance for losses	(62)		(48)	
Total [(1)]	$ 6,929		$ 7,499	

(1) Included held-for-sale mortgage loans of $17 million as of December 31, 2009. The held-for-sale mortgage loans as of December 31, 2009 represented interests in reverse mortgage loans. In the first quarter of 2010, we began reporting held-for-sale reverse mortgage loans in other invested assets.

	September 30, 2010		December 31, 2009	
(Amounts in millions)	Carrying value	% of total	Carrying value	% of total
Geographic Region				
Pacific	$ 1,857	27%	$ 2,005	27%
South Atlantic	1,593	23	1,711	23
Middle Atlantic	935	13	1,005	13
East North Central	657	9	728	10
Mountain	591	9	650	9
New England	484	7	492	6
West North Central	374	5	389	5
West South Central	306	4	331	4
East South Central	189	3	230	3
Total principal balance	6,986	100%	7,541	100%

Unamortized balance of loan origination fees and costs	5	6
Allowance for losses	(62)	(48)
Total [1]	$ 6,929	$ 7,499

(1) Included held-for-sale mortgage loans of $17 million as of December 31, 2009. The held-for-sale mortgage loans as of December 31, 2009 represented interests in reverse mortgage loans. In the first quarter of 2010, we began reporting held-for-sale reverse mortgage loans in other invested assets.

Impaired loans are defined by U.S. GAAP as loans for which it is probable that the lender will be unable to collect all amounts due according to original contractual terms of the loan agreement.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Under these principles, we may have two types of impaired loans: loans requiring specific allowances for losses ($14 million for the nine months ended September 30, 2010 and $21 million for the year ended December 31, 2009) and loans expected to be fully recoverable because the carrying amount has been reduced previously through charge-offs or deferral of income recognition (none for the nine months ended September 30, 2010 and for the year ended December 31, 2009).

Average investment in specifically impaired loans was $5 million and $10 million as of September 30, 2010 and December 31, 2009, respectively, and there was no interest income recognized on these loans while they were considered impaired.

The following table presents the activity in the allowance for losses during the periods indicated:

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

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

(f) Restricted Commercial Mortgage Loans Related To Securitization Entities

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

(Amounts in millions)	September 30, 2010 Carrying value	% of total
Property Type		
Retail	$ 190	36%
Industrial	128	25
Office	120	23
Apartments	64	12
Mixed use/other	22	4
Total principal balance	524	100%
Allowance for losses	(2)	

Total	$ 522

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	September 30, 2010	
(Amounts in millions)	Carrying value	% of total
Geographic Region		
South Atlantic	$ 193	37%
Pacific	92	18
Middle Atlantic	71	14
East North Central	54	10
Mountain	36	7
East South Central	32	6
West North Central	32	6
West South Central	13	2
New England	1	
Total principal balance	524	100%
Allowance for losses	(2)	
Total	$ 522	

See note 7 for additional information related to consolidated securitization entities.

(g) Restricted Other Invested Assets Related To Securitization Entities

Our consolidated securitization entities hold certain investments that are recorded as restricted other invested assets related to securitization entities. The consolidated securitization entities hold certain investments as trading securities whereby the changes in fair value are recorded in current period income (loss). The trading securities are comprised of asset-backed securities, including residual interest in certain policy loan securitization entities and highly rated bonds that are primarily backed by credit card receivables. See note 7 for additional information related to consolidated securitization entities.

(5) Derivative Instruments

Our business activities routinely deal with fluctuations in interest rates, equity prices, currency exchange rates and other asset and liability prices. We use derivative instruments to mitigate or reduce certain of these risks. We have established policies for managing each of these risks, including prohibitions on derivatives market-making and other speculative derivatives activities. These policies require the use of derivative instruments in concert with other techniques to reduce or mitigate these risks. While we use derivatives to mitigate or reduce risks, certain derivatives do not meet the accounting requirements to be designated as hedging instruments and are denoted as derivatives not designated as hedges in the following disclosures. For derivatives that meet the accounting requirements to be designated as hedges, the following disclosures for these derivatives are denoted as derivatives designated as hedges, which include both cash flow and fair value hedges.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	Derivative assets			Derivative liabilities		
	Balance sheet	Fair value		Balance sheet	Fair value	
(Amounts in millions)	**classification**	**September 30, 2010**	**December 31, 2009**	**classification**	**September 30, 2010**	**December 31, 2009**
Derivatives designated as hedges						
Cash flow hedges:						
Interest rate swaps	Other invested assets	$ 821	$ 72	Other liabilities	$ 5	$ 114
Inflation indexed swaps	Other invested assets	7		Other liabilities	5	21
Foreign currency swaps	Other invested assets	180	101	Other liabilities		
Total cash flow hedges		1,008	173		10	135
Fair value hedges:						
Interest rate swaps	Other invested assets	117	132	Other liabilities	10	15
Foreign currency swaps	Other invested assets	31	24	Other liabilities		
Total fair value hedges		148	156		10	15
Total derivatives designated as hedges		1,156	329		20	150
Derivatives not designated as hedges						
Interest rate swaps	Other invested assets	454	505	Other liabilities	57	59
Equity return swaps	Other invested assets			Other liabilities	6	
Interest rate swaps related to securitization entities (1)	Restricted other invested assets			Other liabilities	34	
Interest rate swaptions	Other invested assets	8	54	Other liabilities		67
Credit default swaps	Other invested assets	4	11	Other liabilities	9	3
Credit default swaps related to securitization entities (1)	Restricted other invested assets			Other liabilities	130	
Equity index options	Other invested assets	61	39	Other liabilities		2

Financial futures	Other invested assets			Other liabilities		
Other foreign currency contracts	Other invested assets		8	Other liabilities	3	
Reinsurance embedded derivatives [2]	Other assets	4		Other liabilities		
GMWB embedded derivatives	Reinsurance recoverable [3]	4	(5)	Policyholder account balances [4]	316	175
Total derivatives not designated as hedges		535	612		555	306
Total derivatives		$ 1,691	$ 941		$ 575	$ 456

(1) See note 7 for additional information related to consolidated securitization entities.
(2) Represents embedded derivatives associated with certain reinsurance agreements.
(3) Represents embedded derivatives associated with the reinsured portion of our guaranteed minimum withdrawal benefits (GMWB) liabilities.
(4) Represents the embedded derivatives associated with our GMWB liabilities, excluding the impact of reinsurance.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The fair value of derivative positions presented above was not offset by the respective collateral amounts retained or provided under these agreements. The amounts recognized for derivative counterparty collateral retained by us was recorded in other invested assets with a corresponding amount recorded in other liabilities to represent our obligation to return the collateral retained by us.

The activity associated with derivative instruments can generally be measured by the change in notional value over the periods presented. However, for GMWB embedded derivatives, the change between periods is best illustrated by the number of policies. The following tables represent activity associated with derivative instruments as of the dates indicated:

(Notional in millions)	Measurement	December 31, 2009	Additions	Maturities/ terminations	September 30, 2010
Derivatives designated as hedges					
Cash flow hedges:					
Interest rate swaps	Notional	$ 9,479	$ 1,382	$ (209)	$ 10,652
Inflation indexed swaps	Notional	376	157	(10)	523
Foreign currency swaps	Notional	491			491
Total cash flow hedges		10,346	1,539	(219)	11,666
Fair value hedges:					
Interest rate swaps	Notional	2,366		(281)	2,085
Foreign currency swaps	Notional	85			85
Total fair value hedges		2,451		(281)	2,170
Total derivatives designated as hedges		12,797	1,539	(500)	13,836
Derivatives not designated as hedges					
Interest rate swaps	Notional	6,474	4,057	(2,569)	7,962
Equity return swaps	Notional		200		200
Interest rate swaps related to securitization entities	Notional		138	(6)	132
Interest rate swaptions	Notional	5,100	200	(5,100)	200
Credit default swaps	Notional	1,090	100		1,190
Credit default swaps related to securitization entities	Notional		322	(5)	317
Equity index options	Notional	912	564	(614)	862
Financial futures	Notional	5,822	5,579	(6,817)	4,584
Other foreign currency contracts	Notional	521	132	(73)	580
Reinsurance embedded derivatives	Notional		52		52
Total derivatives not designated as hedges		19,919	11,344	(15,184)	16,079
Total derivatives		$ 32,716	$ 12,883	$ (15,684)	$ 29,915

(Number of policies)	Measurement	December 31, 2009	Additions	Terminations	September 30, 2010
Derivatives not designated as hedges					
GMWB embedded derivatives	Policies	47,543	3,089	(1,882)	48,750

Approximately $1.1 billion of notional value above is related to derivatives with counterparties that can be terminated at the option of the derivative counterparty and represented a net fair value asset of $186 million as of September 30, 2010.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Cash Flow Hedges

Certain derivative instruments are designated as cash flow hedges. The changes in fair value of these instruments are recorded as a component of OCI. We designate and account for the following as cash flow hedges when they have met the effectiveness requirements: (i) various types of interest rate swaps to convert floating rate investments to fixed rate investments; (ii) various types of interest rate swaps to convert floating rate liabilities into fixed rate liabilities; (iii) receive U.S. dollar fixed on foreign currency swaps to hedge the foreign currency cash flow exposure of foreign currency denominated investments; (iv) pay U.S. dollar fixed on foreign currency swaps to hedge the foreign currency cash flow exposure on liabilities denominated in foreign currencies; (v) forward starting interest rate swaps to hedge against changes in interest rates associated with future fixed-rate bond purchases and/or interest income; and (vi) other instruments to hedge the cash flows of various forecasted transactions.

The following table provides information about the pre-tax income (loss) effects of cash flow hedges for the three months ended September 30, 2010:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [1]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ 299	$ 4	Net investment income	$ 8	Net investment gains (losses)
Interest rate swaps hedging assets		1	Net investment gains (losses)		Net investment gains (losses)
Interest rate swaps hedging liabilities			Interest expense		Net investment gains (losses)
Foreign currency swaps	2	(1)	Interest expense		Net investment gains (losses)
Total	$ 301	$ 4		$ 8	

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

The following table provides information about the pre-tax income (loss) effects of cash flow hedges for the three months ended September 30, 2009:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI [1]	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [2]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ 99	$ 2	Net investment	$ (2)	Net investment

					income			gains (losses)
Interest rate swaps hedging assets					Net investment gains (losses)			Net investment gains (losses)
Foreign currency swaps				(1)	Net investment gains (losses)			Net investment gains (losses)
Foreign currency swaps		3			Interest expense		1	Net investment gains (losses)
Total	$	102	$	1		$	(1)	

(1) Amounts include $(1) million of gains reclassified into net income (loss) for cash flow hedges that were terminated or de-designated where the effective portion is reclassified into net income (loss) when the underlying hedge item affects net income (loss).

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

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table provides information about the pre-tax income (loss) effects of cash flow hedges for the nine months ended September 30, 2010:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [1]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ 862	$ 12	Net investment income	$ 20	Net investment gains (losses)
Interest rate swaps hedging assets		2	Net investment gains (losses)		Net investment gains (losses)
Interest rate swaps hedging liabilities	(3)	1	Interest expense		Net investment gains (losses)
Foreign currency swaps	9	(5)	Interest expense		Net investment gains (losses)
Total	$ 868	$ 10		$ 20	

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

The following table provides information about the pre-tax income (loss) effects of cash flow hedges for the nine months ended September 30, 2009:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI [1]	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [2]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ (223)	$ 10	Net investment income	$ (12)	Net investment gains (losses)
Interest rate swaps hedging assets		5	Net investment gains (losses)		Net investment gains (losses)
Foreign currency swaps		(1)	Net investment gains (losses)		Net investment gains (losses)
Foreign currency swaps	(10)	(8)	Interest expense	1	Net investment gains (losses)

Total	$	(233)	$	6	$	(11)

(1) Amounts include $4 million of gains reclassified into net income (loss) for cash flow hedges that were terminated or de-designated where the effective portion is reclassified into net income (loss) when the underlying hedge item affects net income (loss).

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The total of derivatives designated as cash flow hedges of $1.4 billion, net of taxes, recorded in stockholders equity as of September 30, 2010 is expected to be reclassified to future net income (loss), concurrently with and primarily offsetting changes in interest expense and interest income on floating-rate instruments and interest income on future fixed-rate bond purchases. Of this amount, $6 million, net of taxes, is expected to be reclassified to net income (loss) in the next 12 months. Actual amounts may vary from this amount as a result of market conditions. All forecasted transactions associated with qualifying cash flow hedges are expected to occur by 2045. No amounts were reclassified to net income (loss) during the nine months ended September 30, 2010 in connection with forecasted transactions that were no longer considered probable of occurring.

Fair Value Hedges

Certain derivative instruments are designated as fair value hedges. The changes in fair value of these instruments are recorded in net income (loss). In addition, changes in the fair value attributable to the hedged portion of the underlying instrument are reported in net income (loss). We designate and account for the following as fair value hedges when they have met the effectiveness requirements: (i) interest rate swaps to convert fixed rate investments to floating rate investments; (ii) interest rate swaps to convert fixed rate liabilities into floating rate liabilities; (iii) cross currency swaps to convert non-U.S. dollar fixed rate liabilities to floating rate U.S. dollar liabilities; and (iv) other instruments to hedge various fair value exposures of investments.

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

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

The following table provides information about the pre-tax income (loss) effects of fair value hedges and related hedged items for the three months ended September 30, 2009:

	Derivative instrument				Hedged item	
(Amounts in millions)	**Gain (loss)**	**Classification of gain (loss)**	**Other impacts to net**	**Classification of other**	**Gain (loss)**	**Classification of gain (loss)**

	recognized in net income (loss)	recognized in net income (loss)	income (loss)	impacts to net income (loss)	recognized in net income (loss)	recognized in net income (loss)
Interest rate swaps hedging assets	$ 1	Net investment gains (losses)	$ (4)	Net investment income	$	Net investment gains (losses)
Interest rate swaps hedging liabilities	14	Net investment gains (losses)	26	Interest credited	(14)	Net investment gains (losses)
Foreign currency swaps	3	Net investment gains (losses)		Interest credited	(4)	Net investment gains (losses)
Total	$ 18		$ 22		$ (18)	

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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

The following table provides information about the pre-tax income (loss) effects of fair value hedges and related hedged items for the nine months ended September 30, 2009:

	Derivative instrument				Hedged item	
(Amounts in millions)	Gain (loss) recognized in net income (loss)	Classification of gain (loss) recognized in net income (loss)	Other impacts to net income (loss)	Classification of other impacts to net income (loss)	Gain (loss) recognized in net income (loss)	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ 7	Net investment gains (losses)	$ (12)	Net investment income	$ (10)	Net investment gains (losses)
Interest rate swaps hedging liabilities	(45)	Net investment gains (losses)	68	Interest credited	48	Net investment gains (losses)
Foreign currency swaps	(10)	Net investment gains (losses)	1	Interest credited	7	Net investment gains (losses)
Total	$ (48)		$ 57		$ 45	

The difference between the gain (loss) recognized for the derivative instruments and the hedged items presented above represents the net ineffectiveness of the fair value hedging relationships. The other impacts presented above represent the income (loss) effects of the derivative instruments that are presented in the same location as the income (loss) activity from the hedged items. There were no amounts excluded from the measurement of effectiveness.

Derivatives Not Designated As Hedges

We also enter into certain non-qualifying derivative instruments such as: (i) interest rate swaps, swaptions and financial futures to mitigate interest rate risk as part of managing regulatory capital positions; (ii) credit default swaps to enhance yield and reproduce characteristics of investments with similar terms and credit risk; (iii) equity index options, equity return swaps, interest rate swaps and financial futures to mitigate the risks associated with liabilities that have guaranteed minimum benefits; (iv) interest rate swaps where the hedging relationship does not qualify for hedge accounting; (v) credit default swaps to mitigate loss exposure to certain credit risk; and (vi) foreign currency forward contracts to mitigate certain currency risk. Additionally, we provide GMWBs on certain products that are required to be bifurcated as embedded derivatives and have reinsurance agreements with certain features that are required to be bifurcated as embedded derivatives.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

We also have derivatives related to securitization entities where we were required to consolidate the related securitization entity as a result of our involvement in the structure. The counterparties for these derivatives typically only have recourse to the securitization entity. The interest rate swaps used for these entities are typically used to effectively convert the interest payments on the assets of the securitization entity to the same basis as the interest rate on the borrowings issued by the securitization entity. Credit default swaps are utilized in certain securitization entities to enhance the yield payable on the borrowings issued by the securitization entity and also include a settlement feature that allows the securitization entity to provide the par value of assets in the securitization entity for the amount of any losses incurred under the credit default swap. See note 7 for additional information related to consolidated securitization entities.

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

	Three months ended September 30,	Classification of gain (loss) recognized