GENWORTH FINANCIAL INC
Form 10-Q
July 30, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from to

Commission file number 001-32195

GENWORTH FINANCIAL, INC.

(Exact Name of Registrant as Specified in its Charter)

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

(804) 281-6000

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

At July 26, 2010, 489,335,077 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 June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenues:				
Premiums	$ 1,470	$ 1,502	$ 2,940	$ 3,004
Net investment income	823	781	1,588	1,492
Net investment gains (losses)	(139)	(53)	(209)	(823)
Insurance and investment product fees and other	256	253	512	544
Total revenues	2,410	2,483	4,831	4,217
Benefits and expenses:				
Benefits and other changes in policy reserves	1,340	1,492	2,655	3,000
Interest credited	211	263	424	538
Acquisition and operating expenses, net of deferrals	499	456	974	897
Amortization of deferred acquisition costs and intangibles	179	212	363	459
Interest expense	109	114	224	210
Total benefits and expenses	2,338	2,537	4,640	5,104
Income (loss) before income taxes	72	(54)	191	(887)
Benefit for income taxes	(5)	(4)	(98)	(368)
Net income (loss)	77	(50)	289	(519)
Less: net income attributable to noncontrolling interests	35		69	
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ 42	$ (50)	$ 220	$ (519)
Net income (loss) available to Genworth Financial, Inc. s common stockholders per common share:				
Basic	$ 0.09	$ (0.11)	$ 0.45	$ (1.20)
Diluted	$ 0.08	$ (0.11)	$ 0.45	$ (1.20)
Weighted-average common shares outstanding:				
Basic	489.1	433.2	489.0	433.2
Diluted	494.2	433.2	493.9	433.2
Supplemental disclosures:				

Total other-than-temporary impairments	$ (24)	$ (476)	$ (101)	$ (1,073)
Portion of other-than-temporary impairments included in other comprehensive income (loss)	(27)	324	(30)	324
Net other-than-temporary impairments	(51)	(152)	(131)	(749)
Other investment gains (losses)	(88)	99	(78)	(74)
Total net investment gains (losses)	$ (139)	$ (53)	$ (209)	$ (823)

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)

	June 30, 2010 (Unaudited)	December 31, 2009
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	$ 53,386	$ 49,752
Equity securities available-for-sale, at fair value	199	159
Commercial mortgage loans	7,208	7,499
Restricted commercial mortgage loans related to securitization entities	535	
Policy loans	1,467	1,403
Other invested assets	4,042	4,702
Restricted other invested assets related to securitization entities ($373 at fair value)	374	
Total investments	67,211	63,515
Cash and cash equivalents	4,586	5,002
Accrued investment income	696	691
Deferred acquisition costs	7,170	7,341
Intangible assets	789	934
Goodwill	1,313	1,324
Reinsurance recoverable	17,279	17,332
Other assets	1,024	954
Deferred tax asset		92
Separate account assets	10,284	11,002
Total assets	$ 110,352	$ 108,187
Liabilities and stockholders equity		
Liabilities:		
Future policy benefits	$ 29,929	$ 29,469
Policyholder account balances	28,338	28,470
Liability for policy and contract claims	6,302	6,567
Unearned premiums	4,238	4,714
Other liabilities ($183 and $ other liabilities related to securitization entities)	6,287	6,298
Borrowings related to securitization entities ($51 at fair value)	525	
Non-recourse funding obligations	3,437	3,443
Short-term borrowings	730	930
Long-term borrowings	4,331	3,641
Deferred tax liability	904	303
Separate account liabilities	10,284	11,002
Total liabilities	95,305	94,837
Commitments and contingencies		
Stockholders equity:		
Class A common stock, $0.001 par value; 1.5 billion shares authorized; 578 million and 577 million shares issued as of June 30, 2010 and December 31, 2009, respectively; 489 million shares outstanding as of June 30, 2010 and December 31, 2009	1	1
Additional paid-in capital	12,078	12,034
Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	208	(1,151)

Net unrealized gains (losses) on other-than-temporarily impaired securities	(179)	(247)
Net unrealized investment gains (losses)	29	(1,398)
Derivatives qualifying as hedges	1,162	802
Foreign currency translation and other adjustments	140	432
Total accumulated other comprehensive income (loss)	1,331	(164)
Retained earnings	3,221	3,105
Treasury stock, at cost (88 million shares as of June 30, 2010 and December 31, 2009)	(2,700)	(2,700)
Total Genworth Financial, Inc. s stockholders equity	13,931	12,276
Noncontrolling interests	1,116	1,074
Total stockholders equity	15,047	13,350
Total liabilities and stockholders equity	$ 110,352	$ 108,187

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Amounts in millions)

(Unaudited)

	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury stock, at cost	Total Genworth Financial, Inc. s stockholders equity	Noncontrolling interests	Total stockholders equity
Balances as of December 31, 2009	$ 1	$ 12,034	$ (164)	$ 3,105	$ (2,700)	$ 12,276	$ 1,074	$ 13,350
Cumulative effect of change in accounting, net of taxes and other adjustments			91	(104)		(13)		(13)
Comprehensive income (loss):								
Net income (loss)				220		220	69	289
Net unrealized gains (losses) on securities not other-than-temporarily impaired			1,268			1,268	9	1,277
Net unrealized gains (losses) on other-than-temporarily impaired securities			68			68		68
Derivatives qualifying as hedges			360			360		360
Foreign currency translation and other adjustments			(292)			(292)	(15)	(307)
Total comprehensive income (loss)								1,687
Dividends to noncontrolling interests							(21)	(21)
Stock-based compensation expense and exercises and other		24				24		24
Other capital transactions		20				20		20
Balances as of June 30, 2010	$ 1	$ 12,078	$ 1,331	$ 3,221	$ (2,700)	$ 13,931	$ 1,116	$ 15,047

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (CONTINUED)

(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, 2008	$ 1	$ 11,477	$ (3,062)	$ 3,210	$ (2,700)	$ 8,926
Cumulative effect of change in accounting, net of taxes and other adjustments			(349)	355		6
Comprehensive income (loss):						
Net income (loss)				(519)		(519)
Net unrealized gains (losses) on securities not other-than-temporarily impaired			1,378			1,378
Net unrealized gains (losses) on other-than-temporarily impaired securities			(14)			(14)
Derivatives qualifying as hedges			(213)			(213)
Foreign currency translation and other adjustments			391			391
Total comprehensive income (loss)						1,023
Stock-based compensation expense and exercises and other		15				15
Balances as of June 30, 2009	$ 1	$ 11,492	$ (1,869)	$ 3,046	$ (2,700)	$ 9,970

See Notes to Condensed Consolidated Financial Statements

GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Six months ended June 30,	
	2010	**2009**
Cash flows from operating activities:		
Net income (loss)	$ 289	$ (519)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Amortization of fixed maturity discounts and premiums	5	106
Net investment losses (gains)	209	823
Charges assessed to policyholders	(233)	(211)
Acquisition costs deferred	(392)	(368)
Amortization of deferred acquisition costs and intangibles	363	459
Deferred income taxes	(173)	(591)
Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments	119	116
Stock-based compensation expense	23	15
Change in certain assets and liabilities:		
Accrued investment income and other assets	24	30
Insurance reserves	1,208	1,520
Current tax liabilities	(211)	197
Other liabilities and other policy-related balances	(674)	(208)
Net cash from operating activities	557	1,369
Cash flows from investing activities:		
Proceeds from maturities and repayments of investments:		
Fixed maturity securities	2,057	1,892
Commercial mortgage loans	263	381
Restricted commercial mortgage loans related to securitization entities	27	
Proceeds from sales of investments:		
Fixed maturity and equity securities	2,393	1,663
Purchases and originations of investments:		
Fixed maturity and equity securities	(6,867)	(2,700)
Commercial mortgage loans	(23)	
Other invested assets, net	1,491	(348)
Policy loans, net	(64)	(253)
Net cash from investing activities	(723)	635
Cash flows from financing activities:		
Deposits to universal life and investment contracts	1,174	1,271
Withdrawals from universal life and investment contracts	(1,734)	(4,231)
Short-term borrowings and other, net	(285)	(330)
Repayment and repurchase of long-term borrowings		(739)
Proceeds from the issuance of long-term borrowings	660	
Redemption of non-recourse funding obligations	(6)	(12)
Repayment of borrowings related to securitization entities	(31)	
Dividends paid to noncontrolling interests	(21)	

Net cash from financing activities	(243)	(4,041)
Effect of exchange rate changes on cash and cash equivalents	(7)	83
Net change in cash and cash equivalents	(416)	(1,954)
Cash and cash equivalents at beginning of period	5,002	7,328
Cash and cash equivalents at end of period	$ 4,586	$ 5,374

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 interest or where we are the primary beneficiary of a variable interest entity, which we refer to as the Company, we, us or our unless the context otherwise requires. All intercompany accounts and transactions have been eliminated in consolidation.

We have the following three operating segments:

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

International. We offer mortgage and lifestyle protection insurance products and related services in multiple markets. We are a leading provider of mortgage insurance products in Canada, Australia, Mexico and multiple European countries. Our products predominantly insure prime-based, individually underwritten residential mortgage loans, also known as flow mortgage insurance. On a limited basis, we also provide mortgage insurance on a structured, or bulk, basis that aids in the sale of mortgages to the capital markets and helps lenders manage capital and risk. Additionally, we offer services, analytical tools and technology that enable lenders to operate efficiently and manage risk. We are a leading provider of payment protection coverages 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 and non-strategic products that are managed outside of our operating segments. Our non-strategic products include our institutional and corporate-owned life insurance products. Institutional products consist of funding agreements, funding agreements backing notes (FABNs) and guaranteed investment contracts (GICs).

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and rules and regulations of the U.S. Securities and Exchange Commission (SEC). Preparing financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. These condensed consolidated financial statements include all adjustments considered necessary by management to present a fair statement of the financial position, results of operations and cash flows for the periods presented. The results reported in these condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

year. The condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and related notes contained in our 2009 Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) Accounting Pronouncements

Recently Adopted

Accounting for Transfers of Financial Assets

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

Improvements to Financial Reporting by Enterprises Involved with VIEs

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

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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

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

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

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

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

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

Fair Value Measurements and Disclosures Improving Disclosures about Fair Value Measurements

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

Not Yet Adopted

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

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

In March 2010, the FASB issued new accounting guidance clarifying the scope exception for embedded credit derivatives and when those features would be bifurcated from the host contract. Under the new accounting guidance, only embedded credit derivative features that are in the form of subordination of one financial instrument to another would not be subject to the bifurcation requirements. Accordingly, upon adoption of this new accounting guidance, we are required to bifurcate embedded credit derivatives that no longer qualify under the amended scope exception. In conjunction with our adoption, we elected fair value option for certain fixed maturity securities. This accounting guidance was effective for us on July 1, 2010. The impact upon adoption of this new accounting guidance was approximately $270 million, before taxes and other adjustments, and was recorded as a reduction in retained earnings with a corresponding increase in accumulated other comprehensive income (loss) on July 1, 2010.

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(3) Earnings (Loss) Per Share

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

(Amounts in millions, except per share amounts)	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Net income (loss)	$ 77	$ (50)	$ 289	$ (519)
Less: net income attributable to noncontrolling interests	35		69	
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ 42	$ (50)	$ 220	$ (519)
Basic per common share:				
Net income (loss)	$ 0.16	$ (0.11)	$ 0.59	$ (1.20)
Less: net income attributable to noncontrolling interests	0.07		0.14	
Net income (loss) available to Genworth Financial, Inc. s common stockholders[(1)]	$ 0.09	$ (0.11)	$ 0.45	$ (1.20)
Diluted per common share:				
Net income (loss)	$ 0.16	$ (0.11)	$ 0.59	$ (1.20)
Less: net income attributable to noncontrolling interests	0.07		0.14	
Net income (loss) available to Genworth Financial, Inc. s common stockholders[(1)]	$ 0.08	$ (0.11)	$ 0.45	$ (1.20)
Weighted-average shares used in basic earnings (loss) per common share calculations	489.1	433.2	489.0	433.2
Potentially dilutive securities:				
Stock options, restricted stock units and stock appreciation rights	5.1		4.9	
Weighted-average shares used in diluted earnings (loss) per common share calculations [(2)]	494.2	433.2	493.9	433.2

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

(2) Under applicable accounting guidance, companies in a loss position are required to use basic weighted-average common shares outstanding in the calculation of diluted loss per share. Therefore, as a result of our net loss for the three and six months ended June 30, 2009, we were required to use basic weighted-average common shares outstanding in the calculation of the 2009 diluted loss per share, as the inclusion of shares for stock options, restricted stock units and stock appreciation rights of 1.2 million and 0.6 million, respectively, would have been antidilutive to the calculation. If we had not incurred a net loss for the three and six months ended June 30, 2009, dilutive potential common shares would have been 434.4 million and 433.8 million, respectively.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) Investments

(a) Net Investment Income

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

(Amounts in millions)	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Fixed maturity securities taxable	$ 646	$ 604	$ 1,272	$ 1,227
Fixed maturity securities non-taxable	16	28	32	58
Commercial mortgage loans	99	109	203	223
Restricted commercial mortgage loans related to securitization entities [(1)]	10		20	
Equity securities	5	3	7	6
Other invested assets	39	(7)	37	(106)
Restricted other invested assets related to securitization entities [(1)]			1	
Policy loans	28	52	55	96
Cash, cash equivalents and short-term investments	4	14	9	31
Gross investment income before expenses and fees	847	803	1,636	1,535
Expenses and fees	(24)	(22)	(48)	(43)
Net investment income	$ 823	$ 781	$ 1,588	$ 1,492

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

(b) Net Investment Gains (Losses)

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

(Amounts in millions)	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Available-for-sale securities:				
Realized gains on sale	$ 53	$ 21	$ 76	$ 50
Realized losses on sale	(36)	(48)	(74)	(111)
Impairments:				
Total other-than-temporary impairments	(24)	(476)	(101)	(1,073)
Portion of other-than-temporary impairments recognized in other comprehensive income (loss)	(27)	324	(30)	324

Net other-than-temporary impairments	(51)	(152)	(131)	(749)
Trading securities	(4)	11	2	(1)
Commercial mortgage loans	(18)	(5)	(22)	(11)
Net gains (losses) related to securitization entities [1]	(47)		(36)	
Derivative instruments [2]	(38)	114	(46)	(7)
Other	2	6	22	6
Net investment gains (losses)	$ (139)	$ (53)	$ (209)	$ (823)

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

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The aggregate fair value of securities sold at a loss during the three months ended June 30, 2010 and 2009 was $858 million and $367 million, respectively, which was approximately 96% and 89%, respectively, of book value. The aggregate fair value of securities sold at a loss during the six months ended June 30, 2010 and 2009 was $1,416 million and $737 million, respectively, which was approximately 95% and 87%, respectively, of book value.

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

	As of or for the three months ended June 30,	
(Amounts in millions)	**2010**	**2009**
Cumulative credit loss beginning balance	$ 1,025	$
Impact upon adoption of new accounting guidance		1,204
Additions:		
Other-than-temporary impairments not previously recognized	11	56
Increases related to other-than-temporary impairments previously recognized	32	95
Reductions:		
Securities sold, paid down or disposed	(90)	(270)
Securities where there is intent to sell		
Cumulative credit loss ending balance	$ 978	$ 1,085

	As of or for the six months ended June 30,	
(Amounts in millions)	**2010**	**2009**
Cumulative credit loss beginning balance	$ 1,059	$
Impact upon adoption of new accounting guidance		1,204
Additions:		
Other-than-temporary impairments not previously recognized	31	56
Increases related to other-than-temporary impairments previously recognized	78	95
Reductions:		
Securities sold, paid down or disposed	(190)	(270)
Securities where there is intent to sell		
Cumulative credit loss ending balance	$ 978	$ 1,085

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(c) 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) were as follows as of the dates indicated:

(Amounts in millions)	June 30, 2010	December 31, 2009
Net unrealized gains (losses) on investment securities:		
Fixed maturity securities	$ 296	$ (2,245)
Equity securities	7	20
Other invested assets	(27)	(29)
Subtotal	276	(2,254)
Adjustments to present value of future profits, deferred acquisition costs and sales inducements	(162)	138
Income taxes, net	(37)	757
Net unrealized investment gains (losses)	77	(1,359)
Less: net unrealized investment gains (losses) attributable to noncontrolling interests	48	39
Net unrealized investment gains (losses) attributable to Genworth Financial, Inc.	$ 29	$ (1,398)

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

	As of or for the three months ended June 30,	
(Amounts in millions)	2010	2009
Beginning balance	$ (860)	$ (4,095)
Cumulative effect of change in accounting		(349)
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	1,498	2,261
Adjustment to deferred acquisition costs	(80)	(164)
Adjustment to present value of future profits	(51)	(79)
Adjustment to sales inducements	(10)	1
Provision for income taxes	(480)	(714)
Change in unrealized gains (losses) on investment securities	877	1,305
Reclassification adjustments to net investment (gains) losses, net of taxes of $(11) and $(63)	22	116

Change in net unrealized investment gains (losses)	899	1,072
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	10	
Ending balance	$ 29	$ (3,023)

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Amounts in millions)	As of or for the six months ended June 30, 2010	2009
Beginning balance	$ (1,398)	$ (4,038)
Cumulative effect of change in accounting	91	(349)
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	2,261	1,558
Adjustment to deferred acquisition costs	(193)	(184)
Adjustment to present value of future profits	(81)	(70)
Adjustment to sales inducements	(26)	
Provision for income taxes	(700)	(467)
Change in unrealized gains (losses) on investment securities	1,261	837
Reclassification adjustments to net investment (gains) losses, net of taxes of $(45) and $(284)	84	527
Change in net unrealized investment gains (losses)	1,436	1,015
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	9	
Ending balance	$ 29	$ (3,023)

(d) Fixed Maturity and Equity Securities

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

		Gross unrealized gains		Gross unrealized losses		
(Amounts in millions)	Amortized cost or cost	Not other-than-temporarily impaired	Other-than-temporarily impaired	Not other-than-temporarily impaired	Other-than-temporarily impaired	Fair value
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 3,422	$ 262	$	$	$	$ 3,684
Tax-exempt	1,407	39		(96)		1,350
Government non-U.S.	2,023	126		(3)		2,146
U.S. corporate	22,529	1,332	7	(489)	(1)	23,378
Corporate non-U.S.	12,572	494	12	(279)		12,799
Residential mortgage-backed	4,395	160	8	(347)	(261)	3,955
Commercial mortgage-backed	4,117	152	7	(488)	(62)	3,726
Other asset-backed	2,640	18		(297)	(13)	2,348
Total fixed maturity securities	53,105	2,583	34	(1,999)	(337)	53,386
Equity securities	192	13		(6)		199
Total available-for-sale securities	$ 53,297	$ 2,596	$ 34	$ (2,005)	$ (337)	$ 53,585

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	Less than 12 months			12 months or more		
(Dollar amounts in millions)	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities
Description of Securities						
Fixed maturity securities:						
Tax-exempt	$ 106	$ (3)	33	$ 272	$ (93)	93
Government non-U.S.	69	(1)	30	34	(2)	6
U.S. corporate	1,257	(47)	168	3,596	(443)	304
Corporate non-U.S.	926	(32)	163	1,774	(247)	161
Residential mortgage-backed	291	(5)	76	1,097	(603)	461
Commercial mortgage-backed	79	(4)	11	1,282	(546)	277
Other asset-backed	413	(1)	28	969	(309)	147
Subtotal, fixed maturity securities	3,141	(93)	509	9,024	(2,243)	1,449
Equity securities	51	(5)	41	7	(1)	8
Total for securities in an unrealized loss position	$ 3,192	$ (98)	550	$ 9,031	$ (2,244)	1,457
% Below cost fixed maturity securities:						
<20% Below cost	$ 3,089	$ (71)	469	$ 6,602	$ (515)	763
20-50% Below cost	51	(20)	22	2,069	(1,006)	406
>50% Below cost	1	(2)	18	353	(722)	280
Total fixed maturity securities	3,141	(93)	509	9,024	(2,243)	1,449
% Below cost equity securities:						
<20% Below cost	46	(2)	40	7	(1)	8
20-50% Below cost	5	(3)	1			
Total equity securities	51	(5)	41	7	(1)	8
Total for securities in an unrealized loss position	$ 3,192	$ (98)	550	$ 9,031	$ (2,244)	1,457
Investment grade	$ 2,564	$ (81)	422	$ 7,203	$ (1,386)	959
Below investment grade	628	(17)	128	1,828	(858)	498
Total for securities in an unrealized loss position	$ 3,192	$ (98)	550	$ 9,031	$ (2,244)	1,457

The investment securities in an unrealized loss position as of June 30, 2010 consisted of 2,007 securities and accounted for unrealized losses of $2,342 million. Of these unrealized losses of $2,342 million, 63% were investment grade (rated AAA through BBB-) and 25% were less than 20% below cost. The securities less than 20% below cost were primarily attributable to credit spreads that have widened since acquisition for

certain mortgage-backed and asset-backed securities and corporate securities in the finance and insurance sector. Included in these unrealized losses as of June 30, 2010 was $337 million of unrealized losses on other-than-

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

temporarily impaired securities. Of the total unrealized losses on other-than-temporarily impaired securities, $332 million have been in an unrealized loss position for more than 12 months.

Of the unrealized losses of $2,342 million, $1,468 million were related to structured securities and $552 million were related to corporate securities in the finance and insurance sector. Of the remaining gross unrealized losses of $322 million, $99 million were related to tax-exempt and government non-U.S. securities and $223 million were primarily related to other corporate securities that were spread evenly across all other sectors with no individual sector exceeding $40 million.

Of the $1,468 million unrealized losses in structured securities, 41% were in residential mortgage-backed securities and 37% were in commercial mortgage-backed securities with the remainder in other asset-backed securities. Approximately 54% of the total unrealized losses in structured securities were on securities that have retained investment grade ratings. Most of these securities have been in an unrealized loss position for 12 months or more. Given ongoing concern about the housing market and unemployment, the fair value of these securities has declined due to credit spreads that have widened since acquisition. We examined the performance of the underlying collateral and developed our estimate of cash flows expected to be collected. In doing so, we identified certain securities where the non-credit portion of other-than-temporary impairments was recorded in OCI. Based on this evaluation, we determined that the unrealized losses on our mortgage-backed and asset-backed securities represented temporary impairments as of June 30, 2010.

Of the $552 million unrealized losses in the finance and insurance sector, most have been in an unrealized loss position for 12 months or more. Most of these securities have retained a credit rating of investment grade. A portion of the unrealized losses included securities where an other-than-temporary impairment was recorded in OCI. Given the current market conditions, including current financial industry events and uncertainty around global economic conditions, the fair value of these securities has declined due to credit spreads that have widened since acquisition. In our examination of these securities, we considered all available evidence, including the issuers financial condition and current industry events to develop our conclusion on the amount and timing of the cash flows expected to be collected. Based on this evaluation, we determined that the unrealized losses on these securities represented temporary impairments as of June 30, 2010. A subset of the securities issued by banks and other financial institutions represent investments in financial hybrid securities on which a debt impairment model was employed. Most of these securities retain a credit rating of investment grade. The majority of these securities were issued by foreign financial institutions. The fair value of these securities has been impacted by credit spreads that have widened since acquisition and reflect uncertainty surrounding the extent and duration of government involvement, potential capital restructuring of these institutions, and continued but diminishing risk that income payments may be deferred. The remaining unrealized losses in our U.S. and non-U.S. corporate securities were evenly distributed across all other major industry types that comprise our corporate bond holdings.

Of the investment securities in an unrealized loss position for 12 months or more as of June 30, 2010, 686 securities were 20% or more below cost, of which 357 securities were also below investment grade (rated BB+ and below) and accounted for unrealized losses of $747 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 $260 million was recorded in OCI.

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

GENWORTH FINANCIAL, INC.

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, 2009:

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

Total for securities in an unrealized loss position	$ 8,782	$ (563)	1,110	$ 12,833	$ (2,960)	1,803
Investment grade	$ 8,391	$ (320)	891	$ 10,897	$ (2,122)	1,390
Below investment grade	391	(243)	219	1,936	(838)	413
Total for securities in an unrealized loss position	$ 8,782	$ (563)	1,110	$ 12,833	$ (2,960)	1,803

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

(Amounts in millions)	Amortized cost or cost	Fair value
Due one year or less	$ 2,776	$ 2,801
Due after one year through five years	11,367	11,696
Due after five years through ten years	8,494	8,877
Due after ten years	19,316	19,983
Subtotal	41,953	43,357
Residential mortgage-backed	4,395	3,955
Commercial mortgage-backed	4,117	3,726
Other asset-backed	2,640	2,348
Total	$ 53,105	$ 53,386

As of June 30, 2010, $5,015 million of our investments (excluding mortgage-backed and asset-backed securities) were subject to certain call provisions.

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

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

(e) Commercial Mortgage Loans

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	June 30, 2010		December 31, 2009	
(Amounts in millions)	Carrying value	% of total	Carrying value	% of total
Property Type				
Retail	$ 2,047	28%	$ 2,115	28%
Office	1,971	27	2,025	27
Industrial	1,903	26	1,979	26
Apartments	812	11	832	11
Mixed use/other	540	8	590	8
Total principal balance	7,273	100%	7,541	100%
Unamortized balance of loan origination fees and costs	5		6	
Allowance for losses [(1)]	(70)		(48)	
Total [(2)]	$ 7,208		$ 7,499	

(1) Included $13 million related to held-for-sale commercial mortgage loans as of June 30, 2010.

(2) Included held-for-sale mortgage loans of $37 million and $17 million as of June 30, 2010 and December 31, 2009, respectively. The held-for-sale mortgage loans as of December 31, 2009 represented interests in reverse mortgage loans. In the first quarter of 2010, we began reporting held-for-sale reverse mortgages in other invested assets.

	June 30, 2010		December 31, 2009	
(Amounts in millions)	Carrying value	% of total	Carrying value	% of total
Geographic Region				
Pacific	$ 1,937	27%	$ 2,005	27%
South Atlantic	1,660	23	1,711	23
Middle Atlantic	974	13	1,005	13
East North Central	701	10	728	10
Mountain	624	8	650	9
New England	491	7	492	6
West North Central	378	5	389	5
West South Central	314	4	331	4
East South Central	194	3	230	3
Total principal balance	7,273	100%	7,541	100%
Unamortized balance of loan origination fees and costs	5		6	

Allowance for losses [1]	(70)	(48)
Total [2]	$ 7,208	$ 7,499

(1) Included $13 million related to held-for-sale commercial mortgage loans as of June 30, 2010.

(2) Included held-for-sale mortgage loans of $37 million and $17 million as of June 30, 2010 and December 31, 2009, respectively. The held-for-sale mortgage loans as of December 31, 2009 represented interests in reverse mortgage loans. In the first quarter of 2010, we began reporting held-for-sale reverse mortgages in other invested assets.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

Under these principles, we may have two types of impaired loans: loans requiring specific allowances for losses ($5 million for the six months ended June 30, 2010 and $21 million for the year ended December 31, 2009) and loans expected to be fully recoverable because the carrying amount has been reduced previously through charge-offs or deferral of income recognition (none for the six months ended June 30, 2010 and for the year ended December 31, 2009).

Average investment in specifically impaired loans was $3 million and $10 million as of June 30, 2010 and December 31, 2009, respectively, and there was no interest income recognized on these loans while they were considered impaired.

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

(Amounts in millions)	Three months ended June 30, 2010	Six months ended June 30, 2010
Beginning balance	$ 52	$ 48
Provision [1]	18	22
Release		
Ending balance	$ 70	$ 70

[1] Included $13 million related to held-for-sale commercial mortgage loans.

(f) Restricted Commercial Mortgage Loans Related To Securitization Entities

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

(Amounts in millions)	June 30, 2010	
	Carrying value	% of total
Property Type		
Retail	$ 195	37%
Industrial	131	24
Office	122	23
Apartments	66	12
Mixed use/other	23	4
Total principal balance	537	100%

Allowance for losses	(2)
Total	$ 535

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Amounts in millions)	June 30, 2010 Carrying value	% of total
Geographic Region		
South Atlantic	$ 197	37%
Pacific	95	18
Middle Atlantic	72	13
East North Central	57	11
Mountain	36	7
East South Central	33	6
West North Central	33	6
West South Central	13	2
New England	1	
Total principal balance	537	100%
Allowance for losses	(2)	
Total	$ 535	

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

(g) Restricted Other Invested Assets Related To Securitization Entities

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

(5) Derivative Instruments

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	Derivative assets			Derivative liabilities		
	Balance sheet classification	Fair value		Balance sheet classification	Fair value	
(Amounts in millions)		**June 30, 2010**	**December 31, 2009**		**June 30, 2010**	**December 31, 2009**
Derivatives designated as hedges						
Cash flow hedges:						
Interest rate swaps	Other invested assets	$ 540	$ 72	Other liabilities	$ 9	$ 114
Inflation indexed swaps	Other invested assets	1		Other liabilities	22	21
Foreign currency swaps	Other invested assets	140	101	Other liabilities		
Total cash flow hedges		681	173		31	135
Fair value hedges:						
Interest rate swaps	Other invested assets	124	132	Other liabilities	11	15
Foreign currency swaps	Other invested assets	20	24	Other liabilities		
Total fair value hedges		144	156		11	15
Total derivatives designated as hedges		825	329		42	150
Derivatives not designated as hedges						
Interest rate swaps	Other invested assets	509	505	Other liabilities	41	59
Interest rate swaps related to securitization entities [1]	Restricted other invested assets			Other liabilities	23	
Interest rate swaptions	Other invested assets	4	54	Other liabilities		67
Credit default swaps	Other invested assets	2	11	Other liabilities	27	3
Credit default swaps related to securitization entities [1]	Restricted other invested assets			Other liabilities	159	
Equity index options	Other invested assets	97	39	Other liabilities		2
Financial futures	Other invested assets			Other liabilities		
Other foreign currency contracts	Other invested assets	6	8	Other liabilities		
Reinsurance embedded derivatives [2]	Other assets	2		Other liabilities		
GMWB embedded derivatives	Reinsurance recoverable [3]	9	(5)	Policyholder account	447	175

			balances [4]	
Total derivatives not designated as hedges	629	612	697	306
Total derivatives	$ 1,454	$ 941	$ 739	$ 456

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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

(Notional in millions)	Measurement	December 31, 2009	Additions	Maturities/ terminations	June 30, 2010
Derivatives designated as hedges					
Cash flow hedges:					
Interest rate swaps	Notional	$ 9,479	$ 1,382	$ (206)	$ 10,655
Inflation indexed swaps	Notional	376	157	(6)	527
Foreign currency swaps	Notional	491			491
Total cash flow hedges		10,346	1,539	(212)	11,673
Fair value hedges:					
Interest rate swaps	Notional	2,366		(139)	2,227
Foreign currency swaps	Notional	85			85
Total fair value hedges		2,451		(139)	2,312
Total derivatives designated as hedges		12,797	1,539	(351)	13,985
Derivatives not designated as hedges					
Interest rate swaps	Notional	6,474	2,345	(577)	8,242
Interest rate swaps related to securitization entities	Notional		138	(3)	135
Interest rate swaptions	Notional	5,100	200	(5,100)	200
Credit default swaps	Notional	1,090	50		1,140
Credit default swaps related to securitization entities	Notional		322	(5)	317
Equity index options	Notional	912	397	(614)	695
Financial futures	Notional	5,822	3,696	(5,019)	4,499
Other foreign currency contracts	Notional	521	73		594
Reinsurance embedded derivatives	Notional		47		47
Total derivatives not designated as hedges		19,919	7,268	(11,318)	15,869
Total derivatives		$ 32,716	$ 8,807	$ (11,669)	$ 29,854

(Number of policies)	Measurement	December 31, 2009	Additions	Terminations	June 30, 2010
Derivatives not designated as hedges					
GMWB embedded derivatives	Policies	47,543	2,244	(1,445)	48,342

Approximately $1.1 billion of notional value above is related to derivatives with counterparties that can be terminated at the option of the derivative counterparty and represented a net fair value asset of $148 million as of June 30, 2010.

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 June 30, 2010:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [1]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ 599	$ 4	Net investment income	$ 15	Net investment gains (losses)
Interest rate swaps hedging liabilities	(3)	1	Interest expense		Net investment gains (losses)
Foreign currency swaps	6	(2)	Interest expense		Net investment gains (losses)
Total	$ 602	$ 3		$ 15	

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

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

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [1]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ (177)	$ 3	Net investment income	$ (4)	Net investment gains (losses)
Interest rate swaps hedging assets		2	Net investment gains (losses)		Net investment gains (losses)
Foreign currency swaps	(1)	(5)	Interest expense		Net investment

						gains (losses)
Total	$	(178)	$		$	(4)

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [1]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ 563	$ 8	Net investment income	$ 12	Net investment gains (losses)
Interest rate swaps hedging assets		1	Net investment gains (losses)		Net investment gains (losses)
Interest rate swaps hedging liabilities	(3)	1	Interest expense		Net investment gains (losses)
Foreign currency swaps	7	(4)	Interest expense		Net investment gains (losses)
Total	$ 567	$ 6		$ 12	

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

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

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [1]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ (322)	$ 8	Net investment income	$ (10)	Net investment gains (losses)
Interest rate swaps hedging assets		5	Net investment gains (losses)		Net investment gains (losses)
Foreign currency swaps	(13)	(8)	Interest expense		Net investment gains (losses)
Total	$ (335)	$ 5		$ (10)	

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

The total of derivatives designated as cash flow hedges of $1.2 billion, net of taxes, recorded in stockholders equity as of June 30, 2010 is expected to be reclassified to future net income (loss), concurrently with and primarily offsetting changes in interest expense and interest income on floating-rate instruments and interest income on future fixed-rate bond purchases. Of this amount, $8 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 six months ended June 30, 2010 in connection with forecasted transactions that were no longer considered probable of occurring.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Fair Value Hedges

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

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

	Derivative instrument				Hedged item	
(Amounts in millions)	**Gain (loss) recognized in net income (loss)**	**Classification of gain (loss) recognized in net income (loss)**	**Other impacts to net income (loss)**	**Classification of other impacts to net income (loss)**	**Gain (loss) recognized in net income (loss)**	**Classification of gain (loss) recognized in net income (loss)**
Interest rate swaps hedging assets	$ 1	Net investment gains (losses)	$ (3)	Net investment income	$ (1)	Net investment gains (losses)
Interest rate swaps hedging liabilities	(6)	Net investment gains (losses)	25	Interest credited	6	Net investment gains (losses)
Foreign currency swaps	(2)	Net investment gains (losses)	1	Interest credited	2	Net investment gains (losses)
Total	$ (7)		$ 23		$ 7	

The following table provides information about the pre-tax income (loss) effects of fair value hedges and related hedged items for the three months ended June 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	$ 4	Net investment gains (losses)	$ (4)	Net investment income	$ (6)	Net investment gains (losses)
Interest rate swaps hedging liabilities	(50)	Net investment gains (losses)	23	Interest credited	51	Net investment gains (losses)

Foreign currency swaps	(2)	Net investment gains (losses)		Interest credited	1	Net investment gains (losses)
Total	$ (48)		$ 19		$ 46	

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 six months ended June 30, 2010:

	Derivative instrument				Hedged item	
(Amounts in millions)	Gain (loss) recognized in net income (loss)	Classification of gain (loss) recognized in net income (loss)	Other impacts to net income (loss)	Classification of other impacts to net income (loss)	Gain (loss) recognized in net income (loss)	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ 2	Net investment gains (losses)	$ (6)	Net investment income	$ (2)	Net investment gains (losses)
Interest rate swaps hedging liabilities	(7)	Net investment gains (losses)	50	Interest credited	7	Net investment gains (losses)
Foreign currency swaps	(4)	Net investment gains (losses)	2	Interest credited	4	Net investment gains (losses)
Total	$ (9)		$ 46		$ 9	

The following table provides information about the pre-tax income (loss) effects of fair value hedges and related hedged items for the six months ended June 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	$ 6	Net investment gains (losses)	$ (8)	Net investment income	$ (10)	Net investment gains (losses)
Interest rate swaps hedging liabilities	(59)	Net investment gains (losses)	42	Interest credited	62	Net investment gains (losses)
Foreign currency swaps	(13)	Net investment gains (losses)	1	Interest credited	11	Net investment gains (losses)
Total	$ (66)		$ 35		$ 63	

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

Derivatives Not Designated As Hedges

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

products that are required to be bifurcated as embedded derivatives and have reinsurance agreements with certain features that are required to be bifurcated as embedded derivatives.

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

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

(Amounts in millions)	Three months ended June 30, 2010	2009	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps	$ 63	$ 164	Net investment gains (losses)
Interest rate swaps related to securitization entities [1]	(9)		Net investment gains (losses)
Interest rate swaptions	35	(338)	Net investment gains (losses)
Credit default swaps	(32)	35	Net investment gains (losses)
Credit default swaps related to securitization entities [1]	(46)		Net investment gains (losses)
Equity index options	50	(71)	Net investment gains (losses)
Financial futures	105	(163)	Net investment gains (losses)
Inflation indexed swaps		4	Net investment gains (losses)
Other foreign currency contracts	2	8	Net investment gains (losses)
Reinsurance embedded derivatives	2		Net investment gains (losses)
GMWB embedded derivatives	(278)	479	Net investment gains (losses)
Total derivatives not designated as hedges	$ (108)	$ 118	

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

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)	Six months ended June 30, 2010	2009	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps	$ 57	$ 246	Net investment gains (losses)
Interest rate swaps related to securitization entities [1]	(12)		Net investment gains (losses)
Interest rate swaptions	57	(579)	Net investment gains (losses)
Credit default swaps	(27)	21	Net investment gains (losses)
Credit default swaps related to securitization entities [1]	(41)		Net investment gains (losses)
Equity index options	23	(55)	Net investment gains (losses)
Financial futures	72	(84)	Net investment gains (losses)
Inflation indexed swaps		(4)	Net investment gains (losses)
Foreign currency swaps		6	Net investment gains (losses)
Other foreign currency contracts	(1)	10	Net investment gains (losses)
Reinsurance embedded derivatives	2		Net investment gains (losses)
GMWB embedded derivatives	(242)	440	Net investment gains (losses)
Total derivatives not designated as hedges	$ (112)	$ 1	

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

Derivative Counterparty Credit Risk

As of June 30, 2010 and December 31, 2009, net fair value assets by counterparty totaled $1.3 billion and $739 million, respectively. As of June 30, 2010 and December 31, 2009, net fair value liabilities by counterparty totaled $192 million and $74 million, respectively. As of June 30, 2010 and December 31, 2009, we retained collateral of $1.1 billion and $647 million, respectively, related to these agreements, including over collateralization of $6 million and $10 million, respectively, from certain counterparties. As of June 30, 2010 and December 31, 2009, we posted $12 million and $121 million, respectively, of collateral to derivative counterparties, including over collateralization of $3 million and $46 million, respectively. For derivatives related to securitization entities, there are no arrangements that require either party to provide collateral and the recourse of the derivative counterparty is typically limited to the assets held by the securitization entity and there is no recourse to any entity other than the securitization entity.

Except for derivatives related to securitization entities, all of our master swap agreements contain credit downgrade provisions that allow either party to assign or terminate derivative transactions if the other party s long-term unsecured debt rating or financial strength rating is below the limit defined in the applicable agreement. If the downgrade provisions had been triggered as of June 30, 2010 and December 31, 2009, we could have been allowed to claim up to $292 million and $102 million, respectively, from counterparties and required to disburse up to $1 million in both periods. This represented the net fair value of gains and losses by counterparty, less available collateral held, and did not include any fair value gains or losses for derivatives related to securitization entities.

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(Unaudited)

Credit Derivatives Sell Protection

We sell protection under single name credit default swaps and credit default swap index tranches in combination with purchasing securities to replicate characteristics of similar investments based on the credit quality and term of the credit default swap. Credit default triggers for both indexed reference entities and single name reference entities follow the Credit Derivatives Physical Settlement Matrix published by the International Swaps and Derivatives Association. Under these terms, credit default triggers are defined as bankruptcy, failure to pay or restructuring, if applicable. Our maximum exposure to credit loss equals the notional value for credit default swaps 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.

In addition to the credit derivatives discussed above, we also have credit derivative instruments related to securitization entities that we were required to consolidate in 2010. These derivatives represent a customized index of reference entities with specified attachment points for certain derivatives. The credit default triggers are similar to those described above. In the event of default, the securitization entity will provide the counterparty with the par value of assets held in the securitization entity for the amount of incurred loss on the credit default swap. The maximum exposure to loss for the securitization entity is the notional value of the derivatives. Certain losses on these credit default swaps would be absorbed by the third-party noteholders of the securitization entity and the remaining losses on the credit default swaps would be absorbed by our portion of the notes issued by the securitization entity. See note 9 for information on the third-party borrowings related to consolidated securitization entities.

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:

	June 30, 2010			December 31, 2009		
(Amounts in millions)	**Notional value**	**Assets**	**Liabilities**	**Notional value**	**Assets**	**Liabilities**
Reference entity credit rating and maturity:						
AAA						
Matures after one year through five years	$ 5	$	$	$ 6	$	$
AA						
Matures after one year through five years	11			5		
A						
Matures after one year through five years	32			32	1	
Matures after five years through ten years	10			10		
BBB						
Matures after one year through five years	68	1		73	1	
Matures after five years through ten years	29		1	29		
Total credit default swaps on single name reference entities	$ 155	$ 1	$ 1	$ 155	$ 2	$

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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:

	June 30, 2010			December 31, 2009		
(Amounts in millions)	**Notional value**	**Assets**	**Liabilities**	**Notional value**	**Assets**	**Liabilities**
Index tranche attachment/detachment point and maturity:						
9% 12% matures after one year through five years[1]	$ 300	$	$ 13	$ 50	$	$
9% 12% matures after five years through ten years[2]				250	1	1
10% 15% matures after five years through ten years[3]	250		6	250		2
12% 22% matures after five years through ten years[4]	248		6	248	4	
15% 30% matures after five years through ten years[5]	127		1	127	2	
Total credit default swap index tranches	925		26	925	7	3
Customized credit default swap index tranches related to securitization entities:						
Portion backing third-party borrowings maturing 2017 [6]	17		9			
Portion backing our interest maturing 2017 [7]	300		150			
Total customized credit default swap index tranches related to securitization entities	317		159			
Total credit default swaps on index tranches	$ 1,242	$	$ 185	$ 925	$ 7	$ 3

(1) The current attachment/detachment as of June 30, 2010 and December 31, 2009 was 9% 12%.
(2) The current attachment/detachment as of June 30, 2010 and December 31, 2009 was 9% 12%.
(3) The current attachment/detachment as of June 30, 2010 and December 31, 2009 was 10% 15%.
(4) The current attachment/detachment as of June 30, 2010 and December 31, 2009 was 12% 22%.
(5) The current attachment/detachment as of June 30, 2010 and December 31, 2009 was 14.8% 30.3%.
(6) Original notional value was $39 million.
(7) Original notional value was $300 million.

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:

	June 30, 2010			December 31, 2009		
(Amounts in millions)	**Par value**	**Amortized cost or cost**	**Fair value**	**Par value**	**Amortized cost or cost**	**Fair value**
Credit rating:						
AA						
Matures after five years through ten years	$ 100	$ 100	$ 96	$ 100	$ 100	$ 96

BBB						
Matures after five years through ten years [1]				100	100	76
BB						
Matures after five years through ten years [1]				200	228	148
Total available-for-sale fixed maturity securities that include embedded credit derivatives	$ 100	$ 100	$ 96	$ 400	$ 428	$ 320

[1] The amounts in 2009 related to certain VIEs that were consolidated on January 1, 2010. See note 7 for additional information related to consolidated securitization entities.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(6) Fair Value of Financial Instruments

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

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

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

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

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

Short-term borrowings. Based on carrying value which approximates fair value since the borrowings are based on variable interest rates that are reset monthly.

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

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

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

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

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(Unaudited)

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

	June 30, 2010			December 31, 2009		
(Amounts in millions)	**Notional amount**	**Carrying amount**	**Fair value**	**Notional amount**	**Carrying amount**	**Fair value**
Assets:						
Commercial mortgage loans	$ [1]	$ 7,208	$ 7,211	$ [1]	$ 7,499	$ 7,213
Restricted commercial mortgage loans [2]	[1]	535	554	[1]		
Other invested assets	[1]	328	332	[1]	1,766	1,769
Liabilities:						
Short-term borrowings [3]	[1]	730	730	[1]	930	930
Long-term borrowings [3]	[1]	4,331	4,127	[1]	3,641	3,291
Non-recourse funding obligations [3]	[1]	3,437	1,468	[1]	3,443	1,674
Borrowings related to securitization entities [2], [3]	[1]	474	497	[1]		
Investment contracts	[1]	21,287	22,048	[1]	21,515	21,743
Performance guarantees, principally letters of credit	77			117		
Other firm commitments:						
Commitments to fund limited partnerships	143			194		
Ordinary course of business lending commitments	5					

[1] These financial instruments do not have notional amounts.
[2] See note 7 for additional information related to consolidated securitization entities.
[3] See note 9 for additional information related to borrowings.

Recurring Fair Value Measurements

We have fixed maturity, equity and trading securities, derivatives, embedded derivatives, securities held as collateral, separate account assets and certain other financial instruments, which are carried at fair value. Below is a description of the valuation techniques and inputs used to determine fair value by class of instrument.

Fixed maturity, equity and trading securities

The valuations of fixed maturity, equity and trading securities are determined using a market approach, income approach or a combination of the market and income approach depending on the type of instrument and availability of information.

We utilize certain third-party data providers when determining fair value. We consider information obtained from third-party pricing services as well as third-party broker provided prices, or broker quotes, in our determination of fair value. Additionally, we utilize internal models to determine the valuation of securities using an income approach where the inputs are based on third-party provided market inputs. While we consider the valuations provided by third-party pricing services and broker quotes, management determines the fair value of our investment securities after considering all relevant and available information. We also obtain an understanding of the valuation methodologies and procedures used by third-party data providers to ensure sufficient understanding to evaluate the valuation data received and determine the appropriate fair value.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In general, we first obtain valuations from pricing services. If a price is not supplied by a pricing service, we will typically seek a broker quote. For certain private fixed maturity securities where we do not obtain valuations from pricing services, we utilize an internal model to determine fair value since transactions for identical securities are not readily observable and these securities are not typically valued by pricing services. For all securities, excluding certain private fixed maturity securities, if neither a pricing service nor broker quote valuation is available, we determine fair value using internal models.

For pricing services, we obtain an understanding of the pricing methodologies and procedures for each type of instrument. In general, a pricing service does not provide a price for a security if sufficient information is not readily available to determine fair value or if such security is not in the specific sector or class covered by a particular pricing service. Given our understanding of the pricing methodologies and procedures of pricing services, the securities valued by pricing services are typically classified as Level 2 unless we determine the valuation process for a security or group of securities utilizes significant unobservable inputs.

For private fixed maturity securities, we utilize an internal model to determine fair value and utilize public bond spreads by sector, rating and maturity to develop the market rate that would be utilized for a similar public bond. We then add an additional premium to the public bond spread to adjust for the liquidity and other features of our private placements. We utilize the estimated market yield to discount the expected cash flows of the security to determine fair value. We assign each security an internal rating to determine the appropriate public bond spread that should be utilized in the valuation. While we generally consider the public bond spreads by sector and maturity to be observable inputs, we evaluate the similarities of our private placement with the public bonds to determine whether the spreads utilized would be considered observable inputs for the private placement being valued. To determine the significance of unobservable inputs, we calculate the impact on the valuation from the unobservable input and will classify a security as Level 3 when the impact on the valuation exceeds 10%.

For broker quotes, we discuss the valuation methodology utilized by the third party but cannot typically obtain sufficient evidence to determine the valuation does not include significant unobservable inputs. Accordingly, we typically classify the securities where fair value is based on our consideration of broker quotes as Level 3 measurements.

For remaining securities priced using internal models, we maximize the use of observable inputs but typically utilize significant unobservable inputs to determine fair value. Accordingly, the valuations are typically classified as Level 3.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table summarizes the primary sources considered when determining fair value of each class of fixed maturity securities as of June 30, 2010.

(Amounts in millions)	Total	Level 1	Level 2	Level 3
U.S. government, agencies and government-sponsored enterprises:				
Pricing services	$ 3,667	$	$ 3,667	$
Internal models	17		8	9
Total U.S. government, agencies and government-sponsored enterprises	3,684		3,675	9
Tax-exempt:				
Pricing services	1,350		1,350	
Total tax-exempt	1,350		1,350	
Government non-U.S.:				
Pricing services	2,116		2,116	
Internal models	30		12	18
Total government non-U.S.	2,146		2,128	18
U.S. corporate:				
Pricing services	19,988		19,988	
Broker quotes	300			300
Internal models	3,090		1,870	1,220
Total U.S. corporate	23,378		21,858	1,520
Corporate non-U.S.:				
Pricing services	10,793		10,696	97
Broker quotes	136			136
Internal models	1,870		1,383	487
Total corporate non-U.S.	12,799		12,079	720
Residential mortgage-backed:				
Pricing services	3,893		3,893	
Broker quotes	35			35
Internal models	27			27
Total residential mortgage-backed	3,955		3,893	62
Commercial mortgage-backed:				
Pricing services	3,662		3,662	

Broker quotes	20			20
Internal models	44		5	39
Total commercial mortgage-backed	3,726		3,667	59
Other asset-backed:				
Pricing services	1,978		1,978	
Broker quotes	156			156
Internal models	214		9	205
Total other asset-backed	2,348		1,987	361
Total fixed maturity securities	$ 53,386	$	$ 50,637	$ 2,749

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table summarizes the primary sources considered when determining fair value of equity securities as of June 30, 2010.

(Amounts in millions)	Total	Level 1	Level 2	Level 3
Pricing services	$ 190	$ 20	$ 170	$
Broker quotes	6			6
Internal models	3			3
Total equity securities	$ 199	$ 20	$ 170	$ 9

The following table summarizes the primary sources considered when determining fair value of trading securities as of June 30, 2010.

(Amounts in millions)	Total	Level 1	Level 2	Level 3
Pricing services	$ 85	$	$ 85	$
Broker quotes	136			136
Total trading securities	$ 221	$	$ 85	$ 136

Restricted other invested assets related to securitization entities

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

Securities lending and derivative counterparty collateral

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

Separate account assets

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

Derivatives

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

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Interest rate swaps. The valuation of interest rate swaps is determined using an income approach. The primary inputs into the valuation represent the forward interest rate swap curve, which is generally considered an observable input, and results in the derivative being classified as Level 2. For certain swaps, there are features that provide an option to the counterparty to terminate the swap at specified dates and would be considered a significant unobservable input and results in the fair value measurement of the derivative being classified as Level 3.

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

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

Interest rate swaptions. The valuation of interest rate swaptions is determined using an income approach. The primary inputs into the valuation represent the forward interest rate swap curve, which is generally considered an observable input, forward interest rate volatility and time value component associated with the optionality in the derivative. As a result of the significant unobservable inputs associated with the forward interest rate volatility input, the derivative is classified as Level 3.

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

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

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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

Other foreign currency contracts. We have certain foreign currency options classified as other foreign currency contracts. The valuation of foreign currency options is determined using an income approach. The primary inputs into the valuation represent the forward interest rate swap curve, foreign currency exchange rates, forward interest rate and foreign currency exchange rate volatility and time value component associated with the optionality in the derivative. As a result of the significant unobservable inputs associated with the forward interest rate and foreign currency exchange rate volatility input, the derivative is classified as Level 3.

Reinsurance embedded derivatives

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

GMWB embedded derivatives

We are required to bifurcate an embedded derivative for certain features associated with annuity products and related reinsurance agreements where we provide a GMWB to the policyholder and are required to record the GMWB embedded derivative at fair value. The valuation of our GMWB embedded derivative is based on an income approach that incorporates inputs such as forward interest rates, equity index volatility, equity index and fund correlation, and policyholder assumptions such as utilization, lapse and mortality. In addition to these inputs, we also consider risk and expense margins when determining the projected cash flows that would be determined by another market participant. While the risk and expense margins are considered in determining fair value, these inputs do not have a significant impact on the valuation.

For GMWB liabilities, non-performance risk is integrated into the discount rate. 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. In recent periods, the swap curve has been lower than the U.S. Treasury curve for certain points on the curve. For the points where the swap curve is lower than the U.S. Treasury curve, we utilize the U.S. Treasury curve as our discount rate. As of June 30, 2010 and December 31, 2009, the impact of non-performance risk on our GMWB valuation was not material.

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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.

For equity index volatility, we determine the projected equity market volatility using both historical volatility and projected near-term equity market volatility with more significance being placed on projected and recent historical data.

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

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

We classify the GMWB valuation as Level 3 based on having significant unobservable inputs. We evaluate the inputs and methodologies used to determine fair value based on how we expect a market participant would determine exit value. As stated above, there is no exit market or market participants for the GMWB embedded derivatives. Accordingly, we evaluate our inputs and resulting fair value based on a hypothetical exit market and hypothetical market participants. A hypothetical exit market could be viewed as a transaction that would closely resemble reinsurance. While reinsurance transactions for this type of product are not an observable input, we consider this type of hypothetical exit market when evaluating our inputs and determining that our inputs are consistent with that of a hypothetical market participant.

Borrowings related to securitization entities

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

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	June 30, 2010			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 3,684	$	$ 3,675	$ 9
Tax-exempt	1,350		1,350	
Government non-U.S.	2,146		2,128	18
U.S. corporate	23,378		21,858	1,520
Corporate non-U.S.	12,799		12,079	720
Residential mortgage-backed	3,955		3,893	62
Commercial mortgage-backed	3,726		3,667	59
Other asset-backed	2,348		1,987	361
Total fixed maturity securities	53,386		50,637	2,749
Equity securities	199	20	170	9
Other invested assets:				
Trading securities	221		85	136
Derivative assets:				
Interest rate swaps	1,173		1,164	9
Inflation indexed swaps	1		1	
Foreign currency swaps	160		160	
Interest rate swaptions	4			4
Credit default swaps	2		2	
Equity index options	97			97
Other foreign currency contracts	6		5	1
Total derivative assets	1,443		1,332	111
Securities lending collateral	680		680	
Derivatives counterparty collateral	100		100	
Restricted other invested assets related to securitization entities	373		199	174
Total other invested assets	2,817		2,396	421
Other assets [(1)]	2		2	
Reinsurance recoverable [(2)]	9			9
Separate account assets	10,284	10,284		
Total assets	$ 66,697	$ 10,304	$ 53,205	$ 3,188

Liabilities				
Policyholder account balances [3]	$ 447	$	$	$ 447
Derivative liabilities:				
Interest rate swaps	61		61	
Interest rate swaps related to securitization entities	23		23	
Inflation indexed swaps	22		22	
Credit default swaps	27		1	26
Credit default swaps related to securitization entities	159			159
Total derivative liabilities	292		107	185
Borrowings related to securitization entities	51			51
Total liabilities	$ 790	$	$ 107	$ 683

(1) Represents embedded derivatives associated with certain reinsurance agreements.
(2) Represents embedded derivatives associated with the reinsured portion of our GMWB liabilities.
(3) Represents embedded derivatives associated with our GMWB liabilities, excluding the impact of reinsurance.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	December 31, 2009			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 2,602	$	$ 2,586	$ 16
Tax-exempt	1,544		1,542	2
Government non-U.S.	2,384		2,377	7
U.S. corporate	21,412		20,339	1,073
Corporate non-U.S.	12,551		12,047	504
Residential mortgage-backed	3,227		1,746	1,481
Commercial mortgage-backed	3,617		59	3,558
Other asset-backed	2,415		996	1,419
Total fixed maturity securities	49,752		41,692	8,060
Equity securities	159	42	108	9
Other invested assets:				
Trading securities	174		29	145
Derivative assets:				
Interest rate swaps	709		706	3
Foreign currency swaps	125		125	
Interest rate swaptions	54			54
Credit default swaps	11		5	6
Equity index options	39			39
Other foreign currency contracts	8			8
Total derivative assets	946		836	110
Securities lending collateral	853		853	
Derivatives counterparty collateral	148		148	
Total other invested assets	2,121		1,866	255
Reinsurance recoverable [1]	(5)			(5)
Separate account assets	11,002	11,002		
Total assets	$ 63,029	$ 11,044	$ 43,666	$ 8,319
Liabilities				
Policyholder account balances [2]	$ 175	$	$	$ 175
Derivative liabilities:				
Interest rate swaps	188		186	2
Inflation indexed swaps	21		21	
Interest rate swaptions	67			67
Credit default swap	3		3	

Equity index options	2			2
Total derivative liabilities	281		210	71
Total liabilities	$ 456	$	$ 210	$ 246

(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)

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

(Amounts in millions)	Beginning balance as of April 1, 2010	Total realized and unrealized gains (losses): Included in net income (loss)	Included in OCI	Purchases, sales, issuances and settlements, net	Transfer in Level 3 [1]	Transfer out of Level 3	Ending balance as of June 30, 2010	Total gains (losses) included in net income (loss) attributable to assets still held
Fixed maturity securities:								
U.S. government, agencies and government- sponsored enterprises	$ 8	$	$	$ (1)	$ 6	$ (4)	$ 9	$
Tax-exempt	2					(2)		
Government non-U.S.	1		1		16		18	
U.S. corporate	906	11	19	(29)	653	(40)	1,520	4
Corporate non-U.S.	508		7	2	294	(91)	720	
Residential mortgage- backed	171			(26)	1	(84)	62	
Commercial mortgage- backed	47		10	(1)	11	(8)	59	
Other asset-backed	409	(8)	2	(14)		(28)	361	(8)
Total fixed maturity securities	2,052	3	39	(69)	981	(257)	2,749	(4)
Equity securities	67		1	1		(60)	9	
Other invested assets:								
Trading securities	142	(7)		1			136	(7)
Derivative assets:								
Interest rate swaps	4	5					9	5
Interest rate swaptions	14	24		(34)			4	24
Credit default swaps	7	(7)						(7)
Equity index options	34	46		17			97	46
Other foreign currency contracts	4	(3)					1	(3)
Total derivative assets	63	65		(17)			111	65
Total other invested assets	205	58		(16)			247	58
Restricted other invested assets related to securitization entities [2]	174	(2)	2				174	(2)
Reinsurance recoverable [3]	(6)	15					9	15

Total Level 3 assets	$ 2,492	$ 74	$ 42	$ (84)	$ 981	$ (317)	$ 3,188	$ 67

(1) The transfer into Level 3 was primarily related to private fixed U.S. corporate and corporate non U.S. securities and resulted from a change in the observability of the additional premium to the public bond spread to adjust for the liquidity and other features of our private placements and resulted in unobservable inputs having a significant impact on certain valuations.

(2) Relates to the consolidation of certain securitization entities as of January 1, 2010. See note 7 for additional information related to consolidated securitization entities.

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

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Amounts in millions)	Beginning balance as of April 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 June 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 entities	$ 19	$	$ (37)	$ 4	$ 389	$ (18)	$ 357	$
Tax exempt	5				2	(5)	2	
Government non-U.S.	35		2	3		(18)	22	
U.S. corporate	1,658	(14)	140	(70)	240	(546)	1,408	6
Corporate non-U.S.	1,136	(10)	25	(23)	204	(565)	767	1
Residential mortgage-backed	2,602	(106)	66	(44)	4	(899)	1,623	(88)
Commercial mortgage-backed	3,647	(10)	7	(27)	27	(516)	3,128	(11)
Other asset-backed	1,901	(8)	137	(98)	8	(877)	1,063	(4)
Total fixed maturity securities	11,003	(148)	340	(255)	874	(3,444)	8,370	(96)
Equity securities	61						61	
Other invested assets:								
Trading securities	156	15		(5)		(33)	133	13
Derivative assets	706	(256)		(164)			286	(237)
Total other invested assets	862	(241)		(169)		(33)	419	(224)
Reinsurance recoverable	18	(16)					2	(16)
Total Level 3 assets	$ 11,944	$ (405)	$ 340	$ (424)	$ 874	$ (3,477)	$ 8,852	$ (336)

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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:

		Total realized and unrealized gains (losses)						
(Amounts in millions)	**Beginning balance as of January 1, 2010**	**Included in net income (loss)**	**Included in OCI**	**Purchases, sales, issuances and settlements, net**	**Transfer in Level 3** [(1)]	**Transfer out of Level 3**	**Ending balance as of June 30, 2010**	**Total gains (losses) included in net income (loss) attributable to assets still held**
Fixed maturity securities:								
U.S. government, agencies and government-sponsored enterprises	$ 16	$	$	$ (2)	$ 9	$ (14)	$ 9	$
Tax-exempt	2					(2)		
Government non-U.S.	7		1		16	(6)	18	
U.S. corporate	1,073	11	34	31	678	(307)	1,520	8
Corporate non-U.S.	504	1	8	11	353	(157)	720	1
Residential mortgage- backed	1,481		3	80	1	(1,503)	62	
Commercial mortgage- backed	3,558	1	14	(63)	11	(3,462)	59	
Other asset-backed	1,419	(24)	23	(18)	10	(1,049)	361	(24)
Total fixed maturity securities	8,060	(11)	83	39	1,078	(6,500)	2,749	(15)
Equity securities	9			8	52	(60)	9	
Other invested assets:								
Trading securities	145	1		(10)			136	1
Derivative assets:								
Interest rate swaps	3	6					9	6
Interest rate swaptions	54	15		(65)			4	15
Credit default swaps	6	(6)						(6)
Equity index options	39	22		36			97	22
Other foreign currency contracts	8	(7)					1	(7)
Total derivative assets	110	30		(29)			111	30
Total other invested assets	255	31		(39)			247	31
Restricted other invested assets related to securitization entities [(2)]		(2)	2		174		174	(2)
Reinsurance recoverable [(3)]	(5)	14					9	14

Total Level 3 assets	$ 8,319	$ 32	$ 85	$ 8	$ 1,304	$ (6,560)	$ 3,188	$ 28

(1) The transfer out of Level 3 was primarily related to residential and commercial mortgage-backed and other asset-backed securities and resulted from a change in the observability of inputs used to determine fair value.

(2) Relates to the consolidation of certain securitization entities as of January 1, 2010. See note 7 for additional information related to consolidated securitization entities.

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

While we observed some increased trading activity for certain mortgage-backed and asset-backed securities during 2009, primarily as a result of government programs, we did not observe a broad-based improvement in market conditions to result in the classification of several mortgage-backed and asset-backed securities as Level 2. During the six months ended June 30, 2010, primary market issuance and secondary market activity for commercial and non-agency residential mortgage-backed and other asset-backed securities increased the market observable inputs used to establish fair values for similar securities. These factors, along with more consistent pricing from third-party sources, resulted in our conclusion that there is sufficient trading activity in similar instruments to support classifying certain mortgage-backed and asset-backed securities as Level 2 as of June 30, 2010. Accordingly, our assessment resulted in a transfer out of Level 3 of $1,503 million, $3,462 million and $1,049 million, respectively, during the six months ended June 30, 2010 related to residential mortgage-backed, commercial mortgage-backed and other asset-backed securities.

		Total realized and unrealized gains (losses)						
(Amounts in millions)	Beginning balance as of January 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 June 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 entities	$ 25	$	$ (38)	$ 13	$ 389	$ (32)	$ 357	$
Tax exempt				5	2	(5)	2	
Government non-U.S.	31			9		(18)	22	
U.S. corporate	2,734	(16)	111	(111)	377	(1,687)	1,408	5
Corporate non-U.S.	1,560	(33)	142	11	404	(1,317)	767	(27)
Residential mortgage-backed	1,957	(331)	164	(154)	885	(898)	1,623	(313)
Commercial mortgage-backed	3,219	(39)	43	(106)	532	(521)	3,128	(39)
Other asset-backed	1,034	(22)	180	(232)	981	(878)	1,063	(18)
Total fixed maturity securities	10,560	(441)	602	(565)	3,570	(5,356)	8,370	(392)
Equity securities	60			1			61	
Other invested assets:								
Trading securities	125	1		(15)	54	(32)	133	
Derivative assets	933	(494)		(175)	22		286	(474)

Total other invested assets	1,058	(493)		(190)	76	(32)	419	(474)
Reinsurance recoverable	18	(17)		1			2	(17)
Total Level 3 assets	$ 11,696	$ (951)	$ 602	$ (753)	$ 3,646	$ (5,388)	$ 8,852	$ (883)

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

We review the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3, or between other levels, at the beginning fair value for the reporting period in which the changes occur.

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

(Amounts in millions)	Beginning balance as of April 1, 2010	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 June 30, 2010	Total (gains) losses included in net (income) loss attributable to liabilities still held
Policyholder account balances [1]	$ 145	$ 294	$	$ 8	$	$	$ 447	$ 294
Derivative liabilities:								
Interest rate swaptions	18	(10)		(8)				(10)
Credit default swaps	1	25					26	25
Credit default swaps related to securitization entities [2]	118	46		(5)			159	46
Equity index options	4	(3)		(1)				(3)
Total derivative liabilities	141	58		(14)			185	58
Borrowings related to securitization entities [2]	58	(7)					51	(6)
Total Level 3 liabilities	$ 344	$ 345	$	$ (6)	$	$	$ 683	$ 346

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

(2) Relates to the consolidation of certain securitization entities as of January 1, 2010. See note 7 for additional information related to consolidated securitization entities.

(Amounts in millions)	Beginning balance as of April 1, 2009	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 June 30, 2009	Total (gains) losses included in net (income) loss attributable

								to liabilities still held
Policyholder account balances	$ 923	$ (495)	$	$ 7	$	$	$ 435	$ (490)
Other liabilities [1]	73	137		(49)			161	105
Total Level 3 liabilities	$ 996	$ (358)	$	$ (42)	$	$	$ 596	$ (385)

(1) Represents derivative liabilities.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

		Total realized and unrealized (gains) losses						
(Amounts in millions)	Beginning balance as of January 1, 2010	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 June 30, 2010	Total (gains) losses included in net (income) loss attributable to liabilities still held
Policyholder account balances [1]	$ 175	$ 255	$ —	$ 17	$ —	$ —	$ 447	$ 255
Derivative liabilities:								
Interest rate swaps	2	(2)						(2)
Interest rate swaptions	67	(42)		(25)				(42)
Credit default swaps		26					26	26
Credit default swaps related to securitization entities [2]		41		(3)	121		159	41
Equity index options	2	(1)		(1)				(1)
Total derivative liabilities	71	22		(29)	121		185	22
Borrowings related to securitization entities [2]		(8)			59		51	(8)
Total Level 3 liabilities	$ 246	$ 269	$ —	$ (12)	$ 180	$ —	$ 683	$ 269

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

(2) Relates to the consolidation of certain securitization entities as of January 1, 2010. See note 7 for additional information related to consolidated securitization entities.

		Total realized and unrealized (gains) losses						
(Amounts in millions)	Beginning balance as of January 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 June 30, 2009	Total (gains) losses included in net (income) loss attributable to liabilities still held

Policyholder account balances	$ 878	$ (456)	$	$ 13	$	$	$ 435	$ (445)
Other liabilities [1]	68	142		(49)			161	110
Total Level 3 liabilities	$ 946	$ (314)	$	$ (36)	$	$	$ 596	$ (335)

(1) Represents derivative liabilities.

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

The amount presented for unrealized gains (losses) for assets and liabilities still held as of the reporting date primarily represents impairments related to 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 June 30, 2010, $3 million of bank loans were recorded at fair value, based on market observable information and classified as Level 2, which was lower than their respective cost; therefore, we recorded $1 million of fair value loss adjustments for the three and six months ended June 30, 2010. In addition, we held an investment in one commercial mortgage loan that was recorded at the lower of cost or fair value. As of June 30, 2010, $37 million of commercial mortgage loans were recorded at fair value, based on the expected transaction price and classified as Level 2. Therefore, we recorded $13 million of fair value adjustments for the three and six months ended June 30, 2010.

(7) Variable Interest and Securitization Entities

VIEs are generally entities that have either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support or whose equity investors lack the characteristics of a controlling financial interest. We evaluate VIEs to determine whether we are the primary beneficiary and are required to consolidate the assets and liabilities of the entity. The determination of the primary beneficiary for a VIE can be complex and requires management judgment regarding the expected results of the entity and who directs the activities of the entity that most significantly impact the economic results of the VIE. Our primary involvement related to VIEs includes:

- asset securitization transactions,
- certain investments and
- certain mortgage insurance policies.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(a) Asset Securitizations

We have used former affiliates and third-party entities to facilitate asset securitizations. Disclosure requirements related to off-balance sheet arrangements encompass a broader array of arrangements than those at risk for consolidation. These arrangements include transactions with term securitization entities, as well as transactions with conduits that are sponsored by third parties.

The following table summarizes the total securitized assets as of the dates indicated:

(Amounts in millions)	June 30, 2010	December 31, 2009
Receivables secured by:		
Commercial mortgage loans	$	$ 574
Fixed maturity securities	80	123
Other assets	168	236
Total securitized assets not required to be consolidated	248	933
Total securitized assets required to be consolidated	612	
Total securitized assets	$ 860	$ 933

Financial support for certain securitization entities was provided under credit support agreements, in which we provided limited recourse for a maximum of $117 million of credit losses as of June 30, 2010. These agreements will remain in place throughout the life of the related entities. Included in this amount was $40 million for the limited recourse related to one of our commercial mortgage loan entities that was required to be consolidated with assets of $125 million as of June 30, 2010. There were no amounts recorded for these limited recourse liabilities as of June 30, 2010 and December 31, 2009.

(b) Securitization and Variable Interest Entities Not Required To Be Consolidated

We are involved in certain securitization and VIEs where we are not required to consolidate the securitization entity.

Asset securitizations. We transferred assets to securitization entities that would be considered VIEs but we were not required to consolidate the securitization entities. These securitization entities were designed to have significant limitations on the types of assets owned and the types and extent of permitted activities and decision making rights. We evaluated our involvement in the entities design and our decision making ability regarding the assets held by the securitization entity and determined we would generally not be the party with power to direct the activities that significantly impact the economic performance of the entity.

In certain instances, we determined we were the party with power but did not have a variable interest in the entity. Our interest in the entities included servicer fees and excess interest, where our benefit from our excess interest holding is subordinated to third-party holdings. Based on the composition of the assets in the securitization entity, there were no reasonable scenarios that would result in our interest receiving any significant benefit for the entity. As a result, our interest would not be considered a variable interest in the entity as a result of meeting certain requirements in the accounting guidance.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Amounts recognized in our consolidated financial statements related to our involvement with entities used to facilitate asset securitization transactions where the securitization entity was not required to be consolidated as of the dates indicated:

	June 30, 2010		December 31, 2009	
(Amounts in millions)	**Cost**	**Fair value**	**Cost**	**Fair value**
Retained interests assets	$ 1	$ 2	$ 79	$ 44
Total	$ 1	$ 2	$ 79	$ 44

The decrease in the amounts presented above were primarily a result of having to consolidate certain securitization entities as discussed above.

In certain securitization transactions, we retained an interest in transferred assets. Those interests take various forms and may be subject to credit, prepayment and interest rate risks. When we securitized receivables, we determined the fair value based on discounted cash flow models that incorporate, among other things, assumptions including credit losses, prepayment speeds and discount rates. These assumptions were based on our experience, market trends and anticipated performance related to the particular assets securitized. Our retained interests are reflected as fixed maturity securities available-for-sale.

Following a securitization transaction, we retained the responsibility for servicing the receivables, and as such, were entitled to receive an ongoing fee based on the outstanding principal balances of the receivables. There were no servicing assets nor liabilities recorded as the benefits of servicing the assets were adequate to compensate an independent servicer for its servicing responsibilities.

There has been no new asset securitization activity in 2010 or 2009.

Investments. We hold investments in certain structures that are considered VIEs. Our investments represent beneficial interests that are primarily in the form of structured securities. Our involvement in these structures typically represent a passive investment in the returns generated by the VIE and typically do not result in having significant influence over the economic performance of the VIE. See note 4 for additional information related to our investments, which includes information related to structured securities, such as asset-backed and mortgage-backed securities. Our maximum exposure to loss represents our cost basis in the investments.

Mortgage insurance. We also provide mortgage insurance on certain residential mortgage loans originated and securitized by third parties using VIEs to issue mortgage-backed securities. While we provide mortgage insurance on the underlying loans, we do not typically have any ongoing involvement with the VIE other than our mortgage insurance coverage and do not act in a servicing or decision making capacity for the underlying loans held by the VIE.

(c) Securitization and Variable Interest Entities Required To Be Consolidated

As a result of adopting new accounting guidance for VIE consolidation on January 1, 2010, we were required to consolidate certain VIEs. Our involvement with VIEs that were required to be consolidated related to asset securitization transactions and certain investments, both of which are described in more detail below. Prior to being required to consolidate these entities, our interest in these entities was recorded in our consolidated financial statements as fixed maturity securities available-for-sale.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Asset securitizations. For VIEs related to asset securitization transactions, we were required to consolidate three securitization entities as a result of our involvement in the entities design or having certain decision making ability regarding the assets held by the securitization entity. These securitization entities were designed to have significant limitations on the types of assets owned and the types and extent of permitted activities and decision making rights. The three securitization entities that were required to be consolidated are comprised of two securitization entities backed by commercial mortgage loans and one backed by residual interests in certain policy loan securitization entities.

For one of our commercial mortgage loan securitization entities with assets of $125 million as of June 30, 2010, our economic interest represents the excess interest received on the loans compared to the interest paid on the entity s obligation. We also act as the servicer for the underlying mortgage loans and have the ability to direct certain activities in accordance with the agreements related to the securitization entity.

For the other commercial mortgage loan securitization entity with assets of $417 million as of June 30, 2010, our economic interest represents the excess interest of the commercial mortgage loans and the subordinated notes of the securitization entity. The commercial mortgage loans are serviced by a third-party servicer and special servicer. However, we have the right to replace the special servicer without cause at any time. This right is recognized under accounting guidance as resulting in our effective control of the activities directed by the special servicer.

Our economic interest in the policy loan securitization entity represents the excess interest received from the residual interest in certain policy loan securitization entities and the floating rate obligation issued by the securitization entity. The securitization entity also contains an interest rate swap to mitigate the difference between the effective fixed receipt on the assets and the floating rate obligation issued by the securitization entity. Since there are no significant ongoing activities in the securitization entity, we evaluated the design of the entity upon inception when we transferred the residual interests in the securitization entity. Prior to 2010, we fully impaired our investment in this securitization entity as a result of not expecting any future economic benefits from our investment under any reasonable scenario. However, there are certain remote interest rate and mortality scenarios that would result in our residual interest receiving significant economic benefits in relation to benefits received by the securitization entity. In accordance with the relevant accounting guidance, the use of probability is not permitted when determining whether we would have the ability to receive significant benefits from the securitization entity.

Investments. For VIEs related to certain investments, we were required to consolidate three securitization entities as a result of having certain decision making rights related to instruments held by the entities. These securitization entities were designed as synthetic collateralized debt obligations whereby the entities purchased highly rated asset-backed securities and entered into credit default swaps to generate income that would be passed to the noteholders of the entities. The entities also have the ability to settle any losses incurred on the credit default swap by providing the derivative counterparty asset-backed securities with a par amount equal to the loss incurred on the credit default swap. We hold the majority of the notes issued by the securitization entity and also have certain decision making rights related to the instruments held by the entity. Previously, we were not required to consolidate the securitization entity as a result of other noteholders absorbing the majority of expected losses from the entity.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table shows the activity presented in our consolidated statement of income related to the consolidated securitization entities for the periods indicated:

(Amounts in millions)	Three months ended June 30, 2010	Six months ended June 30, 2010
Revenues:		
Net investment income:		
Restricted commercial mortgage loans	$ 9	$ 19
Restricted other invested assets		1
Total net investment income	9	20
Net investment gains (losses):		
Trading securities	2	9
Derivatives	(55)	(53)
Commercial mortgage loans	(1)	(1)
Borrowings related to securitization entities recorded at fair value	7	9
Total net investment gains (losses)	(47)	(36)
Total revenues	(38)	(16)
Expenses:		
Interest expense	7	15
Total expenses	7	15
Loss before income taxes	(45)	(31)
Benefit for income taxes	(16)	(11)
Net loss	$ (29)	$ (20)

The following table shows the assets and liabilities that were recorded for the consolidated securitization entities as of the date indicated:

(Amounts in millions)	June 30, 2010
Assets	
Investments:	
Restricted commercial mortgage loans	$ 535
Restricted other invested assets:	
Trading securities	373
Other	1

Total restricted other invested assets		374
Total investments		909
Cash and cash equivalents		2
Accrued investment income		1
Total assets	$	912
Liabilities		
Other liabilities:		
Derivative liabilities	$	182
Other liabilities		1
Total other liabilities		183
Borrowings related to securitization entities		525
Total liabilities	$	708

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The assets and other instruments held by the securitization entities are restricted and can only be used to fulfill the obligations of the securitization entity. Additionally, the obligations of the securitization entities do not have any recourse to the general credit of any other consolidated subsidiaries, except $40 million of limited recourse related to a consolidated commercial mortgage loan securitization entity.

(8) Commitments and Contingencies

(a) Litigation

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

(b) Commitments

As of June 30, 2010, we were committed to fund $143 million in limited partnership investments and $5 million in U.S. commercial mortgage loan investments.

(9) Borrowings and Other Financings

Revolving Credit Facilities

We have two five-year revolving credit facilities that mature in May 2012 and August 2012. These facilities bear variable interest rates based on one-month LIBOR plus a margin. Each of these facilities originally had $1.0 billion available for borrowings. 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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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. On April 1, 2010, a consent and waiver agreement was entered into which releases the Lehman Brothers-related entities from their commitments under the facilities and reduces the remaining commitments by those respective amounts. Therefore, as of June 30, 2010, we had access to $1.9 billion under these facilities.

In June 2010, we repaid $100 million of outstanding borrowings under each of our five-year revolving credit facilities using the net proceeds from our senior notes offering that was completed in June 2010.

As of June 30, 2010, we had borrowings of $730 million under these facilities, and we utilized $54 million under these facilities primarily for the issuance of letters of credit for the benefit of one of our lifestyle protection insurance subsidiaries. As of December 31, 2009, we had borrowings of $930 million under these facilities, and we utilized $407 million under these facilities for the issuance of letters of credit for the benefit of one of our life insurance subsidiaries.

Long-Term Senior Notes

In June 2010, we issued senior notes having an aggregate principal amount of $400 million, with an interest rate equal to 7.700% per year payable semi-annually, and maturing in June 2020 (2020 Notes). The 2020 Notes are our direct, unsecured obligations and will rank equally with all of our existing and future unsecured and unsubordinated obligations. We have the option to redeem all or a portion of the 2020 Notes at any time with proper notice to the note holders at a price equal to the greater of 100% of principal or the sum of the present value of the remaining scheduled payments of principal and interest discounted at the then-current treasury rate plus an applicable spread. The net proceeds of $397 million from the issuance of the 2020 Notes were used to repay $100 million of outstanding borrowings under each of our five-year revolving credit facilities and the remainder of the proceeds were used for general corporate purposes.

In June 2010, our majority-owned subsidiary, Genworth MI Canada Inc. (Genworth Canada), issued CDN$275 million of 5.68% senior notes due 2020. The net proceeds of the offering will be used to fund transactions among Genworth Canada and its Canadian wholly-owned subsidiaries. Genworth Canada is expected to use any proceeds it receives from such transactions for general corporate and investment purposes, and/or to fund a distribution to, or a repurchase of common shares from, Genworth Canada s shareholders.

Non-Recourse Funding Obligations

As of June 30, 2010, we had $3.4 billion of fixed and floating rate non-recourse funding obligations outstanding backing additional statutory reserves. As of June 30, 2010 and December 31, 2009, the weighted-average interest rates on our non-recourse funding obligations were 1.51% and 1.49%, respectively.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Borrowings Related To Securitization Entities

Borrowings related to securitization entities were as follows as of June 30, 2010:

(Amounts in millions)	Principal amount	Carrying value
GFCM LLC, due 2035, 5.2541%	$ 236	$ 236
GFCM LLC, due 2035, 5.7426%	113	113
Genworth Special Purpose Two, LLC, due 2023, 6.0175%	125	125
Marvel Finance 2007-1 LLC, due 2017 (1)	5	1
Marvel Finance 2007-4 LLC, due 2017 (1)	12	5
Genworth Special Purpose Five, LLC, due 2040 (1)	NA (2)	45
Total	$ 491	$ 525

(1) Accrual of interest based on three-month LIBOR that resets every three months plus a fixed margin.

(2) Principal amount not applicable. Notional balance is $117 million.

These borrowings are required to be paid down as principal is collected on the restricted investments held by the securitization entities and accordingly the repayment of these borrowings follows the maturity or prepayment, as permitted, of the restricted investments. See note 7 for additional information on consolidated securitization entities.

(10) 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 June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%	35.0%
Increase (reduction) in rate resulting from:				
State income tax, net of federal income tax effect		(5.1)	(2.1)	0.2
Benefit on tax favored investments	(8.0)	(3.1)	(7.1)	3.8
Effect of foreign operations	(33.7)	(18.6)	(21.3)	3.3
Non-deductible expenses	2.2	0.7	0.5	(0.5)
Interest on uncertain tax positions	(2.4)	(2.7)	(2.3)	(0.3)
Tax benefits related to separation from our former parent			(55.8)	
Other, net		1.2	1.8	
Effective rate	(6.9)%	7.4%	(51.3)%	41.5%

The effective tax rate decreased significantly from the prior year due to uncertain tax benefits related to separation from our former parent, favorable impact of newly enacted Australian tax legislation, lower taxed foreign income and tax favored investments.

In connection with our 2004 separation from our former parent, General Electric (GE), we made certain joint tax elections and realized certain tax benefits. During the first quarter of 2010, the Internal Revenue Service (IRS) completed an examination of GE s 2004 tax return, including these tax impacts. Therefore, $106 million

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

of previously uncertain tax benefits related to separation became certain and we recognized those in the first quarter of 2010. Additionally, we recorded $20 million as additional paid-in capital related to our 2004 separation.

(11) Segment Information

We conduct our operations in three operating business segments: (1) Retirement and Protection, which includes our life insurance, long-term care insurance, wealth management products and services and retirement income products; (2) International, which includes international mortgage and lifestyle protection insurance; and (3) U.S. Mortgage Insurance, which includes mortgage-related products and services that facilitate homeownership by enabling borrowers to buy homes with low-down-payment mortgages.

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

We use the same accounting policies and procedures to measure segment income (loss) and assets as our consolidated net income (loss) and assets. Our chief operating decision maker evaluates segment performance and allocates resources on the basis of net operating income (loss) available to Genworth Financial, Inc. s common stockholders. We define net operating income (loss) available to Genworth Financial, Inc. s common stockholders as income (loss) from continuing operations excluding net income attributable to noncontrolling interests, after-tax net investment gains (losses) and other adjustments and infrequent or unusual non-operating items. We exclude net investment gains (losses) and infrequent or unusual non-operating items because we do not consider them to be related to the operating performance of our segments and Corporate and Other activities. A significant component of our net investment gains (losses) is the result of impairments, the size and timing of which can vary significantly depending on market credit cycles. In addition, the size and timing of other investment gains (losses) are often subject to our discretion and are influenced by market opportunities, as well as asset-liability matching considerations. Infrequent or unusual non-operating items are also excluded from net operating income (loss) available to Genworth Financial, Inc. s common stockholders if, in our opinion, they are not indicative of overall operating trends. While some of these items may be significant components of net income (loss) available to Genworth Financial, Inc. s common stockholders in accordance with U.S. GAAP, we believe that net operating income (loss) available to Genworth Financial, Inc. s common stockholders, and measures that are derived from or incorporate net operating income (loss) available to Genworth Financial, Inc. s common stockholders, are appropriate measures that are useful to investors because they identify the income (loss) attributable to the ongoing operations of the business. However, net operating income (loss) available to Genworth Financial, Inc. s common stockholders is not a substitute for net income (loss) available to Genworth Financial, Inc. s common stockholders determined in accordance with U.S. GAAP. In addition, our definition of net operating income (loss) available to Genworth Financial, Inc. s common stockholders may differ from the definitions used by other companies.

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

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

(Amounts in millions)	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Revenues:				
Retirement and Protection	$ 1,643	$ 1,607	$ 3,236	$ 2,594
International	622	639	1,273	1,229
U.S. Mortgage Insurance	181	196	362	384
Corporate and Other	(36)	41	(40)	10
Total revenues	$ 2,410	$ 2,483	$ 4,831	$ 4,217

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

(Amounts in millions)	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Retirement and Protection	$ 114	$ 123	$ 236	$ 161
International	105	87	196	188
U.S. Mortgage Insurance	(40)	(134)	(76)	(269)
Corporate and Other	(61)	(67)	(124)	(57)
Net operating income available to Genworth Financial, Inc. s common stockholders	118	9	232	23
Net investment gains (losses), net of taxes and other adjustments	(76)	(59)	(118)	(542)
Net tax benefit related to separation from our former parent			106	
Net income (loss) available to Genworth Financial, Inc. s common stockholders	42	(50)	220	(519)
Add: net income attributable to noncontrolling interests	35		69	
Net income (loss)	$ 77	$ (50)	$ 289	$ (519)

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

(Amounts in millions)	June 30, 2010	December 31, 2009
Assets:		
Retirement and Protection	$ 85,087	$ 81,497
International	11,444	12,143

U.S. Mortgage Insurance	3,564	4,247
Corporate and Other	10,257	10,300
Total assets	$ 110,352	$ 108,187

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(12) Noncontrolling Interests

In July 2009, Genworth Canada, our indirect subsidiary, completed the initial public offering (the Offering) of its common shares. Of the 49.7 million common shares of Genworth Canada that were sold in the Offering, 5.1 million common shares were sold by Genworth Canada and 44.6 million common shares were sold by Brookfield Life Assurance Company Limited, our indirect wholly-owned subsidiary. Following completion of the Offering, we beneficially own 57.5% of the common shares of Genworth Canada.

In the six months ended June 30, 2010, dividends of $21 million were paid to the noncontrolling interests.

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

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

Cautionary note regarding forward-looking statements

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

Risks relating to our businesses, including downturns and volatility in equity and credit markets, downgrades in our financial strength or credit ratings, interest rate fluctuations and levels, adverse capital and credit market conditions, the valuation of fixed maturity, equity and trading securities, defaults, downgrade or other events impacting the value of our fixed maturity securities portfolio, defaults on our commercial mortgage loans or investments in commercial mortgage-backed securities, goodwill impairments, the soundness of other financial institutions, inability to access our credit facilities, an adverse change in risk-based capital and other regulatory requirements, insufficiency of reserves, legal constraints on dividend distributions by our subsidiaries, competition, availability, affordability and adequacy of reinsurance, default by counterparties, loss of key distribution partners, regulatory restrictions on our operations and changes in applicable laws and regulations, legal or regulatory investigations or actions, the failure or any compromise of the security of our computer systems and the occurrence of natural or man-made disasters or a pandemic;

Risks relating to our Retirement and Protection segment, including changes in morbidity and mortality, accelerated amortization of deferred acquisition costs and present value of future profits, reputational risks as a result of rate increases on certain in-force long-term care insurance products, medical advances, such as genetic research and diagnostic imaging, and related legislation, unexpected changes in persistency rates, ability to continue to implement actions to mitigate the impact of statutory reserve requirements and the failure of demand for long-term care insurance to increase;

Risks relating to our International segment, including political and economic instability, foreign exchange rate fluctuations, unexpected changes in unemployment rates, unexpected increases in mortgage insurance default rates or severity of defaults, the significant portion of high loan-to-value insured international mortgage loans which generally result in more and larger claims than lower loan-to-value loans, competition with government-owned and government-sponsored enterprises offering mortgage insurance and changes in regulations;

Risks relating to our U.S. Mortgage Insurance segment, including increases in mortgage insurance default rates or severity of defaults, uncertain results of continued investigations of insured U.S. mortgage loans, possible rescissions of coverage and the results of objections to our rescissions, the extent to which loan modifications and other similar programs may provide benefits to us, unexpected changes in unemployment rates, further deterioration in economic conditions or a further decline in home prices, changes to the role or structure of Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), competition with government-owned and government-sponsored enterprises offering mortgage insurance (including the Federal Housing Administration (FHA)), changes in regulations that affect our U.S. mortgage insurance business, the influence of Fannie Mae, Freddie Mac and a small number of large mortgage lenders and investors, decreases in the volume of high loan-to-value mortgage originations or increases in mortgage insurance cancellations, increases in the use of alternatives to private mortgage insurance and reductions by

lenders in the level of coverage they select, the impact of the use of reinsurance with reinsurance companies affiliated with mortgage lending customers, legal actions under Real Estate Settlement Procedures Act of 1974 (RESPA) and potential liabilities in connection with our U.S. contract underwriting services;

Other risks, including the possibility that in certain circumstances we will be obligated to make payments to General Electric Company (GE) under the tax matters agreement with GE even if our corresponding tax savings are never realized and payments could be accelerated in the event of certain changes in control and provisions of the certificate of incorporation and bylaws and the tax matters agreement with GE may discourage takeover attempts and business combinations that stockholders might consider in their best interests; and

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

For additional information regarding the risks identified above, see Item 1A. Risk Factors in our 2009 Annual Report on Form 10-K. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise.

Overview

Our business

We are a leading financial security company dedicated to providing insurance, wealth management, investment and financial solutions to more than 15 million customers, with a presence in more than 25 countries. We have three operating segments: Retirement and Protection, International and U.S. Mortgage Insurance.

Retirement and Protection. We offer and manage a variety of protection, wealth management and retirement income products. Our primary protection products include: life, long-term care and Medicare supplement insurance. Additionally, we offer other senior supplemental products, as well as care coordination services for our long-term care policyholders. Our wealth management and retirement income products include: a variety of managed account programs and advisor services, financial planning services, fixed and variable deferred and immediate individual annuities and group variable annuities offered through retirement plans. For the three months ended June 30, 2010, our Retirement and Protection segment s net income available to Genworth Financial, Inc. s common stockholders and net operating income available to Genworth Financial, Inc. s common stockholders were $81 million and $114 million, respectively. For the six months ended June 30, 2010, our Retirement and Protection segment s net income available to Genworth Financial, Inc. s common stockholders and net operating income available to Genworth Financial, Inc. s common stockholders were $165 million and $236 million, respectively.

International. We offer mortgage and lifestyle protection insurance products and related services in multiple markets. We are a leading provider of mortgage insurance products in Canada, Australia, Mexico and multiple European countries. Our products predominantly insure prime-based, individually underwritten residential mortgage loans, also known as flow mortgage insurance. On a limited basis, we also provide mortgage insurance on a structured, or bulk, basis that aids in the sale of mortgages to the capital markets and helps lenders manage capital and risk. Additionally, we offer services, analytical tools and technology that enable lenders to operate efficiently and manage risk. We are a leading provider of payment protection coverages 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. For the three months ended June 30, 2010, our International segment s net income available to Genworth Financial, Inc. s common stockholders and net operating income available to Genworth Financial, Inc. s common stockholders were $107 million and $105 million, respectively. For the six months ended June 30, 2010, our International segment s net income available to Genworth Financial, Inc. s common stockholders and net operating income available to Genworth Financial, Inc. s common stockholders were $202 million and $196 million, respectively.

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. For the three months ended June 30, 2010, our U.S. Mortgage Insurance segment s net loss available to Genworth Financial, Inc. s common stockholders and net operating loss available to Genworth Financial, Inc. s common stockholders were $43 million and $40 million, respectively. For the six months ended June 30, 2010, our U.S. Mortgage Insurance segment s net loss available to Genworth Financial, Inc. s common stockholders and net operating loss available to Genworth Financial, Inc. s common stockholders were both $76 million.

We also have Corporate and Other activities which include debt financing expenses that are incurred at our holding company level, unallocated corporate income and expenses, eliminations of inter-segment transactions and the results of non-core businesses and non-strategic products that are managed outside of our operating segments. Our non-strategic products include our institutional and corporate-owned life insurance products. Institutional products consist of funding agreements, funding agreements backing notes (FABNs) and guaranteed investment contracts (GICs). For the three months ended June 30, 2010, our Corporate and Other activities net loss available to Genworth Financial, Inc. s common stockholders and net operating loss available to Genworth Financial, Inc. s common stockholders were $103 million and $61 million, respectively. For the six months ended June 30, 2010, our Corporate and Other activities net loss available to Genworth Financial, Inc. s common stockholders and net operating loss available to Genworth Financial, Inc. s common stockholders were $71 million and $124 million, respectively.

Business trends and conditions

Our business is, and we expect will continue to be, influenced by a number of industry-wide and product-specific trends and conditions. The following discussion of business trends and conditions should be read together with the trends discussed in our 2009 Annual Report on Form 10-K, which described additional business trends and conditions.

General conditions and trends affecting our businesses

Financial and economic environment. As a financial security company, the stability of both the financial markets and global economies in which we operate impacts our sales, revenue growth and profitability trends of our businesses. Global financial markets improved during the first quarter of 2010 from the volatility experienced in 2009, with solid performance, lower volatility in equity markets, narrowing spreads and better credit performance in many sectors of the debt markets. However, in the second quarter of 2010, we saw a decline in equity markets and widening spreads primarily as a result of the perceived contagion risk related to the European sovereign debt crisis. In 2010, Canadian and Australian economies and housing markets improved. Despite continued stress in the U.S. housing market and variations in performance by sub-market, there were continued signs of stabilization. Europe remained a slow growth environment.

Slow economic growth, coupled with uncertain financial market conditions, influenced, and may continue to influence, investment and spending decisions by both consumers and businesses as they adjust their consumption, debt and risk profiles in response to these conditions. As a result, our sales, revenues and profitability trends of certain insurance and investment products were adversely impacted during the first half of 2009. Since then, these trends have improved as investor confidence in the markets and the outlook for some consumers and businesses strengthened. Other factors such as government spending, monetary policies, regulatory initiatives, the volatility and strength of the capital markets, anticipated tax policy changes and the impact of U.S. healthcare and financial regulation reform can continue to affect economic and business outlooks and consumer behaviors moving forward.

In response to market conditions, we adjusted our investment and asset-liability management strategies to reduce risk during strained economic and financial market conditions. In addition, we refined our product and

distribution management strategies to best fit with our strengths, profitability targets and risk tolerance. These and other company actions were made to enhance our competitive position as well as our capital flexibility and liquidity. See Trends and conditions affecting our segments below for a discussion regarding the impacts the financial markets and global economies have on our businesses.

Since late 2008, the U.S. government, Federal Reserve and other legislative and regulatory bodies have taken a variety of other actions to stabilize the capital markets and provide needed liquidity to promote economic growth. These include various mortgage restructuring programs implemented or under consideration by the government-sponsored enterprises (GSEs), lenders, servicers and the U.S. government. Outside of the U.S., various governments took actions to stimulate economies, stabilize financial systems and improve market liquidity. In general, these actions have positively affected these countries and their markets; however, there can be no assurance as to the future level of impact of any of these actions on the economic and financial markets, including levels of volatility. A delayed economic recovery period or global recessionary setback could materially and adversely affect our business, financial condition and results of operations.

Volatility in credit and investment markets. Market conditions showed continued signs of improvement in the first quarter of 2010 resulting in greater investor confidence and positive, though inconsistent, equity and credit market performance. Continued strong demand for fixed-income products resulted in credit spread compression. However, during the first quarter of 2010, there was higher volatility in select sovereign bonds and related securities as concerns grew over the refinancing needs of Greece and certain other European countries. In the second quarter of 2010, the market moved away from riskier assets. This was generally a response to increased concerns regarding macro-economic risks in Europe and a slowing in the pace of recovery of the U.S. economy. During the second quarter of 2010, Treasury yields declined substantially as equity volatility increased and high yield bond spreads widened as the market demand grew for higher-quality assets. Nonetheless, investor liquidity was strong during the quarter and most investment grade bond issues were met with good demand. Investor appetite for asset-backed securities remained strong given limited supply, stable credit performance and structural protections embedded in the larger transactions brought to market. Although financial sector performance improved during the first half of 2010, high levels of unemployment and continued global economic uncertainty still weigh on certain markets.

While the marketplace is still experiencing declines in the performance of collateral underlying certain structured securities, corporate impairments continued their downward trend and were at moderate levels during the first half of 2010. We recorded net other-than-temporary impairments of $51 million and $131 million, respectively, during the three and six months ended June 30, 2010 which were lower than prior year levels and we expect losses to moderate further. Additionally, in the first half of 2010, losses related to limited partnerships decreased $116 million as compared to the first half of 2009 with limited partnership gains in the second quarter of 2010. Although economic conditions may continue to negatively impact certain investment valuations, the underlying collateral associated with assets that have not been impaired continues to perform.

Looking ahead, we believe that the current credit environment provides us with opportunities to invest across a variety of asset classes to meet our yield requirements, as well as to continue our diversification and efforts to minimize risk within the investment portfolio. See Investments and Derivative Instruments for additional information on our investment portfolio.

Trends and conditions affecting our segments

Retirement and Protection

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

The increase in life insurance sales we experienced during the second half of 2009 continued into the first half of 2010, in large part the result of strong adoption of our new term universal life insurance product. As anticipated, sales of our traditional term life insurance product have declined given the introduction late in 2009 of our new term universal life insurance product that was designed to replace our traditional term life insurance product. Our new term universal life insurance product is more capital efficient and we believe offers a similar or better value proposition to the consumer as our traditional term life insurance product, and is competitively priced for the main street and emerging affluent markets. We have experienced strong initial adoption of the product; however, the growth rate will ultimately depend upon the intensity and level of future distributor (existing brokerage general agents (BGAs) and other distributors) and consumer adoption. In our universal life insurance products, sales for the first half of 2010 were relatively stable given product changes made in 2009 to our new universal life insurance product that resulted in a more capital efficient product that is priced to achieve targeted returns. New premium sales may decline, remain flat or increase depending upon the ongoing distributor and consumer adoption and usage, as well as overall market conditions.

Throughout 2009, we experienced favorable mortality results in our term life insurance products as compared to priced mortality. In 2010, mortality remained favorable although less so than in 2009. Additionally, we have experienced lower persistency as compared to pricing for 10-year term life insurance policies written in 1999 and 2000 as they reach their post-level rate period. Given the relatively high volume of 10-year term life policies written in 2000, we expect this trend to continue and then moderate as these policies have now reached their post-level rate period.

Regulations XXX and AXXX require insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and certain universal life insurance policies with secondary guarantees, which increase the capital required to write these products beyond economic requirements. The solutions for the increased reserve requirements on some of our in-force books of business have become more limited and expensive; however, we have committed funding sources for approximately 95% of our anticipated peak level reserves required under Regulations XXX and AXXX so we believe unfunded reserve exposure is minimal. Additionally, we have made product modifications and introduced new products designed to reduce capital requirements and limit financing costs associated with existing products and thereby improve the profitability of new business. The new term universal life insurance product, discussed above, offers death benefit guarantee premiums that are competitive with traditional term insurance premiums for comparable durations and provides greater consumer flexibility typically associated with universal life coverage. We have also introduced product modifications to our universal life insurance products which provide shorter guarantee periods thereby reducing capital requirements.

Long-term care insurance. Results of our long-term care insurance business are influenced by morbidity, persistency, investment yields, new product sales, expenses and reinsurance.

In recent years, industry-wide first-year annualized premiums of individual long-term care insurance have either declined or grown moderately. While our overall sales in 2009 were adversely impacted primarily by the general economic conditions and lower sales through our independent distribution and career force channels, in the second half of 2009 and continuing into the first half of 2010, we experienced improvements in our long-term care insurance sales. Recent improvements are due in part to the breadth of our distribution, and we have made progress on multiple growth initiatives with an emphasis on distribution effectiveness and broadening our offerings, including additional group long-term care insurance participation and linked-benefits products.

In the first half of 2009, termination rates increased on the new and old blocks of business resulting in lower benefits and other changes in policy reserves that contributed positively to results of operations. However, during the second half of 2009 and continuing into the first half of 2010, termination rates have decreased to levels experienced historically resulting in higher benefits and other changes in policy reserves that contributed to lower results of operations. We have also experienced higher claims in older issued policies in recent periods which have negatively impacted our results of operations.

We continue pursuing multiple growth initiatives, investing in case management, maintaining tight expense management, actively exploring alternative reinsurance strategies, executing effective investment strategies and considering other actions to improve profitability of the overall block, and in particular our older blocks of business, including potential future rate increases. In addition, changes in regulations or government programs, including certain aspects of healthcare reform, such as the Community Living Assistance Services and Supports (CLASS) Act, could impact our long-term care insurance business positively or negatively. As such, we continue to actively monitor regulatory developments.

Wealth management. Results of our wealth management business are impacted by demand for asset management products and related support services, investment performance and equity market conditions. The decline and volatility in the equity markets that began in 2008 negatively impacted the asset management industry overall, as well as our assets under management, net flows, the performance of certain mutual funds we offer and associated fee income. The recovery of equity and fixed income markets began in the second quarter of 2009 and continued throughout 2009 and into the first quarter of 2010, although we saw a reversal of this trend late in the second quarter of 2010.

The market improvement over the second half of 2009 and first quarter of 2010, in addition to our introduction of new investment strategies, expansion of products and services we offer to our advisors and an increase in the number of advisors that do business with us collectively contributed to our higher sales, net flows and assets under management in the last three quarters of 2009 and the first half of 2010. Market declines and volatility in the second quarter of 2010 reduced sales and net flows over prior periods although net flows remained positive. Despite the market volatility, the business generated positive net flows since April 2009. Depending upon the direction of equity markets in the future, we could see a correlated impact on sales, net flows and assets under management.

Retirement income. Results of our retirement income business are affected by investment performance, interest rate levels, slope of the interest rate yield curve, net interest spreads, equity market conditions, mortality, policyholder lapses, new product sales and relative competitiveness of our offerings. Our competitive position within many of our distribution channels and our ability to grow this business depends on many factors, including product features and company ratings. Product features include current and minimum crediting rates on our spread-based products, surrender charges and guaranteed benefit features in variable annuity products which provide guaranteed death or living benefits to the consumer.

Recent product changes and sales of annuity products reflect a more targeted growth strategy in order to achieve appropriate risk adjusted returns. We have scaled back certain product features and targeted certain market segments to reduce risk in our annuity products. In this connection, we have targeted distributors and producers and chosen sales personnel that align with this more focused strategy. Beginning in the second half of 2009, we expanded our distribution relationships with new financial institutions, independent financial planners and BGAs and we expect to continue to expand these distribution relationships and introduce new product offerings.

In fixed annuities, sales may fluctuate as interest rates change and as we offer these products using a disciplined approach to meet targeted returns. We have introduced new deferred annuity products in the BGA channel and we have re-priced immediate annuities to maintain spreads and targeted returns. In 2009, spreads on fixed annuity products declined in connection with lower short-term rates and from holding higher cash balances to manage through challenging market conditions. Through the first half of 2010, we have reinvested a significant portion of the excess cash and are achieving improvements in spread-related income as a result of higher yields.

In variable annuities, the improvement in the equity markets during the second half of 2009 and the first quarter of 2010 favorably impacted our results. However, the decline and volatility in the equity markets during the second quarter of 2010 adversely impacted our results. In the future, equity market performance and volatility could result in additional gains or losses in our variable annuity products and associated hedging program which

would impact our results. In addition, we continue to offer variable annuity products with living benefit features as described above. However, in response to the risk in equity markets, certain product features have been scaled back to reduce adverse selection risk and volatility while costs to the consumer have been increased. These product changes are similar to actions taken by many, but not all, of our competitors. We believe the benefits offered by these products remain attractive to consumers within our targeted markets.

International

International mortgage insurance. Results of our international mortgage insurance business are affected by changes in regulatory environments, employment and other economic and housing market trends, including interest rate trends, home price appreciation, mortgage origination volume, levels of mortgage delinquencies and movements in foreign currency exchange rates.

Throughout 2009, we observed increased stability in international housing markets, particularly in Canada and Australia, as lower mortgage rates, improved housing affordability, certain government programs and improved consumer confidence resulted in increased home sales activity. As a result, home prices increased in these markets during 2009. In the first half of 2010, home price growth slowed in Canada and Australia. Additionally, while unemployment increased during the first half of 2009, we observed a modest decline in unemployment rates in these two markets during the second half of 2009 and we have seen this trend continue or strengthen in the first half of 2010. In certain of our European mortgage insurance markets, we have observed early signs of stabilization as unemployment growth and declines in home prices have moderated.

Canada and Australia comprise approximately 97% of our international mortgage insurance risk in-force with an estimated average effective loan-to-value ratio of 61% as of June 30, 2010. We expect that these established markets will continue to be key drivers of revenues and earnings in our international mortgage insurance business. Our entry and growth in developing international markets will remain disciplined and selective.

In Canada, the Bank of Canada increased the overnight rate by 25 basis points in the second quarter of 2010, and has implemented another 25 basis points increase in July 2010. In Australia, as a sign of the relative health and stability of that economy, the Reserve Bank of Australia increased the cash rate by 150 basis points between September 30, 2009 and June 30, 2010. It is anticipated that both the Bank of Canada and the Reserve Bank of Australia may increase rates modestly in the second half of 2010.

In Canada, we experienced higher than anticipated levels of flow new insurance written in the first half of 2010 driven by a larger mortgage market. A low interest rate environment in the first half of 2010 with rates forecasted to increase in the second half of the year and improved consumer confidence contributed to this increase. Additionally, implementation of the harmonized sales tax in July 2010 in British Columbia and Ontario, which had the potential to increase the cost of purchasing a home for certain buyers, contributed to higher levels of mortgage originations in 2010. We believe these factors accelerated purchase decisions into the first half of the year and may result in lower levels of mortgage originations and an associated decrease in our flow new insurance written in the second half of 2010.

In Australia, as a result of low interest rates during the first nine months of 2009 and specific government programs, there was an increase in mortgage originations by first-time home buyers and an associated increase in our flow new insurance written. The Australian government extended its enhanced first-time home buyer program benefits through the end of 2009, although at reduced levels, and eliminated these enhanced benefits altogether effective January 1, 2010. As a result of lower levels of government support to first-time home buyers and increased interest rates beginning in the fourth quarter of 2009, there has been a decrease in mortgage originations and an associated decrease in our flow new insurance written in the first half of 2010. As some liquidity returned to the securitization market in Australia, we insured additional bulk transactions in the first half of 2010. We expect to continue to write modest levels of bulk new insurance written throughout 2010.

During 2009, we significantly expanded our focus on, and the resources devoted to, loss mitigation initiatives, including programs that actively partner with our lenders to find solutions that cure delinquencies through actions such as loan modifications and keep borrowers in their homes. These programs benefit all parties as borrowers are able to remain in their homes, lenders maintain their relationship with the borrower and an earning asset, and we mitigate claim payments under the terms of our mortgage insurance policies. Additionally, in cases where no solution is found to cure the delinquency and keep the borrower in their home, we are actively partnering with our lenders to optimize the transition process and mitigate claim payments. As a result of our expanded focus, there was an increase in the number of loans subject to our loss mitigation initiatives, which we believe had a favorable impact on our results of operations. We have also seen improvements in our total losses as economies continue to improve, home prices continue to increase and unemployment levels decline. With ongoing improvement in the Canadian and Australian economies and housing markets, as well as the success we experienced with our loss mitigation initiatives outlined above, we expect our loss levels to continue to improve from the levels experienced during 2009.

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

For the six months ended June 30, 2010, sales decreased primarily as a result of stagnating economies across Europe, which resulted in a decline in consumer lending where most of our insurance coverages attach as banks tightened lending criteria and consumer demand declined. Additionally, our ongoing focus on risk management led us to exit certain relationships or concentration of coverages. We are pursuing various growth initiatives to offset these market conditions; however, depending on the severity and length of these conditions, we could experience additional sales declines.

In contrast to the first half of 2009, when unemployment rates increased rapidly, we have seen a slowdown in the rate of increase or stabilization in unemployment over the past several quarters broadly across Europe with regional variation. Consequently, we experienced a continued decline in new claim registrations on unemployment-related policies, particularly in Ireland and Spain since March 2009 and in Denmark since March 2010. We expect unemployment rates in Europe to increase slowly and peak in the second half of 2010. Increasing claims duration pressure from longer periods of persistent unemployment and accident and sickness claims is beginning to stabilize as a result of re-pricing actions and loss mitigation efforts.

During 2009 and into 2010, significant progress was made in improving profitability through pricing, coverage or distribution contract changes on both new and eligible in-force policies. Collectively, these strategies will improve profitability and help to offset the impact of continued high unemployment as well as relatively low levels of consumer lending.

U.S. Mortgage Insurance

Results of our U.S. mortgage insurance business are affected by unemployment and other economic and housing market trends, including interest rates, home prices, mortgage origination volume and practices and product mix, as well as the levels and aging of mortgage delinquencies including seasonal variations. These economic and housing market trends are in turn continuing to be adversely affected by the ongoing weak domestic economy and related levels of unemployment. However, home prices are beginning to stabilize or improve in many U.S. markets after a significant decline from their peak levels. Overall, we anticipate some additional modest declines in home values in 2010 and we expect unemployment levels may increase modestly by the end of 2010.

A weak housing market, tightened lending standards and the lack of liquidity in some mortgage securitization markets continued to drive a smaller mortgage origination market. However, in this smaller origination market, we have seen an increase in our market share in recent quarters. The mortgage insurance

penetration rate and market size have been driven down by growth in FHA originations, associated with multiple pricing, underwriting and loan size factors, and the negative impact of GSE market fees and loan level pricing which can make private mortgage insurance solutions less competitive with the FHA solution. Going forward, this trend may limit the demand for private mortgage insurance. Alternatively, given potential adjustments in FHA policies and pricing, GSE pricing and housing and financial reform involving the GSEs and government programs, the industry expects to regain market share over time. Specifically, the mortgage insurance industry level of market penetration and eventual market size could be affected by any actions taken by the GSEs, the FHA or the U.S. government impacting housing policy or related reforms. The Housing and Economic Recovery Act of 2008 provides for changes to, among other things, the regulatory authority and oversight of the GSEs and the authority of the FHA including with respect to premium pricing, maximum loan limits and down payment requirements. The FHA is also seeking legislative authority to increase its annual premium rates. Such an increase is expected to increase the private mortgage insurance industry s market share compared to that of the FHA. In addition, Fannie Mae and Freddie Mac remain the largest purchasers and guarantors of mortgage loans in the United States.

We control the quality of new business through prudent underwriting guidelines, which we modify from time to time when circumstances warrant. For example, we announced in early 2010 the expansion of certain underwriting guidelines. We are also seeing the benefit of the previously announced rate increase of 20% on average for our flow products and a reduction in captive cession which equates to an effective pricing improvement of approximately 15%. We previously exited certain product lines, such as A minus, Alt-A and 100% loan-to-value products. We also continue to monitor our targeted declining market policy, which among various restrictions, limited coverages to loans with 90% loan-to-value and below and to adjust those markets accordingly as areas of the U.S. housing market begin to stabilize or improve. In the first quarter of 2010, we reduced the number of markets subject to our declining market policy to allow coverage of loans up to 95% loan-to-value in additional markets given improving housing market conditions, which may result in increased new business written.

Overall pressure on the housing market has adversely affected the performance of our portfolio, particularly our 2005, 2006 and 2007 book years that we believe peaked in their delinquency development during the first quarter of 2010. While the impact was concentrated in certain states and product types, during 2009, the impact shifted to more traditional products reflecting elevated unemployment levels throughout the country. We have also seen an increase in the number of foreclosure starts and in the rate at which foreclosures progress to claim. As such, we have begun to see an increase in our paid claims as these loans go through foreclosure.

However, as a result of the recent stabilization of home prices and unemployment levels and expanded efforts in the mortgage market to modify loans, we experienced a decrease in delinquencies in the first half of 2010. This decrease reflected a reduction in new delinquencies combined with increased cures from government and lender loan modification programs and other loss mitigation activities. However, aged delinquencies and foreclosures continued increasing through the second quarter of 2010, both of which pressure home prices in certain markets resulting in higher levels of default. If home values continue to decline and credit remains tight, the ability to cure a delinquent loan could be more difficult to achieve.

Our loss mitigation activities, including those relating to workouts, loan modifications, pre-sales, rescissions and targeted settlements, net of reinstatements, have resulted in a reduction of expected losses of approximately $450 million during the six months ended June 30, 2010 compared to $333 million during the six months ended June 30, 2009. Workouts and loan modifications, which related to loans representing 3% of our primary risk in-force as of June 30, 2010, resulted in a reduction of loss exposure of approximately $267 million for the six months ended June 30, 2010 compared to $97 million for the six months ended June 30, 2009. Our workout and loan modification programs with various lender and service customers are designed to help borrowers in default regain current repayment status on their mortgage loans, which ultimately allowed many of these borrowers to remain in their homes. During the six months ended June 30, 2010, we executed loan restructurings and modifications with our lender partners that resulted in reduced monthly mortgage loan repayment amounts either

through reductions of the underlying loans interest rates and/or through a lengthening of the loans principal amortization period. The loans that are subject to workouts and loan modifications that were completed could be subject to potential re-default by the underlying borrower at some future date. In addition, pre-sales and other non-cure workouts resulted in a reduction of loss exposure of approximately $28 million for the six months ended June 30, 2010 compared to $21 million for the six months ended June 30, 2009. As a result of investigation activities on certain insured delinquent loans, we found significant levels of misrepresentation and non-compliance with certain terms and conditions of our underlying master insurance policies, as well as fraud. These findings separately resulted in rescission actions that reduced our loss exposure at the time of rescission by approximately $155 million for the six months ended June 30, 2010 compared to $215 million for the six months ended June 30, 2009. Benefits from loss mitigation activities are shifting from rescissions to loan modifications where we expect a majority of our benefits to be achieved going forward. During 2010, we reached agreements with a servicer and a counterparty that further reduced our risk in-force exposure. Our investigations process and rescission actions, along with expanded loan modification efforts supported by various related lender and government programs, have benefited our results significantly and these benefits are expected to continue. At the same time, we continue to discuss with lenders any concerns with respect to our rescission practices and risk exposures in books of business. Going forward, however, there is no assurance regarding what specific level of benefits may result from modification, rescission or settlement activity. In addition, there are several programs related to the U.S. housing market being implemented by the U.S. government, GSEs, servicers and various lenders that we expect will mitigate losses on loans we insure. We are actively participating in and supporting these various programs. These programs are expected to limit increases in paid claims and we continue to pursue ways to support mortgage servicers in their efforts to increase the benefits from loss mitigation activities.

We also participate in reinsurance programs in which we share portions of our premiums associated with flow insurance written on loans originated or purchased by lenders with captive insurance entities of these lenders in exchange for an agreed upon level of loss coverage above a specified attachment point. For the six months ended June 30, 2010, we recorded reinsurance recoveries of $89 million where cumulative losses have exceeded the attachment points in captive reinsurance arrangements, primarily related to our 2005, 2006 and 2007 book years. We have exhausted certain captive reinsurance tiers for these book years based on loss development trends. Once the captive reinsurance or trust assets are exhausted, we are responsible for additional losses incurred. We have begun to experience constraints on the recognition of captive benefit recovery due to the amount of funds held in certain captive trusts and the exhaustion of captive loss tiers for certain reinsurers. As of January 1, 2009, we no longer participate in excess loss of captive reinsurance transactions and we will only participate in quota share reinsurance arrangements. The majority of our excess of loss captive reinsurance arrangements are in runoff with no new books of business being added going forward; however, we will continue to benefit from captive reinsurance on our 2005, 2006 and 2007 book years.

Consolidated Results of Operations

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

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Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

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

(Amounts in millions)	Three months ended June 30, 2010	Three months ended June 30, 2009	Increase (decrease) and percentage change 2010 vs. 2009	
Revenues:				
Premiums	$ 1,470	$ 1,502	$ (32)	(2)%
Net investment income	823	781	42	5%
Net investment gains (losses)	(139)	(53)	(86)	(162)%
Insurance and investment product fees and other	256	253	3	1%
Total revenues	2,410	2,483	(73)	(3)%
Benefits and expenses:				
Benefits and other changes in policy reserves	1,340	1,492	(152)	(10)%
Interest credited	211	263	(52)	(20)%
Acquisition and operating expenses, net of deferrals	499	456	43	9%
Amortization of deferred acquisition costs and intangibles	179	212	(33)	(16)%
Interest expense	109	114	(5)	(4)%
Total benefits and expenses	2,338	2,537	(199)	(8)%
Income (loss) before income taxes	72	(54)	126	NM[1]
Benefit for income taxes	(5)	(4)	(1)	(25)%
Net income (loss)	77	(50)	127	NM[1]
Less: net income attributable to noncontrolling interests	35		35	NM[1]
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ 42	$ (50)	$ 92	184%

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

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

Our Retirement and Protection segment decreased $7 million primarily related to a $9 million decrease in our life insurance business and a $6 million decrease in our retirement income business, partially offset by an $8 million increase in our long-term care insurance business.

Our International segment decreased $13 million as a result of a decrease of $40 million in our lifestyle protection insurance business, partially offset by a $27 million increase in our international mortgage insurance business. The three months ended June 30, 2010 included an increase of $25 million attributable to changes in foreign exchange rates.

Our U.S. Mortgage Insurance segment decreased $11 million.

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

Weighted-average investment yields increased to 4.8% for the three months ended June 30, 2010 from 4.6% for the three months ended June 30, 2009. The increase in weighted-average investment yields was primarily attributable to lower losses on limited partnerships. Net investment income for the three months ended June 30, 2010 included $10 million of gains related to limited partnerships accounted for under the equity method as compared to $33 million of losses in the three months ended June 30, 2009.

Additionally, there was an increase in net investment income related to the consolidation of certain securitization entities as of January 1, 2010. These increases were partially offset by a decrease in investment income related to policy loans from a bankruptcy-related lapse in 2009 and lower yields on floating rate investments.

The three months ended June 30, 2010 included an increase of $11 million attributable to changes in foreign exchange rates in our International segment.

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

We recorded $51 million of net other-than-temporary impairments for the three months ended June 30, 2010 as compared to $152 million for the three months ended June 30, 2009. Of total impairments, for the three months ended June 30, 2010 and 2009, $43 million and $109 million, respectively, related to structured securities, including $23 million and $66 million, respectively, related to sub-prime and Alt-A residential mortgage-backed and asset-backed securities. For the three months ended June 30, 2010, we recorded $5 million of impairments related to commercial mortgage loans and $4 million related to limited partnership investments. For the three months ended June 30, 2009, we recorded a $36 million impairment related to a retained interest in securitized assets based on revised assumptions regarding cash flows from the assets underlying this securitization transaction. We concluded the value of our retained interest was zero and recognized the full impairment in the prior year. We also recorded $5 million of impairments related to financial hybrid securities primarily from banks in the U.K., Ireland and the Netherlands during the three months ended June 30, 2009.

Net investment losses related to derivatives of $38 million in the second quarter of 2010 were primarily related to $31 million of losses from the change in value of our credit default swaps due to widening credit spreads, $21 million of losses from the change in value of the embedded derivative liabilities exceeding the change in value of the derivative instruments used for mitigating the risk of embedded derivative liabilities associated with our variable annuity products with guaranteed minimum withdrawal benefits (GMWBs) and $9 million of losses related to a derivative strategy to mitigate the interest rate risk associated with our statutory capital position. These losses were partially offset by $15 million of ineffectiveness gains from our cash flow hedge programs related to our long-term care insurance business, $4 million of gains from other non-qualified interest rate swaps, $2 million of gains related to embedded derivatives associated with certain reinsurance agreements and $2 million of gains from foreign currency options and forward contracts. Net investment gains related to derivatives of $114 million in the second quarter of 2009 were primarily related to gains in embedded derivative liabilities associated with our variable annuity products with GMWBs exceeding the change in value of derivative instruments used for mitigating this risk.

We also recorded $47 million of net losses related to securitization entities in the second quarter of 2010 primarily associated with derivatives and $18 million of losses related to commercial mortgage loans from a lower of cost or market adjustment on loans held-for-sale and an increase in the allowance. Net gains related to the sale of available-for-sale securities were $17 million in the second quarter of 2010 compared to losses of $27 million in the second quarter of 2009.

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

Our Retirement and Protection segment increased $50 million largely driven by an increase of $23 million in our wealth management business, an increase of $13 million in our life insurance business and an increase of $11 million in our retirement income business.

Corporate and Other activities decreased $44 million.

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

Our Retirement and Protection segment increased $66 million primarily attributable to a $33 million increase in our life insurance business, a $23 million increase in our long-term care insurance business and a $10 million increase in our retirement income business.

Our International segment decreased $63 million as a result of a decrease of $44 million in our lifestyle protection insurance business and a decrease of $19 million in our international mortgage insurance business. The three months ended June 30, 2010 included an increase of $10 million attributable to changes in foreign exchange rates.

Our U.S. Mortgage Insurance segment decreased $155 million.

Interest credited. Interest credited represents interest credited on behalf of policyholder and contractholder general account balances.

Our Retirement and Protection segment decreased $8 million principally related to our retirement income business.

Corporate and Other activities decreased $44 million.

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

Our Retirement and Protection segment increased $41 million primarily attributable to a $17 million increase in our wealth management business, a $15 million increase in our long-term care insurance business and an $8 million increase in our life insurance business.

Our International segment increased $8 million related to an $11 million increase in our international mortgage insurance business, partially offset by a $3 million decrease in our lifestyle protection insurance business.

Corporate and Other activities decreased $6 million.

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

Our Retirement and Protection segment decreased $34 million primarily attributable to a $44 million decrease in our retirement income business and a $5 million decrease in our long-term care insurance business, partially offset by a $15 million increase in our life insurance business.

Our International segment was relatively flat as a $7 million increase in our international mortgage insurance business was offset by a $6 million decrease in our lifestyle protection insurance business. The three months ended June 30, 2010 included an increase of $2 million attributable to changes in foreign exchange rates.

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

Our Retirement and Protection segment increased $5 million primarily related to our life insurance business.

Our International segment decreased $14 million related to our lifestyle protection insurance business.

Corporate and Other activities increased $4 million.

Benefit for income taxes. The effective tax rate decreased to (6.9)% for the three months ended June 30, 2010 from 7.4% for the three months ended June 30, 2009. This decrease in the effective tax rate was primarily attributable to the favorable impact of newly enacted Australian tax legislation, tax benefits related to lower taxed foreign income and tax favored investments benefits recognized in the current year and from the effects of interim tax accounting standards in the prior year. The three months ended June 30, 2010 included an increase of $7 million attributable to changes in foreign exchange rates.

Net income attributable to noncontrolling interests. Net income attributable to noncontrolling interests represents the portion of equity in a subsidiary attributable to third parties. The increase related to the initial public offering of our Canadian mortgage insurance business in July 2009 which reduced our ownership percentage to 57.5%. The three months ended June 30, 2010 included an increase of $4 million attributable to changes in foreign exchange rates.

Net income (loss) available to Genworth Financial, Inc. s common stockholders. We reported net income available to Genworth Financial, Inc. s common stockholders in the current year compared to a net loss available to Genworth Financial, Inc. s common stockholders in the prior year primarily related to a lower loss in our U.S. mortgage insurance business. For a discussion of our Retirement and Protection, International and U.S. Mortgage Insurance segments and Corporate and Other activities, see the Results of Operations and Selected Financial and Operating Performance Measures by Segment. Included in net income available to Genworth Financial, Inc. s common stockholders was an increase of $12 million, net of tax, attributable to changes in foreign exchange rates.

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Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

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

(Amounts in millions)	Six months ended June 30, 2010	Six months ended June 30, 2009	Increase (decrease) and percentage change 2010 vs. 2009	
Revenues:				
Premiums	$ 2,940	$ 3,004	$ (64)	(2)%
Net investment income	1,588	1,492	96	6%
Net investment gains (losses)	(209)	(823)	614	75%
Insurance and investment product fees and other	512	544	(32)	(6)%
Total revenues	4,831	4,217	614	15%
Benefits and expenses:				
Benefits and other changes in policy reserves	2,655	3,000	(345)	(12)%
Interest credited	424	538	(114)	(21)%
Acquisition and operating expenses, net of deferrals	974	897	77	9%
Amortization of deferred acquisition costs and intangibles	363	459	(96)	(21)%
Interest expense	224	210	14	7%
Total benefits and expenses	4,640	5,104	(464)	(9)%
Income (loss) before income taxes	191	(887)	1,078	122%
Benefit for income taxes	(98)	(368)	270	73%
Net income (loss)	289	(519)	808	156%
Less: net income attributable to noncontrolling interests	69		69	NM[1]
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ 220	$ (519)	$ 739	142%

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

Premiums

Our Retirement and Protection segment decreased $18 million primarily related to a $23 million decrease in our life insurance business and a $17 million decrease in our retirement income business, partially offset by a $22 million increase in our long-term care insurance business.

Our International segment decreased $5 million as a result of a decrease of $64 million in our lifestyle protection insurance business, partially offset by a $59 million increase in our international mortgage insurance business. The six months ended June 30, 2010 included an increase of $93 million attributable to changes in foreign exchange rates.

Our U.S. Mortgage Insurance segment decreased $39 million.

Net investment income

Weighted-average investment yields increased to 4.6% for the six months ended June 30, 2010 from 4.3% for the six months ended June 30, 2009. The increase in weighted-average investment yields was primarily attributable to lower losses on limited partnerships. Net investment income for the six months ended June 30, 2010 included $116 million of lower losses related to limited partnerships accounted for under the equity method as compared to the six months ended June 30, 2009. Additionally, there was an increase in net investment income related to the consolidation of certain securitization entities as of

January 1, 2010. These increases were partially offset by a decrease in investment income related to policy loans from a bankruptcy-related lapse in 2009 and lower yields on floating rate investments.

The six months ended June 30, 2010 included an increase of $32 million attributable to changes in foreign exchange rates in our International segment.

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

We recorded $131 million of net other-than-temporary impairments for the six months ended June 30, 2010 as compared to $749 million for the six months ended June 30, 2009. Of total impairments, for the six months ended June 30, 2010 and 2009, $105 million and $389 million, respectively, related to structured securities, including $59 million and $268 million, respectively, related to sub-prime and Alt-A residential mortgage-backed and asset-backed securities. Impairments related to corporate securities as a result of bankruptcies, receivership or concerns about the issuer s ability to continue to make contractual payments or where we have intent to sell were $5 million and $59 million for the six months ended June 30, 2010 and 2009, respectively. We also recorded $6 million and $245 million of impairments related to financial hybrid securities primarily from banks in the U.K., Ireland and the Netherlands during the six months ended June 30, 2010 and 2009, respectively. For the six months ended June 30, 2010, we recorded $10 million of impairments related to limited partnership investments and $5 million related to commercial mortgage loans. We recorded a $36 million impairment related to a retained interest in securitized assets based on revised assumptions regarding cash flows from the assets underlying this securitization transaction during the six months ended June 30, 2009. We concluded the value of our retained interest was zero and recognized the full impairment in the prior year.

Net investment losses related to derivatives of $46 million for the six months ended June 30, 2010 were primarily related to $35 million of losses from the change in value of the embedded derivative liabilities exceeding the change in value of the derivative instruments used for mitigating the risk of embedded derivative liabilities associated with our variable annuity products with GMWBs, $27 million of losses from the change in value of our credit default swaps due to widening credit spreads and $6 million of losses related to a derivative strategy to mitigate the interest rate risk associated with our statutory capital position. These losses were partially offset by $13 million of ineffectiveness gains from our cash flow hedge programs related to our long-term care insurance business, $7 million of gains from other non-qualified interest rate swaps and $2 million of gains related to embedded derivatives associated with certain reinsurance agreements. Net investment losses related to derivatives of $7 million for the six months ended June 30, 2009 were primarily related to losses from a derivative strategy to mitigate the interest rate risk associated with our statutory capital position which were partially offset by gains in embedded derivative liabilities associated with our variable annuity products with GMWBs exceeding the change in value of derivative instruments used for mitigating this risk.

We also recorded $36 million of net losses related to securitization entities primarily associated with derivatives and $22 million of losses related to commercial mortgage loans from a lower of cost or market adjustment on loans held-for-sale and an increase in the allowance during the six months ended June 30, 2010. There was also a net gain of $16 million from the recovery of a counterparty receivable in 2010. Net gains related to the sale of available-for-sale securities were $2 million during the six months ended June 30, 2010 compared to losses of $61 million during the six months ended June 30, 2009.

Insurance and investment product fees and other

Our Retirement and Protection segment increased $85 million largely driven by an increase of $40 million in our wealth management business, an increase of $24 million in our life insurance business and an increase of $19 million in our retirement income business.

Corporate and Other activities decreased $116 million.

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Benefits and other changes in policy reserves

Our Retirement and Protection segment increased $98 million primarily attributable to a $69 million increase in our long-term care insurance business and a $39 million increase in our life insurance business, partially offset by a $10 million decrease in our retirement income business.

Our International segment decreased $81 million as a result of a decrease of $59 million in our lifestyle protection insurance business and a decrease of $22 million in our international mortgage insurance business. The six months ended June 30, 2010 included an increase of $35 million attributable to changes in foreign exchange rates.

Our U.S. Mortgage Insurance segment decreased $362 million.

Interest credited

Our Retirement and Protection segment decreased $20 million principally related to our retirement income business.

Corporate and Other activities decreased $94 million.

Acquisition and operating expenses, net of deferrals

Our Retirement and Protection segment increased $68 million primarily attributable to a $31 million increase in our wealth management business, a $21 million increase in our long-term care insurance business, a $12 million increase in our life insurance business and a $4 million increase in our retirement income business.

Our International segment increased $16 million related to an $18 million increase in our international mortgage insurance business, partially offset by a $2 million decrease in our lifestyle protection insurance business. The six months ended June 30, 2010 included an increase of $19 million attributable to changes in foreign exchange rates.

Corporate and Other activities decreased $9 million.

Amortization of deferred acquisition costs and intangibles

Our Retirement and Protection segment decreased $92 million primarily attributable to a $104 million decrease in our retirement income business and a $12 million decrease in our long-term care insurance business, partially offset by a $24 million increase in our life insurance business.

Our International segment was relatively flat as a $14 million decrease in our lifestyle protection insurance business was offset by a $13 million increase in our international mortgage insurance business. The six months ended June 30, 2010 included an increase of $10 million attributable to changes in foreign exchange rates.

Interest expense. Interest expense increased primarily related to a $12 million increase in Corporate and Other activities.

Benefit for income taxes. The effective tax rate decreased to (51.3)% for the six months ended June 30, 2010 from 41.5% for the six months ended June 30, 2009. This decrease in the effective tax rate was attributable to changes in uncertain tax benefits related to our separation from our former parent, favorable impact of newly enacted Australian tax legislation**,** lower taxed foreign income and tax favored investments. The six months ended June 30, 2010 included an increase of $19 million attributable to changes in foreign exchange rates.

Net income attributable to noncontrolling interests. The increase related to the initial public offering of our Canadian mortgage insurance business in July 2009 which reduced our ownership percentage to 57.5%. The six months ended June 30, 2010 included an increase of $9 million attributable to changes in foreign exchange rates.

Net income (loss) available to Genworth Financial, Inc. s common stockholders. We reported net income available to Genworth Financial, Inc. s common stockholders in the current year compared to a net loss available to Genworth Financial, Inc. s common stockholders in the prior year primarily related to additional tax benefits recognized in the current year, lower net investment losses and a lower loss in our U.S. mortgage insurance business. For a discussion of our Retirement and Protection, International and U.S. Mortgage Insurance segments and Corporate and Other activities, see the Results of Operations and Selected Financial and Operating Performance Measures by Segment. Included in net income available to Genworth Financial, Inc. s common stockholders was an increase of $32 million, net of tax, attributable to changes in foreign exchange rates.

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

Net operating income available to Genworth Financial, Inc. s common stockholders for the three months ended June 30, 2010 and 2009 was $118 million and $9 million, respectively. Net operating income available to Genworth Financial, Inc. s common stockholders for the six months ended June 30, 2010 and 2009 was $232 million and $23 million, respectively. We define net operating income available to Genworth Financial, Inc. s common stockholders as income (loss) from continuing operations excluding net income attributable to noncontrolling interests, after-tax net investment gains (losses) and other adjustments and infrequent or unusual non-operating items. We exclude net investment gains (losses) and infrequent or unusual non-operating items because we do not consider them to be related to the operating performance of our segments and Corporate and Other activities. A significant component of our net investment gains (losses) is the result of impairments, the size and timing of which can vary significantly depending on market credit cycles. In addition, the size and timing of other investment gains (losses) are often subject to our discretion and are influenced by market opportunities, as well as asset-liability matching considerations. Infrequent or unusual non-operating items are also excluded from net operating income available to Genworth Financial, Inc. s common stockholders if, in our opinion, they are not indicative of overall operating trends. There were no infrequent or unusual non-operating items excluded from net operating income available to Genworth Financial, Inc. s common stockholders during the periods presented other than a $106 million tax benefit related to separation from our former parent recorded in the first quarter of 2010.

While some of these items may be significant components of net income (loss) available to Genworth Financial, Inc. s common stockholders in accordance with U.S. GAAP, we believe that net operating income available to Genworth Financial, Inc. s common stockholders, and measures that are derived from or incorporate net operating income available to Genworth Financial, Inc. s common stockholders, are appropriate measures that are useful to investors because they identify the income (loss) attributable to the ongoing operations of the business. However, net operating income available to Genworth Financial, Inc. s common stockholders is not a substitute for net income (loss) available to Genworth Financial, Inc. s common stockholders determined in accordance with U.S. GAAP. In addition, our definition of net operating income available to Genworth Financial, Inc. s common stockholders may differ from the definitions used by other companies.

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

(Amounts in millions)	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Net income (loss)	$ 77	$ (50)	$ 289	$ (519)
Less: net income attributable to noncontrolling interests	35		69	
Net income (loss) available to Genworth Financial, Inc. s common stockholders	42	(50)	220	(519)
Adjustments to net income (loss) available to Genworth Financial, Inc. s common stockholders:				
Net investment (gains) losses, net of taxes and other adjustments	76	59	118	542
Net tax benefit related to separation from our former parent			(106)	
Net operating income available to Genworth Financial, Inc. s common stockholders	$ 118	$ 9	$ 232	$ 23

Earnings (loss) per share

The following table provides basic and diluted net income (loss) available to Genworth Financial, Inc. s common stockholder per common share for the periods indicated:

(Amounts in millions, except per share amounts)	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Net income (loss) available to Genworth Financial, Inc. s common stockholders per common share:				
Basic	$ 0.09	$ (0.11)	$ 0.45	$ (1.20)
Diluted	$ 0.08	$ (0.11)	$ 0.45	$ (1.20)
Weighted-average common shares outstanding:				
Basic	489.1	433.2	489.0	433.2
Diluted [(1)]	494.2	433.2	493.9	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 three and six months ended June 30, 2009, we were required to use basic weighted-average common shares outstanding in the calculation of the 2009 diluted loss per share, as the inclusion of shares for stock options, restricted stock units and stock appreciation rights of 1.2 million and 0.6 million, respectively, would have been antidilutive to the calculation. If we had not incurred a net loss for the three and six months ended June 30, 2009, dilutive potential common shares would have been 434.4 million and 433.8 million, respectively.

Diluted weighted-average shares outstanding for 2010 reflect the effects of potentially dilutive securities including stock options, restricted stock units and other equity-based compensation.

Results of Operations and Selected Financial and Operating Performance Measures by Segment

Our chief operating decision maker evaluates segment performance and allocates resources on the basis of net operating income available to Genworth Financial, Inc. s common stockholders. See note 11 in our Notes to Condensed Consolidated Financial Statements for a reconciliation of net operating income available to Genworth Financial, Inc. s common stockholders of our segments and Corporate and Other activities to net income (loss) available to Genworth Financial, Inc. s common stockholders.

Management s discussion and analysis by segment also contains selected operating performance measures including sales, assets under management and insurance in-force or risk in-force which are commonly used in the insurance and investment industries as measures of operating performance.

Management regularly monitors and reports the sales metric as a measure of volume of new and renewal business generated in a period. Sales refer to: (1) annualized first-year premiums for term life, long-term care and Medicare supplement insurance; (2) new and additional premiums/deposits for universal life insurance, linked-benefits, spread-based and variable products; (3) gross and net flows, which represent gross flows less redemptions, for our wealth management business; (4) written premiums and deposits, gross of ceded reinsurance and cancellations, and premium equivalents, where we earn a fee for administrative services only business, for lifestyle protection insurance; (5) new insurance written for mortgage insurance, which in each case reflects the amount of business we generated during each period presented; and (6) written premiums, net of cancellations, for our Mexican insurance operations. Sales do not include renewal premiums on policies or contracts written during prior periods. We consider annualized first-year premiums, new premiums/deposits, gross and net flows, written premiums, premium equivalents and new insurance written to be measures of our operating performance because they represent measures of new sales of insurance policies or contracts during a specified period, rather than measures of our revenues or profitability during that period.

Management regularly monitors and reports assets under management for our wealth management business, insurance in-force and risk in-force. Assets under management for our wealth management business represent third-party assets under management that are not consolidated in our financial statements. Insurance in-force for our life, international mortgage and U.S. mortgage insurance businesses is a measure of the aggregate face value of outstanding insurance policies as of the respective reporting date. Risk in-force for our international and U.S. mortgage insurance businesses is a measure that recognizes that the loss on any particular mortgage loan will be reduced by the net proceeds received upon sale of the underlying property. We consider assets under management for our wealth management business, insurance in-force and risk in-force to be measures of our operating performance because they represent measures of the size of our business at a specific date, rather than measures of our revenues or profitability during that period.

We also include a metric related to loss mitigation activities for our U.S. mortgage insurance business. We define loss mitigation activities as rescissions, cancellations, borrower loan modifications, repayment plans, lender- and borrower-titled pre-sales and other loan workouts and claim mitigation actions. Estimated savings related to rescissions are the reduction in carried loss reserves, net of premium refunds and reinstatement of prior rescissions. Estimated savings related to loan modifications and other cure related loss mitigation actions represent the reduction in carried loss reserves. For non-cure related actions, including pre-sales, the estimated savings represent the difference between the full claim obligation and the actual amount paid. We believe that this metric helps to enhance the understanding of the operating performance of our U.S. mortgage insurance business.

These operating measures enable us to compare our operating performance across periods without regard to revenues or profitability related to policies or contracts sold in prior periods or from investments or other sources.

The following discussions of our segment results of operations should be read in conjunction with the Business trends and conditions.

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Retirement and Protection segment

Segment results of operations

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

The following table sets forth the results of operations relating to our Retirement and Protection segment for the periods indicated:

(Amounts in millions)	Three months ended June 30, 2010	Three months ended June 30, 2009	Increase (decrease) and percentage change 2010 vs. 2009	
Revenues:				
Premiums	$ 822	$ 829	$ (7)	(1)%
Net investment income	630	564	66	12%
Net investment gains (losses)	(69)	4	(73)	NM[1]
Insurance and investment product fees and other	260	210	50	24%
Total revenues	1,643	1,607	36	2%
Benefits and expenses:				
Benefits and other changes in policy reserves	961	895	66	7%
Interest credited	176	184	(8)	(4)%
Acquisition and operating expenses, net of deferrals	252	211	41	19%
Amortization of deferred acquisition costs and intangibles	104	138	(34)	(25)%
Interest expense	29	24	5	21%
Total benefits and expenses	1,522	1,452	70	5%
Income before income taxes	121	155	(34)	(22)%
Provision for income taxes	40	56	(16)	(29)%
Net income available to Genworth Financial, Inc. s common stockholders	81	99	(18)	(18)%
Adjustment to net income (loss) available to Genworth Financial, Inc. s common stockholders:				
Net investment (gains) losses, net of taxes and other adjustments	33	24	9	38%
Net operating income available to Genworth Financial, Inc. s common stockholders	$ 114	$ 123	$ (9)	(7)%

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

The following table sets forth net operating income for the businesses included in our Retirement and Protection segment for the periods indicated:

(Amounts in millions)	Three months ended June 30, 2010	Three months ended June 30, 2009	Increase (decrease) and percentage change 2010 vs. 2009

Net operating income available to Genworth Financial, Inc. s common stockholders:				
Life insurance	$ 32	$ 58	$ (26)	(45)%
Long-term care insurance	47	42	5	12%
Wealth management	10	7	3	43%
Retirement income	25	16	9	56%
Total net operating income available to Genworth Financial, Inc. s common stockholders	$ 114	$ 123	$ (9)	(7)%

Net operating income available to Genworth Financial, Inc. s common stockholders

Our life insurance business decreased $26 million primarily attributable to lower persistency on our term life insurance policies entering the post-level rate period and increased claims as the result of higher mortality in our term life insurance products compared to the prior year.

Our long-term care insurance business increased $5 million as the favorable performance of newer issued policies and higher investment income were partially offset by lower terminations in the current year.

Our wealth management business increased $3 million from higher average assets under management from favorable equity market performance and positive net flows.

Our retirement income business increased $9 million. Our spread-based products increased $24 million primarily from an increase in net investment income. Our fee-based products decreased $15 million mainly attributable to less favorable market performance.

Revenues

Premiums

Our life insurance business decreased $9 million primarily attributable to the introduction of our term universal life insurance product that is designed to replace new sales of our existing term life insurance products with fees associated with deposits of the new product reflected in insurance and investment product fees and other. The decrease was also from higher lapses on policies entering the post-level rate period.

Our long-term care insurance business increased $8 million mainly attributable to growth of the in-force block from new sales, renewal premiums and in-force rate actions.

Our retirement income business decreased $6 million primarily driven by lower life-contingent sales of our spread-based products in the current market environment.

Net investment income

Our life insurance business increased $11 million mainly related to limited partnerships accounted for under the equity method. Net investment income included $3 million of gains related to limited partnerships accounted for under the equity method in the second quarter of 2010 as compared to losses of $9 million in the second quarter of 2009.

Our long-term care insurance business increased $32 million largely as a result of an increase in average invested assets due to growth of our in-force block. Additionally, net investment income in the second quarter of 2010 included $3 million of gains related to limited partnerships accounted for under the equity method as compared to losses of $3 million in the second quarter of 2009.

Our retirement income business increased $23 million primarily attributable to limited partnerships accounted for under the equity method. Net investment income included $4 million of gains related to limited partnerships accounted for under the equity method in

the second quarter of 2010 as compared to losses of $17 million in the second quarter of 2009. Net investment income for our spread-based products also benefited from the reinvestment of the high cash balances we were holding during 2009. These increases were partially offset by a decline in average invested assets of our fee-based products.

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

Net investment losses in our life insurance business decreased $35 million primarily driven by lower losses from the sale of investment securities related to portfolio repositioning and lower impairments recorded in the current year.

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Our long-term care insurance business had net investment gains in the current year from the sale of investment securities related to portfolio repositioning as compared to net investment losses in the prior year from derivative losses related to our derivative strategy to mitigate interest rate risk associated with our statutory capital position.

Our retirement income business had net investment losses in the current year primarily from losses related to embedded derivatives associated with our variable annuity products with GMWBs as compared to net investment gains related to those embedded derivatives in the prior year. The current year embedded derivative losses were partially offset by lower impairments.

Insurance and investment product fees and other

Our life insurance business increased $13 million primarily from growth of our new term universal life insurance product that is designed to replace sales of our traditional term life insurance products.

Our wealth management business increased $23 million primarily attributable to higher average assets under management from favorable market performance and positive net flows as gross flows exceeded redemptions.

Our retirement income business increased $11 million mainly due to higher average account values of our fee-based products from market improvement in the second half of 2009 and the first quarter of 2010.

Benefits and expenses

Benefits and other changes in policy reserves

Our life insurance business increased $33 million principally related to increased claims associated with higher mortality in our term life insurance products compared to the prior year and aging of the in-force block.

Our long-term care insurance business increased $23 million primarily as a result of the aging and growth of the in-force block and lower terminations in the current year.

Our retirement income business increased $10 million largely attributable to our fee-based products related to our guaranteed minimum benefit liabilities for our variable annuity contracts driven by unfavorable market impacts during the current year as compared to the prior year, partially offset by a decrease in guaranteed minimum death benefit claims.

Interest credited. Interest credited decreased $8 million primarily related to our retirement income business from lower account values on fixed annuities and lower crediting rates as the fixed annuities reach the end of their initial crediting rate guarantee period.

Acquisition and operating expenses, net of deferrals

Our life insurance business increased $8 million primarily from growth of our life insurance products.

Our long-term care insurance business increased $15 million related to growth of our in-force block.

Our wealth management business increased $17 million primarily from increased asset-based expenses as assets under management increased from favorable market impacts and positive net flows.

Our retirement income business remained relatively flat as higher costs associated with sales of our fee-based products were offset by lower sales of our spread-based products.

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Amortization of deferred acquisition costs and intangibles

Our life insurance business increased $15 million primarily attributable to higher amortization related to lower persistency in our term life insurance products entering the post-level rate period.

Our long-term care insurance business decreased $5 million from lower terminations in the current year, partially offset by growth of our in-force block.

Our retirement income business decreased $44 million primarily related to a decrease of $29 million in our fee-based products largely attributable to a decrease in amortization of deferred acquisition costs from lower net investment gains, partially offset by an increase in amortization from unfavorable market performance in the current year. Our spread-based products decreased $15 million mainly from a $9 million favorable unlocking primarily related to lower lapse trends in the current year and lower amortization of deferred acquisition costs attributable to higher net investment losses.

Interest expense. Interest expense increased $5 million primarily related to our life insurance business from higher costs associated with the issuance of letters of credit related to reinsurance transactions.

Provision for income taxes. The effective tax rate decreased to 33.1% for the three months ended June 30, 2010 from 36.1% for the three months ended June 30, 2009. This decrease in the effective tax rate was primarily attributable to a revision in the state effective tax rate in the prior year and tax favored investments recognized in the current year.

Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

The following table sets forth the results of operations relating to our Retirement and Protection segment for the periods indicated:

(Amounts in millions)	Six months ended June 30, 2010	Six months ended June 30, 2009	Increase (decrease) and percentage change 2010 vs. 2009	
Revenues:				
Premiums	$ 1,646	$ 1,664	$ (18)	(1)%
Net investment income	1,224	1,083	141	13%
Net investment gains (losses)	(136)	(570)	434	76%
Insurance and investment product fees and other	502	417	85	20%
Total revenues	3,236	2,594	642	25%
Benefits and expenses:				
Benefits and other changes in policy reserves	1,906	1,808	98	5%
Interest credited	350	370	(20)	(5)%
Acquisition and operating expenses, net of deferrals	482	414	68	16%
Amortization of deferred acquisition costs and intangibles	209	301	(92)	(31)%
Interest expense	51	50	1	2%
Total benefits and expenses	2,998	2,943	55	2%
Income (loss) before income taxes	238	(349)	587	168%
Provision (benefit) for income taxes	73	(132)	205	155%

Net income (loss) available to Genworth Financial, Inc. s common stockholders	165	(217)	382	176%
Adjustment to net income (loss) available to Genworth Financial, Inc. s common stockholders:				
Net investment (gains) losses, net of taxes and other adjustments	71	378	(307)	(81)%
Net operating income available to Genworth Financial, Inc. s common stockholders	$ 236	$ 161	$ 75	47%

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The following table sets forth net operating income for the businesses included in our Retirement and Protection segment for the periods indicated:

(Amounts in millions)	Six months ended June 30, 2010	2009	Increase (decrease) and percentage change 2010 vs. 2009	
Net operating income available to Genworth Financial, Inc. s common stockholders:				
Life insurance	$ 69	$ 96	$ (27)	(28)%
Long-term care insurance	87	83	4	5%
Wealth management	21	13	8	62%
Retirement income	59	(31)	90	NM[1]
Total net operating income available to Genworth Financial, Inc. s common stockholders	$ 236	$ 161	$ 75	47%

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

Net operating income available to Genworth Financial, Inc. s common stockholders

Our life insurance business decreased $27 million primarily in our term life insurance products attributable to higher mortality compared to the prior year, lower persistency in the post-level rate period and an unfavorable reinsurance adjustment of $5 million, partially offset by higher net investment income and a favorable tax settlement in the current year.

Our long-term care insurance business increased $4 million as the favorable performance of newer issued policies and higher investment income in the current year were partially offset by higher claims in older issued policies and lower terminations in the current year.

Our wealth management business increased $8 million from higher average assets under management from favorable equity market performance and positive net flows and a $2 million favorable tax adjustment in the current year.

Our retirement income business increased $90 million. Our spread-based products increased $61 million primarily from an increase in net investment income. Our fee-based products increased $29 million mainly attributable to lower amortization of deferred acquisition costs from increases in the equity market performance.

Revenues

Premiums

Our life insurance business decreased $23 million mainly attributable to the introduction of our term universal life insurance product that is designed to replace new sales of our existing term life insurance products with fees associated with deposits of the new product reflected in insurance and investment product fees and other. The decrease was also a result of an unfavorable reinsurance adjustment of $8 million and higher lapses on policies entering the post-level rate period in the current year.

Our long-term care insurance business increased $22 million mainly attributable to growth of the in-force block from new sales, renewal premiums and in-force rate actions.

Our retirement income business decreased $17 million primarily driven by lower life-contingent sales of our spread-based products in the current market environment.

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Net investment income

Our life insurance business increased $14 million mainly related to $24 million of lower losses in the current year related to limited partnerships accounted for under the equity method. This increase was partially offset by a decline in average invested assets related to our term life insurance products and lower yields on the assets backing our non-recourse funding obligations supporting certain term and universal life insurance reserves.

Our long-term care insurance business increased $64 million largely as a result of an increase in average invested assets due to growth of our in-force block. Additionally, net investment income in the current year included $17 million of lower losses related to limited partnerships accounted for under the equity method.

Our retirement income business increased $63 million primarily attributable to $78 million of lower losses related to limited partnerships accounted for under the equity method. Net investment income for our spread-based products also benefited from the reinvestment of the high cash balances we were holding during 2009. These increases were partially offset by a decline in average invested assets of our fee-based products.

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

Net investment losses in our life insurance business decreased $169 million primarily driven by lower losses from the sale of investment securities related to portfolio repositioning and lower impairments recorded in the current year.

Our long-term care insurance business had net investment gains in the current year from the sale of investment securities related to portfolio repositioning as compared to net investment losses in the prior year from derivative losses related to our derivative strategy to mitigate interest rate risk associated with our statutory capital position.

Net investment losses in our retirement income business decreased $16 million primarily related to lower impairments recorded in the current year which were partially offset by higher losses related to embedded derivatives associated with our variable annuity products with GMWBs.

Insurance and investment product fees and other

Our life insurance business increased $24 million primarily from growth of our new term universal life insurance product that is designed to replace sales of our traditional term life insurance products.

Our wealth management business increased $40 million primarily attributable to higher average assets under management from favorable market impacts and positive net flows as gross flows exceeded redemptions.

Our retirement income business increased $19 million mainly due to higher average account values of our fee-based products from market improvement in the second half of 2009 and the first quarter of 2010.

Benefits and expenses

Benefits and other changes in policy reserves

Our life insurance business increased $39 million principally related to increased claims associated with higher mortality in our term life insurance products compared to the prior year and aging of our life insurance products.

Our long-term care insurance business increased $69 million primarily as a result of the aging and growth of the in-force block, higher claims in older issued policies and lower terminations in the current year.

Our retirement income business decreased $10 million attributable to a decrease of $5 million from our fee-based products related to a decrease in guaranteed minimum death benefit claims, partially offset by an increase related to our guaranteed minimum benefit liabilities driven by unfavorable market performance in the current year. Our life-contingent spread-based products decreased $5 million driven by a decline in sales in the current market environment, partially offset by higher amortization of sales inducements as a result of lower net investment losses in the current year.

Interest credited. Interest credited decreased $20 million primarily related to our retirement income business from lower account values on fixed annuities and lower crediting rates as the fixed annuities reach the end of their initial crediting rate guarantee period.

Acquisition and operating expenses, net of deferrals

Our life insurance business increased $12 million primarily from growth of our life insurance products.

Our long-term care insurance business increased $21 million related to growth of our in-force block.

Our wealth management business increased $31 million primarily from increased asset-based expenses as assets under management increased from favorable market impacts and positive net flows.

Our retirement income business increased $4 million primarily from higher costs associated with sales of our fee-based products, partially offset by lower sales of our spread-based products.

Amortization of deferred acquisition costs and intangibles

Our life insurance business increased $24 million primarily attributable to an increase in amortization related to lower persistency in our term life insurance products entering the post-level rate period.

Our long-term care insurance business decreased $12 million from lower terminations in the current year, partially offset by growth of our in-force block.

Our retirement income business decreased $104 million primarily related to a decrease of $107 million in our fee-based products largely attributable to lower amortization of deferred acquisition costs from improved equity market performance. The decrease was also related to a $12 million favorable adjustment in the current year. The prior year included additional amortization of deferred

acquisition costs of $54 million from loss recognition testing that did not recur. This decrease was partially offset by an increase of $3 million in our spread-based products mainly from higher amortization of deferred acquisition costs attributable to lower net investment losses in the current year, partially offset by a $9 million favorable unlocking primarily related to lower lapse trends in the current year.

Provision (benefit) for income taxes. The effective tax rate decreased to 30.7% for the six months ended June 30, 2010 from 37.8% for the six months ended June 30, 2009. This decrease in the effective tax rate was primarily attributable to tax favored investments recognized in the current year and the relationship of tax favored investments recognized in the prior year to the pre-tax loss.

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Retirement and Protection selected financial and operating performance measures

Life insurance

The following tables set forth selected operating performance measures regarding our life insurance business as of or for the dates indicated:

(Amounts in millions)	Three months ended June 30, 2010	Three months ended June 30, 2009	Increase (decrease) and percentage change 2010 vs. 2009		Six months ended June 30, 2010	Six months ended June 30, 2009	Increase (decrease) and percentage change 2010 vs. 2009	
Term life insurance								
Net earned premiums	$ 228	$ 238	$ (10)	(4)%	$ 452	$ 475	$ (23)	(5)%
Annualized first-year premiums	4	18	(14)	(78)%	18	37	(19)	(51)%
Term universal life insurance								
Net deposits	$ 14	$	$ 14	NM[1]	$ 19	$	$ 19	NM[1]
Term universal life annualized first-year deposits	24		24	NM[1]	34		34	NM[1]
Universal and whole life insurance								
Net earned premiums and deposits	$ 121	$ 116	$ 5	4%	$ 239	$ 240	$ (1)	%
Universal life annualized first-year deposits	10	8	2	25%	17	17		%
Universal life excess deposits	28	23	5	22%	48	51	(3)	(6)%
Total life insurance								
Net earned premiums and deposits	$ 363	$ 354	$ 9	3%	$ 710	$ 715	$ (5)	(1)%
Annualized first-year premiums	4	18	(14)	(78)%	18	37	(19)	(51)%
Annualized first-year deposits	34	8	26	NM[1]	51	17	34	200%
Excess deposits	28	23	5	22%	48	51	(3)	(6)%

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

(Amounts in millions)	As of June 30, 2010	As of June 30, 2009	Percentage change 2010 vs. 2009
Term life insurance			
Life insurance in-force, net of reinsurance	$ 468,098	$ 477,759	(2)%
Life insurance in-force before reinsurance	612,284	623,139	(2)%
Term universal life insurance			
Life insurance in-force, net of reinsurance	$ 17,754	$	NM[1]
Life insurance in-force before reinsurance	17,820		NM[1]
Universal and whole life insurance			
Life insurance in-force, net of reinsurance	$ 43,743	$ 43,800	%
Life insurance in-force before reinsurance	50,617	50,994	(1)%
Total life insurance			
Life insurance in-force, net of reinsurance	$ 529,595	$ 521,559	2%
Life insurance in-force before reinsurance	680,721	674,133	1%

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

Term life insurance

Net earned premiums decreased mainly as a result of lower sales in the current year from the introduction of our term universal life insurance product that is designed to replace new sales of our existing term life insurance products and higher lapses on policies entering the post-level rate period. For the six months ended June 30, 2010, the decrease was also attributable to an unfavorable reinsurance adjustment of $8 million in the first quarter of 2010. Annualized first-year premiums decreased as we focused on sales of our new term universal life insurance product.

Term universal life insurance

In late 2009, we introduced a new term universal life insurance product that is designed to replace new sales of our existing term life insurance products. This new product provides greater flexibility typically associated with universal life insurance coverage.

Universal and whole life insurance

Annualized first-year deposits remained relatively flat as we maintained our focus on smaller face amounts. The in-force block was relatively flat as the growth of our universal life insurance products was offset by the continued runoff of our closed block of whole life insurance.

Long-term care insurance

The following table sets forth selected financial and operating performance measures regarding our long-term care insurance business, which includes individual and group long-term care insurance, Medicare supplement insurance, linked-benefits products, as well as several runoff blocks of accident and health insurance for the periods indicated:

(Amounts in millions)	Three months ended June 30, 2010	Three months ended June 30, 2009	Increase (decrease) and percentage change 2010 vs. 2009		Six months ended June 30, 2010	Six months ended June 30, 2009	Increase (decrease) and percentage change 2010 vs. 2009	
Net earned premiums:								
Long-term care	$ 480	$ 478	$ 2	%	$ 959	$ 953	$ 6	1%
Medicare supplement and other	78	72	6	8%	158	142	16	11%
Total	$ 558	$ 550	$ 8	1%	$ 1,117	$ 1,095	$ 22	2%
Annualized first-year premiums and deposits	$ 60	$ 44	$ 16	36%	$ 127	$ 91	$ 36	40%

Net earned premiums increased mainly attributable to growth of our in-force block from new sales, renewal premiums and in-force rate actions. The increase in annualized first-year premiums and deposits was primarily attributable to growth of our individual and group long-term care insurance and linked-benefits products.

Wealth management

The following table sets forth selected financial performance measures regarding our wealth management business as of or for the dates indicated:

(Amounts in millions)	As of or for the three months ended June 30, 2010	As of or for the three months ended June 30, 2009	As of or for the six months ended June 30, 2010	As of or for the six months ended June 30, 2009
Assets under management, beginning of period	$ 20,037	$ 14,210	$ 18,865	$ 15,447
Gross flows	1,362	1,113	2,837	1,909
Redemptions	(926)	(953)	(1,897)	(2,227)

Net flows	436	160	940	(318)
Market performance	(925)	1,539	(257)	780
Assets under management, end of period	$ 19,548	$ 15,909	$ 19,548	$ 15,909

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Wealth management results represent Genworth Financial Wealth Management, Inc., Genworth Financial Investment Services, Inc., Genworth Financial Trust Company, Centurion Financial Advisers, Inc. and Quantuvis Consulting, Inc.

The increase in assets under management was primarily attributable to favorable equity market performance and positive net flows.

Retirement income

Fee-based products

The following table sets forth selected operating performance measures regarding our fee-based products as of or for the dates indicated:

(Amounts in millions)	As of or for the three months ended June 30, 2010	2009	As of or for the six months ended June 30, 2010	2009
Income Distribution Series [1]				
Account value, net of reinsurance, beginning of period	$ 6,135	$ 5,093	$ 5,943	$ 5,234
Deposits	141	133	314	258
Surrenders, benefits and product charges	(150)	(109)	(277)	(215)
Net flows	(9)	24	37	43
Interest credited and investment performance	(162)	169	(16)	9
Account value, net of reinsurance, end of period	$ 5,964	$ 5,286	$ 5,964	$ 5,286
Traditional variable annuities				
Account value, net of reinsurance, beginning of period	$ 2,048	$ 1,642	$ 2,016	$ 1,756
Deposits	25	16	52	35
Surrenders, benefits and product charges	(70)	(60)	(135)	(123)
Net flows	(45)	(44)	(83)	(88)
Interest credited and investment performance	(124)	198	(54)	128
Account value, net of reinsurance, end of period	$ 1,879	$ 1,796	$ 1,879	$ 1,796
Variable life insurance				
Account value, beginning of period	$ 303	$ 248	$ 298	$ 266
Deposits	3	3	6	7
Surrenders, benefits and product charges	(8)	(9)	(18)	(20)
Net flows	(5)	(6)	(12)	(13)
Interest credited and investment performance	(19)	29	(7)	18
Account value, end of period	$ 279	$ 271	$ 279	$ 271

[1] The Income Distribution Series products are comprised of our deferred and immediate variable annuity products, including those variable annuity products with rider options that provide guaranteed income benefits including GMWBs and certain types of guaranteed annuitization benefits. These products do not include fixed single premium immediate annuities or deferred annuities, which may also serve income distribution needs.

Income Distribution Series

Account value related to our Income Distribution Series products increased from the prior year attributable to positive net flows and favorable market performance in the second half of 2009 and the first quarter of 2010. Net flows decreased during the second quarter of 2010 due to unfavorable equity market impacts.

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Traditional variable annuities

In our traditional variable annuities, the increase in account value from the prior year was principally the result of improved equity market performance in the second half of 2009, partially offset by surrenders outpacing sales.

Spread-based products

The following table sets forth selected operating performance measures regarding our spread-based products as of or for the dates indicated:

(Amounts in millions)	As of or for the three months ended June 30, 2010	2009	As of or for the six months ended June 30, 2010	2009
Fixed annuities				
Account value, net of reinsurance, beginning of period	$ 11,234	$ 11,833	$ 11,409	$ 11,996
Deposits	92	229	133	471
Surrenders, benefits and product charges	(304)	(394)	(616)	(902)
Net flows	(212)	(165)	(483)	(431)
Interest credited	95	102	191	205
Account value, net of reinsurance, end of period	$ 11,117	$ 11,770	$ 11,117	$ 11,770
Single premium immediate annuities				
Account value, net of reinsurance, beginning of period	$ 6,593	$ 6,925	$ 6,675	$ 6,957
Premiums and deposits	100	101	195	212
Surrenders, benefits and product charges	(251)	(289)	(516)	(525)
Net flows	(151)	(188)	(321)	(313)
Interest credited	87	90	175	183
Account value, net of reinsurance, end of period	$ 6,529	$ 6,827	$ 6,529	$ 6,827
Structured settlements				
Account value, net of reinsurance, beginning of period	$ 1,115	$ 1,101	$ 1,115	$ 1,106
Premiums and deposits		6		10
Surrenders, benefits and product charges	(15)	(5)	(29)	(28)
Net flows	(15)	1	(29)	(18)
Interest credited	15	15	29	29
Account value, net of reinsurance, end of period	$ 1,115	$ 1,117	$ 1,115	$ 1,117
Total premiums from spread-based retail products	$ 32	$ 38	$ 68	$ 85
Total deposits on spread-based retail products	$ 160	$ 298	$ 260	$ 608

Fixed annuities

Account value of our fixed annuities decreased as surrenders exceeded deposits. Sales have slowed significantly given market conditions and changes in the product management strategy.

Single premium immediate annuities

Account value of our single premium immediate annuities decreased as surrenders exceeded deposits and premiums. Sales have slowed significantly given market conditions and changes in the product management strategy.

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Structured settlements

We no longer solicit sales of this product; however, we continue to service our existing block of business.

International segment

Segment results of operations

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

The following table sets forth the results of operations relating to our International segment for the periods indicated:

(Amounts in millions)	Three months ended June 30, 2010	2009	Increase (decrease) and percentage change 2010 vs. 2009	
Revenues:				
Premiums	$ 495	$ 508	$ (13)	(3)%
Net investment income	127	122	5	4%
Net investment gains (losses)	1	4	(3)	(75)%
Insurance and investment product fees and other	(1)	5	(6)	(120)%
Total revenues	622	639	(17)	(3)%
Benefits and expenses:				
Benefits and other changes in policy reserves	163	226	(63)	(28)%
Acquisition and operating expenses, net of deferrals	205	197	8	4%
Amortization of deferred acquisition costs and intangibles	67	66	1	2%
Interest expense	10	24	(14)	(58)%
Total benefits and expenses	445	513	(68)	(13)%
Income before income taxes	177	126	51	40%
Provision for income taxes	35	36	(1)	(3)%
Net income	142	90	52	58%
Less: net income attributable to noncontrolling interests	35		35	NM[1]
Net income available to Genworth Financial, Inc. s common stockholders	107	90	17	19%
Adjustment to net income available to Genworth Financial, Inc. s common stockholders:				
Net investment (gains) losses, net of taxes and other adjustments	(2)	(3)	1	33%
Net operating income available to Genworth Financial, Inc. s common stockholders	$ 105	$ 87	$ 18	21%

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

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The following table sets forth net operating income for the businesses included in our International segment for the periods indicated:

(Amounts in millions)	Three months ended June 30, 2010	2009	Increase (decrease) and percentage change 2010 vs. 2009	
Net operating income available to Genworth Financial, Inc. s common stockholders:				
International mortgage insurance	$ 93	$ 83	$ 10	12%
Lifestyle protection insurance	12	4	8	200%
Total net operating income available to Genworth Financial, Inc. s common stockholders:	$ 105	$ 87	$ 18	21%

Net operating income available to Genworth Financial, Inc. s common stockholders

The three months ended June 30, 2010 included an increase of $14 million and a decrease of $1 million attributable to changes in foreign exchange rates for our international mortgage and lifestyle protection insurance businesses, respectively.

Excluding the effect of foreign exchange, the decrease in our international mortgage insurance business was primarily driven by the initial public offering of our Canadian mortgage insurance business in July 2009 which reduced our ownership percentage to 57.5% resulting in lower net operating income of $35 million, which included $4 million attributable to changes in foreign exchange rates, in the second quarter of 2010. Excluding the impact related to noncontrolling interests, net operating income for our international mortgage insurance business increased primarily due to lower losses in Canada and Australia. There was also a benefit from newly enacted Australian tax legislation in the current year.

Net operating income for our lifestyle protection insurance business increased from a decrease in new claim registrations from stabilization of economic conditions and a favorable impact from our re-pricing actions that we began in the second half of 2009, partially offset by lower sales from reduced levels of consumer lending.

Revenues

Premiums

Our international mortgage insurance business increased $27 million and our lifestyle protection insurance business decreased $40 million.

The three months ended June 30, 2010 included an increase of $31 million and a decrease of $6 million attributable to changes in foreign exchange rates for our international mortgage and lifestyle protection insurance businesses, respectively.

Excluding the effects of foreign exchange, the decrease in our international mortgage insurance business was primarily related to Australia as seasoning of our in-force block of business was more than offset by increased ceded reinsurance premiums in the second quarter of 2010 and lower new business volumes.

The decrease in our lifestyle protection insurance business was primarily attributable to our runoff business. Reduced levels of consumer lending and lower single premium sales related to new business regulations in the U.K. also contributed to the decrease. These decreases were partially offset by a favorable impact from our re-pricing actions that we began in the second half of 2009.

Net investment income

Our international mortgage insurance business increased $14 million and our lifestyle protection insurance business decreased $9 million.

The three months ended June 30, 2010 included an increase of $12 million and a decrease of $1 million attributable to changes in foreign exchange rates for our international mortgage and lifestyle protection insurance businesses, respectively.

Our international mortgage insurance business was relatively flat as an increase in invested assets was offset by lower yields.

The decrease in our lifestyle protection insurance business was principally attributable to reinsurance arrangements accounted for under the deposit method and a decrease in average invested assets. In 2009, we made a reclassification adjustment to interest expense related to our reinsurance arrangements that were in a loss position that did not recur.

Benefits and expenses

Benefits and other changes in policy reserves

Our international mortgage insurance business decreased $19 million and our lifestyle protection insurance business decreased $44 million.

The three months ended June 30, 2010 included an increase of $11 million and a decrease of $1 million attributable to changes in foreign exchange rates for our international mortgage and lifestyle protection insurance businesses, respectively.

The decrease in our international mortgage insurance business was primarily related to Canada and Australia. In Canada, losses declined driven by lower new delinquencies from an improving economy. In Australia, losses decreased as a result of lower reserves per delinquency primarily from an improving economy.

The decrease in our lifestyle protection insurance business was largely attributable to a decrease in claim reserves from declining claim registrations as a result of stabilization of economic conditions in Europe. These decreases were partially offset by a favorable reserve adjustment in the second quarter of 2009 that did not recur.

Acquisition and operating expenses, net of deferrals

Our international mortgage insurance business increased $11 million and our lifestyle protection insurance business decreased $3 million.

The three months ended June 30, 2010 included an increase of $5 million and a decrease of $5 million attributable to changes in foreign exchange rates for our international mortgage and lifestyle protection insurance businesses, respectively.

The increase in our international mortgage insurance business was due to higher expenses in Canada and the cancellation of our capital maintenance agreement with our U.S. mortgage insurance business in the second quarter of 2009.

Excluding the effects of foreign exchange, the increase in our lifestyle protection insurance business was largely attributable to an increase in profit commissions driven by lower claims, partially offset by a decrease in commissions related to a decline in new business.

Amortization of deferred acquisition costs and intangibles

Our international mortgage insurance business increased $7 million and our lifestyle protection insurance business decreased $6 million.

The three months ended June 30, 2010 included an increase of $3 million and a decrease of $1 million attributable to changes in foreign exchange rates for our international mortgage and lifestyle protection insurance businesses, respectively.

The increase in our international mortgage insurance business was as a result of an increase in amortization of deferred acquisition costs from the seasoning of our in-force blocks of business.

The decrease in our lifestyle protection insurance business was attributable to a decrease in the U.K. from lower single premium sales related to new business regulations and a decrease from our runoff business.

Interest expense. Interest expense decreased $14 million primarily related to our lifestyle protection insurance business due to reinsurance arrangements accounted for under the deposit method. In 2009, we made a reclassification adjustment from net investment income related to our reinsurance arrangements that were in a loss position that did not recur.

Provision for income taxes. The effective tax rate decreased to 19.8% for the three months ended June 30, 2010 from 28.6% for the three months ended June 30, 2009. This decrease in the effective tax rate was primarily attributable to the favorable impact of newly enacted Australian tax legislation and lower taxed foreign income in the current year. The three months ended June 30, 2010 also included an increase of $7 million attributable to changes in foreign exchange rates for our international mortgage business.

Net income attributable to noncontrolling interests. The increase related to the initial public offering of our Canadian mortgage insurance business in July 2009 which reduced our ownership percentage to 57.5%. The three months ended June 30, 2010 included an increase of $4 million attributable to changes in foreign exchange rates.

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Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

The following table sets forth the results of operations relating to our International segment for the periods indicated:

(Amounts in millions)	Six months ended June 30, 2010	2009	Increase (decrease) and percentage change 2010 vs. 2009	
Revenues:				
Premiums	$ 999	$ 1,004	$ (5)	%
Net investment income	259	226	33	15%
Net investment gains (losses)	10	(11)	21	191%
Insurance and investment product fees and other	5	10	(5)	(50)%
Total revenues	1,273	1,229	44	4%
Benefits and expenses:				
Benefits and other changes in policy reserves	337	418	(81)	(19)%
Acquisition and operating expenses, net of deferrals	408	392	16	4%
Amortization of deferred acquisition costs and intangibles	139	140	(1)	(1)%
Interest expense	33	32	1	3%
Total benefits and expenses	917	982	(65)	(7)%
Income before income taxes	356	247	109	44%
Provision for income taxes	85	66	19	29%
Net income	271	181	90	50%
Less: net income attributable to noncontrolling interests	69		69	NM[1]
Net income available to Genworth Financial, Inc. s common stockholders	202	181	21	12%
Adjustment to net income available to Genworth Financial, Inc. s common stockholders:				
Net investment (gains) losses, net of taxes and other adjustments	(6)	7	(13)	(186)%
Net operating income available to Genworth Financial, Inc. s common stockholders	$ 196	$ 188	$ 8	4%

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

The following table sets forth net operating income for the businesses included in our International segment for the periods indicated:

(Amounts in millions)	Six months ended June 30, 2010	2009	Increase (decrease) and percentage change 2010 vs. 2009	
Net operating income available to Genworth Financial, Inc. s common stockholders:				
International mortgage insurance	$ 172	$ 173	$ (1)	(1)%
Lifestyle protection insurance	24	15	9	60%

Total net operating income available to Genworth Financial, Inc. s common stockholders	$ 196	$ 188	$ 8	4%

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Net operating income available to Genworth Financial, Inc. s common stockholders

The six months ended June 30, 2010 included an increase of $33 million and a decrease of $1 million attributable to changes in foreign exchange rates for our international mortgage and lifestyle protection insurance businesses, respectively.

The decrease in our international mortgage insurance business was primarily driven by the initial public offering of our Canadian mortgage insurance business in July 2009 which reduced our ownership percentage to 57.5% resulting in lower net operating income of $68 million, which included $9 million attributable to changes in foreign exchange rates, for the six months ended June 30, 2010. Excluding the impact related to noncontrolling interests, net operating income for our international mortgage insurance business increased from lower losses partially offset by lower premiums. There was also a benefit from newly enacted Australian tax legislation in the current year.

Net operating income for our lifestyle protection insurance business increased from a decrease in new claim registrations from stabilization of economic conditions and a favorable impact from our re-pricing actions that we began in the second half of 2009, partially offset by lower sales from reduced levels of consumer lending.

Revenues

Premiums

Our international mortgage insurance business increased $59 million and our lifestyle protection insurance business decreased $64 million.

The six months ended June 30, 2010 included increases of $77 million and $16 million attributable to changes in foreign exchange rates for our international mortgage and lifestyle protection insurance businesses, respectively.