GENWORTH FINANCIAL INC
Form 10-Q
April 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 March 31, 2010

OR

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

For the transition period from to

Commission file number 001-32195

GENWORTH FINANCIAL, INC.

(Exact Name of Registrant as Specified in its Charter)

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

(804) 281-6000

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

At April 26, 2010, 489,079,622 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 March 31, 2010	2009
Revenues:		
Premiums	$ 1,470	$ 1,502
Net investment income	765	711
Net investment gains (losses)	(70)	(770)
Insurance and investment product fees and other	256	291
Total revenues	2,421	1,734
Benefits and expenses:		
Benefits and other changes in policy reserves	1,315	1,508
Interest credited	213	275
Acquisition and operating expenses, net of deferrals	475	441
Amortization of deferred acquisition costs and intangibles	184	247
Interest expense	115	96
Total benefits and expenses	2,302	2,567
Income (loss) before income taxes	119	(833)
Benefit for income taxes	(93)	(364)
Net income (loss)	212	(469)
Less: net income attributable to noncontrolling interests	34	
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ 178	$ (469)
Net income (loss) available to Genworth Financial, Inc. s common stockholders per common share:		
Basic	$ 0.36	$ (1.08)
Diluted	$ 0.36	$ (1.08)
Weighted-average common shares outstanding:		
Basic	488.8	433.2
Diluted	493.5	433.2
Supplemental disclosures:		
Total other-than-temporary impairments	$ (77)	$ (597)

Portion of other-than-temporary impairments recognized in other comprehensive income (loss)		(3)		
Net other-than-temporary impairments		(80)		(597)
Other investments gains (losses)		10		(173)
Total net investment gains (losses)	$	(70)	$	(770)

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)

	March 31, 2010 (Unaudited)	December 31, 2009
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	$ 52,040	$ 49,752
Equity securities available-for-sale, at fair value	179	159
Commercial mortgage loans	7,336	7,499
Restricted commercial mortgage loans related to securitization entities	552	
Policy loans	1,408	1,403
Other invested assets	3,972	4,702
Restricted other invested assets related to securitization entities ($377 at fair value)	385	
Total investments	65,872	63,515
Cash and cash equivalents	3,466	5,002
Accrued investment income	775	691
Deferred acquisition costs	7,252	7,341
Intangible assets	863	934
Goodwill	1,319	1,324
Reinsurance recoverable	17,333	17,332
Other assets	934	954
Deferred tax asset	18	92
Separate account assets	11,261	11,002
Total assets	$ 109,093	$ 108,187
Liabilities and stockholders equity		
Liabilities:		
Future policy benefits	$ 29,686	$ 29,469
Policyholder account balances	28,107	28,470
Liability for policy and contract claims	6,389	6,567
Unearned premiums	4,571	4,714
Other liabilities ($135 and $ other liabilities related to securitization entities)	6,185	6,298
Borrowings related to securitization entities ($58 at fair value)	551	
Non-recourse funding obligations	3,437	3,443
Short-term borrowings	930	930
Long-term borrowings	3,638	3,641
Deferred tax liability	313	303
Separate account liabilities	11,261	11,002
Total liabilities	95,068	94,837
Commitments and contingencies		
Stockholders equity:		
Class A common stock, $0.001 par value; 1.5 billion shares authorized; 577 million shares issued as of March 31, 2010 and December 31, 2009; 489 million shares outstanding as of March 31, 2010 and December 31, 2009	1	1
Additional paid-in capital	12,064	12,034
Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	(652)	(1,151)
Net unrealized gains (losses) on other-than-temporarily impaired securities	(208)	(247)

Net unrealized investment gains (losses)	(860)	(1,398)
Derivatives qualifying as hedges	777	802
Foreign currency translation and other adjustments	430	432
Total accumulated other comprehensive income (loss)	347	(164)
Retained earnings	3,179	3,105
Treasury stock, at cost (88 million shares as of March 31, 2010 and December 31, 2009)	(2,700)	(2,700)
Total Genworth Financial, Inc. s stockholders equity	12,891	12,276
Noncontrolling interests	1,134	1,074
Total stockholders equity	14,025	13,350
Total liabilities and stockholders equity	$ 109,093	$ 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)				178		178	34	212
Net unrealized gains (losses) on securities not other-than-temporarily impaired			408			408	(1)	407
Net unrealized gains (losses) on other-than-temporarily impaired securities			39			39		39
Derivatives qualifying as hedges			(25)			(25)		(25)
Foreign currency translation and other adjustments			(2)			(2)	37	35
Total comprehensive income (loss)								668
Dividends to noncontrolling interests							(10)	(10)
Stock-based compensation expense and exercises and other		10				10		10
Other capital transactions		20				20		20
Balances as of March 31, 2010	$ 1	$ 12,064	$ 347	$ 3,179	$ (2,700)	$ 12,891	$ 1,134	$ 14,025

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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
Comprehensive income (loss):						
Net income (loss)				(469)		(469)
Net unrealized gains (losses) on investment securities			(57)			(57)
Derivatives qualifying as hedges			(100)			(100)
Foreign currency translation and other adjustments			(79)			(79)
Total comprehensive income (loss)						(705)
Stock-based compensation expense and exercises and other		8				8
Balances as of March 31, 2009	$ 1	$ 11,485	$ (3,298)	$ 2,741	$ (2,700)	$ 8,229

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Three months ended March 31, 2010	Three months ended March 31, 2009
Cash flows from operating activities:		
Net income (loss)	$ 212	$ (469)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Amortization of fixed maturity discounts and premiums	24	82
Net investment losses (gains)	70	770
Charges assessed to policyholders	(113)	(103)
Acquisition costs deferred	(193)	(194)
Amortization of deferred acquisition costs and intangibles	184	247
Deferred income taxes	(101)	(502)
Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments	58	(56)
Stock-based compensation expense	11	8
Change in certain assets and liabilities:		
Accrued investment income and other assets	(43)	(70)
Insurance reserves	576	468
Current tax liabilities	(163)	83
Other liabilities and other policy-related balances	(392)	519
Net cash from operating activities	130	783
Cash flows from investing activities:		
Proceeds from maturities and repayments of investments:		
Fixed maturity securities	941	901
Commercial mortgage loans	136	239
Restricted commercial mortgage loans related to securitization entities	12	
Proceeds from sales of investments:		
Fixed maturity and equity securities	1,021	947
Purchases and originations of investments:		
Fixed maturity and equity securities	(3,623)	(825)
Other invested assets, net	344	
Policy loans, net	(5)	(8)
Net cash from investing activities	(1,174)	1,254
Cash flows from financing activities:		
Deposits to universal life and investment contracts	490	773
Withdrawals from universal life and investment contracts	(913)	(2,803)
Short-term borrowings and other, net	(37)	(82)
Repayment and repurchase of long-term borrowings		(79)
Redemption of non-recourse funding obligations	(6)	(12)
Repayment of borrowings related to securitization entities	(11)	
Dividends paid to noncontrolling interests	(10)	
Net cash from financing activities	(487)	(2,203)

Effect of exchange rate changes on cash and cash equivalents	(5)	(98)
Net change in cash and cash equivalents	(1,536)	(264)
Cash and cash equivalents at beginning of period	5,002	7,328
Cash and cash equivalents at end of period	$ 3,466	$ 7,064

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Formation of Genworth and Basis of Presentation

Genworth Financial, Inc. (Genworth) was incorporated in Delaware on October 23, 2003. The accompanying condensed financial statements include on a consolidated basis the accounts of Genworth and our affiliate companies in which we hold a majority voting or 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 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 also offer payment protection coverages in multiple European countries, Canada and Mexico. Our lifestyle protection insurance products help consumers meet specified payment obligations should they become unable to pay due to accident, illness, involuntary unemployment, disability or death.

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

We also have Corporate and Other activities which include debt financing expenses that are incurred at our holding company level, unallocated corporate income and expenses, eliminations of inter-segment transactions and the results of non-core businesses 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

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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 March 2010, the Financial Accounting Standards Board (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, entities will be required to bifurcate any embedded credit derivative features that no longer qualify under the amended scope exception, or, for certain investments, an entity can elect fair value option and record the entire investment at fair value. This accounting guidance will be effective for us on July 1, 2010. Upon adoption, any changes in the carrying value of impacted items will be recorded directly in retained earnings. We have not yet determined the impact this accounting guidance will have on our consolidated financial statements.

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.

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 have not yet determined the impact this accounting guidance will have on our consolidated financial statements.

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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 March 31, 2010	Three months ended March 31, 2009
Net income (loss)	$ 212	$ (469)
Less: net income attributable to noncontrolling interests	34	
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ 178	$ (469)
Basic per common share:		
Net income (loss)	$ 0.43	$ (1.08)
Less: net income attributable to noncontrolling interests	0.07	
Net income (loss) available to Genworth Financial, Inc. s common stockholders[1]	$ 0.36	$ (1.08)
Diluted per common share:		
Net income (loss)	$ 0.43	$ (1.08)
Less: net income attributable to noncontrolling interests	0.07	
Net income (loss) available to Genworth Financial, Inc. s common stockholders[1]	$ 0.36	$ (1.08)
Weighted-average shares used in basic earnings (loss) per common share calculations	488.8	433.2
Potentially dilutive securities:		
Stock options, restricted stock units and stock appreciation rights	4.7	
Weighted-average shares used in diluted earnings (loss) per common share calculations[2]	493.5	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 months ended March 31, 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 53,858 would have been antidilutive to the calculation. If we had not incurred a net loss in 2009, dilutive potential common shares would have remained at 433.2 million.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) Investments

(a) Net Investment Income

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

(Amounts in millions)	Three months ended March 31, 2010	2009
Fixed maturity securities taxable	$ 626	$ 623
Fixed maturity securities non-taxable	16	30
Commercial mortgage loans	104	114
Restricted commercial mortgage loans related to securitization entities [(1)]	10	
Equity securities	2	3
Other invested assets	(2)	(99)
Restricted other invested assets related to securitization entities [(1)]	1	
Policy loans	27	44
Cash, cash equivalents and short-term investments	5	17
Gross investment income before expenses and fees	789	732
Expenses and fees	(24)	(21)
Net investment income	$ 765	$ 711

(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 March 31, 2010	2009
Available-for-sale securities:		
Realized gains on sale	$ 23	$ 29
Realized losses on sale	(38)	(63)
Impairments:		
Total other-than-temporary impairments	(77)	(597)
Portion of other-than-temporary impairments recognized in other comprehensive income (loss)	(3)	
Net other-than-temporary impairments	(80)	(597)

Trading securities	6	(12)
Commercial mortgage loans	(4)	(6)
Net gains (losses) related to securitization entities [1]	11	
Derivative instruments	(8)	(121)
Other	20	
Net investment gains (losses)	$ (70)	$ (770)

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

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Derivative instruments primarily consist of changes in the fair value of non-qualifying derivatives, including embedded derivatives, changes in fair value of certain derivatives and related hedged items in fair value hedge relationships and hedge ineffectiveness on qualifying derivative instruments. See note 5 for additional information on the impact of derivative instruments included in net investment gains (losses).

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 period indicated:

(Amounts in millions)	As of or for the three months ended March 31, 2010
Cumulative credit loss beginning balance	$ 1,059
Additions:	
Other-than-temporary impairments not previously recognized	20
Increases related to other-than-temporary impairments previously recognized	46
Reductions:	
Securities sold, paid down or disposed	(100)
Securities where there is intent to sell	
Cumulative credit loss ending balance	$ 1,025

(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)	March 31, 2010	December 31, 2009
Net unrealized gains (losses) on investment securities:		
Fixed maturity securities	$ (1,245)	$ (2,245)
Equity securities	16	20
Other invested assets	(26)	(29)
Subtotal	(1,255)	(2,254)
Adjustments to present value of future profits, deferred acquisition costs and sales inducements	(21)	138
Income taxes, net	454	757
Net unrealized investment gains (losses)	(822)	(1,359)
Less: net unrealized investment (gains) losses attributable to noncontrolling interests	38	39

Net unrealized investment gains (losses) attributable to Genworth Financial, Inc.	$	(860)	$	(1,398)

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

(Amounts in millions)	As of or for the three months ended March 31, 2010
Beginning balance	$ (1,398)
Impact upon adoption of new accounting guidance	91
Unrealized gains (losses) arising during the period:	
Unrealized gains (losses) on investment securities	763
Adjustment to deferred acquisition costs	(113)
Adjustment to present value of future profits	(31)
Adjustment to sales inducements	(15)
Provision for income taxes	(220)
Change in unrealized gains (losses) on investment securities	384
Reclassification adjustments to net investment (gains) losses, net of taxes of $(34)	62
Change in net unrealized investment gains (losses)	537
Less: change in net unrealized investment (gains) losses attributable to noncontrolling interests	1
Ending balance	$ (860)

(d) Fixed Maturity and Equity Securities

As of March 31, 2010, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

		Gross unrealized gains		Gross unrealized losses		
(Amounts in millions)	Amortized cost or cost	Not other-than-temporarily impaired	Other-than-temporarily impaired	Not other-than-temporarily impaired	Other-than-temporarily impaired	Fair value
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 3,079	$ 30	$	$ (80)	$	$ 3,029
Tax-exempt	1,495	35		(94)		1,436
Government non-U.S.	2,323	103		(12)		2,414
U.S. corporate	22,108	722	8	(583)	(2)	22,253
Corporate non-U.S.	13,019	407	13	(288)		13,151
Residential mortgage-backed	4,445	50	8	(402)	(291)	3,810
Commercial mortgage-backed	4,243	95	6	(577)	(74)	3,693

Other asset-backed	2,573	12		(310)	(21)	2,254
Total fixed maturity securities	53,285	1,454	35	(2,346)	(388)	52,040
Equity securities	163	19		(3)		179
Total available-for-sale securities	$ 53,448	$ 1,473	$ 35	$ (2,349)	$ (388)	$ 52,219

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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