GENWORTH FINANCIAL INC
Form 10-Q
November 02, 2009
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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, 2009

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 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 27, 2009, 488,552,584 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, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Revenues:				
Premiums	$ 1,492	$ 1,735	$ 4,496	$ 5,161
Net investment income	759	918	2,251	2,873
Net investment gains (losses)	(122)	(816)	(945)	(1,560)
Insurance and investment product fees and other	262	331	806	845
Total revenues	2,391	2,168	6,608	7,319
Benefits and expenses:				
Benefits and other changes in policy reserves	1,450	1,497	4,450	4,284
Interest credited	225	319	763	984
Acquisition and operating expenses, net of deferrals	484	515	1,381	1,594
Amortization of deferred acquisition costs and intangibles	143	208	602	620
Interest expense	96	125	306	347
Total benefits and expenses	2,398	2,664	7,502	7,829
Loss before income taxes	(7)	(496)	(894)	(510)
Benefit for income taxes	(52)	(238)	(420)	(259)
Net income (loss)	45	(258)	(474)	(251)
Less: net income attributable to noncontrolling interests	26		26	
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ 19	$ (258)	$ (500)	$ (251)
Net income (loss) available to Genworth Financial, Inc. s common stockholders per common share:				
Basic	$ 0.04	$ (0.60)	$ (1.14)	$ (0.58)
Diluted	$ 0.04	$ (0.60)	$ (1.14)	$ (0.58)
Weighted-average common shares outstanding:				
Basic	448.9	433.1	438.5	433.2
Diluted	451.6	433.1	438.5	433.2

Supplemental disclosures:				
Total other-than-temporary impairments	$ (285)	$ (577)	$ (1,358)	$ (1,316)
Portion of other-than-temporary impairments included in other comprehensive income (loss)	89		413	
Net other-than-temporary impairments	(196)	(577)	(945)	(1,316)
Other investment gains (losses)	74	(239)		(244)
Total net investment gains (losses)	$ (122)	$ (816)	$ (945)	$ (1,560)

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, 2009 (Unaudited)	December 31, 2008
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	$ 47,746	$ 42,871
Equity securities available-for-sale, at fair value	164	234
Commercial mortgage loans	7,704	8,262
Policy loans	1,408	1,834
Other invested assets	4,949	7,411
Total investments	61,971	60,612
Cash and cash equivalents	7,144	7,328
Accrued investment income	717	736
Deferred acquisition costs	7,414	7,786
Intangible assets	961	1,147
Goodwill	1,324	1,316
Reinsurance recoverable	17,308	17,212
Other assets	1,141	1,000
Deferred tax asset	140	1,037
Separate account assets	10,712	9,215
Total assets	$ 108,832	$ 107,389
Liabilities and stockholders equity		
Liabilities:		
Future policy benefits	$ 29,251	$ 28,533
Policyholder account balances	29,381	34,702
Liability for policy and contract claims	6,415	5,322
Unearned premiums	4,808	4,734
Other liabilities	6,708	6,860
Non-recourse funding obligations	3,443	3,455
Short-term borrowings	930	1,133
Long-term borrowings	3,457	4,261
Deferred tax liability	282	248
Separate account liabilities	10,712	9,215
Total liabilities	95,387	98,463
Commitments and contingencies		
Stockholders equity:		
Class A common stock, $0.001 par value; 1.5 billion shares authorized; 577 million and 522 million shares issued as of September 30, 2009 and December 31, 2008, respectively; 489 million and 433 million shares outstanding as of September 30, 2009 and December 31, 2008, respectively	1	1
Additional paid-in capital	12,028	11,477
Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	(1,121)	(4,038)
Net unrealized gains (losses) on other-than-temporarily impaired securities	(280)	
Net unrealized investment gains (losses)	(1,401)	(4,038)

Derivatives qualifying as hedges	1,013	1,161
Foreign currency translation and other adjustments	411	(185)
Total accumulated other comprehensive income (loss)	23	(3,062)
Retained earnings	3,065	3,210
Treasury stock, at cost (88 million shares as of September 30, 2009 and December 31, 2008)	(2,700)	(2,700)
Total Genworth Financial, Inc. s stockholders equity	12,417	8,926
Noncontrolling interests	1,028	
Total stockholders equity	13,445	8,926
Total liabilities and stockholders equity	$ 108,832	$ 107,389

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Amounts in millions)

(Unaudited)

	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury stock, at cost	Total stockholders equity
Balances as of December 31, 2007	$ 1	$ 11,461	$ 727	$ 3,913	$ (2,624)	$ 13,478
Comprehensive income (loss):						
Net income (loss)				(251)		(251)
Net unrealized gains (losses) on securities not other-than-temporarily impaired			(2,437)			(2,437)
Derivatives qualifying as hedges			288			288
Foreign currency translation and other adjustments			(397)			(397)
Total comprehensive income (loss)						(2,797)
Acquisition of treasury stock					(76)	(76)
Dividends to stockholders				(130)		(130)
Stock-based compensation expense and exercises and other		23				23
Balances as of September 30, 2008	$ 1	$ 11,484	$ (1,819)	$ 3,532	$ (2,700)	$ 10,498

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	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, 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)
Foreign currency translation and other adjustments			646			646	56	702
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, 2009	Nine months ended September 30, 2008
Cash flows from operating activities:		
Net income (loss)	$ (474)	$ (251)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Amortization of fixed maturity discounts and premiums	103	24
Net investment losses (gains)	945	1,560
Charges assessed to policyholders	(332)	(304)
Acquisition costs deferred	(540)	(945)
Amortization of deferred acquisition costs and intangibles	602	620
Deferred income taxes	(634)	(253)
Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments	(4)	238
Gain on sale of subsidiary	(4)	
Stock-based compensation expense	17	18
Change in certain assets and liabilities:		
Accrued investment income and other assets	(135)	(40)
Insurance reserves	2,153	1,771
Current tax liabilities	55	(151)
Other liabilities and other policy-related balances	102	906
Net cash from operating activities	1,854	3,193
Cash flows from investing activities:		
Proceeds from maturities and repayments of investments:		
Fixed maturity securities	3,157	3,489
Commercial mortgage loans	519	646
Proceeds from sales of investments:		
Fixed maturity and equity securities	3,343	3,298
Purchases and originations of investments:		
Fixed maturity and equity securities	(5,091)	(6,574)
Commercial mortgage loans		(193)
Other invested assets, net	122	(304)
Policy loans, net	426	(171)
Net cash transferred related to the sale of a subsidiary	(90)	
Payments for businesses purchased, net of cash acquired		(20)
Net cash from investing activities	2,386	171
Cash flows from financing activities:		
Deposits to universal life and investment contracts	1,801	6,307
Withdrawals from universal life and investment contracts	(6,669)	(7,869)
Short-term borrowings and other, net	(363)	72
Repayment and repurchase of long-term borrowings	(809)	
Redemption of non-recourse funding obligations	(12)	
Proceeds from the issuance of long-term debt		597

Proceeds from issuance of common stock	622	
Proceeds from the sale of subsidiary shares to noncontrolling interests	771	
Dividends paid to stockholders		(130)
Stock-based compensation awards exercised		5
Acquisition of treasury stock		(76)
Net cash from financing activities	(4,659)	(1,094)
Effect of exchange rate changes on cash and cash equivalents	235	(259)
Net change in cash and cash equivalents	(184)	2,011
Cash and cash equivalents at beginning of period	7,328	3,091
Cash and cash equivalents at end of period	$ 7,144	$ 5,102

See Notes to Condensed Consolidated Financial Statements

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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 or economic interest, 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, retirement income and institutional products. Our primary protection products include: life, long-term care and Medicare supplement insurance. Additionally, we offer wellness and care coordination services for our long-term care policyholders. Our wealth management and retirement income products include: a variety of managed account programs, financial planning services and mutual funds, fixed and variable deferred and immediate individual annuities and group variable annuities offered through retirement plans. Most of our variable annuities include a guaranteed minimum death benefit (GMDB). Some of our group and individual variable annuity products include guaranteed minimum benefit features such as guaranteed minimum withdrawal benefits (GMWB) and certain types of guaranteed annuitization benefits. Institutional products include: funding agreements, funding agreements backing notes (FABNs) and guaranteed investment contracts (GICs).

International. We are a leading provider of mortgage insurance products in Canada, Australia, New Zealand, Mexico and multiple European countries. Our products predominately 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 also offer payment protection coverages in multiple European countries, Canada and Mexico. Our lifestyle protection insurance products 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 that are managed outside of our operating segments.

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

and cash flows for the periods presented. The results reported in these condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. The condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and related notes contained in our 2008 Annual Report on Form 10-K. Any material subsequent events have been considered for disclosure through the filing date of this Quarterly Report on Form 10-Q.

(2) Accounting Pronouncements

Recently Adopted

The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles

On July 1, 2009, we adopted new accounting guidance related to the codification of accounting standards and the hierarchy of U.S. GAAP established by the Financial Accounting Standards Board (the FASB). This accounting guidance established two levels of U.S. GAAP, authoritative and nonauthoritative. The FASB Accounting Standards Codification (the Codification) is the source of authoritative, nongovernmental U.S. GAAP, except for rules and interpretive releases of the SEC, which are also sources of authoritative U.S. GAAP for SEC registrants. All other accounting literature is nonauthoritative. The adoption of this new accounting guidance did not have a material impact on our consolidated financial statements.

Subsequent Events

On June 30, 2009, we adopted new accounting guidance related to accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This accounting guidance required the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The adoption of this new accounting guidance did not have a material impact on our consolidated financial statements.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Recognition and Presentation of Other-Than-Temporary Impairments

On April 1, 2009, we adopted new accounting guidance related to the recognition and presentation of other-than-temporary impairments. This accounting guidance amended the other-than-temporary impairment guidance for debt securities and modified the presentation and disclosure requirements for other-than-temporary impairment disclosures for debt and equity securities. This accounting guidance also amended the requirement for management to positively assert the ability and intent to hold a debt security to recovery to determine whether an other-than-temporary impairment exists and replaced this provision with the assertion that we do not intend to sell or it is not more likely than not that we will be required to sell a security prior to recovery. Additionally, this accounting guidance modified the presentation of other-than-temporary impairments for certain debt securities to only present the impairment loss in net income (loss) that represents the credit loss associated with the other-than-temporary impairment with the remaining impairment loss being presented in other comprehensive income (loss) (OCI). On April 1, 2009, we recorded a net cumulative effect adjustment of $355 million to retained earnings with an offset to accumulated other comprehensive income (loss) of $349 million related to the adoption of this new accounting guidance. 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	$ (588)	$ 588	$
Adjustment to deferred acquisition costs	33	(26)	7
Adjustment to present value of future profits	9	(7)	2
Adjustment to sales inducements	5	(5)	
Adjustment to certain benefit reserves		1	1
Provision for income taxes	192	(196)	(4)
Net cumulative effect adjustment	$ (349)	$ 355	$ 6

Interim Disclosures About Fair Value of Financial Instruments

On April 1, 2009, we adopted new accounting guidance related to interim disclosures about fair value of financial instruments. This accounting guidance amended the fair value disclosure requirements for certain financial instruments to require disclosures during interim reporting periods of publicly traded entities in addition to requiring them in annual financial statements. The adoption of this new accounting guidance did not have a material impact on our consolidated financial statements.

Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly

On April 1, 2009, we adopted new accounting guidance related to determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. This accounting guidance provided additional guidance for determining fair value when the volume or level of activity for an asset or liability has significantly decreased and identified circumstances that indicate a transaction is not orderly. The adoption of this new accounting guidance did not have a material impact on our consolidated financial statements.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Fair Value Measurements of Certain Nonfinancial Assets and Liabilities

On January 1, 2009, we adopted new accounting guidance related to fair value measurements of certain nonfinancial assets and liabilities, such as impairment testing of goodwill and indefinite-lived intangible assets. The adoption of this new accounting guidance did not have a material impact on our consolidated financial statements.

Disclosures About Derivative Instruments and Hedging Activities

On January 1, 2009, we adopted new accounting guidance related to disclosures about derivative instruments and hedging activities. This statement required enhanced disclosures about an entity s derivative and hedging activities. The adoption of this new accounting guidance did not have a material impact on our consolidated financial statements.

Business Combinations

On January 1, 2009, we adopted new accounting guidance related to business combinations. This accounting guidance established principles and requirements for how an acquirer recognizes and measures certain items in a business combination, as well as disclosures about the nature and financial effects of a business combination. The adoption of this new accounting guidance did not have a material impact on our consolidated financial statements.

Noncontrolling Interest in Consolidated Financial Statements

On January 1, 2009, we adopted new accounting guidance related to noncontrolling interests in consolidated financial statements. This accounting guidance established accounting and reporting standards for noncontrolling interests in a subsidiary and for deconsolidation of a subsidiary. The adoption of this new accounting guidance did not have a material impact on our consolidated financial statements.

Not Yet Adopted

In September 2009, the FASB issued new accounting guidance related to fair value measurements and disclosures that will provide guidance on the fair value measurement in certain entities that calculate net asset value per share. This accounting guidance will be effective for us on October 1, 2009. We do not expect the adoption of this new accounting guidance to have a material impact on our consolidated financial statements.

In August 2009, the FASB issued new accounting guidance related to measuring liabilities at fair value. This accounting guidance clarifies techniques for measuring the fair value of liabilities when quoted market prices for the identical liability are not available. This accounting guidance will be effective for us on October 1, 2009. We do not expect the adoption of this new accounting guidance to have a material impact on our consolidated financial statements.

In June 2009, the FASB issued new accounting guidance related to accounting for transfers of financial assets. This accounting guidance amends the current 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. This accounting guidance will be effective for us on January 1, 2010. We have not yet determined the impact this accounting guidance, once adopted, will have on our consolidated financial statements.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In June 2009, the FASB issued new accounting guidance that provides guidance for determining which enterprise, if any, has a controlling financial interest in a variable interest entity and requires additional disclosures about involvement in variable interest entities. This accounting guidance will be effective for us on January 1, 2010. We have not yet determined the impact this accounting guidance, once adopted, will have on our consolidated financial statements.

(3) Earnings (Loss) Per Share

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

	Three months ended September 30,		Nine months ended September 30,	
(Amounts in millions, except per share amounts)	**2009**	**2008 (2)**	**2009 (1)**	**2008 (2)**
Net income (loss)	$ 45	$ (258)	$ (474)	$ (251)
Less: net income attributable to noncontrolling interests	26		26	
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ 19	$ (258)	$ (500)	$ (251)
Net income (loss) available to Genworth Financial, Inc. s common stockholders per common share:				
Basic	$ 0.04	$ (0.60)	$ (1.14)	$ (0.58)
Diluted	$ 0.04	$ (0.60)	$ (1.14)	$ (0.58)
Weighted-average shares used in basic earnings (loss) per common share calculations	448.9	433.1	438.5	433.2
Potentially dilutive securities:				
Stock options, restricted stock units and stock appreciation rights	2.7			
Weighted-average shares used in diluted earnings (loss) per common share calculations	451.6	433.1	438.5	433.2

(1) 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, the inclusion of 1.3 million of shares for stock options, restricted stock units and stock appreciation rights 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.

(2) We were required under applicable accounting guidance to use basic weighted-average common shares outstanding in the calculation of the 2008 diluted loss per share as a result of our net loss for the three and nine months ended September 30, 2008. For the three and nine months ended September 30, 2008, the inclusion of 0.7 million and 1.3 million, respectively, of shares for stock options, restricted stock units and stock appreciation rights would have been antidilutive to the calculation. If we had not incurred a net loss for the three and nine months ended September 30, 2008, dilutive potential common shares would have been 433.8 million for the three months ended

September 30, 2008 and 434.5 million for the nine months ended September 30, 2008.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In July 2009, we made an offer to eligible employees to exchange eligible stock options and stock appreciation rights (the Eligible Options and SARs) for a reduced number of stock options and stock appreciation rights (collectively, the Replacement Awards). Pursuant to the exchange offer, Eligible Options and SARs representing the right to acquire an aggregate of 8,721,962 shares of our Class A Common Stock were tendered and accepted by us in August 2009. On August 19, 2009, 1,455 employees participated in the exchange and we granted the Replacement Awards, consisting of an aggregate of 2,598,588 new stock options and 308,210 new stock appreciation rights, in exchange for the Eligible Options and SARs surrendered in the exchange offer. The exercise (or base) price of the Replacement Awards was $7.80, which was the closing price of our Class A Common Stock on August 19, 2009, as reported on the New York Stock Exchange. The Replacement Awards have the same term (or expiration date) as the Eligible Options and SARs for which they were exchanged, and will vest and become exercisable, subject to continued employment, over a three- or four-year period. Generally, unvested Replacement Awards will be forfeited if an eligible employee s employment terminates for any reason other than retirement, business disposition, death, disability or layoff (in which cases a portion or all may become vested in accordance with the 2004 Genworth Financial, Inc. Omnibus Incentive Plan, as amended). There was no additional incremental compensation expense resulting from the exchange.

(4) Investments

Other-Than-Temporary Impairments On Available-For-Sale Securities

As of each balance sheet date, we evaluate securities in an unrealized loss position for other-than-temporary impairments. For debt securities, we consider all available information relevant to the collectability of the security, including information about past events, current conditions, and reasonable and supportable forecasts, when developing the estimate of cash flows expected to be collected. More specifically for mortgage-backed and asset-backed securities, we also utilize performance indicators of the underlying assets including default or delinquency rates, loan to collateral value ratios, third-party credit enhancements, current levels of subordination, vintage and other relevant characteristics of the security or underlying assets to develop our estimate of cash flows. Estimating the cash flows expected to be collected is a quantitative and qualitative process that incorporates information received from third-party sources along with certain internal assumptions and judgments regarding the future performance of the underlying collateral. Where possible, this data is benchmarked against third-party sources.

Prior to adoption of new accounting guidance related to the recognition and presentation of other-than-temporary impairments on April 1, 2009, we generally recognized an other-than-temporary impairment on debt securities in an unrealized loss position when we did not expect full recovery of value or did not have the intent and ability to hold such securities until they had fully recovered their amortized cost. The recognition of other-than-temporary impairments prior to April 1, 2009 represented the entire difference between the amortized cost and fair value with this difference being recorded in net income (loss) as an adjustment to the amortized cost of the security.

Beginning on April 1, 2009, we recognize other-than-temporary impairments on debt securities in an unrealized loss position when one of the following circumstances exists:

- we do not expect full recovery of our amortized cost based on the estimate of cash flows expected to be collected,
- we intend to sell a security or
- it is more likely than not that we will be required to sell a security prior to recovery.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

For other-than-temporary impairments recognized during the period, we present the total other-than-temporary impairments, the portion of other-than-temporary impairments included in OCI and the net other-than-temporary impairments as supplemental disclosure presented on the face of our consolidated statements of income.

Total other-than-temporary impairments are calculated as the difference between the amortized cost and fair value that emerged in the current period. For other-than-temporarily impaired securities where we do not intend to sell the security and it is not more likely than not that we will be required to sell the security prior to recovery, total other-than-temporary impairments are adjusted by the portion of other-than-temporary impairments recognized in OCI (non-credit). Net other-than-temporary impairments recorded in net income (loss) represent the credit loss on the other-than-temporarily impaired securities with the offset recognized as an adjustment to the amortized cost to determine the new amortized cost basis of the securities.

For securities that were deemed to be other-than-temporarily impaired and a non-credit loss was recorded in OCI, the amount recorded as an unrealized gain (loss) represents the difference between the current fair value and the new amortized cost for each period presented. The unrealized gain (loss) on an other-than-temporarily impaired security is recorded in OCI.

To estimate the amount of other-than-temporary impairment attributed to credit losses on debt securities where we do not intend to sell the security and it is not more likely than not that we will be required to sell the security prior to recovery, we determine our best estimate of the present value of the cash flows expected to be collected from a security by discounting these cash flows by the current effective yield on the security prior to recording any other-than-temporary impairment. If the present value of the discounted cash flows is lower than the amortized cost of the security, the difference between the present value and amortized cost represents the credit loss associated with the security with the remaining difference between fair value and amortized cost recorded as a non-credit other-than-temporary impairment in OCI.

The evaluation of other-than-temporary impairments is subject to risks and uncertainties and is intended to determine the appropriate amount and timing for recognizing an impairment charge. The assessment of whether such impairment has occurred is based on management s best estimate of the cash flows expected to be collected at the individual security level. We regularly monitor our investment portfolio to ensure that securities that may be other-than-temporarily impaired are identified in a timely manner and that any impairment charge is recognized in the proper period.

While the other-than-temporary impairment model for debt securities generally includes fixed maturity securities, there are certain hybrid securities that are classified as fixed maturity securities where the application of a debt impairment model depends on whether there has been any evidence of deterioration in credit of the issuer. Under certain circumstances, evidence of deterioration in credit of the issuer may result in the application of the equity impairment model.

For equity securities, we recognize an impairment charge in the period in which we determine that the security will not recover to book value within a reasonable period. We determine what constitutes a reasonable period on a security-by-security basis based upon consideration of all the evidence available to us, including the magnitude of an unrealized loss and its duration. In any event, this period does not exceed 18 months for common equity securities. We measure other-than-temporary impairments based upon the difference between the amortized cost of a security and its fair value.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Net Investment Income

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

(Amounts in millions)	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Fixed maturity securities taxable	$ 610	$ 715	$ 1,837	$ 2,194
Fixed maturity securities non-taxable	27	29	85	80
Commercial mortgage loans	106	123	329	402
Equity securities	6	5	12	25
Other invested assets	4	(11)	(102)	25
Policy loans	19	43	115	122
Cash, cash equivalents and short-term investments	9	36	40	102
Gross investment income before expenses and fees	781	940	2,316	2,950
Expenses and fees	(22)	(22)	(65)	(77)
Net investment income	$ 759	$ 918	$ 2,251	$ 2,873

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, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Available-for-sale securities:				
Realized gains on sale	$ 122	$ 34	$ 172	$ 97
Realized losses on sale	(81)	(167)	(192)	(202)
Impairments:				
Total other-than-temporary impairments	(285)	(577)	(1,358)	(1,316)
Portion of other-than-temporary impairments included in OCI	89		413	
Net other-than-temporary impairments	(196)	(577)	(945)	(1,316)
Trading securities	16	(11)	15	(16)
Commercial mortgage loans	(8)		(19)	
Derivative instruments	19	(90)	12	(116)
Other	6	(5)	12	(7)
Net investment gains (losses)	$ (122)	$ (816)	$ (945)	$ (1,560)

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

The aggregate fair value of securities sold at a loss during the three months ended September 30, 2009 and 2008 was $354 million and $498 million, respectively, which was approximately 84% and 77%, respectively, of book value. The aggregate fair value of securities sold at a loss during the nine months ended September 30, 2009 and 2008 was $1,091 million and $1,569 million, respectively, which was approximately 86% and 90%, respectively, of book value.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

(Amounts in millions)	As of or for the three months ended September 30, 2009	As of or for the nine months ended September 30, 2009
Cumulative credit loss beginning balance	$ 1,085	$
Adoption of new accounting guidance related to other-than-temporary impairments		1,204
Additions:		
Other-than-temporary impairments not previously recognized	25	81
Increases related to other-than-temporary impairments previously recognized	74	169
Reductions:		
Securities sold, paid down or disposed	(103)	(373)
Securities where there is intent to sell	(5)	(5)
Cumulative credit loss ending balance	$ 1,076	$ 1,076

Unrealized Investment Gains and Losses

Net unrealized gains and losses on investment securities classified as available-for-sale and other invested assets are reduced by deferred income taxes and adjustments to present value of future profits, deferred acquisition costs and sales inducements that would have resulted had such gains and losses been realized. Net unrealized gains and losses on available-for-sale investment securities reflected as a separate component of accumulated other comprehensive income (loss) as of the dates indicated were as follows:

(Amounts in millions)	September 30, 2009	December 31, 2008
Net unrealized gains (losses) on investment securities:		
Fixed maturity securities	$ (2,332)	$ (7,006)
Equity securities	14	(67)
Other invested assets	(28)	(1)
Subtotal	(2,346)	(7,074)
Adjustments to present value of future profits, deferred acquisition costs and sales inducements	238	815
Income taxes, net	748	2,221
Net unrealized investment gains (losses)	(1,360)	(4,038)
Less: net unrealized investment (gains) losses attributable to noncontrolling interests	(41)	
Net unrealized investment gains (losses) attributable to Genworth Financial, Inc.	$ (1,401)	$ (4,038)

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

(Amounts in millions)	As of or for the three months ended September 30, 2009	As of or for the nine months ended September 30, 2009
Beginning balance	$ (3,023)	$ (4,038)
Cumulative effect of change in accounting		(349)
Activity during the period:		
Unrealized gains (losses) on securities	2,796	4,352
Adjustment to deferred acquisition costs	(264)	(448)
Adjustment to present value of future profits	(93)	(164)
Adjustment to sales inducements	(13)	(12)
Provision for income taxes	(863)	(1,328)
Change in unrealized gains (losses)	1,563	2,400
Reclassification adjustments to net investment (gains) losses, net of taxes of $(51) and $(337)	100	627
Change in net unrealized investment gains (losses)	1,663	2,678
Less: change in net unrealized investment (gains) losses attributable to noncontrolling interests	(41)	(41)
Ending balance	$ (1,401)	$ (1,401)

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Fixed Maturity and Equity Securities

As of September 30, 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 on securities		Gross unrealized losses on securities		
(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	$ 2,104	$ 65	$	$ (3)	$	$ 2,166
Tax exempt	2,177	111		(87)		2,201
Government non-U.S.	2,165	110		(21)		2,254
U.S. corporate	20,914	811		(970)	(3)	20,752
Corporate non-U.S.	12,048	411		(410)		12,049
Residential mortgage-backed	3,503	51	1	(616)	(355)	2,584
Commercial mortgage-backed	5,061	70		(1,130)	(115)	3,886
Other asset-backed	2,106	7		(257)	(2)	1,854
Total fixed maturity securities	50,078	1,636	1	(3,494)	(475)	47,746
Equity securities	150	17		(3)		164
Total available-for-sale securities	$ 50,228	$ 1,653	$ 1	$ (3,497)	$ (475)	$ 47,910

As of December 31, 2008, 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**	**Gross unrealized losses**	**Fair value**
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 764	$ 141	$	$ 905
Tax exempt	2,529	70	(228)	2,371
Government non-U.S.	1,724	103	(67)	1,760
U.S. corporate	21,789	253	(2,968)	19,074
Corporate non-U.S.	11,439	118	(1,581)	9,976
Residential mortgage-backed	3,721	69	(853)	2,937
Commercial mortgage-backed	5,198	56	(1,496)	3,758
Other asset-backed	2,713	41	(664)	2,090
Total fixed maturity securities	49,877	851	(7,857)	42,871
Equity securities	301	4	(71)	234

Total available-for-sale securities	$ 50,178	$ 855	$ (7,928)	$ 43,105

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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, 2009:

	Less than 12 months			12 months or more		
(Dollar amounts in millions)	**Fair value**	**Gross unrealized losses**	**# of securities**	**Fair value**	**Gross unrealized losses**	**# of securities**
Description of Securities						
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 292	$ (3)	17	$	$	
Tax exempt				365	(87)	115
Government non-U.S.	173	(7)	22	99	(14)	37
U.S. corporate	611	(67)	77	6,356	(906)	586
Corporate non-U.S.	906	(33)	94	2,950	(377)	327
Residential mortgage-backed	646	(357)	260	1,013	(614)	341
Commercial mortgage-backed	163	(59)	53	2,315	(1,186)	446
Other asset-backed	68	(6)	11	1,538	(253)	108
Subtotal, fixed maturity securities	2,859	(532)	534	14,636	(3,437)	1,960
Equity securities	5	(2)	4	3	(1)	4
Total for securities in an unrealized loss position	$ 2,864	$ (534)	538	$ 14,639	$ (3,438)	1,964
% Below cost fixed maturity securities:						
<20% Below cost	$ 2,401	$ (73)	292	$ 11,046	$ (805)	1,208
20-50% Below cost	333	(170)	103	2,940	(1,389)	429
>50% Below cost	125	(289)	139	650	(1,243)	323
Total fixed maturity securities	2,859	(532)	534	14,636	(3,437)	1,960
% Below cost equity securities:						
<20% Below cost				3	(1)	4
20-50% Below cost	5	(1)	3			
>50% Below cost		(1)	1			
Total equity securities	5	(2)	4	3	(1)	4
Total for securities in an unrealized loss position	$ 2,864	$ (534)	538	$ 14,639	$ (3,438)	1,964
Investment grade	$ 2,441	$ (182)	288	$ 12,695	$ (2,633)	1,542
Below investment grade	423	(352)	250	1,944	(805)	422
Total for securities in an unrealized loss position	$ 2,864	$ (534)	538	$ 14,639	$ (3,438)	1,964

The investment securities in an unrealized loss position as of September 30, 2009 consisted of 2,502 securities and accounted for unrealized losses of $3,972 million. Of these unrealized losses of $3,972 million, 71% were investment grade (rated AAA through BBB-) and 22% were less than 20% below cost. The securities less than 20% below cost were primarily attributable to widening credit spreads and a depressed market for

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

certain structured mortgage securities. Included in these unrealized losses as of September 30, 2009 was $475 million of unrealized losses on other-than-temporarily impaired securities. Of the total unrealized losses on other-than-temporarily impaired securities, $136 million have been in an unrealized loss position for more than 12 months.

Of the unrealized losses of $3,972 million, $2,475 million were related to structured securities and $932 million were related to corporate securities in the finance and insurance sector. The remaining amount of $565 million was spread evenly across all other sectors with no individual sector exceeding $90 million.

Of the $2,475 million unrealized losses in structured securities, 50% were in commercial mortgage-backed securities and 39% were in residential mortgage-backed securities with the remainder in other asset-backed securities. Approximately 65% 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 the current market conditions and limited trading on these securities, the fair value of these securities has declined due to widening credit spreads and high premiums for illiquidity. 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, 2009.

Of the $932 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. 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. 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 widening credit spreads. 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. 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. All 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 widening credit spreads which reflect current financial industry events including uncertainty surrounding the level and type of government support of European financial institutions, potential capital restructuring of these institutions, the risk that income payments may be deferred and the risk that these institutions could be nationalized. Based on this evaluation, we determined that the unrealized losses on these securities represented temporary impairments as of September 30, 2009.

Of the investment securities in an unrealized loss position for 12 months or more as of September 30, 2009, 752 securities were 20% or more below cost, of which 233 securities were also below investment grade (rated BB+ and below) and accounted for unrealized losses of $680 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 $42 million was recorded in OCI.

While certain securities included in the preceding table were considered other-than-temporarily impaired, we expected to recover the new amortized cost based on our estimate of cash flows to be collected. As of September 30, 2009, we expect to recover our amortized cost on the securities included in the chart above and do not intend to sell or it is not more likely than not that we will be required to sell these securities prior to recovering our amortized cost.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 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, 2008:

	Less than 12 months			12 months or more		
(Dollar amounts in millions)	Fair value	Gross unrealized losses	# of securities	Fair value	Gross unrealized losses	# of securities
Description of Securities						
Fixed maturity securities:						
Tax exempt	$ 915	$ (78)	281	$ 262	$ (150)	100
Government non-U.S.	287	(49)	120	34	(18)	34
U.S. corporate	7,583	(956)	926	6,901	(2,012)	683
Corporate non-U.S.	4,003	(570)	648	3,004	(1,011)	411
Residential mortgage-backed	690	(186)	155	1,005	(667)	320
Commercial mortgage-backed	847	(183)	166	2,411	(1,313)	403
Other asset-backed	281	(72)	50	1,703	(592)	140
Subtotal, fixed maturity securities	14,606	(2,094)	2,346	15,320	(5,763)	2,091
Equity securities	62	(45)	15	52	(26)	6
Total for securities in an unrealized loss position	$ 14,668	$ (2,139)	2,361	$ 15,372	$ (5,789)	2,097
% Below cost fixed maturity securities:						
<20% Below cost	$ 12,427	$ (1,031)	1,831	$ 8,518	$ (948)	912
20-50% Below cost	2,059	(888)	442	5,603	(2,759)	818
>50% Below cost	120	(175)	73	1,199	(2,056)	361
Total fixed maturity securities	14,606	(2,094)	2,346	15,320	(5,763)	2,091
% Below cost equity securities:						
20-50% Below cost	41	(20)	11	52	(26)	6
>50% Below cost	21	(25)	4			
Total equity securities	62	(45)	15	52	(26)	6
Total for securities in an unrealized loss position	$ 14,668	$ (2,139)	2,361	$ 15,372	$ (5,789)	2,097

Investment grade	$ 13,719	$ (1,908)	2,026	$ 14,628	$ (5,437)	1,908
Below investment grade	949	(231)	335	744	(352)	189
Total for securities in an unrealized loss position	$ 14,668	$ (2,139)	2,361	$ 15,372	$ (5,789)	2,097

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The scheduled maturity distribution of fixed maturity securities as of September 30, 2009 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	$ 1,897	$ 1,897
Due after one year through five years	12,118	12,247
Due after five years through ten years	7,766	7,862
Due after ten years	17,627	17,416
Subtotal	39,408	39,422
Residential mortgage-backed	3,503	2,584
Commercial mortgage-backed	5,061	3,886
Other asset-backed	2,106	1,854
Total	$ 50,078	$ 47,746

As of September 30, 2009, $5,876 million of our investments (excluding mortgage-backed and asset-backed securities) were subject to certain call provisions.

As of September 30, 2009, securities issued by finance and insurance, utilities and energy, and consumer non-cyclical industry groups represented approximately 28%, 22% and 12%, respectively, of our domestic and foreign corporate fixed maturity securities portfolio. 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, 2009, 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.

(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 prohibition 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:

(Amounts in millions)	Asset derivatives: Balance sheet classification	Asset derivatives: Fair value September 30, 2009	Asset derivatives: Fair value December 31, 2008	Liability derivatives: Balance sheet classification	Liability derivatives: Fair value September 30, 2009	Liability derivatives: Fair value December 31, 2008
Derivatives designated as hedges						
Cash flow hedges:						
Interest rate swaps	Other invested assets	$ 281	$ 501	Other liabilities	$ 9	$ 54
Inflation indexed swaps	Other invested assets			Other liabilities	4	
Foreign currency swaps	Other invested assets	123	120	Other liabilities		1
Total cash flow hedges		404	621		13	55
Fair value hedges:						
Interest rate swaps	Other invested assets	156	231	Other liabilities	18	36
Foreign currency swaps	Other invested assets	24	46	Other liabilities		
Total fair value hedges		180	277		18	36
Total derivatives designated as hedges		584	898		31	91
Derivatives not designated as hedges						
Interest rate swaps	Other invested assets	408	384	Other liabilities	39	95
Interest rate swaptions	Other invested assets	195	780	Other liabilities	104	60
Credit default swaps	Other invested assets	6	1	Other liabilities		27

Equity index options	Other invested assets	62	152	Other liabilities		
Financial futures	Other invested assets			Other liabilities		
Inflation indexed swaps	Other invested assets			Other liabilities		
Other foreign currency contracts	Other invested assets	3		Other liabilities		
GMWB embedded derivatives	Reinsurance recoverable [(1)]		18	Policyholder account balances [(2)]	308	878
Total derivatives not designated as hedges		674	1,335		451	1,060
Total derivatives		$ 1,258	$ 2,233		$ 482	$ 1,151

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

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

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 the obligation to return collateral retained by us and the right to reclaim collateral from counterparties was recorded in other liabilities and other invested assets, respectively.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The activity associated with derivative instruments can generally be measured by the change in notional value over the periods presented. However, for equity index options, the change between periods is best illustrated by the number of contracts, and 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, 2008	Additions	Maturities/ terminations	September 30, 2009
Derivatives designated as hedges					
Cash flow hedges:					
Interest rate swaps	Notional	$ 4,001	$ 2,562	$ 509	$ 6,054
Inflation indexed swaps	Notional		383		383
Foreign currency swaps	Notional	559	491	559	491
Total cash flow hedges		4,560	3,436	1,068	6,928
Fair value hedges:					
Interest rate swaps	Notional	3,098		338	2,760
Foreign currency swaps	Notional	187		102	85
Total fair value hedges		3,285		440	2,845
Total derivatives designated as hedges		7,845	3,436	1,508	9,773
Derivatives not designated as hedges					
Interest rate swaps	Notional	6,460	945	2,057	5,348
Interest rate swaptions	Notional	12,000		4,500	7,500
Credit default swaps	Notional	610		20	590
Financial futures	Notional	2,194	6,681	2,194	6,681
Inflation indexed swaps	Notional				
Other foreign currency contracts	Notional		982	461	521
Total derivatives not designated as hedges		21,264	8,608	9,232	20,640
Total derivatives		$ 29,109	$ 12,044	$ 10,740	$ 30,413

(Number of contracts or policies)	Measurement	December 31, 2008	Additions	Terminations	September 30, 2009
Derivatives not designated as hedges					
Equity index options	Contracts	532,000	589,000	225,000	896,000
GMWB embedded derivatives	Policies	43,677	4,050	1,128	46,599

As a result of rating agency actions taken in April 2009, credit downgrade provisions were triggered in our master swap agreements with certain derivative counterparties and we terminated $6.9 billion notional value, of which $2.3 billion was replaced or renegotiated. Approximately $1.1 billion of notional value remained with counterparties that can be terminated at the option of the derivative counterparty and represented a net fair value asset of $135 million as of September 30, 2009. Additionally, we terminated $1.7 billion in derivatives that were not directly impacted by the credit downgrade provisions but were offsetting certain terminated derivatives.

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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, 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 income	$ (2)	Net investment 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.

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, 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.

The total of derivatives designated as cash flow hedges of $1,013 million, net of taxes, recorded in stockholders equity as of September 30, 2009 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, $(1) 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, 2009 in connection with forecasted transactions that were no longer considered probable of occurring. During 2008, we terminated a large portion of our forward starting interest rate swaps, which were designated as cash flow hedges, related to our long-term care insurance business to reduce our counterparty credit exposure and increase liquidity. The respective balance in OCI related to these derivatives will be reclassified into net income (loss) when the forecasted transactions affect net income (loss), as the forecasted transactions are still 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.

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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 fair value hedges and related hedged items for the three 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	$ 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)	

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

Derivatives Not Designated As Hedges

We also enter into certain non-qualifying derivative instruments such as: (i) interest rate swaps, swaptions and financial futures to mitigate interest rate risk as part of managing regulatory capital positions; (ii) credit default swaps to enhance yield and reproduce characteristics of investments with similar terms and credit risk; and (iii) equity index options, interest rate swaps and financial futures to mitigate the risks associated with liabilities that have guaranteed minimum benefits. Additionally, we provide GMWBs on certain products that are required to be bifurcated as embedded derivatives.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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:

(Amounts in millions)	Three months ended September 30, 2009	Nine months ended September 30, 2009	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps	$ (52)	$ 194	Net investment gains (losses)
Interest rate swaptions	85	(494)	Net investment gains (losses)
Credit default swaps	15	36	Net investment gains (losses)
Equity index options	(49)	(104)	Net investment gains (losses)
Financial futures	(106)	(190)	Net investment gains (losses)
Inflation indexed swaps		(4)	Net investment gains (losses)
Foreign currency swaps		6	Net investment gains (losses)
Other foreign currency contracts	(5)	5	Net investment gains (losses)
GMWB embedded derivatives	133	573	Net investment gains (losses)
Total derivatives not designated as hedges	$ 21	$ 22	

Derivative Counterparty Credit Risk

As of September 30, 2009 and December 31, 2008, net fair value assets by counterparty totaled $1,095 million and $1,946 million, respectively. As of September 30, 2009 and December 31, 2008, net fair value liabilities by counterparty totaled $10 million and $4 million, respectively. As of September 30, 2009 and December 31, 2008, we retained collateral of $937 million and $1,605 million, respectively, related to these agreements, including over collateralization of $14 million and $66 million, respectively, from certain counterparties. As of September 30, 2009, we provided $12 million of collateral to derivative counterparties, including over collateralization of $2 million. As of December 31, 2008, we provided no collateral to derivative counterparties.

All of our master swap agreements contain credit downgrade provisions that allow a party to assign or terminate derivative transactions if the other party s long-term unsecured debt rating or financial strength rating is below the limit defined in the applicable agreement. If the downgrade provisions had been triggered as of September 30, 2009 and December 31, 2008, we could have been allowed to claim up to $172 million and $407 million, respectively, from counterparties and required to disburse less than $1 million and $4 million, respectively. This represents the net fair value of gains and losses by counterparty, less available collateral held.

Credit Derivatives

We sell protection under single name credit default swaps and credit default swap index tranches in combination with purchasing securities to reproduce characteristics of similar investments based on the credit quality and term of the credit default swap. Credit default triggers for both indexed reference entities and single name reference entities follow the Credit Derivatives Physical Settlement Matrix published by the International Swaps and Derivatives Association. Under these terms, credit default triggers are defined as bankruptcy, failure to pay or restructuring, if applicable. Our maximum exposure to credit loss equals the notional value for credit default swaps and the par value of debt instruments with embedded credit derivatives. In the event of default for credit default swaps, we are typically required to pay the protection holder the full notional value less a recovery rate determined at auction. For debt instruments with embedded credit derivatives, the security s principal is typically reduced by the net amount of default for any referenced entity defaults.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	September 30, 2009			December 31, 2008		
(Amounts in millions)	**Notional value**	**Assets**	**Liabilities**	**Notional value**	**Assets**	**Liabilities**
Reference entity credit rating and maturity:						
AAA						
Matures after one year through five years	$ 6	$	$	$ 6	$	$ 1
AA						
Matures after one year through five years	5			5		
A						
Matures after one year through five years	32			52		5
Matures after five years through ten years	15			15		2
BBB						
Matures after one year through five years	73	1		73		7
Matures after five years through ten years	24			24		4
Total credit default swaps on single name reference entities	$ 155	$ 1	$	$ 175	$	$ 19

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

	September 30, 2009			December 31, 2008		
(Amounts in millions)	**Notional value**	**Assets**	**Liabilities**	**Notional value**	**Assets**	**Liabilities**
Index tranche attachment/detachment point and maturity:						
15% 30% matures after five years through ten years[(1)]	$ 177	$ 3	$	$ 177	$ 1	$ 2
12% 22% matures after five years through ten years[(2)]	248	2		248		6
Total credit default swaps on index tranches	$ 425	$ 5	$	$ 425	$ 1	$ 8

(1) The current attachment/detachment as of September 30, 2009 and December 31, 2008 was 14.9% 30.3%.

(2) The current attachment/detachment as of September 30, 2009 and December 31, 2008 was 12% 22%.

The following table sets forth our holding of available-for-sale fixed maturity securities that include embedded credit derivatives and the fair values as of the dates indicated:

	September 30, 2009	December 31, 2008
(Amounts in millions)		

	Par value	Amortized cost	Fair value	Par value	Amortized cost	Fair value
Credit rating:						
AAA						
Matures after one year through five years	$	$	$	$ 100	$ 100	$ 51
Matures after five years through ten years	300	329	211	300	332	105
AA						
Matures after five years through ten years	100	100	92			
Total available-for-sale fixed maturity securities that include embedded credit derivatives	$ 400	$ 429	$ 303	$ 400	$ 432	$ 156

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(6) Fair Value Measurements

Assets and liabilities that are reflected in the accompanying consolidated financial statements at fair value are not included in the following disclosure of fair value; such items include cash and cash equivalents, investment securities, separate accounts, securities held as collateral and derivative financial instruments. Other financial assets and liabilities those not carried at fair value are discussed below. Apart from certain of our borrowings and certain marketable securities, few of the instruments discussed below are actively traded and their fair values must often be determined using models. The fair value estimates are made at a specific point in time, based upon available market information and judgments about the financial instruments, including estimates of the timing and amount of expected future cash flows and the credit standing of counterparties. Such estimates do not reflect any premium or discount that could result from offering for sale at one time our entire holdings of a particular financial instrument, nor do they consider the tax impact of the realization of unrealized gains or losses. In many cases, the fair value estimates cannot be substantiated by comparison to independent markets.

The basis on which we estimate fair value is as follows:

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

Other invested assets. Based on comparable market transactions, discounted future cash flows, quoted market prices and/or estimates using the most recent data available for the related instrument. Primarily represents short-term investments, limited partnerships accounted for under the cost method and bank loans.

Borrowings and related instruments. Based on market quotes or comparable market transactions.

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

The following represents the fair value of financial assets and liabilities as of the periods indicated:

	September 30, 2009			December 31, 2008		
(Amounts in millions)	**Notional amount**	**Carrying amount**	**Fair value**	**Notional amount**	**Carrying amount**	**Fair value**
Assets:						
Commercial mortgage loans	$ [1]	$ 7,704	$ 7,001	$ [1]	$ 8,262	$ 7,536
Other invested assets	[1]	1,217	1,208	[1]	1,316	1,326
Liabilities:						
Borrowings and related instruments [2]:						
Short-term borrowings	[1]	930	930	[1]	1,133	1,133
Long-term borrowings	[1]	3,457	2,895	[1]	4,261	2,012
Non-recourse funding obligations	[1]	3,443	1,513	[1]	3,455	2,671
Investment contracts	[1]	22,485	22,689	[1]	26,824	24,250
Performance guarantees, principally letters of credit	119			119		
Other firm commitments:						
Commitments to fund limited partnerships	277			366		

(1) These financial instruments do not have notional amounts.

(2) See note 8.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Recurring Fair Value Measurements

We hold fixed maturity and equity securities, trading securities, derivatives, embedded derivatives, securities held as collateral, separate account assets and certain other financial instruments, which are carried at fair value.

The vast majority of our fixed maturity and equity securities use Level 2 inputs for the determination of fair value. These fair values are obtained primarily from industry-standard pricing methodologies based on market observable information. Certain structured securities valued using industry-standard pricing methodologies utilize significant unobservable inputs to estimate fair value, resulting in the fair value measurements being classified as Level 3. We also utilize internally developed pricing models to produce estimates of fair value primarily utilizing Level 2 inputs along with certain Level 3 inputs. The internally developed models include matrix pricing where we discount expected cash flows utilizing market interest rates obtained from market sources based on the credit quality and duration of the instrument to determine fair value. For securities that may not be reliably priced using internally developed pricing models, we estimate fair value using indicative market prices. These prices are indicative of an exit price, but the assumptions used to establish the fair value may not be observable, or corroborated by market observable information, and represent Level 3 inputs.

The fair value of securities held as collateral is primarily based on Level 2 inputs from market information for the collateral that is held on our behalf by the custodian. The fair value of separate account assets is based on the quoted prices of the underlying fund investments and, therefore, represents Level 1 pricing.

The fair value of derivative instruments primarily utilizes Level 2 inputs. Certain derivative instruments are valued using significant unobservable inputs and are classified as Level 3 measurements. The classification of fair value measurements for derivative instruments, including embedded derivatives requiring bifurcation, was determined based on consideration of several inputs including: closing exchange or over-the-counter market price quotations; time value and volatility factors underlying options; foreign exchange rates; market interest rates; and non-performance risk. For product-related embedded derivatives, we also include certain policyholder assumptions in the determination of fair value.

For assets carried at fair value, the non-performance of the counterparties is considered in the determination of fair value measurement for those assets. Similarly, the fair value measurement of a liability must reflect the entity s own non-performance risk. Therefore, the impact of non-performance risk, as well as any potential credit enhancements (e.g., collateral), has been considered in the fair value measurement of both assets and liabilities. The liabilities recorded at fair value include derivative and GMWB liabilities.

For derivative liabilities, we consider the counterparty collateral arrangements and rights of set-off when determining whether any incremental adjustment should be made for our non-performance risk. As a result of these counterparty arrangements, we determined no adjustment for our non-performance risk was required to the derivative liabilities of $174 million and $273 million as of September 30, 2009 and December 31, 2008, respectively.

For GMWB liabilities recorded at fair value of $308 million and $878 million as of September 30, 2009 and December 31, 2008, respectively, non-performance risk is integrated into the discount rate. The discount rate utilized in our valuation was based on the swap curve, which included the credit risk of an instrument rated AA and incorporated the non-performance risk of our GMWB liabilities. The impact of non-performance risk on our GMWB valuation was $2 million and $29 million as of September 30, 2009 and December 31, 2008, respectively, as a result of our discount rate being higher than the U.S. treasury curve.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

To determine whether the use of the swap curve was the appropriate discount rate to reflect the non-performance risk of the GMWB liabilities, we evaluate the non-performance risk in our liabilities based on a hypothetical exit market transaction as there is no exit market for these types of liabilities. A hypothetical exit market can be viewed as a hypothetical transfer of the liability to another similarly rated insurance company which would closely resemble a reinsurance transaction. Another hypothetical exit market transaction can be viewed as a hypothetical transaction from the perspective of the GMWB policyholder. After considering all relevant factors in assessing whether any additional adjustment to the discount rate for non-performance risk was necessary, including assumptions we expect market participants would utilize in a hypothetical exit market transaction, we determined that no incremental adjustment to the discount rate was necessary for our GMWB liabilities that are recorded at fair value. We believe that a hypothetical exit market participant would use a similar discount rate to value the liabilities and would not incorporate changes in non-performance risk in the discount rate other than the implied credit spread incorporated in the swap curve.

We continually assess the non-performance risk on our liabilities recorded at fair value and will make adjustments in future periods as additional information is obtained that would indicate such an adjustment is necessary to accurately present the fair value measurement in accordance with U.S. GAAP.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	September 30, 2009			
(Amounts in millions)	Total	Level 1	Level 2	Level 3
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 2,166	$	$ 2,161	$ 5
Tax exempt	2,201		2,199	2
Government non-U.S.	2,254		2,220	34
U.S. corporate	20,752		19,232	1,520
Corporate non-U.S.	12,049		11,017	1,032
Residential mortgage-backed	2,584		925	1,659
Commercial mortgage-backed	3,886		257	3,629
Other asset-backed	1,854		839	1,015
Total fixed maturity securities	47,746		38,850	8,896
Equity securities	164	36	68	60
Other invested assets:				
Trading securities	180		31	149
Derivative assets	1,258		986	272
Securities lending collateral	899		899	
Derivatives counterparty collateral	56		56	
Total other invested assets	2,393		1,972	421
Reinsurance recoverable (1)				
Separate account assets	10,712	10,712		
Total assets	$ 61,015	$ 10,748	$ 40,890	$ 9,377
Liabilities				
Policyholder account balances (2)	$ 308	$	$	$ 308
Derivative liabilities	174		70	104
Total liabilities	$ 482	$	$ 70	$ 412

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

(Amounts in millions)	December 31, 2008 Total	Level 1	Level 2	Level 3
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 905	$	$ 880	$ 25
Tax exempt	2,371		2,371	
Government non-U.S.	1,760		1,729	31
U.S. corporate	19,074		16,340	2,734
Corporate non-U.S.	9,976		8,416	1,560
Residential mortgage-backed	2,937		980	1,957
Commercial mortgage-backed	3,758		539	3,219
Other asset-backed	2,090		1,056	1,034
Total fixed maturity securities	42,871		32,311	10,560
Equity securities	234	37	137	60
Other invested assets:				
Trading securities	169		44	125
Derivative assets	2,215		1,282	933
Securities lending collateral	1,469		1,469	
Derivatives counterparty collateral	786		786	
Total other invested assets	4,639		3,581	1,058
Reinsurance recoverable (1)	18			18
Separate account assets	9,215	9,215		
Total assets (2)	$ 56,977	$ 9,252	$ 36,029	$ 11,696
Liabilities				
Policyholder account balances (3)	$ 878	$	$	$ 878
Derivative liabilities	273		205	68
Total liabilities	$ 1,151	$	$ 205	$ 946

(1) Represents embedded derivatives associated with the reinsured portion of our GMWB liabilities. The balance as of December 31, 2008 has been revised to include this amount.

(2) Total assets have been revised to include the reinsured portion of our GMWB liabilities.

(3) Represents embedded derivatives associated with our GMWB liabilities, excluding the impact of reinsurance. The balance as of December 31, 2008 has been revised to exclude the impact of reinsurance.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	Beginning balance as of July 1, 2009	Total realized and unrealized gains (losses)		Purchases, sales issuances and settlements, net	Transfer in Level 3	Transfer out of Level 3	Ending balance as of September 30, 2009	Total gains (losses) included in net income (loss) attributable to assets still held
		Included in net income (loss)	Included in OCI					
Fixed maturity securities:								
U.S. government, agencies and government-sponsored enterprises	$ 357	$	$	$	$ 4	$ (356)	$ 5	$
Tax exempt	2						2	
Government non-U.S.	22		(2)	(1)	15		34	
U.S. corporate	1,408	25	60	(52)	387	(308)	1,520	5
Corporate non-U.S.	767	7	69	74	293	(178)	1,032	(2)
Residential mortgage-backed	1,623	(89)	200	(51)	20	(44)	1,659	(77)
Commercial mortgage-backed	3,128	(6)	294	(34)	476	(229)	3,629	(6)
Other asset-backed	1,063	(1)	105	(122)	1	(31)	1,015	(1)
Total fixed maturity securities	8,370	(64)	726	(186)	1,196	(1,146)	8,896	(81)
Equity securities	61		1	(1)		(1)	60	
Other invested assets:								
Trading securities	133	16					149	16
Derivative assets	286	(15)		1			272	(11)
Total other invested assets	419	1		1			421	5
Reinsurance recoverable	2	(2)						(2)
Total Level 3 assets	$ 8,852	$ (65)	$ 727	$ (186)	$ 1,196	$ (1,147)	$ 9,377	$ (78)

	Beginning balance as of July 1, 2008	Total realized and unrealized gains (losses)		Purchases, sales issuances and settlements, net	Transfer in Level 3	Transfer out of Level 3	Ending balance as of September 30, 2008	Total gains (losses) included in net income
		Included in net income (loss)	Included in OCI					

								(loss) attributable to assets still held
Fixed maturity securities	$ 4,681	$ (256)	$ (241)	$ (6)	$ 2,347	$ (704)	$ 5,821	$ (249)
Equity securities	9			15	25		49	
Other invested assets [(1)]	409	58		(31)		(28)	408	47
Total Level 3 assets	$ 5,099	$ (198)	$ (241)	$ (22)	$ 2,372	$ (732)	$ 6,278	$ (202)

(1) Includes certain trading securities and derivatives.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	Beginning balance as of January 1, 2009	Total realized and unrealized gains (losses) Included in net income (loss)	Included in OCI	Purchases, sales issuances and settlements, net	Transfer in Level 3	Transfer out of Level 3	Ending balance as of September 30, 2009	Total gains (losses) included in net income (loss) attributable to assets still held
Fixed maturity securities:								
U.S. government, agencies and government-sponsored enterprises	$ 25	$	$ (38)	$ 13	$ 394	$ (389)	$ 5	$
Tax exempt				5	2	(5)	2	
Government non-U.S.	31		(2)	9	15	(19)	34	
U.S. corporate	2,734	9	170	(163)	764	(1,994)	1,520	10
Corporate non-U.S.	1,560	(26)	211	85	696	(1,494)	1,032	(29)
Residential mortgage-backed	1,957	(421)	364	(205)	905	(941)	1,659	(391)
Commercial mortgage-backed	3,219	(44)	337	(140)	1,008	(751)	3,629	(45)
Other asset-backed	1,034	(23)	285	(355)	982	(908)	1,015	(18)
Total fixed maturity securities	10,560	(505)	1,327	(751)	4,766	(6,501)	8,896	(473)
Equity securities	60		1	1		(2)	60	
Other invested assets:								
Trading securities	125	17		(15)	54	(32)	149	16
Derivative assets	933	(508)		(175)	22		272	(486)
Total other invested assets	1,058	(491)		(190)	76	(32)	421	(470)
Reinsurance recoverable	18	(18)						(18)
Total Level 3 assets	$ 11,696	$ (1,014)	$ 1,328	$ (940)	$ 4,842	$ (6,535)	$ 9,377	$ (961)

	Beginning balance as of January 1, 2008	Total realized and unrealized gains (losses) Included in net income (loss)	Included in OCI	Purchases, sales issuances and settlements, net	Transfer in Level 3	Transfer out of Level 3	Ending balance as of September 30, 2008	Total gains (losses) included in net income (loss) attributable to assets still held
Fixed maturity securities	$ 4,794	$ (754)	$ (431)	$ (264)	$ 5,171	$ (2,695)	$ 5,821	$ (748)
Equity securities	30	1		(8)	29	(3)	49	

Other invested assets [1]	319	74		31	12	(28)	408	63
Total Level 3 assets	$ 5,143	$ (679)	$ (431)	$ (241)	$ 5,212	$ (2,726)	$ 6,278	$ (685)

[1] Includes certain trading securities and derivatives.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

		Total realized and unrealized (gains) losses						
	Beginning balance as of July 1, 2009	Included in net (income) loss	Included in OCI	Purchases, sales issuances and settlements, net	Transfer in Level 3	Transfer out of Level 3	Ending balance as of September 30, 2009	Total (gains) losses included in net (income) loss attributable to liabilities still held
Policyholder account balances [1]	$ 435	$ (135)	$	$ 8	$	$	$ 308	$ (133)
Other liabilities [2]	161	(57)					104	(57)
Total Level 3 liabilities	$ 596	$ (192)	$	$ 8	$	$	$ 412	$ (190)

(1) Represents embedded derivatives associated with our GMWB liabilities.
(2) Represents derivatives.

		Total realized and unrealized (gains) losses						
	Beginning balance as of July 1, 2008	Included in net (income) loss	Included in OCI	Purchases, sales issuances and settlements, net	Transfer in Level 3	Transfer out of Level 3	Ending balance as of September 30, 2008	Total (gains) losses included in net (income) loss attributable to liabilities still held
Policyholder account balances [1]	$ 78	$ 192	$	$ 5	$	$	$ 275	$ 193
Other liabilities [2]		3					3	3
Total Level 3 liabilities	$ 78	$ 195	$	$ 5	$	$	$ 278	$ 196

(1) Represents embedded derivatives associated with our GMWB liabilities.
(2) Represents derivatives.

	Beginning balance	Total realized and unrealized (gains)	Purchases, sales	Transfer in Level 3	Transfer out of	Ending balance	Total (gains) losses

	as of January 1, 2009 [3]	losses Included in net (income) loss	Included in OCI	issuances and settlements, net		Level 3	as of September 30, 2009	included in net (income) loss attributable to liabilities still held
Policyholder account balances [1]	$ 878	$ (592)	$	$ 22	$	$	$ 308	$ (579)
Other liabilities [2]	68	85		(49)			104	53
Total Level 3 liabilities	$ 946	$ (507)	$	$ (27)	$	$	$ 412	$ (526)

(1) Represents embedded derivatives associated with our GMWB liabilities.
(2) Represents derivatives.
(3) The policyholder account balances as of January 1, 2009 have been revised to exclude the impact of reinsurance.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	Beginning balance as of January 1, 2008	Total realized and unrealized (gains) losses: Included in net (income) loss	Total realized and unrealized (gains) losses: Included in OCI	Purchases, sales issuances and settlements, net	Transfer in Level 3	Transfer out of Level 3	Ending balance as of September 30, 2008	Total (gains) losses included in net (income) loss attributable to liabilities still held
Policyholder account balances [1]	$ 34	$ 230	$	$ 11	$	$	$ 275	$ 232
Other liabilities [2]		3					3	3
Total Level 3 liabilities	$ 34	$ 233	$	$ 11	$	$	$ 278	$ 235

(1) Represents embedded derivatives associated with our GMWB liabilities.

(2) Represents derivatives.

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

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

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

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

Non-Recurring Fair Value Measurements

We hold investments in bank loans that are recorded at the lower of cost or fair value and are recorded in other invested assets. As of September 30, 2009, no bank loans were recorded at fair value as cost was lower than their respective fair values. As of December 31, 2008, we recorded $78 million of bank loans at fair value which was lower than their respective cost. In the three and nine months ended September 30, 2009, there were no fair value loss adjustments. In the three and nine months ended September 30, 2008, we recorded $5 million and $8 million, respectively, of fair value loss adjustments which were included in net investment gains (losses) in the condensed consolidated statements of income. Fair value for bank loans is determined using inputs based on market observable information and is classified as Level 2.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(7) Commitments and Contingencies

(a) Litigation

We face the risk of litigation and regulatory investigations and actions in the ordinary course of operating our businesses, including class action lawsuits. Our pending legal and regulatory actions include proceedings specific to us and others generally applicable to business practices in the industries in which we operate. Plaintiffs in class action and other lawsuits against us may seek indeterminate amounts which may remain unknown for substantial periods of time. A substantial legal liability or a significant regulatory action against us could have an adverse effect on our financial condition and results of operations. Moreover, even if we ultimately prevail in the litigation, regulatory action or investigation, we could suffer reputational harm, which could have an adverse effect on our business, financial condition or results of operations. At this time, it is not feasible to predict, nor to determine the ultimate outcomes of all pending investigations and legal proceedings, nor to provide reasonable ranges of potential losses.

As previously reported, one of our subsidiaries had been named along with several other GIC industry participants as a defendant in several class action and non-class action lawsuits alleging antitrust and other violations involving the sale of GICs to municipalities. However, plaintiffs in these actions recently amended their complaints and those amended complaints do not presently name any Genworth subsidiary as a defendant.

As previously reported, one of our U.S. mortgage insurance subsidiaries was involved in an arbitration proceeding with a lender regarding five bulk transactions (reflecting approximately $531 million of original risk in-force) that, until their rescission by our insurance subsidiary in December 2008, had insured certain of such lender s payment option adjustable rate (POA) loans. On September 8, 2009, the parties settled the arbitration. The settlement resolved prior claims, or pending and anticipated future unpaid claims for coverage benefits under the policies for the POA loans, and the lender s bad faith counterclaims. The parties mutually released each other and their affiliates to end all disputes or potential disputes that were raised or could have been raised in the arbitration. After giving effect to the premiums retained, settlement payments and other consideration exchanged by the parties, we made an additional provision for our obligations under the settlement in the amount of $62 million, net of tax.

As previously reported, one of our insurance subsidiaries was named as a defendant in a lawsuit captioned *Peisner v. Genworth Life Insurance Company*, United States District Court for the Central District of California. The complaint was filed in May 2009 as a putative class action on behalf of California residents who purchased certain long-term care insurance policies issued by our insurance subsidiary. The plaintiff alleges that our insurance subsidiary breached express and implied contract terms, and violated California statutory requirements for fair and lawful business practices, by securing a rate increase on certain long-term care insurance policies. The plaintiff does not specify the amount of damages he seeks to recover. We intend to vigorously defend this action but cannot predict its outcome. Our insurance subsidiary has filed a motion with the court to dismiss the complaint on various grounds.

As previously reported, the U.K. antitrust authorities are conducting a review of the payment protection insurance sector and in January 2009, the antitrust authorities issued their final report that included the remedies to address the antitrust issues identified in their findings. The remedies included prohibitions on the sale of single premium payment protection insurance products, or the sale of payment protection products within seven days of the sale of the underlying credit product unless the consumer contacts the distributor after 24 hours of sale of the credit product, as well as additional informational remedies. Though it was previously anticipated that the remedies would be implemented during 2010, this is subject to the outcome of a recent appeal being brought against key elements of the findings by a large U.K. retail bank.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(b) Commitments

As of September 30, 2009, we were committed to fund $277 million in limited partnership investments.

(8) Borrowings and Other Financings

Commercial Paper Facility

We have a $1.0 billion commercial paper program whereby notes are offered pursuant to an exemption from registration under the Securities Act of 1933 and may have a maturity of up to 364 days from the date of issue. However, during the second half of 2008, the unfavorable liquidity environment impacted our ability to issue commercial paper and the downgrade of our holding company resulted in us being ineligible to participate in the Federal Reserve s Commercial Paper Funding Facility (CPFF) which went into effect in October 2008. The $203 million of outstanding commercial paper as of December 31, 2008 was held by CPFF until maturity and was fully repaid in February 2009. In the current market environment, we do not anticipate issuing commercial paper.

Revolving Credit Facilities

We have a $1.0 billion five-year revolving credit facility that matures in May 2012 and a $1.0 billion five-year revolving credit facility that matures in August 2012. These facilities bear variable interest rates based on one-month London Interbank Offered Rate (LIBOR) plus a margin. Lehman Commercial Paper Inc. (LCP) had committed $70 million under the August 2012 credit facility and Lehman Brothers Bank, FSB (Lehman FSB) had committed $70 million under the May 2012 credit facility. On October 5, 2008, LCP filed for protection under Chapter 11 of the Federal Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. LCP was unable to fulfill its commitments under the August 2012 credit facility and Lehman FSB declined to fulfill its commitment under the May 2012 credit facility. Therefore, we only have access to $1.9 billion under these facilities.

As of September 30, 2009 and December 31, 2008, we had borrowings of $930 million under these facilities. As of September 30, 2009, we utilized $107 million under these facilities primarily for the issuance of letters of credit for the benefit of one of our life insurance subsidiaries. As of December 31, 2008, we utilized $184 million under these facilities primarily for the issuance of letters of credit for the benefit of one of our U.S. mortgage insurance subsidiaries.

Long-Term Senior Notes

During the third quarter of 2009, we repurchased principal of $73 million of our 5.65% senior notes that mature in June 2012, plus accrued interest. During the second quarter of 2009, we repaid principal of $329 million of our 5.23% senior notes that matured in May 2009, plus accrued interest. During the first quarter of 2009, we repurchased principal of $79 million of our 4.75% senior notes, plus accrued interest. During the second quarter of 2009, we repaid the remaining principal of $331 million of our 4.75% senior notes that matured in June 2009, plus accrued interest. We have no additional long-term senior notes maturing until mid-2011.

Non-Recourse Funding Obligations

As of September 30, 2009 and December 31, 2008, we had $3.4 billion of fixed and floating rate non-recourse funding obligations outstanding backing additional statutory reserves. Of these obligations, $1.7 billion were guaranteed by third-party financial guaranty insurance companies and the interest rates on these

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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obligations are subject to rate resets triggered by negative rating agency actions on the third-party financial guaranty insurance companies that guarantee these obligations. During 2008, the rates on those $1.7 billion of non-recourse funding obligations were contractually reset to the highest margin to the related underlying index rates.

On March 25, 2009, River Lake Insurance Company IV Limited, our wholly-owned subsidiary, repaid $12 million of its total outstanding $40 million Class B Floating Rate Subordinated Notes due May 25, 2028 following an early redemption event, in accordance with the priority of payments.

As of September 30, 2009 and December 31, 2008, the weighted-average interest rates on our non-recourse funding obligations were 1.41% and 3.76%, respectively, reflecting the decline in the underlying index rate.

(9) Income Taxes

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

	Three months ended September 30,				Nine months ended September 30,			
(Amounts in millions)	**2009**		**2008**		**2009**		**2008**	
Pre-tax loss	$ (7)		$ (496)		$ (894)		$ (510)	
Statutory U.S. federal income tax rate	$ (2)	35.0%	$ (174)	35.0%	$ (313)	35.0%	$ (179)	35.0%
Increase (reduction) in rate resulting from:								
State income tax, net of federal income tax effect		1.4	(4)	0.8	(2)	0.2	(4)	0.8
Benefit on tax favored investments	(15)	214.5	(33)	6.7	(49)	5.5	(29)	5.7
Effect of foreign operations	(10)	141.5	(37)	7.4	(40)	4.4	(43)	8.4
Interest on uncertain tax positions	(10)	138.8	(2)	0.4	(7)	0.8	(16)	3.1