Genworth MI Canada Inc.

2009 Annual Report

The homeownership company

Financial and operating highlights

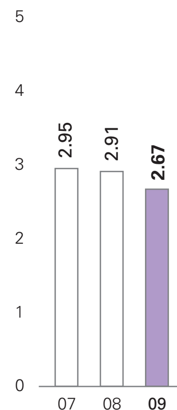
Net premiums written
$360 million

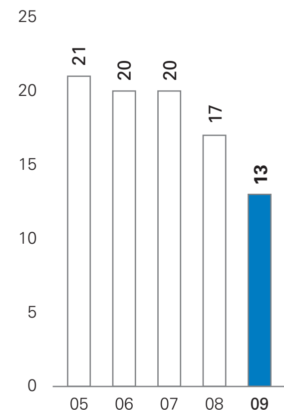
Net operating income
$307 million[1]

Book value per diluted share
$21.58
excluding AOCI[2]

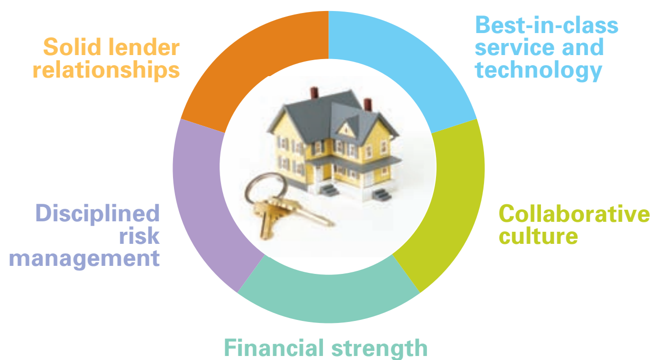
Operating return on equity
13%[1]

- In July, we became a public company with the sale of 49.8 million shares, or 42.5% of the Company, at $19.00 per common share
- $3.1 billion market capitalization at December 31, 2009
- Total assets of $5.2 billion
- Shareholders' equity of $2.6 billion
- Net premiums earned of $610 million[1]
- Paid first quarterly dividend of $0.22 per share or $26 million in total to shareholders in the fourth quarter





Competitive strengths



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1 Including the impact of the change to the premium recognition curve, the net premiums earned, net operating income, operating earnings per diluted share and operating return on equity would have been $710 million, $371 million, $3.23 and 16%, respectively.

2 Defined as accumulated other comprehensive income (AOCI). As at December 31, 2009, AOCI was $97 million.

We are the leading private mortgage insurance provider in Canada and have a history dating back to 1995. We work with lenders, mortgage brokers, real estate agents and home builders to make homeownership more accessible to all Canadians and have helped over one million Canadian families purchase a home. Our significant scale, customer-focused strategy, proactive risk management platform, and financial strength position us well for growth. We are a valued business partner to lenders and have a track record of successful product innovations that benefit both lenders and borrowers.

We are the homeownership company

What is mortgage insurance?

Mortgage insurance helps homebuyers purchase a home with a down payment of 20% or less and enables access to lower borrowing rates. Mortgage insurance protects lenders against borrower default and makes homeownership possible for millions of Canadians.

Well positioned to deliver strong returns

LEFT TO RIGHT:

Brian Hurley
Chairman and
Chief Executive Officer

Peter Vukanovich
President and
Chief Operating Officer

Report to shareholders

Genworth MI Canada Inc. delivered strong business and financial performance and successfully completed one of the largest initial public offerings in Canada in 2009. In our first Annual Report, we'll share insights into who we are and how we manage our business, including our 2009 performance, our strategy and our view of the future.

2009 performance

In 2009, we faced economic uncertainty and one of the most challenging business environments in decades. The global credit crisis and rising unemployment put a damper on the Canadian economy in the first half of the year. In the second half, improving consumer confidence, slowing job losses and low interest rates led to a robust mortgage origination market, including strong demand for high loan-to-value mortgages.

Against this backdrop, we reported $360 million in net premiums written, net income of $307 million and achieved an overall return on equity of 13 percent. We ended the year with a strong balance sheet of $5.2 billion in total assets and $2.6 billion in shareholders' equity.

We also completed our $945 million initial public offering. Becoming a public company has afforded us greater visibility and is providing us with more opportunities to highlight our financial strength and share our growth story. Investors and customers are starting to better understand our business model as demonstrated by an increasing market capitalization and improvements in our market position.

Our solid performance reflects the strong foundation that has been built over the last 15 years. After entering the Canadian mortgage insurance market in 1995 as a business unit of General Electric, we established ourselves as a valued business partner within the mortgage finance community. We have an extensive track record of successful mortgage financing product and process innovations that have benefited lenders and homebuyers. We led innovation in mortgage insurance portability, high loan-to-value lending options for self-employed borrowers, and most recently, our Homeowner Assistance Program that helps homebuyers stay in their homes during periods of temporary financial difficulties.

Our seasoned leadership team is motivated, engaged and committed to building on this foundation to deliver enhanced shareholder value for the years to come.

Our vision and strategy

As "The Homeownership Company", our vision is to continue to lead the Canadian mortgage insurance industry by promoting responsible lending practices and innovative solutions, while at the same time helping Canadians achieve and maintain the dream of homeownership.

To achieve this vision, our strategy is to:

- Drive growth by delivering outstanding customer service
- Manage risks and claims to navigate through any financial cycle
- Deliver strong financial performance by optimizing our capital and investment portfolios
- Advise governments and regulators on developing sound mortgage finance policies

We help our customers grow

With an established customer base of hundreds of mortgage lenders, we remain focused on meeting our customers' needs today while helping to protect them against future risks. We take a high-touch approach to partnering with our customers, leveraging our 15 years of expertise to customize a value-added solution that makes it easier for them to do business with us. We also develop technologies to deliver an outstanding customer experience – driving speed, efficiency and flexibility in the mortgage application approval process while maintaining prudent underwriting standards. We continue to strive to be the mortgage insurer of choice for every one of our customers.

We rigorously manage and mitigate risks

We take a disciplined and proactive approach to risk management, with industry-leading underwriting processes and a comprehensive decision framework supported by sophisticated risk analytics. The strength of our risk discipline was demonstrated over the past year, as we've seen solid loss ratio performance even in stressed economic times. Our focus remains on insuring a portfolio of high quality prime mortgages that are diversified across lenders, geographies and origination years. We're also making a real difference for homeowners that experienced financial difficulties brought on by the recession through our Homeowner Assistance Program.

We deliver strong financial performance

We have a solid balance sheet that supports our plans for growth. Our strong financial position allows us to prosper in good times and to withstand down cycles. We will optimize our capital base to ensure we have the resources needed to manage and grow our business successfully while also focusing on delivering value to our shareholders. In terms of our investment portfolio, we take a conservative and balanced approach to investing. The portfolio is made up of high-quality assets, and our focus is on enhancing our yield.

We are a mortgage finance policy advisor

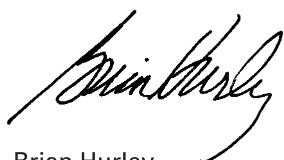
Having a strong regulatory environment and disciplined lending practices are critical for a mortgage industry. Our Company has invested in providing governments and regulators data and insights into mortgage lending. Our goal is to continue to provide homebuyers with affordable financing options and to help ensure that Canada's mortgage finance framework remains one of the most prudent and stable in the world.

Our future

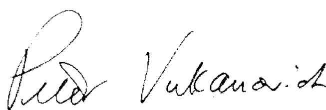
As mentioned, 2009 was certainly a demanding year in a challenging environment. Looking ahead, we are energized about our future. Our focus is on improving our market position by demonstrating our value and deepening our lender relationships to support growth. We will maintain our focus on active risk management and continue to build on our financial foundation.

We would like to thank our many business partners, who worked side by side with us to help people achieve – and keep – their homes. We also want to thank our new shareholders for their confidence. In addition, we would like to recognize and extend our gratitude to our employees for their ingenuity, passion and dedication to delivering on our promises. This spirit of caring translated into record levels of giving back to our communities.

We are proud of our accomplishments in 2009 and our history of serving the Canadian market over the last 15 years. We appreciate your support and we look forward to our journey ahead.



Brian Hurley
Chairman and Chief Executive Officer



Peter Vukanovich
President and Chief Operating Officer

Leadership Team

LEFT TO RIGHT:

Brian Hurley
Chairman and
Chief Executive Officer

Peter Vukanovich
President and
Chief Operating Officer

Philip Mayers
Senior Vice-President and
Chief Financial Officer

Deborah McPherson
Senior Vice-President,
Sales and Marketing

Stuart Levings
Senior Vice-President and
Chief Risk Officer

Winsor Macdonell
Senior Vice-President,
General Counsel and Secretary

2009
Proven results

Our strong execution against our business objectives combined with improving housing fundamentals in the second half of 2009 contributed favourably to our results. We are making solid progress against our strategic objectives.

Growth strategy

- $18 billion of new insurance written
- $360 million of net premiums written
- 90% overall customer satisfaction based on independent survey

Risk management

- High-quality mortgage insurance portfolio, with an average credit score of 702
- Delinquency rate in portfolio of 0.28%
- 4,600 families assisted through our loss mitigation program

Financial performance

- Net operating income of $307 million and operating earnings per share of $2.67[1]
- Loss ratio of 42% and combined ratio of 57%[1]
- 13% operating return on equity[1]
- $5 billion high-quality investment portfolio with a book yield of 4.1%
- Strong shareholders' equity position of $2.6 billion, with capital well in excess of regulatory requirements

1 Including the impact of the change to the premium recognition curve, the net operating income, operating earnings per diluted share, loss ratio, combined ratio and operating return on equity would have been $371 million, $3.23, 36%, 50% and 16%, respectively.

$2.67 operating earnings per diluted share[1]

$2.6 billion in shareholders' equity

2010 and beyond
Promising future

Our objective is to help Canadians achieve and maintain the dream of homeownership by supporting responsible lending practices and by providing innovative mortgage insurance solutions.

Growth strategy

- Leading private provider of residential mortgage insurance products and services in Canada
- Best-in-class customer satisfaction and loyalty ratings
- Double-digit growth in premiums written

Risk management

- Comprehensive risk management through leading-edge risk analytics and underwriting technology
- Proactive loss mitigation through our Homeowner Assistance Program
- High-quality and well-diversified mortgage insurance portfolio

Financial performance

- Average loss ratios of 35%–40% over an economic cycle
- Mid-teens return on equity
- Capital flexibility and strong regulatory capital ratios

Our customer is at the centre of everything we do

"**We differentiate ourselves** through dedication to providing exceptional sales and service. Our flexible approach, common-sense underwriting, knowledgeable team and accessible account managers enable us to provide best-in-class service to our customers. We understand our clients' needs and deliver outstanding customer service in all that we do."

Deborah McPherson
Senior Vice-President, Sales and Marketing

Growing through customer focus

We are clearly focused on growing our mortgage insurance premiums by deepening our customer relationships, delivering outstanding service, and utilizing best-in-class technology. We strive to understand our customers' business goals and objectives so that we consistently exceed their expectations. We have a tightly integrated sales and service model based on product breadth, mortgage expertise, and dedicated customer teams.

Our value proposition is customized through specific segment strategies. We focus on delivering a value-added sales and service experience that helps our customers grow their business, reduce costs and fund higher-quality loans.

We are also focused on working with mortgage brokers, realtors and home builders who request lenders to choose Genworth. We value the importance of working with these groups to help them provide education and financial solutions to their clients – the homebuyers.

Our customers view us as an essential resource to help them succeed in their mortgage business. Based on an independent survey, almost 90% of our customers view us as delivering very good to excellent service. We strive to nurture each and every relationship to ensure ongoing success and customer satisfaction.

Thought leadership and training are key components of our differentiation. We have delivered over 15,000 hours of training to our industry customers.

The Genworth Development Centre, our on-line system, is interactive and offers 24/7 access to a wide variety of programs for mortgage professionals.

Risk management is our foundation

"Our high-quality, well-diversified insurance portfolio, built on a strong risk management framework and disciplined underwriting approach, helped us weather the tough economic environment in 2009."

Stuart Levings
Chief Risk Officer

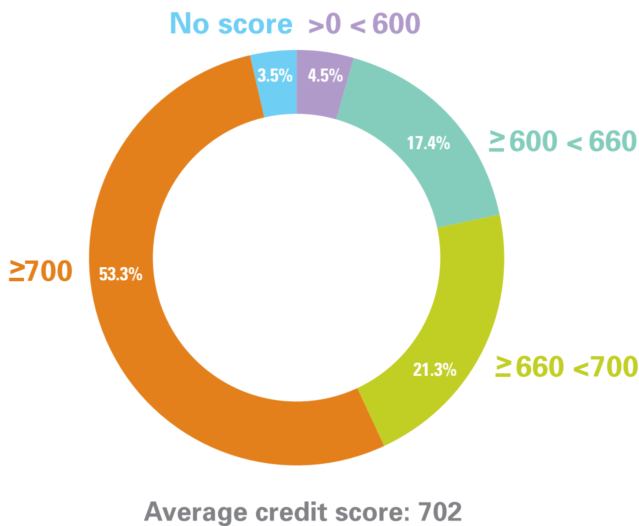
Our risk management framework provides a structured approach to assessing risks and managing exposures. This framework enables us to proactively manage risks through portfolio analytics, prudent underwriting policies, quality assurance audits and loan-by-loan underwriting.

High-quality diversified portfolio

Dispersion of insurance in-force

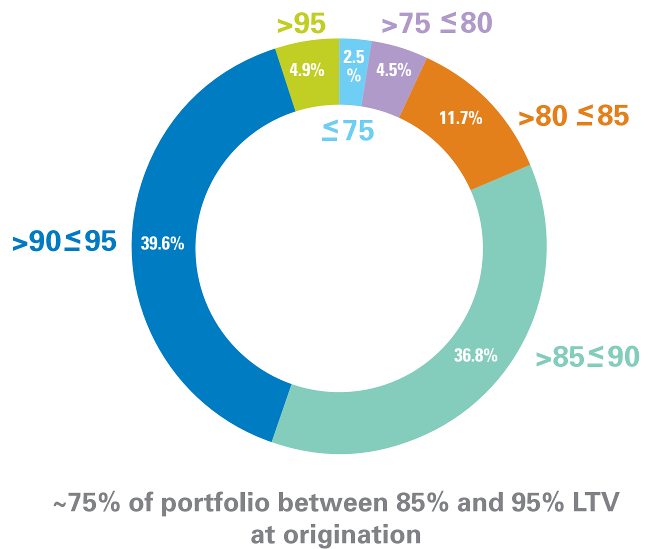
as % of total high loan-to-value mortgage insurance portfolio: $177 billion

Credit score



Average credit score: 702

Original loan-to-value ratio



~75% of portfolio between 85% and 95% LTV at origination

Credit score is a key element in our underwriting approach, as higher credit scores drive improved loss performance. The quality of our portfolio, with an average credit score of **702**, was a key driver of our solid loss performance in 2009.

The majority of our portfolio has a **loan-to-value ratio** between 85% and 95%, with limited exposure above 95%. When we factor in home price appreciation, our effective loan-to-value is lower and better from a risk perspective.

The combination of our portfolio diversification, an improving economy and continued execution of our loss mitigation strategies has positively impacted our delinquency rates.

Delinquencies are stabilizing

Province	% insurance in-force as at Dec. 31, 2009	Delinquency rate Q1 2009	Q2 2009	Q3 2009	Q4 2009
British Columbia	16%	0.17%	0.21%	0.23%	0.25%
Alberta	15%	0.36%	0.47%	0.50%	0.54%
Saskatchewan	2%	0.08%	0.13%	0.12%	0.15%
Manitoba	1%	0.11%	0.12%	0.09%	0.12%
Ontario	48%	0.30%	0.30%	0.25%	0.23%
Quebec	14%	0.30%	0.29%	0.29%	0.29%
New Brunswick	1%	0.22%	0.25%	0.25%	0.29%
Nova Scotia	2%	0.29%	0.29%	0.31%	0.28%
All other	1%	0.22%	0.15%	0.13%	0.10%
Total		0.29%	0.30%	0.28%	0.28%

Total insurance in-force of
$224 billion
as at December 31, 2009

Risk management framework

We follow a structured process: Assess the economic environment, set appropriate policies and risk limits, and monitor the resulting risk exposures and performance.

The fundamentals of underwriting revolve around four key concepts: the credit profile of the applicant, the applicant's ability to service the loan, the quality of the property provided as security for the loan, and specific product rules or guidelines. These concepts are blended together with **sound risk judgment** to produce an underwriting decision.

We have invested in **leading-edge geo-spatial mapping technology** to develop "heat maps" that graphically depict risk concentrations. This technology allows us to map out areas of economic concern to guide our underwriting system during the property evaluation stage of the underwriting process.

Using our extensive database of mortgage portfolio performance, we developed a **proprietary mortgage scoring model** that sits at the heart of our automated underwriting process. This model predicts the likelihood of default based on a number of key loan attributes including borrower credit score, property value, loan affordability and loan-to-value ratio. Our automated underwriting system uses this output to determine if the application is eligible for automatic approval.

We are constantly navigating through economic change. We focus on the macroeconomic factors that influence our business and the dynamic response required in our underwriting guidelines and policies.

This is our Homeowner Assistance Program

We provide creative solutions to mitigate and reduce losses, keep borrowers in homes, and ensure policy compliance.

Common workout solutions under the program include:

- Capitalization of arrears and/or future mortgage payments
- Increase of amortization period to decrease monthly payments
- Partial payment plans to address temporary reduction in income

Our Homeowner Assistance Program is designed to help homeowners who are experiencing temporary financial difficulties that put their mortgage payments at risk. This could be the result of an unexpected life event, such as a serious illness, marital separation or loss of employment. A homeowner with a Genworth-insured mortgage can take advantage of our Homeowner Assistance Program at no extra cost. This program works in partnership with our lenders to establish alternative arrangements to help borrowers keep their home when times get tough.

During 2009, our Homeowner Assistance Program helped over 4,600 homeowners with Genworth-insured mortgages stay in their homes in the challenging economic climate. By offering homeowners workout solutions tailored to meet their financial needs, we remain committed to helping Canadians preserve their dream of homeownership.

Homeowner Assistance Evaluator

An on-line self-assessment tool is available at www.homeownerassistance.ca for homeowners experiencing temporary financial difficulty. At the end of the assessment, the evaluator will provide potential workout solutions and the option to contact Genworth's Homeowner Assistance team directly.

How we helped homeowners

We assisted over

4,600 families in 2009

Providing solutions that work

A homeowner with a Genworth-insured mortgage was in need of financial assistance as he was self-employed and, due to the downturn in the economy, his consulting business was suffering. The homeowner found himself with reduced income to support his wife and child and pay monthly expenses. The Homeowner Assistance Specialist worked with the lender and the homeowner and authorized a workout solution that provided payment relief while the homeowner tried to sell the house and move into something more affordable. The homeowner was able to sell his property and now lives in a more affordable home.

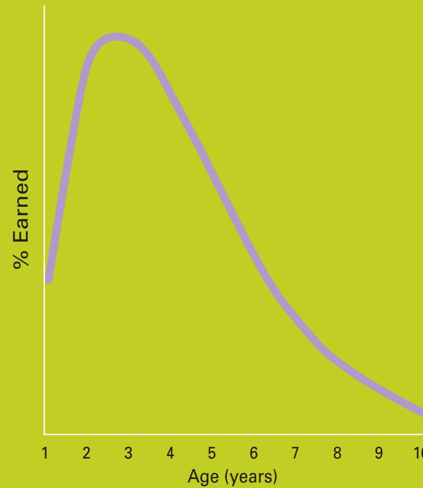
Helping when you need it most

A lender contacted the Homeowner Assistance team regarding the homeowners, with a Genworth-insured mortgage, who were experiencing financial hardship. The homeowners' 11-year-old son was unexpectedly diagnosed with chronic myeloid leukemia. As a result of his illness, he had to undergo extensive treatment and had to be hospitalized for a prolonged period of time. To be at their son's side, the homeowners took time off work and used their savings to manage their expenses. Their savings became depleted and they required some financial assistance during this challenging time. Under the Homeowner Assistance Program, we structured a payment solution that provided the homeowners with a break on their mortgage payments, allowing them to concentrate on direct care for their son during this time.

12,000 files reviewed in 2009 for potential workouts

Strong balance sheet provides financial flexibility

Premiums earned



How do we make money?

- Single upfront premium is earned into revenues based on our loss emergence pattern
- Approximately 50% of premiums written in each year will be earned in years two to four

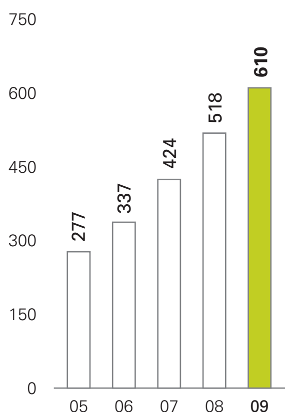
$2 billion
of unearned premiums
represent future revenues and profits

- 90% of our $2 billion unearned premiums reserve will be earned over the next five years

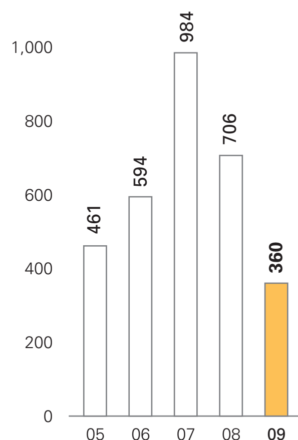
Solid operating results in a challenging economic environment

We delivered net operating income of $307 million[1] in 2009 despite higher unemployment levels and a soft real estate market in the first half of 2009. While losses on claims rose 60% to $256 million, the continued execution of our risk management and loss mitigation strategies positively impacted our overall loss ratio of 42%[1]. We are encouraged by the improving loss ratio trend in the second half of 2009 as we ended the year with a fourth quarter loss ratio of 39%, compared to our loss ratio target of 35% to 40%.

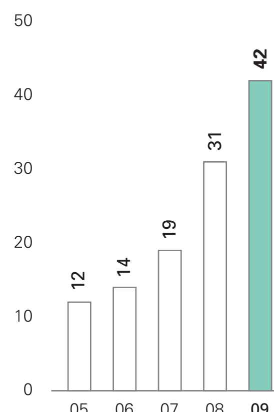
Net premiums earned[1]
($ million)



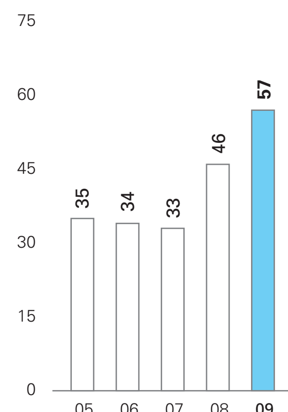
Net premiums written
($ million)



Loss ratio[1]
(%)



Combined ratio[1]
(%)

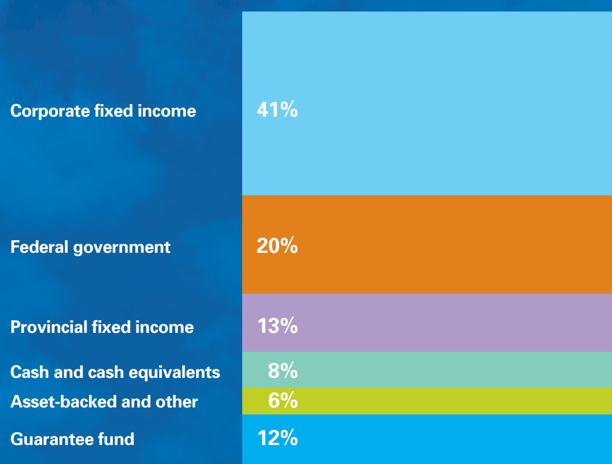


1 Including the impact of the change to the premium recognition curve, the net premiums earned, net operating income, loss ratio and combined ratio would have been $710 million, $371 million, 36% and 50%, respectively.

“**We have a proven 12-year track record of profitable growth** and are well positioned to build on this progress. Our strong balance sheet and proven risk management underpin our confidence to achieve our growth objectives.”

Philip Mayers
Chief Financial Officer

High-quality investment portfolio



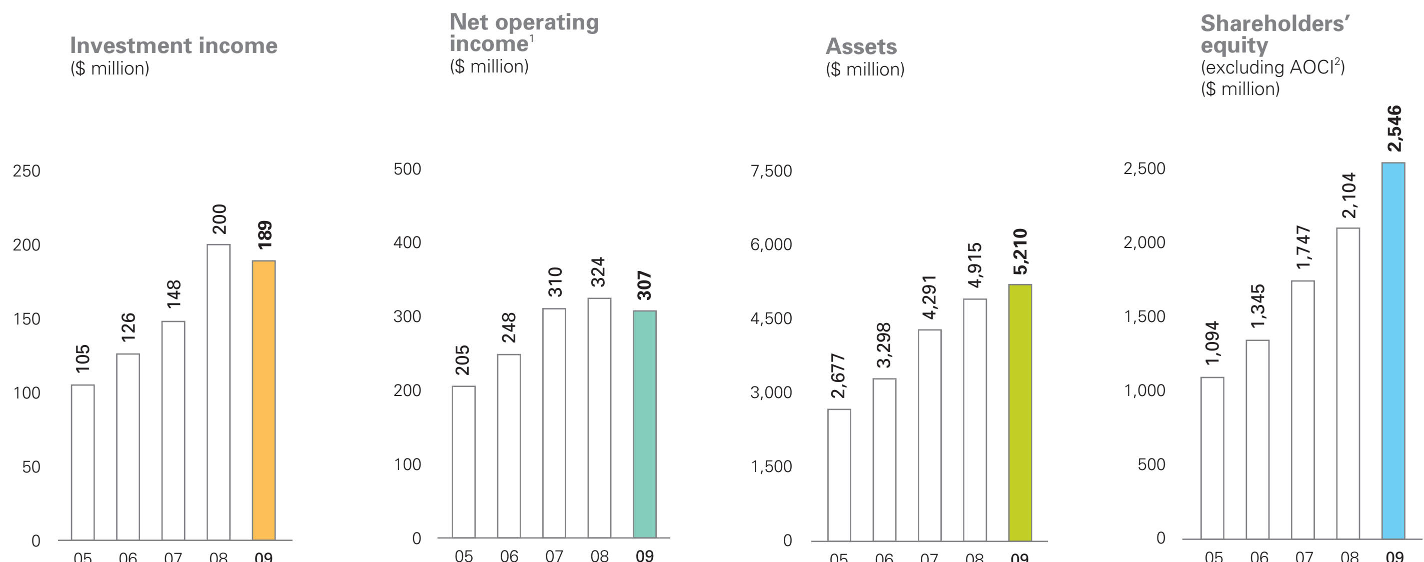
Total $5.0 billion

- **Book yield of 4.1%**
- **Portfolio duration of 3.1 years**
- **Unrealized gains of $145 million on available-for-sale securities**

Investment income represents approximately one-third of net operating income.

Strong foundation for growth

With $2.6 billion in shareholders' equity (or $2.5 billion of shareholders' equity excluding AOCI[2]), a debt-free balance sheet and a regulatory capital ratio of 149% that is well in excess of target levels, we have considerable financial flexibility both to support our growth plans and to maintain our dividend policy. We will manage our $5 billion investment portfolio to take advantage of a rising rate environment to enhance investment income going forward.



1 Including the impact of the change to the premium recognition curve, the net operating income would have been $371 million.

2 Defined as accumulated other comprehensive income (AOCI). As at December 31, 2009, AOCI was $97 million.

Putting our values to work

Our values are the foundation of our company. **Ingenuity, clarity, performance, heart, and initiative** are the guiding principles that define who we are and how we work. Our decisions are grounded in these values, and they guide our relationships with customers, distributors, investors, community and one another. Underlying our performance is our unyielding commitment to integrity, as governed by our Code of Ethics.

$595,000

Total cash-based charitable contributions

2,829 hours

Total hours of volunteer work by employees

Building on community partnerships

Habitat for Humanity

We are proud of our continuing partnership with Habitat for Humanity Canada. In 2009, our employees supported Genworth's $300,000 donation to Habitat by participating in eight different build projects, from Halifax to Vancouver. They also contributed many hours on the boards and committees of Habitat affiliates from Quebec City to Sudbury, including Kingston to Sherbrooke and Toronto to Montreal.

United Way

Across the country, our employees have a proven track record for supporting the United Way, whose mission is to improve lives by mobilizing the caring power of communities. The Company's commitment was demonstrated by matching employee contributions dollar for dollar. Genworth contributed a total of $65,000 to the United Way in 2009.

Volunteers speak volumes > **Our employees generously donate time to a variety of causes and community initiatives. To strengthen our commitment to personal philanthropy, increase employees' giving power and reflect the charitable interests of our employees, we established the Volunteer of the Year and Volunteers Speak Volumes Program to recognize the employees who contribute their time to the charities of their choice.**

"I have been involved with the Company and its subsidiaries as an independent director since it started its operations in 1995, and in my capacity as lead director, I strive to maintain an appropriate focus on good corporate governance and to ensure that all shareholders of Genworth MI Canada are well served by our Board."

Sidney Horn, Lead director

(1) Audit Committee
(2) Compensation and Nominating Committee
(3) Risk, Capital and Investment Committee
(4) Lead Director
(5) Independent

Brian Hurley
Chairman, Chief Executive Officer

Mr. Hurley is Chairman of the Board and Chief Executive Officer of the Company. Previously he was President, Genworth International, with responsibility for activities in Asia-Pacific, Canada and Latin America. He joined General Electric in 1981 and has held various management positions including President and CEO of the Insurance Company* from 1994 to 1996.

Peter Vukanovich
President, Chief Operating Officer

Mr. Vukanovich is President and Chief Operating Officer of the Company. He has been President of the Company since October 1997. He has held various senior roles in finance, risk and operations over his career. Mr. Vukanovich also holds a Chartered Accountant designation.

Sidney Horn(1)(2)(4)(5)

Mr. Horn has been a director of the Insurance Company* since 1995. Mr. Horn is a partner at the law firm of Stikeman Elliott, specializing in commercial, corporate and securities law. Mr. Horn is a director of Astral Media Inc., The Wet Seal Inc., and PRC Trademarks Inc. (a subsidiary of Prime Restaurants Royalty Income Fund). Mr. Horn is a member of the Alberta and Quebec Bars and also holds an MBA. Mr. Horn is Chair of the Compensation and Nominating Committee.

Robert Brannock

Mr. Brannock is President and Chief Executive Officer of Genworth Financial, Europe. He was previously a director of the Insurance Company* from 2007 to 2008. He joined the Genworth companies in 1993 and has held various senior management positions during his tenure.

Robert Gillespie(1)(2)(5)

Mr. Gillespie has been a director of the Insurance Company* since 1995. After holding numerous management positions with General Electric Canada Inc., he held the position of Chairman and Chief Executive Officer of General Electric Canada Inc. from 1992 to 2005. In the past, Mr. Gillespie was a director of AT&T Canada, Hollinger Inc. and Husky Injection Molding Systems Ltd.

Brian Kelly(1)(3)(5)

Mr. Kelly has been a director of the Insurance Company* since 2004 and Chair of its Audit Committee since 2005. Between 1972 and 1993, Mr. Kelly held various financial management positions with several General Electric businesses, including Chief Financial Officer of two different General Electric Canada businesses.

Samuel Marsico(3)

Mr. Marsico is the Senior Vice-President, Chief Risk Officer for Genworth Financial, Inc., US Mortgage Insurance and International. He joined Genworth Financial, Inc., Mortgage Insurance, in August 1997 as Chief Financial Officer, and has held various senior management positions. Mr. Marsico holds a CPA designation. Mr. Marsico is Chair of the Risk, Capital and Investment Committee.

Leon Roday(2)

Mr. Roday is the Senior Vice-President, General Counsel and Secretary of Genworth Financial, Inc. Prior to joining Genworth Financial, Inc. in 1996, he was a partner at LeBoeuf, Lamb, Greene, and McRae for 14 years. Mr. Roday is a member of the New York State Bar Association.

Jerome Upton(3)

Mr. Upton is the Chief Operating Officer, International Mortgage Insurance for Genworth Financial, Inc. He joined Genworth Financial, Inc. in 1998 and has held various senior financial management positions.

* "Insurance Company" refers to Genworth Financial Mortgage Insurance Company Canada, a wholly owned subsidiary of the Company, Genworth MI Canada Inc.

Shareholder information

Exchange listing

The Toronto Stock Exchange:
Common Shares
Ticker Symbol: MIC

Auditor

KPMG LLP
Bay Adelaide Centre
333 Bay Street, Suite 4600
Toronto, Ontario M5H 2S5

Banker

Royal Bank of Canada
200 Bay Street
South Tower, Royal Bank Plaza
Toronto, Ontario M5J 2J5

Registrar and Transfer agent

CIBC Mellon Trust Company
320 Bay Street
P.O. Box 1
Toronto, Ontario M5H 4A6
Phone: 416-643-5000
www.cibcmellon.com

To change your address, eliminate multiple mailings, transfer MIC shares, inquire about dividends or for other shareholder account inquiries, please contact the offices of CIBC Mellon.

Shareholder contact

Samantha Cheung
Vice-President, Investor Relations
samantha.cheung@genworth.com

Annual Meeting of Shareholders

Date: Wednesday, May 5, 2010
Time: 10:30 a.m. (EST)

TSX Broadcast Centre

The Exchange Tower
130 King Street
Toronto, Ontario M5X 1J2

Board of Directors

To report complaints about the Company's internal accounting controls or auditing matters or any other concerns, you may write to or call the Board of Directors or the Audit Committee at:

Board of Directors

Genworth MI Canada Inc.
c/o Winsor Macdonell, Secretary
2060 Winston Park Drive
Suite 300
Oakville, Ontario L6H 5R7
Phone: 905-287-5484

Corporate Ombudsperson

To report concerns related to compliance with the law, Genworth policies or government contracting requirements, contact:

Genworth Ombudsperson

2060 Winston Park Drive
Suite 300
Oakville, Ontario L6H 5R7
Phone: 905-287-5510
Canada-ombudsperson@genworth.com

Disclosure documents

Corporate governance, disclosure and other investor information is available online from the investor relations pages of the Company's website at http://investor.genworthmicanada.ca

Cautionary statement

The cautionary statements included in the Company's MD&A, including the "Special note regarding forward-looking statements" and the "Non-GAAP financial measures," also apply to this Annual Report and all information and documents included herein.

2009 dividends

Declaration date: October 28, 2009
Record date: November 16, 2009
Date payable: December 1, 2009
Amount per common share: $0.22

Eligible dividend designation

For purposes of the dividend tax credit rules contained in the Income Tax Act (Canada) and any corresponding provincial or territorial tax legislation, all dividends (and deemed dividends) paid by Genworth MI Canada Inc. to Canadian residents are designated as eligible dividends. Unless stated otherwise, all dividends (and deemed dividends) paid by the Company hereafter are designated as eligible dividends for the purposes of such rules.

Information for shareholders outside of Canada

Dividends paid to residents in countries with which Canada has bilateral tax treaties are generally subject to the 15% Canadian non-resident withholding tax. There is no Canadian tax on gains from the sale of shares (assuming ownership of less than 25%) or debt instruments of the Company owned by non-residents not carrying on business in Canada. No government in Canada levies estate taxes or succession duties.

Capital stock

As at December 31, 2009, there were 117,100,000 common shares outstanding.

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www.genworth.ca

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Genworth MI Canada Inc.

2009 Financial Report

The homeownership company

We are the leading private mortgage insurance provider in Canada and have a history dating back to 1995. We work with lenders, mortgage brokers, real estate agents and home builders to make homeownership more accessible to all Canadians and have **helped over one million Canadian families purchase a home.** Our significant scale, customer-focused strategy, proactive risk management platform and financial strength position us well for growth. We are a valued business partner to lenders and have a track record of successful product innovations that benefit both lenders and borrowers.

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Management's discussion and analysis

For the fourth quarter and year ended December 31, 2009

Formation of the Company

Genworth MI Canada Inc. (the "Company") completed its initial public offering ("IPO") on July 7, 2009. Immediately prior to completion of the IPO, the Company acquired all of the issued and outstanding common shares of Genworth Canada Holdings I Limited and the issued and outstanding common shares of Genworth Canada Holdings II Limited in exchange for newly-issued common shares. As no substantial change in ownership interests resulted from this reorganization and IPO, the Company carried forward the basis of measurement of assets and liabilities as reflected in the consolidated financial statements of Genworth Canada Holdings I Limited and the financial statements of Genworth Canada Holdings II Limited.

Prior to the acquisitions of Genworth Canada Holdings I Limited and Genworth Canada Holdings II Limited, the Company as at June 30, 2009 had a share capital of $2.

The full three and twelve month results and prior period comparative results for the Company reflect the consolidation of the Company and its subsidiaries Genworth Canada Holdings I Limited and Genworth Canada Holdings II Limited, including the subsidiary of Genworth Canada Holdings I Limited, Genworth Financial Mortgage Insurance Company Canada.

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations approved by the Company's board of directors (the "Board") is prepared for the three and the twelve months ended December 31, 2009 and 2008. The discussion should be read in conjunction with the audited financial statements of the Company which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Interpretation

Unless the context otherwise requires, all references in this MD&A to "Genworth Canada" or the "Company" refer to Genworth MI Canada Inc. and its subsidiaries and, to the extent that references in this MD&A are made to matters undertaken by a predecessor in interest to Genworth Canada or its subsidiaries, include such predecessor in interest.

Forward-looking statements

This document contains forward looking statements that involve certain risks. The Company's actual results could differ materially from these forward-looking statements. For more information, please read "Special Note Regarding Forward-Looking Statements" at the end of this document.

Non-GAAP financial measures

To supplement its financial statements, the Company uses select non-GAAP financial measures. Non-GAAP measures used by the Company to analyze performance include underwriting ratios such as loss ratio, expense ratio and combined ratio as well as other performance measures such as operating income and return on operating income. The Company believes that these non-GAAP financial measures provide meaningful supplemental information regarding its performance and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making. Non-GAAP measures do not have standardized meanings and are unlikely to be comparable to any similar measures presented by other companies. See Non-GAAP reconciliation at the end of this document. These measures are defined in the Company's glossary which is posted on the Company's website at www.investor.genworthmicanada.ca which can be accessed by clicking on the "Glossary of Terms" link in the Investor Resources subsection on the left navigation bar.

Overall performance

Business background

Genworth Canada is the largest private residential mortgage insurer in Canada and has been providing private mortgage insurance in Canada since 1995. The Company has built a broad underwriting and distribution platform across the country that provides customer-focused products and support services to the vast majority of Canada's residential mortgage lenders and originators. Today, Genworth Canada underwrites mortgage insurance for residential properties in all provinces and territories of Canada and has the leading market share among private mortgage insurers. The Canada Mortgage and Housing Corporation ("CMHC"), a crown corporation, is the Company's major competitor.

Seasonality

The mortgage insurance business is seasonal in nature. While net premiums earned, investment income and sales, underwriting and administrative expenses are relatively stable from quarter-to-quarter, premiums written may vary each quarter. These variations are driven by the level of mortgage originations and related mortgage insurance policies written, which typically peak in the spring and summer months. Losses on claims vary from quarter-to-quarter primarily as the result of prevailing economic conditions, as well as the characteristics, of the insurance in-force portfolio such as size and age.

Outlook

The mortgage insurance business is affected by changes in economic, employment and housing market trends. These include interest rates, home price appreciation, mortgage origination volume, and levels of mortgage delinquencies as well as changes in the regulatory environment.

The Company expects interest rates to remain relatively low in the first half of 2010 and this should contribute to a strong high loan-to-value mortgage market. Housing affordability may deteriorate in the second half of 2010 if interest rates rise as generally expected, and could adversely impact the overall mortgage market.

The Company does not expect to see a major correction in housing prices as interest rates are expected to continue at low levels that should sustain housing demand.

The Company will continue to proactively and prudently manage its $5 billion investment portfolio by diversifying its investment mix. The yield on the investment portfolio should benefit from an increasing rate environment in the second half of 2010 as maturities are reinvested.

The Company expects that unemployment will likely peak in 2010, and then gradually decline over the following two to three years. Accordingly, management estimates that loss ratios in 2010 should remain within the Company's target pricing loss ratio of 35 – 40%.

In summary, Genworth MI Canada is heading into 2010 with a strong balance sheet including capital in excess of regulatory targets and a $2.0 billion unearned premium reserve. The Company is well positioned to continue to be a leading private mortgage insurer in the current environment due to its significant scale, its prudent growth strategies through customer-focused sales and service, its prudent investment strategy, and strong financial position. The Company will continue to focus on optimization of shareholder return.

Results of operations

The following table sets forth certain financial information for the three and twelve months ended December 31, 2009 and 2008.

(in millions, unless otherwise specified)	For the quarter ended Dec 31, 2009	For the quarter ended Dec 31, 2008	For the year ended Dec 31, 2009	For the year ended Dec 31, 2008
Income statement data				
Net premiums written	**$ 110**	$ 152	**$ 360**	$ 706
Underwriting revenues:				
Net premiums earned	**155**	138	**610**	518
Impact of change in first quarter premium recognition curve	**—**	—	**100**	—
Underwriting revenues	**155**	138	**710**[2]	518
Losses on claims and expenses:				
Losses on claims	**60**	58	**256**	160
Sales, underwriting and administrative expenses	**25**	26	**98**	78
Total losses on claims and expenses	**85**	84	**354**	238
Net underwriting income	**70**	53	**357**	280
Investment income	**46**	44	**189**	200
Income before income taxes	**117**	97	**544**	477
Net income	**87**	74	**379**[2]	337
Net operating income[1]	**$ 85**	$ 75	**$ 371**[2]	$ 324
Key ratios and other items				
Insurance in force	**223,842**	211,724	**223,842**	211,724
New insurance written	**5,307**	7,839	**18,007**	31,919
Loss ratio	**39%**	42%	**36%**[2]	31%
Expense ratio	**16%**	19%	**14%**[2]	15%
Combined ratio	**55%**	61%	**50%**[2]	46%
Operating return on equity[1]	**14%**	15%	**16%**[2]	17%
MCT ratio	**149%**	127%	**149%**	127%
Delinquency ratio	**0.28%**	0.25%	**0.28%**	0.25%
Severity	**27%**	30%	**27%**	26%
Earnings per common share (basic)	**$ 0.75**	$ 0.66	**$ 3.31**	$ 3.02
Earnings per common share (diluted)	**$ 0.74**	$ 0.66	**$ 3.30**	$ 3.02
Operating earnings per common share (basic)[1]	**$ 0.73**	$ 0.67	**$ 3.24**	$ 2.91
Operating earnings per common share (diluted)[1]	**$ 0.72**	$ 0.67	**$ 3.23**[2]	$ 2.91
Weighted average number of shares outstanding				
Basic	**117,100,000**	111,999,999	**114,487,123**	111,408,332
Diluted	**117,992,765**	111,999,999	**114,917,515**	111,408,332

Notes: Amounts may not total due to rounding.

(1) This is a financial measure not calculated based on Canadian generally accepted accounting principles (GAAP). See the "Non-GAAP Measures" section at the end of this MD&A for additional information.

(2) Excluding the impact of change to the premium recognition curve in the first quarter 2009, net premiums earned, net income, net operating income, loss ratio, expense ratio, combined ratio, operating return on equity and operating earnings per share for the year ended December 31, 2009 would have been $610, $315, $307, 42%,15%, 57%, 13%, and $2.67 respectively.

Fourth quarter highlights

- Net income of $87 million and net operating income of $85 million were up $8 million and $10 million respectively over the third quarter of 2009. On a sequential basis, these increases were driven primarily by $4 million of lower losses on claims and $7 million in lower income tax expense resulting from the revaluation of the future tax liability due to substantively enacted income tax rate reductions in certain provinces. Compared to the fourth quarter of 2008, net income and net operating income were up $13 million and $10 million respectively attributable primarily to an $18 million increase in premiums earned due to seasoning of large books of business.
- Net premiums written of $110 million were up $6 million over the third quarter of 2009 due to higher volumes resulting from service enhancements. Compared to the fourth quarter of 2008, net premiums written decreased $42 million primarily due to a lower market share in 2009 as estimated by the Company.
- Minimum capital test ratio was 149%, a 2-point improvement over the third quarter 2009 and a 22-point improvement over the fourth quarter 2008 due to the overall strengthening of the Company's balance sheet.

The following table sets forth the quarterly results of operations for the Company's business:

	For the quarter ended Dec 31		Increase (decrease) and percentage change	
(in millions, unless otherwise specified)	**2009**	2008	Q4'09 vs. Q4'08	
Net premiums written	**$ 110**	$ 152	$ (42)	(28)%
Underwriting revenues:				
Net premiums earned	**$ 155**	$ 138	$ 18	13%
Fees and other income	**—**	—	—	—
Underwriting revenues	**155**	138	18	13%
Losses on claims and expenses:				
Losses on claims	**60**	58	2	3%
Sales, underwriting and administrative	**25**	26	(2)	(6)%
Total losses on claims and expenses	**85**	84	—	—
Net underwriting income	**70**	53	17	32%
Investment income:				
Interest, net of investment expenses	**42**	47	(5)	(11)%
Gain (loss) on investments[1]	**3**	(1)	4	NM
Guarantee fund earnings	**1**	(2)	3	NM
Total investment income	**46**	44	2	4%
Intercompany interest expense	**—**	(1)	1	NM
Income before income taxes	**117**	97	20	20%
Provision for income taxes	**29**	23	6	28%
Net income	**87**	74	13	18%
Adjustment to net income:				
Loss (gain) on investments, net of taxes	**(2)**	1	(3)	NM
Net operating income	**$ 85**[2]	$ 75	$ 10	14%
Effective tax rate	**25%**	23%	—	2 pts
Operating return on equity	**14%**	15%	—	(1) pts

Notes: Amounts may not total due to rounding.

The Company defines "NM" as not meaningful for increases or decreases greater than 200%.

(1) Includes realized gain (loss) on sale of Available for Sale ("AFS") and unrealized gain (loss) on Held For Trading ("HFT") investments.

(2) Includes $8 million favourable tax revaluation.

Fourth quarter 2009 compared to fourth quarter 2008

High loan-to-value new insurance written decreased by $0.8 billion, or 14%, to $5.0 billion in the fourth quarter of 2009 as compared to the prior year's period. This decrease was driven mainly by the decline of the Company's estimated market share in 2009.

Net premiums written decreased by $42 million, or 28%, to $110 million in the fourth quarter of 2009 as compared to the prior year's period. Net premiums written on high loan-to-value mortgages accounted for $36 million of the decrease with approximately $23 million being driven by reduced market share as estimated by the Company and the remainder resulting from a lower average premium rate associated with a higher proportion of refinance business and the elimination in the fourth quarter of 2008 of the 40-year amortization and 100% loan-to-value products. A decrease in net premiums written from low loan-to-value volumes accounted for the remaining $6 million of the total decrease.

Net premiums earned increased by $18 million, or 13%, to $155 million in the fourth quarter of 2009 as compared to the prior year's period. The increase was due to seasoning of the Company's large 2007 and 2008 books of business and the impact of updating of the premium recognition curve for the most recent loss emergence pattern in the fourth quarter of 2009.

Losses on claims increased by $2 million, or 3%, to $60 million in the fourth quarter of 2009 as compared to the prior year's period. Compared to the prior year's period, the number of new reported delinquencies increased by approximately 10% and the average reserve per delinquent loan increased 20% to $69,900. These increases were driven primarily by the Company's 2007 and 2008 books of business, which had higher loan balances and higher severity rates as they entered their peak loss periods in a challenging economic environment. The increased losses are partially offset by a significant increase in loss mitigation activity. During the fourth quarter of 2009, the Company approved 1,387 workouts under its loss mitigation programs as compared to 279 in the prior year's period. While not all files where a workout is performed would have ultimately resulted in claims, loss mitigation activities including workouts have positively impacted losses on claims.

Sales, underwriting and administrative costs decreased $2 million, or 6%, to $25 million in the fourth quarter of 2009 as compared to the prior year's period. The decrease was primarily due to a $5 million decrease in corporate overhead expense in the fourth quarter 2009 as the comparable 2008 corporate overhead expense for the full year was primarily recorded in the fourth quarter of 2008. There is no impact on the Company's full year results. This decrease was offset by $2 million of additional amortization of deferred acquisition costs which directly relates to higher premiums earned, and $1 million costs related to stock-based compensation primarily granted in conjunction with the Company's IPO.

Total investment income, including the guarantee fund earnings, increased by $2 million, or 4%, to $46 million in the fourth quarter of 2009 as compared to the prior year's period. Excluding gains and losses, interest income from the general portfolio decreased by $5 million as a 6% increase in invested assets was fully offset by the lower book yield of 4.0% in the fourth quarter of 2009, as compared to 4.6% in the prior year's period. The lower book yield resulted from the shortening of the portfolio's duration to 3.1 years from 3.4 years in the prior year's period. Guarantee fund earnings increased by $3 million during the fourth quarter of 2009, as compared to the prior year's period, due to lower exit fees resulting from lower premiums written. The Company recorded a $4 million improvement in gains on investments primarily attributable to a $15 million improved unrealized loss position on held for trading ("HFT") investments offset by a net decrease of $11 million realized gains on available for sale ("AFS") securities.

The following table sets forth the quarterly income tax expense for the Company.

(in millions, unless otherwise specified)		For the quarter ended Dec 31, 2009 $	Rate		For the quarter ended Dec 31, 2008 $	Rate
Income before income taxes	**$**	**117**		$	97	
Income tax expense	**$**	**37**	**32%**	$	31	32%
Effect of decrease in tax rates on future income taxes		**(8)**	**(7)%**		(8)	(9)%
Other		**—**	**—**		—	—%
Income tax expense	**$**	**29**	**25%**	$	23	23%

Notes: Amounts may not total due to rounding.

The effective tax rate was 25% in the fourth quarter of 2009, compared to 23% in the prior year's period. These rates are lower than the basic combined federal and provincial rate of 32% as a result of decreases in substantively enacted income tax rates applicable to the Company's future taxes. Future income taxes arise primarily from temporary differences created by the Company's guarantee fund reserve and policy reserves.

Net income increased by $13 million, or 18% to $87 million in the fourth quarter of 2009 as compared to the prior year's period. The increase in net income was primarily driven by an increase in earned premium and an improved unrealized loss position on the HFT investments partially offset by higher losses on claims and lower investment income. Net operating income increased by $10 million, or 14%, to $85 million during the fourth quarter of 2009. The net operating income increase was due to higher net premiums earned partially offset by higher losses on claims and lower investment income.

Highlights for the year ended December 31, 2009

- Unearned premium reserves were $2.0 billion and will be recognized over time based on the expected premium recognition curve.
- Net income of $379 million and net operating income of $371 million were up $42 million and $47 million over the full year 2008 driven primarily by higher premiums earned consisting of $100 million from a change in the premiums recognition curve in the first quarter of 2009 as well as $92 million from the seasoning of large books offset by $96 million higher losses on claims, as well as higher expenses and lower investment income.
- Net premiums written of $360 million decreased $346 million from 2008 driven largely attributable to a smaller aggregate market size and the estimated decline in the Company's market share.

The following table sets forth the full year results of operations for the Company's business:

(in millions, unless otherwise specified)	For the year ended Dec 31, 2009	2008	Increase (decrease) and percentage change 2009 vs. 2008	
Net premiums written	**$ 360**	$ 706	$ (346)	(49)%
Underwriting revenues:				
Net premiums earned	**610**	518	92	18%
Impact of change in first quarter premium recognition curve	**100**	—	100	NM
Fees and other income	**—**	—	—	NM
Underwriting revenues	**710**[2]	518	192	37%
Losses on claims and expenses:				
Losses on claims	**256**	160	96	60%
Sales, underwriting and administrative	**98**	78	20	25%
Total losses on claims and expenses	**354**	238	116	48%
Net underwriting income	**357**	280	77	27%
Investment income:				
Interest, net of investment expenses	**172**	182	(10)	(5)%
Gain on investments[1]	**12**	19	(7)	(36)%
Guarantee Fund earnings	**5**	(1)	6	NM
Total Investment income	**189**	200	(11)	(5)%
Intercompany interest expense	**(1)**	(3)	2	66%
Income before income taxes	**544**	477	67	14%
Provision for income taxes	**166**	140	25	18%
Net income	**379**[2]	337	42	12%
Adjustment to net income:				
Loss (gain) on investments, net of taxes	**(8)**	(13)	5	38%
Net operating income	**$ 371**[2]	$ 324	$ 47	14%
Effective tax rate	**30%**	29%	—	1 pt
Operating return on equity	**16%**[2]	17%	—	(1) pts

Notes: Amounts may not total due to rounding.
The Company defines "NM" as not meaningful for increases or decreases greater than 200%.

(1) Includes realized gain (loss) on sale of AFS and unrealized gain (loss) on HFT investments.

(2) Excluding the impact of change to the premium recognition curve in the first quarter 2009, net premiums earned, net income, net operating income, and operating return on equity for the year ended December 31, 2009 would have been $610, $315, $307 and 13%, respectively.

Year ended December 31, 2009 compared to year ended December 31, 2008

High loan-to-value new insurance written decreased by $9.6 billion, or 36%, to $17.0 billion for the year ended December 31, 2009 as compared to the prior year. This decrease resulted from the smaller mortgage market especially in the first half of the year, and the estimated decline in the Company's market share.

Net premiums written decreased by $346 million, or 49%, to $360 million for the year ended December 31, 2009 as compared to the prior year. Approximately $260 million of this decrease was caused by a smaller high loan-to-value market size and reduced market share with the remaining portion coming from a lower average premium rate resulting from a higher proportion of refinance business and the elimination in the fourth quarter 2008 of the 40-year amortization and 100% loan-to-value products.

Net premiums earned increased by $192 million, or 37% to $710 million for the year ended December 31, 2009 as compared to the prior year. The Company conducts regular actuarial studies of its actual multi-year loss experience which over the course of late 2007 and all of 2008 indicated a change in the pattern of loss emergence. This implied an acceleration of net premiums earned recognition curve as compared to the premium recognition curve prescribed by the Office of the Superintendent of Financial Institutions ("OSFI") which was established by actuarial studies in 2000 and was used by the Company through 2008. The Company has held periodic discussions with OSFI, and received its acceptance of the adoption of the revised premium recognition curve that more accurately reflects current loss emergence. Consequently, effective with the first quarter of 2009, the Company updated its premium recognition curve to reflect its current experience resulting in an increase in net premiums earned for the period of $100 million cumulative through March 31, 2009. The remaining $92 million increase in net premiums earned relates primarily to seasoning of the Company's 2007 and 2008 books of business and regular quarterly actuarial updates to the premium recognition curve.

Losses on claims increased by $96 million, or 60%, to $256 million in the year ended December 31, 2009 as compared to the prior year. Compared to the prior year, new reported delinquencies in 2009 increased by approximately 28% and the average reserve per delinquent loan increased by 20% to $69,900. These increases were driven primarily by the Company's 2007 and 2008 books of business, which had higher loan balances and higher severity rates as they entered their peak loss periods in a challenging economic environment and housing market. During 2009, the Company approved 4,616 workouts under its loss mitigation programs as compared to 734 workouts approved in the prior year. While not all files where a workout is performed would have ultimately resulted in claims, loss mitigation activities including workouts have positively impacted losses on claims.

Sales, underwriting and administrative costs increased by $20 million, or 25%, to $98 million for the year ended December 31, 2009 as compared to the prior year. Of the $20 million increase, $15 million were from higher amortization of deferred acquisition costs attributable to the change in the premium recognition curve and higher premiums earned from the normal seasoning of the Company's insurance in-force. The remaining $5 million increase consisted of $4 million of public company costs and $1 million of operating costs.

Total investment income, including the guarantee fund earnings, decreased by $11 million, or 5%, to $189 million for the year ended December 31, 2009 as compared to the prior year. Excluding gains and losses, interest income from the general portfolio decreased by $10 million as a 6% increase in invested assets was fully offset by the lower book yield of 4.1% in 2009, as compared to 4.5% in the prior year. The lower book yield resulted from the shortening of the portfolio's duration to 3.1 years at December 31, 2009. Guarantee fund earnings increased by $6 million in 2009 primarily due to lower exit fees from lower premiums written as compared to the prior year. The Company recorded a $7 million decrease in gains on investments primarily attributable to a net decrease of $37 million in realized gains from sale of AFS securities offset by a $30 million improvement in the unrealized losses position on HFT investments.

The following table sets forth the full year tax results for the Company's business:

(in millions, unless otherwise specified)		**For the year ended Dec 31, 2009**			For the year ended Dec 31, 2008	
		$	**Rate**		$	Rate
Income before income taxes	**$**	**544**		$	477	
Income tax expense	**$**	**174**	**32%**	$	153	32%
Effect of decrease in tax rates on future income taxes		**(10)**	**(2)%**		(12)	(3)%
Other		**1**	**—**		—	—
Income tax expense	**$**	**166**	**30%**	$	140	29%

Notes: Amounts may not total due to rounding.

The effective tax rate was 30% for the year ended December 31, 2009, compared to 29% in the prior year. These rates are lower than the basic combined federal and provincial rate of 32% as a result of decreases in substantively enacted income tax rates applicable to the Company's future taxes. Future income taxes arise primarily from temporary differences created by the Company's guarantee fund reserve and policy reserves.

Net income increased by $42 million, or 12%, to $379 million from $337 million in the prior year period. Net operating income increased by $47 million, or 14%, to $371 million from $324 million in the prior year period. The increase in both net income and net operating income was due primarily to a change in the premium recognition curve which resulted in an increase of $63 million net of the related increase in amortization of deferred policy acquisition costs and applicable taxes in the first quarter of 2009. Excluding the impact from the change in the premium recognition curve, net income decreased by $19 million resulting from $67 million of higher losses on claims, $7 million in lower investment and $7 million of additional costs partially offset by $64 million higher premiums earned as compared to 2008 net of all applicable taxes.

Loss and expense ratios

	For the quarters ended Dec 31,		For the year ended Dec 31,		Increase (decrease)	
	2009	2008	**2009**[1]	2008	Q4'09 vs. Q4'08	YTD'09 vs. YTD'08
Loss ratio	**39%**	42%	**36%**	31%	(3) pts	5 pts
Expense ratio	**16%**	19%	**14%**	15%	(3) pts	(1) pts
Combined ratio	**55%**	61%	**50%**	46%	(7) pts	4 pts

Note: Amounts may not total due to rounding.

(1) Excluding the impact of changes to the premiums earned recognition pattern in the first quarter, the Loss Ratio, Expense Ratio and Combined Ratio at December 31, 2009 would have been 42%, 15% and 57%, respectively.

Fourth quarter 2009 compared to fourth quarter 2008

The loss ratio decreased 3 points to 39% for the quarter ended December 31, 2009. This decrease was a result of higher premium earned, an improving housing market in the second half of 2009 and lower unemployment rate, offset by the effect of the seasoning of larger books of business, specifically 2007 and 2008, which have entered or are entering into peak loss periods.

The expense ratio decreased 3 points to 16% for the quarter ended December 31, 2009, reflecting an increase in net premiums earned and a decrease in expenses related to lower corporate overhead costs which was partially offset by a modest increase in public company related costs.

Year ended December 31, 2009 compared to year ended December 31, 2008

The loss ratio increased 5 points to 36% for the year ended December 31, 2009. This increase was a result of larger books of business, specifically, the 2007 and 2008 books that have entered or are entering into peak loss periods in a challenging economy and housing market. The Company updated its premium recognition curve to reflect its current experience, resulting in an increase in net premiums earned for the period of $100 million in the first quarter 2009. Excluding the $100 million increase in net premiums earned from the change in the premium recognition curve in the first quarter 2009, the loss ratio for the year ended December 31, 2009 was 42% as compared to 31% in the prior year.

The expense ratio decreased 1 point to 14% for the year ended December 31, 2009. Excluding the $100 million increase in net premiums earned in the first quarter 2009, the expense ratio for the year ended December 31, 2009 was 15% as compared to 15%, the same in the prior year.

Balance sheet highlights and select financial data

(in millions, unless otherwise specified)	**As at Dec 31, 2009**	As at Dec 31, 2008	Increase (decrease) and percentage change 2009 vs. 2008	
Investments:				
General portfolio	**$ 4,410**	$ 4,153	$ 257	6%
Government guarantee fund	**576**	545	31	5%
Total assets	**5,210**	4,915	295	6%
Unearned premium reserves	**1,971**	2,322	(351)	(15)%
Loss reserves	**236**	172	64	37%
Total liabilities	**2,567**	2,826	(259)	(9)%
Shareholders' equity	**2,643**	2,089	554	27%
Accumulated other comprehensive income (loss)	**97**	(15)	112	NM
Shareholders equity excluding AOCI	**$ 2,546**	$ 2,104	$ 442	21%
Select ratios				
MCT Ratio	**149%**	127%	—	22 pts
Book value per share				
Book value per share including AOCI (basic)	**$ 22.57**			
Book value per share excluding AOCI (basic)	**$ 21.74**			
Book value per share including AOCI (diluted)	**$ 22.40**			
Book value per share excluding AOCI (diluted)	**$ 21.58**			

Notes: Amounts may not total due to rounding. The Company defines "NM" as not meaningful for increases or decreases greater than 200%.

The table below shows the one-year development of the Company's loss reserves for the four most recent completed years.

Reserve development analysis

(in millions, unless otherwise specified)	**As at Dec 31, 2009**	As at Dec 31, 2008	As at Dec 31, 2007	As at Dec 31, 2006
Total loss reserves, at beginning of the year	**$ 172**	$ 89	$ 66	$ 53
Paid claims for prior years' delinquent loans	**(160)**	(67)	(36)	(21)
Loss reserves for prior years' delinquent loans, at the end of the year (A)	**(71)**	(33)	(7)	(6)
Favourable (unfavourable) development	**$ (59)**	$ (11)	$ 23	$ 26
As a percentage of beginning loss reserves	**(34)%**	(13)%	35%	48%
Loss reserves for current year's delinquent loans, at the end of the year (B)	**$ 166**	$ 139	$ 82	$ 60
Total loss reserves at end of the year (A+B)	**$ 236**	$ 172	$ 89	$ 66

The Company experienced adverse reserve development in 2009 of $59 million or 34% of the opening unpaid claims balance primarily due to an increase in loss severity resulting from home price depreciation in the first half of 2009 that was higher than originally estimated. In addition, the actual number of incurred but not reported claims was higher than originally estimated. The Company's loss reserving methodology is reviewed on a quarterly basis and incorporates the most currently available information.

Financial instruments and other instruments

Portfolio of invested assets

As of December 31, 2009, the Company had total cash, cash equivalents and invested assets of $4.4 billion in the general portfolio and $576 million in the government guarantee fund established under the Company's guarantee agreement with the Canadian government (the "Guarantee Agreement"). Unrealized gains were $120 million in the general portfolio and $25 million in the government guarantee fund.

The following tables provide the diversification of assets by asset class and credit rating in each of the two portfolios:

Asset class

	As at Dec 31, 2009			As at Dec 31, 2008	
(in millions, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains/losses**	Fair value	%
General portfolio					
Asset backed	**$ 254**	**6%**	**$ 2**	$ 254	6%
Corporate fixed income[2]					
Financial	**1,420**	**32%**	**50**	1,357	33%
Energy	**230**	**5%**	**10**	204	5%
Infrastructure	**206**	**5%**	**7**	157	4%
All other sectors	**175**	**4%**	**9**	270	7%
Total corporate fixed income	**2,033**	**46%**	**76**	1,988	48%
Federal fixed income	**1,073**	**24%**	**20**	650	16%
Provincial fixed income	**638**	**14%**	**23**	645	15%
Preferred shares	**0**	**0%**	**0**		
Other invested assets – HFT[1]	**34**	**1%**	**—**	26	1%
Total invested assets	**4,032**	**91%**	**120**	3,562	86%
Cash and cash equivalents	**378**	**9%**	**—**	592	14%
Total invested assets and cash – general portfolio	**$ 4,410**	**100%**	**$ 120**	$ 4,154	100%
Government guarantee fund					
Federal fixed income	**$ 698**	**100%**	**$ 25[3]**	$ 551	85%
Cash and cash equivalents	**1**	**0%**	**—**	99	15%
Total invested assets and cash – guarantee fund	**$ 699**	**100%**	**$ 25**	$ 650	100%
Less:					
Accrued income and contributions	**15**			19	
Accrued exit fees and due to others	**(137)**			(124)	
Net guarantee fund assets	**$ 576**			$ 545	
Total invested assets and cash	**$ 4,986**		**$ 145**	$ 4,699	

(1) HFT investments in the general portfolio are recorded at fair value with realized gains and losses and changes in fair value recorded in investment income. Unrealized losses at December 31, 2009 were $16 million.

(2) The portfolio classifications and holding were realigned to be consistent with the portfolio benchmark.

(3) The $25 million unrealized gain excludes the $5 million market value related to primarily exit fees.

Credit rating – general portfolio

	As at Dec 31, 2009			As at Dec 31, 2008	
(in millions, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains/losses**	Fair value	%
Cash and cash equivalents	**$ 378**	**9%**	**$ —**	$ 591	14%
AAA	**1,614**	**37%**	**29**	1,324	32%
AA	**1,344**	**30%**	**59**	1,131	27%
A	**1,018**	**23%**	**32**	852	21%
BBB	**56**	**1%**	**—**	248	6%
Below BBB	**0**	**—**	**—**	7	—
Total invested assets and cash	**$ 4,410**	**100%**	**$ 120**	$ 4,153	100%

General portfolio

The Company manages its general portfolio assets to meet liquidity, credit quality, diversification and yield objectives by investing primarily in fixed income securities, including federal, provincial and corporate bonds, asset-backed securities, mortgage loans on commercial real estate and preferred shares. The Company also holds other invested assets, which at various times have included short-term investments and held for trading securities. In all cases, investments are required to comply with restrictions imposed by applicable laws and insurance regulatory authorities, as well as, the Company's guidelines approved by the Board of Directors.

In order to diversify management styles and to broaden credit resources, the Company has split these assets between two external Canadian investment managers. The Company works with these managers to optimize the performance of the portfolios within the stated investment objectives outlined in its investment policy. The policy takes into account the current and expected condition of capital markets, the historic return profiles of various asset classes and the variability of those returns over time, the availability of assets, diversification needs and benefits, regulatory capital required to support the various asset types, security ratings and other material variables likely to affect the overall performance of the Company's investment portfolio. Compliance with the policy is monitored by the Company and reviewed at least quarterly with the Company's management-level investment committee and the Risk, Capital and Investment Committee of the Board.

Cash and cash equivalents

Cash and cash equivalents consist primarily of cash in bank accounts, government treasury bills, bankers' acceptances notes, commercial paper and term deposits with maturities within 90 days of the balance sheet date. The Company determines its target cash holdings based on near-term liquidity needs, market conditions and perceived favourable future investment opportunities. The Company decreased its cash holdings to $378 million or 9% at December 31, 2009 from $592 million or 14% the end of 2008 and 11% at the end of September 30, 2009.

During the fourth quarter 2009, the Company invested $111 million in fixed income securities including government guaranteed mortgage backed securities and a further $136 million in short-term securities with maturity dates between 92 to 365 days. These investments were partially offset by $135 million in portfolio maturities. The Company plans to continue to reduce its cash position over the near term.

Federal and provincial fixed income securities

The Company's investment policy requires a minimum of 10% of the investment portfolio be invested in federal fixed income securities. As of December 31, 2009, 24% of the portfolio was invested in federal securities, up from 16% at the end of 2008. Provincial holdings were 14% of the portfolio and remained relatively unchanged from the end of 2008.

Corporate fixed income securities

Allocations to corporate fixed income securities are determined based on their relative value to federal fixed income securities and adjusted for the carrying charge for the increased capital holdings required under OSFI regulation. As of December 31, 2009, approximately 46% of the investment portfolio was held in corporate fixed income securities, down from 48% at the end of 2008. As a result of economic conditions earlier in the year and movements in the capital markets, the Company elected to substantially reduce its exposure to securities rated below A from $255 million, or 6%, at the end of 2008 to $56 million, or 1%, of invested assets as of December 31, 2009. The investment policy places limits on the percentage of the portfolio that can be invested in any single issuer or group of related issuers.

Financial sector exposure represents 32% of the general portfolio, or approximately two thirds of the corporate fixed income securities, as financial institutions are the predominate issuers of fixed income securities in the Canadian marketplace.

Asset backed securities

The Company has invested approximately 6% of the general portfolio in a combination of consumer finance securitizations and commercial mortgage backed securities to provide yield enhancement. As of December 31, 2009, all of these securities were rated AAA.

Other invested assets

The Company has invested directly in a European investment fund to diversify its holdings, with no exposure to foreign currency fluctuations associated with this investment. As of December 31, 2009, this investment had a fair value of $34 million up from $32 million at the end of the third quarter, or 1% of invested assets, and was classified as HFT in the Company's financial statements.

Government guarantee fund assets

In accordance with the terms of the Guarantee Agreement, all funds deposited into the government guarantee fund are held in a revenue trust account separate from all other assets of the Company. On the Company's financial statements, government guarantee fund assets reflect the Company's interest in the assets held in the government guarantee fund, including accrued income and net of exit fees. The assets of the government guarantee fund are permitted to be invested in cash and securities issued by the Canadian government or agencies unconditionally guaranteed by the Canadian government.

Summary of quarterly results

The table shown below represents select income statement line items and certain key performance indicators for the last eight quarters.

(in millions, unless otherwise specified)	**Q4'09**	**Q3'09**	**Q2'09**	**Q1'09**	Q4'08	Q3'08	Q2'08	Q1'08
Net premiums written	**$ 110**	**$ 104**	**$ 82**	**$ 64**	$ 152	$ 222	$ 200	$ 131
Underwriting revenues:								
Net premiums earned	**155**	**154**	**153**	**147**	138	133	125	122
Impact of change in premiums recognition curve[2]				**100**	—	—	—	—
Underwriting revenue	**155**	**154**	**153**	**247**	138	133	125	122
Losses on claims	**60**	**64**	**71**	**60**	58	36	30	35
Net underwriting income (loss)	**70**	**66**	**59**	**161**	53	79	78	70
Investment income, including gains (losses)[1]	**46**	**49**	**51**	**43**	44	46	71	39
Net income[3]	**87**	**79**	**75**	**138**	74	85	105	73
Adjustment to net income:								
Losses (gains) on investments, net of taxes	**(2)**	**(4)**	**(5)**	**3**	1	—	(18)	4
Net operating income[3]	**$ 85**	**$ 75**	**$ 70**	**$ 141**	$ 75	$ 85	$ 87	$ 77
Selected ratios:								
Loss ratio	**39%**	**42%**	**46%**	**24%**[2]	42%	27%	24%	29%
Expense ratio	**16%**	**15%**	**15%**	**10%**[2]	19%	14%	15%	14%
Combined ratio	**55%**	**57%**	**62%**	**35%**[2]	61%	41%	39%	43%

Notes: Amounts may not total due to rounding.

(1) Includes realized gain (loss) on sale of AFS and unrealized gain (loss) on HFT investments.

(2) Excluding the impact of changes to the premium recognition curve, the Loss Ratio, Expense Ratio and Combined Ratio for the quarter ended March 31, 2009 would have been 41%, 13% and 54%, respectively.

(3) Excluding the impact of changes to the premium recognition curve, net income and net operating income for the quarter ended March 31, 2009 would have been $74 million and $77 million, respectively.

(4) The prior period comparative results for the Company reflect the consolidation of the Company and its subsidiaries Genworth Canada Holdings I Limited and Genworth Canada Holdings II Limited, including the subsidiary of Genworth Canada Holdings I Limited, Genworth Financial Mortgage Insurance Company Canada. Prior to the Third Quarter, the Company's management discussion and analysis, as available on SEDAR only reflected Genworth Canada Holdings I Limited results. The primary difference is the elimination of interest paid from Genworth Financial Mortgage Insurance Company Canada to Genworth Canada Holdings II Limited.

Liquidity

The purpose of liquidity management is to ensure there is sufficient cash to meet all of the Company's financial commitments and obligations as they fall due. The Company believes it has the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill its cash requirements during the current financial year and to satisfy regulatory capital requirements. The Company has four primary sources of funds, consisting of premiums written from operations, investment income, cash and short-term investments and maturities and proceeds from sale of investments. Uses of funds are primarily for operating expenses including claims payments, as well as dividends to shareholders. The Company currently has no debt on its balance sheet.

Throughout 2008 and into early 2009, the Company has increased its cash and cash equivalent balance to conserve regulatory capital and strengthen liquidity as a result of a slowing economic environment. As of December 31, 2009, the Company held a significant cash balance of $378 million or 9% of cash and invested assets, in the general portfolio, in light of economic uncertainties and to strengthen regulatory capital and provide for liquidity needs.

Capital expenditures

The Company's capital expenditures primarily relate to technology investments aimed at improving operational efficiency and effectiveness for sales, underwriting, risk management and loss mitigation. For the three months ended and year ended December 31, 2009, the Company invested $2 million and $10 million, respectively for risk management and underwriting technologies. In 2008, the Company invested $11 million in capital expenditures in these areas. Future capital expenditures will continue to be focused on underwriting and risk management technology improvements. The Company expects that capital expenditures in 2010 will be in the $2 to $5 million range.

Regulatory capital management

The Company's insurance subsidiary, Genworth Financial Mortgage Insurance Company Canada is regulated under OSFI. Under the Minimum Capital Test ("MCT") an insurer calculates a ratio of capital available to capital required in a prescribed manner. Mortgage insurers are required to maintain a minimum ratio of core capital (capital available as defined for MCT purposes, but excluding subordinated debt) to required capital of 100%. As a result of the distinct methodology applied to the policy liabilities of mortgage insurers and the risk profile of Genworth Financial Mortgage Insurance Company Canada, OSFI has established a minimum supervisory capital target of 120% for the insurance subsidiary. In order to maintain an adequate cushion above this supervisory minimum, in May 2009 the insurance subsidiary established a revised internal MCT ratio target range of 132% to 135% and a proposed operating MCT ratio of 135% in the normal course.

Excess capital above that required to meet Genworth Financial Mortgage Insurance Company Canada's MCT ratio targets could be used to support organic growth of the business and, if distributed to Genworth MI Canada Inc., to buy back shares or permit the declaration and payment of dividends by Genworth MI Canada Inc.

The MCT ratio at the end of December 31, 2009 was 149%. The MCT ratio improved by 2 points as compared to the MCT ratio as of the end of September 30, 2009. The improvement resulted from earnings for the quarter, the seasoning of the insurance in force portfolio and an improvement in the general portfolio's unrealized gain position and was offset by a $35 million dividend declared in the quarter by the insurance subsidiary.

Restrictions on dividends and capital transactions

The Insurance Companies Act ("ICA") prohibits directors from declaring or paying any dividend on shares of an insurance company if there are reasonable grounds for believing a company is, or the payment of the dividend would cause the company to be, in contravention of applicable requirements to maintain adequate capital, liquidity and assets. The ICA also requires an insurance company to notify OSFI, of the declaration of a dividend at least 15 days prior to the date fixed for its payment. Similarly, the ICA prohibits the purchase for cancellation of any shares issued by an insurance company, or the redemption of any redeemable shares or other similar capital transactions, if there are reasonable grounds for believing that the company is, or the payment would cause the company to be, in contravention of applicable requirements to maintain adequate capital, liquidity and assets. Share cancellation or redemption would also require the prior approval of OSFI. Finally, OSFI has broad authority to take actions that could restrict the ability of an insurance company to pay dividends.

Financial strength ratings

The Company's insurance subsidiary, Genworth Financial Mortgage Insurance Company Canada, has financial strength ratings from both Standard and Poor's and DBRS. Although Genworth Financial Mortgage Insurance Company Canada is not required to have a rating to conduct its business, ratings are helpful to maintain confidence in an insurer and in the marketing of its products. Genworth Financial Mortgage Insurance Company Canada is rated AA- (Very Strong), with a stable outlook, by Standard and Poor's and AA (Superior), with a stable outlook, by DBRS.

Critical accounting estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods covered by the financial statements. The principal financial statement components subject to measurement uncertainty include: other than temporary declines in the value of investments, the recognition of unearned premium reserves to earned premiums, the provision for losses on claims, and pensions and other post-employment benefits. Actual results may differ from the estimates used in preparing the consolidated financial statements and such differences may be material.

Investments

Investments in bonds and debentures, including government guarantee fund investments, are classified either as AFS or HFT and their fair value is determined using quoted market prices. HFT investments are recorded at fair value with realized gains and losses on sale and changes in the fair value of these investments recorded in net investment income in the consolidated statement of income and comprehensive income.

AFS investments are recorded at fair value with changes in the fair value of these investments recorded in unrealized gains and losses, which are included in Accumulated Other Comprehensive Income ("AOCI"). Realized gains and losses on sale, as well as losses from other than temporary declines in value of AFS investments, are reclassified from AOCI and recorded in net investment income in the consolidated statement of income and comprehensive income.

Investment sales and purchases are recorded at the investment's trade date. Realized gains or losses recorded on investment sales are measured as the difference between cash received for the investment and the book value of the investment at the trade date.

The Company ceases to accrue interest on non-performing bonds which are 90 days or more in arrears, as well as those which are less than 90 days in arrears but are deemed by management to be impaired. Once invested assets are classified as non-performing, any accrued but uncollected interest is reversed.

Premiums earned and deferred policy acquisition costs

Insurance premiums are deferred and then taken into underwriting revenues as earned premiums over the life of the related policies based on the expected loss emergence pattern. The majority of policies to date have been written with amortization policy terms of 25 to 40 years. The rates or formulae under which premiums are earned relate to the amount of risk in each year of coverage as estimated by management, based primarily on the past incidence of losses on claims. Based on historical experience, the majority of losses on claims generally occur within two to five years of policy origination. Therefore, the majority of premiums written are recognized as net premiums earned within five years of policy origination, in an effort to approximately match premiums earned and losses on claims. The formulae under which premiums are earned are adjusted periodically in accordance with such estimates and were last updated on November 30, 2009. Following the update to the Company's premium recognition curve in the fourth quarter of 2009, the Company will continue to assess its loss experience on a quarterly basis and will make adjustments as appropriate to the premium recognition curve.

Policy acquisition costs are those expenses incurred in the acquisition of business. Acquisition costs comprise of premium taxes and other expenses which relate directly to the to obtaining new insurance business. Policy acquisition costs related to unearned premium reserves are only deferred to the extent that they can be expected to be recovered from the unearned premium reserves and are amortized to income in proportion to and over the periods in which the premiums are earned.

Loss reserves

Loss reserves represent the amount needed to provide for the ultimate expected cost of investigating, adjusting and settling claims related to defaults by borrowers (both reported and unreported) that have occurred on or before each balance sheet date. Loss reserves are recognized when the first scheduled mortgage payment is missed by the borrower(s). In accordance with GAAP, loss reserves are not established for future claims on insured mortgages that are not currently in default.

Under GAAP, loss reserves are discounted based on the anticipated payout pattern. Loss reserves are broken out into three types of reserves: case reserves, Incurred But Not Reported ("IBNR") reserves and supplemental loss reserves for potential adverse development.

For the purpose of quantifying case reserves, the Company analyzes each reported delinquent loan on a case-by-case basis and establishes a case reserve based on the expected loss, if any. The Company establishes reserves for IBNR based on the reporting lag from the date of first missed payment to the balance sheet date for mortgages in default that have not been reported to the Company. IBNR is calculated for the reporting lag using assumptions of claim occurrence rates and the estimated average claim paid.

The establishment of loss reserves is based on known facts and interpretation of circumstances and is, therefore, a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns.

Consequently, the establishment of the loss reserving process relies on the judgment and opinions of a number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps materially, from the best estimates made. Annually, the Company's appointed third party actuary reviews and reports to management, the board of directors of Genworth Financial Mortgage Insurance Company Canada and OSFI on the adequacy of policy liabilities, which includes loss reserves.

Risks vary in proportion to the length of the estimation period and the volatility of each component comprising the liabilities. To recognize the uncertainty in establishing these best estimates and to allow for possible deterioration in experience, actuaries are required to include explicit margins for adverse deviation in assumptions for asset defaults, reinvestment risk and claims development.

Pension and other post-employment benefits

The benefit liabilities represent the amount of pension and other employee future benefits that employees and retirees have earned as of the period end. The Company's actuaries perform valuations of the benefit liabilities for pension and other employee future benefits as of December 31 of each year using the projected benefit method prorated on service, based on management's assumptions on the discount rate, rate of compensation increase, retirement age, mortality and the trend in the health care cost rate. The discount rate is determined by management with reference to market conditions at year end. Other assumptions are determined with reference to long-term expectations.

Changes in accounting policies including initial adoption

Share-based compensation

Employee stock options ("Options"), upon being exercised, provide employees with a choice between being compensated in shares of the Company or in cash equal to the net proceeds from the sale of the shares. These types of awards are commonly referred to as stock options with tandem stock appreciation rights. Options granted by the Company are measured at the difference between the quoted market value of the Company's shares at the end of each reporting period and the Option exercise price. This amount is recorded as compensation expense over the Option vesting period, with a corresponding entry to accrued benefit liability under employee benefit plans.

Employee Restricted Share Units ("RSUs") entitle employees to receive an amount equal to the fair market value of the Company's shares and may be settled in shares or cash. RSUs granted by the Company are measured at the quoted market value of the Company's shares at the end of each reporting period and are recorded as compensation expense over the RSU vesting period, with a corresponding entry to accrued benefit liability under employee benefit plans.

Directors' Deferred Share Units ("DSUs") entitle eligible members of the Board to receive an amount equal to the fair market value of the Company's shares as compensation for director services rendered for the period, and may be settled in shares or cash. The DSUs granted by the Company are measured at the quoted market value of the Company's shares at the end of each reporting period and are recorded as compensation expense in the period the awards are granted, with a corresponding entry to accrued liabilities.

Future changes in accounting policies

International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. The Company will change over to IFRS for its interim and annual financial statements beginning on January 1, 2011. The 2011 financial statements will include full comparative information for the relevant 2010 periods prepared in accordance with IFRS.

In anticipation of the mandatory transition to IFRS, the Company has prepared a detailed conversion plan and has established an IFRS conversion project team. The Company's plan is comprised of a planning phase, an initial implementation phase, and a secondary implementation phase that addresses specific standards that have not been finalized in time for the mandatory transition date of January 1, 2011. The project team is currently working on the implementation phase, which includes quantifying opening retained earnings that conform to IFRS as at January 1, 2010, the beginning of the period for which comparative financial statements are required. The Company plans to engage its auditors to review the Company's analysis and documentation of identified measurement differences between Canadian GAAP and IFRS and opine on its opening retained earnings under IFRS. In addition to providing regular progress updates to its Board of Directors and Audit Committee, the Company's insurance subsidiary provides semi-annual progress reports to OSFI. Throughout the course of 2010, the Company intends to prepare IFRS financial statements in parallel to Canadian GAAP financial statements, monitor developments in standards that are expected to change, and accumulate information for additional disclosures that are required upon the adoption of IFRS.

The Company's initial assessment of IFRS has identified that the areas of employee post-employment benefits and share-based compensation will be most affected by the transition to IFRS based on IFRSs currently in force. However, many IFRSs are currently undergoing modification. The most significant changes will occur after the mandatory transition date of January 1, 2011 when Phase II of IFRS 4—Insurance Contracts is finalized. Until that time, the Company will continue using its current practice for measuring and recording insurance liabilities. The Company is unable to quantify the impact of the revised standard because a conclusion on the measurement model that will be used to recognize insurance contracts has not been reached.

Further, IFRS 9—Financial Instruments—Recognition and Measurement was issued in November 2009 replacing IAS 39—Financial Instruments—Recognition and Measurement, with mandatory adoption on January 1, 2013. This new standard significantly impacts the Company's financial statements because the standard will require all financial instruments to be accounted for either at amortized cost or at fair value, with fair value changes recorded in the statement of income. The available for sale category, which permits entities to account for changes in fair value of financial instruments in other comprehensive income, and where the vast majority of the Company's financial instruments are currently recorded, will cease to exist.

The Company has considered the impact of IFRS transition on Information Technology Systems and has determined that significant changes will not occur at the mandatory transition date of January 1, 2010.

The Company's progress towards IFRS transition is currently on track based on its conversion plan.

Risk management

Risk management is a critical part of the Company's business. The Company has an enterprise risk management framework that encompasses mortgage portfolio risk management, underwriting policies and guidelines, product development, regulatory compliance, investment portfolio management and liquidity risk. The Company's risk management framework facilitates the assessment of risk by acting as a proactive decision-making tool to determine which risks are acceptable and to monitor and manage the Company's risks in an ongoing manner. The Company's risk management framework and internal control procedures are designed to reduce the level of volatility in its financial results.

Mortgage portfolio risk management

The Company's mortgage portfolio risk management involves actively managing its borrower credit quality, product and geographic exposures. The Company carefully monitors portfolio concentrations by borrower credit quality, product and geography against pre-determined risk tolerances, taking into account the conditions of the housing market and economy in each region of Canada. The Company's underwriting policies and guidelines are reviewed and updated regularly to manage the Company's exposures and to address emerging trends in the housing market and economic environment. For example, in view of economic conditions in the early part of the year, the Company took a number of actions focusing on its new insurance written to reduce the overall risk profile of its mortgage portfolio such as more stringent requirements on borrowers' total debt service ratios, credit scores and loan-to-value ratios in economically sensitive areas. In addition, the Company supported the Canadian government's decision in 2008 to introduce restrictions on high loan-to-value mortgages by eliminating insurance products for mortgages with loan-to-values of greater than 95%, interest-only mortgages and 40-year amortization mortgages.

The Company's extensive historical database and innovative information technology systems are important tools in its approach to risk management. The Company utilizes components of its proprietary high loan-to-value mortgage performance database to build and improve its mortgage scoring model. The Company's mortgage scoring model employs a number of evaluation criteria to assign a score to each insured mortgage loan and predict the likelihood of a future claim. This evaluation criteria includes borrower credit score, loan type and amount, total debt service ratio, property type and loan-to-value. The Company believes these factors, as well as other considerations, significantly enhance the ability of the mortgage scoring model to predict the likelihood of a borrower default, as compared to reliance solely on borrower credit score. The Company's mortgage portfolio risk management function is organized into three primary groups: portfolio analysis, underwriting policies and guidelines, and risk technology and models. The risk management team analyzes and summarizes mortgage portfolio performance, risk concentrations, emerging trends and remedial actions which are reviewed with the Company's management-level risk committee on a monthly basis.

Transactions with related parties

The Company enters into transactions with related parties. These transactions consist mainly of the acquisition of management and advisory, data processing, and administrative services rendered by Genworth Financial, Inc., the indirect majority shareholder of the Company, and its affiliated companies. These transactions are in the normal course of business and are believed to be at fair value. Balances owing for service transactions are non-interest bearing and are settled on a quarterly basis.

Special note regarding forward-looking statements

Certain statements made in this MD&A contain forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). When used in this MD&A, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions, as they relate to Genworth Canada, are intended to identify forward-looking statements. Specific forward-looking information in this document includes, but is not limited to, statements with respect to the Company's future operating and financial results, sales expectations, capital expenditure plans, dividend policy and the ability to execute on its future operating, investing and financial strategies.

The forward-looking information and statements contained herein are based on certain factors and assumptions, certain of which appear proximate to the applicable forward-looking information contained herein. Inherent in the forward-looking information and statements are known and unknown risks, uncertainties and other factors beyond the Company's ability to control or predict, that may cause the actual results, performance or achievements of the Company, or developments in the Company's business or in its industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Actual results or developments may differ materially from those contemplated by the forward-looking information and statements.

The Company's actual results could differ materially from those anticipated in these forward-looking statements and information as a result of both known and unknown risks, including those set forth below:

- the continued availability of the Canadian government's guarantee of private mortgage insurance on terms satisfactory to the Company;
- the Company's expectations regarding its revenues, expenses and operations;
- the Company's plans to implement its strategy and operate its business;
- the Company's expectations regarding the compensation of directors and officers;
- the Company's anticipated cash needs and its estimates regarding its capital expenditures, capital requirements, reserves and its needs for additional financing;
- the Company's plans for and timing of expansion of service and products;
- the Company's ability to accurately assess and manage risks associated with the policies that are written;
- the Company's ability to accurately manage market, interest and credit risks;
- the Company's ability to maintain ratings;
- the cyclical nature of the mortgage insurance industry;
- anticipated changes in government regulation;
- the acceptance by the Company's lenders of new technologies and products;
- the Company's ability to attract lenders and develop and maintain lender relationships;
- the Company's competitive position and its expectations regarding competition from other providers of mortgage insurance in Canada; and
- anticipated trends and challenges in the Company's business and the markets in which it operates.

This is not an exhaustive list of the factors that may affect any of the Company's forward-looking information and statements. Investors and others should carefully consider these and other factors and not place undue reliance on the forward-looking information and statements. Further information regarding these and other risk factors is included in the Company's public filings with provincial securities regulatory authorities and can be found on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com. The forward-looking information and statements contained in this MD&A represent the Company's views only as of the date hereof. Forward-looking information and statements contained in this MD&A are based on management's current plans, estimates, projections, beliefs and opinions and the assumptions related to these plans, estimates, projections, beliefs and opinions may change, and are presented for the purpose of assisting the Company's shareholders in understanding management's current views regarding those future outcomes and may not be appropriate for other purposes. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company does not undertake to update any forward-looking information and statements, except to the extent required by applicable securities laws.

Non-GAAP financial measures

To supplement the Company's consolidated financial statements, which are prepared in accordance with GAAP, the Company used a non-GAAP financial measure called net operating income. Non-GAAP measures used by the Company to analyze performance include underwriting ratios such as loss ratio, expense ratio and combined ratio as well as other performance measures such as net operating income and return on net operating income. The Company believes that these non-GAAP financial measures provide meaningful supplemental information regarding its performance and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making. Non-GAAP measures do not have standardized meaning and are unlikely to be comparable to any similar measure presented by other companies.

The table below shows the Company's net operating income for the periods specified and reconciles these figures to the Company's net income in accordance with GAAP for such periods.

	For the quarter ended Dec 31,		For the year ended Dec 31,	
(in millions, unless otherwise specified)	**2009**	2008	**2009**	2008
Net income[1]	**$ 87**	$ 74	**$ 379**	$ 337
Adjustment to net income:				
Losses (gains) on investments, net of taxes	**(2)**	1	**(8)**	(13)
Net operating income[1]	**$ 85**	$ 75	**$ 371**	$ 324

(1) Excluding impact of changes to the premium recognition curve, net income and net operating income for the year ended December 31, 2009 would have been $315 million and $307 million respectively.

Management statement on responsibility for financial reporting

Management is responsible for the preparation and presentation of the consolidated financial statements of Genworth MI Canada Inc. ("the Company"). This responsibility includes ensuring the integrity and fairness of information presented and making appropriate estimates based on judgement. The consolidated financial statements are prepared in conformity with Canadian generally accounting principles.

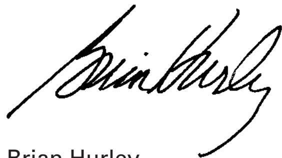
Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Company. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy of operation of the control systems is monitored on an ongoing basis by management.

The Board of Directors of the Company (the "Board") is responsible for approving the financial statements. The Audit Committee of the Board, comprised of directors who are neither officers nor employees of the Company, meet with management, internal auditors, the actuary and external auditors, (all of whom have unrestricted access and the opportunity to have private meetings with the Audit Committee), and reviews the financial statements. The Audit Committee then submits its report to the Board recommending their approval of the financial statements.

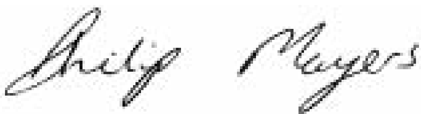
The Company's appointed actuary is required to conduct a valuation of policy liabilities in accordance with Canadian generally accepted actuarial standards, reporting his results to management and the Audit Committee.

The Office of the Superintendent of Financial Institutions Canada makes an annual examination and inquiry into the affairs of the insurance subsidiary of the Company as deemed necessary to ensure that the Company is in sound financial condition and that the interests of the policyholders are protected under the provisions of the Insurance Companies Act (Canada).

The Company's external auditors, KPMG, Chartered Accountants, conduct an independent audit of the consolidated financial statements of the Company and meet both with management and the Audit Committee to discuss the results of their audit. The auditor's report to the shareholders appears on the following page.



Brian Hurley
President and Chief Executive Officer



Philip Mayers
Senior Vice President and Chief Financial Officer

Toronto, Canada
February 24, 2010

Auditors' report to the shareholders

We have audited the consolidated balance sheets of Genworth MI Canada Inc. as at December 31, 2009 and 2008 and the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2009 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
February 10, 2010

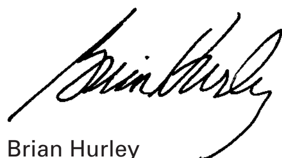
Consolidated balance sheets

(In thousands of dollars)

December 31	**2009**	2008
Assets		
Invested assets:		
Cash and cash equivalents (note 9)	**$ 377,512**	$ 591,654
Short-term securities (note 9)	**253,527**	113,066
Bonds and debentures:		
Held-for-trading (note 9)	**34,485**	25,860
Available-for-sale (note 9)	**3,743,867**	3,423,041
Preferred shares (note 9)	**423**	—
Government guarantee fund (note 10)	**576,417**	544,810
	4,986,231	4,698,431
Other:		
Accrued investment income and accounts receivable	**28,869**	31,218
Subrogation recoverable	**13,646**	8,415
Deferred policy acquisition costs	**146,840**	150,128
Goodwill (note 19)	**11,172**	11,172
Intangible assets (note 18)	**16,307**	10,690
Premises and equipment (note 17)	**3,844**	3,893
Other assets	**3,017**	1,421
	223,695	216,937
	$ 5,209,926	$ 4,915,368
Liabilities and shareholders equity		
Policy liabilities:		
Loss reserves (note 11)	**$ 236,181**	$ 171,733
Unearned premium reserves	**1,971,396**	2,321,665
	2,207,577	2,493,398
Other liabilities:		
Accounts payable and accrued liabilities	**27,811**	49,869
Due to parent and companies under common control (note 13)	**775**	73,289
Income taxes payable	**116,230**	3,306
	144,816	126,464
Future income taxes, net (note 12)	**203,218**	198,328
Accrued net benefit liabilities under employee benefit plans (notes 15 and 16)	**11,088**	8,082
Total liabilities	**2,566,699**	2,826,272
Shareholders' equity:		
Share capital (note 21)	**1,734,376**	1,642,709
Retained earnings	**811,927**	461,299
Accumulated other comprehensive income (loss)	**96,924**	(14,912)
	2,643,227	2,089,096
Commitments (note 14)		
	$ 5,209,926	$ 4,915,368

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Brian Hurley
Director

Brian Kelly
Director

Consolidated statements of income

(In thousands of dollars, except per share amounts)

Years ended December 31	**2009**	2008	2007
Gross premiums written	**$ 373,954**	$ 722,057	$ 997,351
Net premiums written	**$ 359,679**	$ 706,126	$ 983,593
Net premiums earned	**$ 609,804**	$ 517,561	$ 423,609
Impact of change in premium recognition curve (note 6)	**100,144**	—	—
Fees and other income	**62**	320	593
Underwriting revenue	**710,010**	517,881	424,202
Losses on claims and expenses:			
Losses on claims	**255,756**	159,985	79,200
Sales, underwriting and administrative	**91,291**	78,153	59,804
Impact on deferred policy acquisition costs of change in premium recognition curve	**6,370**	—	—
	353,417	238,138	139,004
Net underwriting income	**356,593**	279,743	285,198
Investment income:			
Interest	**177,136**	185,730	156,586
Net realized gain on sale of investments	**2,984**	40,470	435
Change in unrealized loss on held-for-trading securities	**8,625**	(21,748)	(2,392)
Equity in earnings of government guarantee fund (note 10)	**4,981**	(533)	(4,384)
General investment expenses	**(4,552)**	(3,799)	(2,647)
	189,174	200,120	147,598
Related party interest expense (note 13)	**(1,463)**	(2,857)	(2,844)
Income before income taxes	**544,304**	477,006	429,952
Income taxes (note 12):			
Current	**160,372**	107,850	105,815
Future	**5,192**	32,465	15,957
	165,564	140,315	121,772
Net income	**$ 378,740**	$ 336,691	$ 308,180
Earnings per share (note 22):			
Basic	**$ 3.31**	$ 3.02	$ 2.94
Diluted	**3.30**	3.02	2.94

See accompanying notes to consolidated financial statements.

Consolidated statements of changes in shareholders' equity

(In thousands of dollars)

Years ended December 31	**2009**	2008	2007
Share capital			
Common shares, beginning of year	**$1,642,709**	$ 1,622,709	$ 1,528,402
Issuance of common shares (note 21)	**91,667**	50,000	94,307
Capital reduction (note 21)	**—**	(30,000)	—
Common shares, end of year	**$1,734,376**	$ 1,642,709	$ 1,622,709
Retained earnings			
Retained earnings, beginning of year	**$ 461,299**	$ 124,608	$ (183,572)
Net income	**378,740**	336,691	308,180
Dividends	**(28,112)**	—	—
Retained earnings, end of year	**$ 811,927**	$ 461,299	$ 124,608
Accumulated other comprehensive income (loss)			
Accumulated other comprehensive income (loss), beginning of year, net of income taxes of ($5,984) (2008 – $11,598; 2007 – composed of cumulative effect of adopting new accounting policies, net of income taxes $25,401)	**$ (14,912)**	$ 18,631	$ 53,977
Change in unrealized gains on available-for-sale assets, net of income taxes of $51,220 (2008 – $4,401; 2007 – ($13,681))	**115,798**	13,171	(35,033)
Recognition of realized gains on available-for-sale assets, net of income taxes of ($1,752) (2008 – ($21,983); (2007 – ($122))	**(3,962)**	(46,714)	(313)
Accumulated other comprehensive income (loss), end of year, net of income taxes of $43,484 (2008 – ($5,984); 2007 – $11,598)	**$ 96,924**	$ (14,912)	$ 18,631
Total shareholders' equity	**$2,643,227**	$ 2,089,096	$ 1,765,948

Accumulated other comprehensive income (loss) at the end of the year is composed of unrealized gains and losses on available-for-sale assets, net of related income taxes.
See accompanying notes to consolidated financial statements.

Consolidated statements of comprehensive income

(In thousands of dollars)

Years ended December 31	**2009**	2008	2007
Net income	**$ 378,740**	$ 336,691	$ 308,180
Other comprehensive income (loss):			
Net change in unrealized gain (loss) on available-for-sale assets, net of income taxes of $49,468 (2008 – ($17,582); 2007 – ($13,803))	**111,836**	(33,543)	(35,346)
Comprehensive income	**$ 490,576**	$ 303,148	$ 272,834

See accompanying notes to consolidated financial statements.

Consolidated statements of cash flows

(In thousands of dollars)

Years ended December 31	**2009**	2008	2007
Cash provided by (used in):			
Operating activities:			
Net income	**$ 378,740**	$ 336,691	$ 308,180
Items not involving cash:			
Amortization of premiums on investments	**5,562**	9,199	7,456
Amortization of intangible assets	**2,991**	2,562	1,848
Depreciation of premises and equipment	**1,492**	1,331	1,038
Change in deferred policy acquisition costs	**3,288**	(30,396)	(50,501)
Future income taxes	**5,192**	32,465	15,957
Net realized gains on sale of investments	**(2,984)**	(42,604)	(435)
Investment impairments	**—**	2,134	—
Change in unrealized loss on held-for-trading securities	**(8,625)**	21,748	2,392
	385,656	333,130	285,935
Change in non-cash balances related to operations:			
Government guarantee fund	**(43,947)**	30,399	17,360
Accrued investment income and accounts receivable	**2,349**	3,091	821
Income taxes payable	**63,144**	30,713	(64,305)
Other assets and subrogation recoverable	**(6,827)**	(6,529)	(1,202)
Accounts payable and accrued liabilities	**(22,058)**	(9,668)	10,338
Due to parent and companies under common control	**(72,514)**	5,530	664
Loss reserves	**64,448**	82,638	22,508
Unearned premium reserves	**(350,269)**	188,565	559,984
Employee benefit plans	**3,006**	1,810	1,871
	22,988	659,679	833,974
Investing activities:			
Purchase of bonds	**(591,728)**	(1,500,505)	(1,340,015)
Proceeds from sale of bonds	**441,555**	1,476,013	369,775
Purchase of short-term securities	**(253,527)**	(113,066)	(46,090)
Proceeds from sale of short-term securities	**113,066**	53,111	85,050
Purchase of intangible assets	**(8,608)**	(9,144)	(2,969)
Purchase of premises and equipment	**(1,443)**	(1,582)	(691)
	(300,685)	(95,173)	(934,940)
Financing activities:			
Issuance of common shares	**91,667**	50,000	94,307
Capital reduction	**—**	(30,000)	—
Dividends paid	**(28,112)**	—	—
	63,555	20,000	94,307
Increase (decrease) in cash and cash equivalents	**(214,142)**	584,506	(6,659)
Cash and cash equivalents, beginning of year	**591,654**	7,148	13,807
Cash and cash equivalents, end of year	**$ 377,512**	$ 591,654	$ 7,148
Supplemental cash flow information:			
Income taxes paid	**$ 100,705**	$ 77,151	$ 170,039
Interest paid on related party debt	**2,206**	2,856	2,844

See accompanying notes to consolidated financial statements.

1. Status of the Company

Genworth MI Canada Inc. ("the Company") was incorporated under the Canada Business Corporations Act pursuant to a Certificate of Incorporation dated May 25, 2009. The Company is a subsidiary of Brookfield Life Assurance Company Limited ("Brookfield" or "the parent company"), and its ultimate parent company is Genworth Financial Inc., a public company listed on the New York Stock Exchange.

The indirect subsidiary of Genworth MI Canada Inc., Genworth Financial Mortgage Insurance Company Canada ("Genworth Mortgage Insurance Canada" or "Insurance Subsidiary"), is engaged in mortgage insurance in Canada, and is regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI") as well as financial services regulators in each province.

2. Basis of presentation

The current year financial statements and prior year comparative financial statements reflect the consolidation of Genworth MI Canada Inc. and its subsidiaries, Genworth Canada Holdings I Limited ("Holdings I") and Genworth Canada Holdings II Limited ("Holdings II"), including the subsidiary of Holdings I, Genworth Mortgage Insurance Canada. This consolidation is the outcome of the Company's reorganization and Initial Public Offering ("IPO") (note 21). As no substantial change in ownership interests resulted from the reorganization, the Company carried forward the basis of measurement of assets and liabilities as reflected in the consolidated financial statements of Holdings I and the financial statements of Holdings II.

3. Significant accounting policies

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies used in the preparation of the consolidated financial statements are summarized below.

(a) Basis of consolidation

Subsidiaries are businesses where the Company exercises control through ownership of the majority of the voting shares. The Company consolidates the financial statements of its subsidiaries and eliminates on consolidation all significant intercompany balances and transactions.

(b) Cash and cash equivalents

The Company considers deposits in banks, commercial paper, and short-term investments with original maturities of three months or less as cash and cash equivalents.

(c) Premiums earned and deferred policy acquisition costs

Premiums written are recorded net of risk premiums (note 10).

Insurance premiums are deferred and then taken into underwriting revenues over the terms of the related policies. The majority of policies to date have been written for terms of 25 to 40 years. The rates or formulae under which premiums are earned relate to the loss emergence pattern in each year of coverage as estimated by management, based primarily on the past incidence of losses. The formulae are adjusted periodically in accordance with such estimates.

Policy acquisition costs comprise premium taxes and other expenses that relate directly to acquisition of new mortgage insurance business. Policy acquisition costs related to unearned premiums are only deferred to the extent that they can be expected to be recovered from the unearned premium reserves and are amortized to income in proportion to and over the periods in which the premiums are earned.

A premium deficiency provision, if required, is determined as the excess of the present value of expected future losses on claims and expenses (including policy maintenance expenses) on policies in force (using an appropriate discount rate) over unearned premium reserves. Management determined that no premium deficiency provision was required as at December 31, 2009, 2008 and 2007.

(d) Comprehensive income (loss)

Comprehensive income (loss) consists of net income and other comprehensive income or loss ("OCI") and includes all changes in equity during the year, except those resulting from investments by owners and distributions to owners. Unrealized gains and losses on assets classified as available-for-sale ("AFS") are recorded in the consolidated statements of comprehensive income and included in accumulated OCI ("AOCI") until recognized in the consolidated statements of earnings. AOCI, net of income taxes, is included on the consolidated balance sheets as a separate component of shareholders' equity.

(e) Fair values

The fair values of financial assets and liabilities, other than the related party debt (note 13), approximate their carrying values.

(f) Investments

Investments in bonds and debentures, including government guarantee fund investments, are classified either as AFS or held-for-trading ("HFT") and are measured at fair value.

HFT investments are recorded at fair value with realized gains and losses on sale and changes in the fair value of these investments recorded in investment income in the consolidated statements of income and comprehensive income.

HFT investments are European Credit Luxembourg notes. The issuer of the notes uses the net proceeds of the offering to buy fixed income investments of European origin and credit risk. The result is a diversified portfolio of European fixed income investments. The basis for designating the securities as HFT is a likelihood of the existence of derivatives in the note collateral, with no feasible way to detect and bifurcate these derivatives.

AFS investments are recorded at fair value with changes in the fair value of these investments recorded in unrealized gains and losses, which are included in OCI. Realized gains and losses on sale, as well as losses from other-than-temporary declines in value of AFS investments, are reclassified from AOCI and recorded in investment income in the consolidated statements of income and comprehensive income.

Investment sales and purchases are recorded at the investment's trade date. Realized gains or losses recorded on investment sales are measured as the difference between cash received for the price of the investment and the book value of the investment at the trade date. Investment transaction costs are capitalized as part of the carrying value of the invested assets.

The Company ceases to accrue interest on non-performing bonds which are 90 days or more in arrears, as well as those which are less than 90 days in arrears but are deemed by management to be impaired and where the interest is deemed by management to be uncollectible. Once invested assets are classified as non-performing, any accrued but uncollected interest is reversed.

(g) Subrogation recoverable

Real estate and other assets acquired as a result of settling claims are carried in subrogation recoverable at the estimated net proceeds from the sale of such assets.

(h) Premises and equipment

Premises and equipment are recorded at cost less accumulated depreciation. The Company capitalizes computer software, which is depreciated over a maximum period of five years, computer hardware, which is depreciated over a maximum period of three years, leasehold improvement costs, which are depreciated over the term of the lease, and furniture and equipment, which is depreciated over a maximum period of five years. All amortization is recorded on a straight-line basis.

The Company classifies computer software that is part of an operating system or is an integral part of related hardware as premises and equipment (note 4(a)).

(i) Intangible assets

Intangible assets are recorded at cost less accumulated amortization. The Company's intangible assets consist of computer application software that is not an integral part of related hardware. The software is capitalized and amortized over a maximum period of five years (note 4(a)).

(j) Income taxes

Current income taxes are recognized for estimated income taxes payable for the current year.

The Company follows the asset and liability method of accounting for future income taxes. Future income tax assets and liabilities are based on differences between the financial statement and tax bases of assets and liabilities and are measured using currently enacted or substantively enacted tax rates expected to apply to taxable income in the years in which the temporary differences reverse. The most significant temporary differences relate to policy liabilities and the government guarantee fund reserve.

3. Significant accounting policies (continued)

Changes in future income tax assets and liabilities that are associated with components of OCI for unrealized investment gains and losses are charged or credited directly to OCI. Otherwise, changes in future income tax assets and liabilities are included in the provision for income taxes.

Changes in future income tax assets and liabilities attributable to changes in substantively enacted income tax rates are charged or credited to provision for income tax expense in the year of enactment.

(k) Pensions and other post-employment benefits

The Company's defined benefit pension and other post-employment benefit plans' liabilities are accrued in the consolidated balance sheets. For each plan, the Company has adopted the following policies:

(i) Actuarial valuations of benefit liabilities for pension and other post-employment plans are performed as at December 31 of each year using the projected benefit method prorated on service as defined in The Canadian Institute of Chartered Accounts ("CICA") Handbook Section 3461, Employee Future Benefits, based on management's assumptions on the discount rate, rate of compensation increase, retirement age, mortality and the trend in the health care cost rate. The discount rate is determined by management with reference to market conditions at year end. Other assumptions are determined with reference to long-term expectations. Obligations are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of termination, death or retirement.

(ii) Actuarial gains (losses) arise from changes in actuarial assumptions used to determine the benefit obligations. Only gains or losses in excess of 10% of the benefit obligations are amortized over the average remaining service period of active employees.

(iii) Prior service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

Expenses related to the Company's defined contribution plan are recognized in the year the related services are provided by the Company's employees.

(l) Share-based compensation

Employee stock options ("Options"), upon being exercised, provide employees with a choice between being compensated in shares of the Company or in cash equal to the net proceeds from the sale of the shares. These types of awards are commonly referred to as stock options with tandem stock appreciation rights. Options granted by the Company are measured at the difference between the quoted market value of the Company's shares at the end of each reporting period and the Option exercise price. This amount is recorded as compensation expense over the Option vesting period, with a corresponding entry to accrued benefit liability under employee benefit plans.

Employee Restricted Share Units ("RSUs") entitle employees to receive an amount equal to the fair market value of the Company's shares and may be settled in shares or cash. RSUs granted by the Company are measured at the quoted market value of the Company's shares at the end of each reporting period and are recorded as compensation expense over the RSU vesting period, with a corresponding entry to accrued liability under employee benefit plans. RSUs may participate in dividend equivalents at the discretion of the Company's Board of Directors. Dividend equivalents are calculated based on the market value of the Company's shares on the date the dividend equivalents are credited to the RSU account and are recorded as additional compensation expense.

Directors' Deferred Share Units ("DSUs") entitle eligible members of the Company's Board of Directors to receive an amount equal to the fair market value of the Company's shares as compensation for director services rendered for the period, and may be settled in shares or cash. The DSUs granted by the Company are measured at the quoted market value of the Company's shares at the end of each reporting period and are recorded as compensation expense in the period the awards are granted, with a corresponding entry to accrued liabilities. DSUs participate in dividend equivalents, which are calculated based on the market value of the Company's shares on the date the dividend equivalents are credited to the DSU account and are recorded as additional compensation expense.

The Company accounts for forfeitures related to Options and RSUs based on management's best estimate of the Options and RSUs that will ultimately vest. This estimate is adjusted if actual experience differs significantly from expectation.

(m) Goodwill

When a business is acquired, the Company allocates the purchase price paid to the assets acquired, including identifiable intangible assets, and the liabilities assumed. Any excess of the amount paid over the fair value of those net assets is considered to be goodwill.

Goodwill is tested at least annually for impairment. The impairment test consists of comparing the book value of the business to its fair value. The excess of carrying value of goodwill over fair value of goodwill, if any, is recorded as an impairment charge in the year in which impairment is determined. There were no write-downs of goodwill due to impairment for the years ended December 31, 2009, 2008 and 2007.

(n) Related party transactions

Related party transactions are primarily undertaken in the normal course of business and are measured at fair value.

(o) Loss reserves

Loss reserves represent the amount needed to provide for the expected ultimate cost of settling claims including adjustment expenses related to defaults by borrowers (both reported and unreported) that have occurred on or before each balance sheet date. The adjustment expenses represent the expected ultimate costs of investigating, resolving and processing claims. Loss reserves are discounted to take into account the time value of money. The discount rate at December 31, 2009 is 3.57% (2008 – 5.04%).

The establishment of loss reserves is based on known facts and interpretation of circumstances and is, therefore, a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns.

Consequently, the process for the establishment of loss reserves relies on the judgment and opinions of a number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

These risks vary in proportion to the length of the estimation period and the volatility of each component comprising the liability. To recognize the uncertainty in establishing these best estimates and to allow for possible deterioration in experience, actuaries are required to include explicit margins for adverse deviation in assumptions for asset defaults, reinvestment risk and claims development. The provision for adverse deviation at December 31, 2009 is 3.5% (2008 – 7.5%).

(p) Foreign currency translation

The Company translates all foreign currency denominated monetary assets and liabilities into Canadian dollars at year-end rates. Revenue and expenses are translated at the prevailing rates on the dates of the transactions. Exchange gains of $42 (2008 – exchange losses of $8; 2007 – exchange gains of $43) were recognized in the consolidated statement of income.

(q) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. The principal financial statement components subject to measurement uncertainty include unearned premiums (note 3(c) and note 6), other-than-temporary declines in the value of investments (note 7), loss reserves (note 11), pensions and other post-employment benefits (note 15), and share-based compensation (note 16). Actual results may differ from the estimates used in preparing the consolidated financial statements.

4. Changes in accounting policies

(a) Goodwill and intangible assets

On January 1, 2009, the Company adopted CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaced CICA Handbook Section 3062, Goodwill and Other Intangible Assets ("Section 3062") and CICA Handbook Section 3450, Research and Development Costs. This section establishes new standards for the recognition of intangible assets, in particular for intangible assets that are generated internally. Requirements pertaining to goodwill are unchanged from the previous Section 3062.

4. Changes in accounting policies (continued)

As a result of adopting the new standard, certain software costs previously recorded in premises and equipment are now recorded as intangible assets in the consolidated balance sheets with restatements of prior periods' financial statements for this change. Accordingly, the Company reclassified $16,307 of net book value as at December 31, 2009 from premises and equipment to intangible assets ($10,690 as at December 31, 2008). The related expense of $2,991 for the year ended December 31, 2009 was reclassified from depreciation expense in the consolidated statement of cash flows to amortization expense ($2,562 for the year ended December 31, 2008).

(b) Financial instrument disclosures

In June 2009, the CICA issued amendments to CICA Handbook Section 3862 Financial Instruments – Disclosures ("Section 3862") to expand disclosures of financial instruments consistent with new disclosure requirements made under International Financial Reporting Standards ("IFRS"). These amendments were adopted by the Company for the year ended December 31, 2009 and introduce a three-level fair value hierarchy based on inputs used in estimating the fair value of financial instruments (note 9). The hierarchy of inputs is summarized below:

Level 1 – inputs used to value the financial instruments are unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 – inputs used to value the financial instruments are other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly

Level 3 – inputs used to value the financial instruments are not based on observable market data

Changes in valuation methods may result in transfers into or out of a financial instrument's assigned level.

5. Future changes in accounting policies

(a) Business combinations and non-controlling interest

In January 2009, the Accounting Standards Board ("AcSB") issued Handbook Section 1582, Business Combinations ("Section 1582"), Section 1601, Consolidated Financial Statements ("Section 1601") and Section 1602, Non-Controlling Interests ("Section 1602"), which replaces Section 1581, Business Combinations ("Section 1581") and Section 1600, Consolidated Financial Statements ("Section 1600").

Section 1582 retains the fundamental requirements of Section 1581 to identify an acquirer and to use the acquisition method of accounting for each business combination. This new standard requires: measurement of share consideration at fair value at the acquisition date; recognition of contingent consideration at fair value at the date of acquisition with subsequent changes in fair value generally reflected in net income; and the acquirer to expense acquisition-related costs as incurred. A non-controlling interest may be measured at fair value or at the proportionate share of identifiable net assets. Under current Canadian GAAP, a non-controlling interest is recorded at the proportionate share of identifiable net assets.

Section 1602 provides guidance on the treatment of a non-controlling interest subsequent to acquisition in a business combination. This new standard requires a non-controlling interest to be presented in equity, but separately from the parent's equity; the amount of consolidated net income attributable to the parent and to non-controlling interest be identified and presented on the consolidated statement of income; and accounting for changes in ownership interests of a subsidiary that do not result in a loss of control as an equity transaction.

Section 1601 carries forward existing guidance of aspects of the preparation of consolidated financial statements subsequent to the acquisition date other than that pertaining to a non-controlling interest.

These three new sections are effective for the Company on January 1, 2011, with earlier adoption permitted. The adoption of this standard is not expected to have a significant impact on the Company's consolidated balance sheet or results of operations.

(b) International Financial Reporting Standards ("IFRS")

In February 2008, the AcSB confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. The Company will change over to IFRS for its interim and annual financial statements beginning on January 1, 2011 and is currently evaluating the impact of adopting IFRS on its financial position and results of operations.

6. Change in estimate of unearned premium reserves

Mortgage insurance premiums are taken into underwriting revenue over the terms of the related policies. The unearned portion of premiums is included in the liability for unearned premiums. The rates or formulae under which premiums are earned relate to the loss emergence pattern in each year of coverage as estimated by management based primarily on the past incidence of losses on claims, and are referred to as the "premium recognition curve". The premium recognition curve in use by the Company until the end of 2008 was established by actuarial studies in 2000 and approved by OSFI for regulatory reporting by the Insurance Subsidiary.

The Company has performed regular actuarial studies of its actual multi-year loss experience, which have indicated an acceleration of premium recognition as compared to the OSFI-prescribed premium recognition curve historically used by the Company through 2008. The Company has used a different premium recognition curve reflecting its actual multi-year experience in reporting to its parent company for the parent company's U.S. GAAP reporting. Effective with the first quarter of 2009, the Company updated its premium recognition curve to reflect its current experience for Canadian GAAP–reporting purposes as well, resulting in an increase in net premiums earned for the period of $100,144. Of this amount, $87,803 represented the cumulative difference from the Company's own experience estimated as of December 31, 2008 and $12,341 represented further changes in estimate from an updated actuarial study completed March 31, 2009. The increase in net premiums earned as of December 31, 2008 has been accounted for as a change in estimate, and it is not possible to estimate the impact on future periods' premiums earned.

The Insurance Subsidiary has obtained OSFI approval for the updated premium recognition curve in its regulatory reporting.

7. Financial risk management

The primary goals of the Company's financial risk management are to ensure that the outcome of activities involving elements of risk are consistent with the Company's objectives and risk tolerance, and to maintain an appropriate risk and reward balance while protecting the Company's balance sheet from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through aligning risk appetite with business strategy, pricing appropriately for risk, diversifying risk and mitigating risk through preventative controls.

(a) Underwriting risk

Underwriting risk is the risk that the total cost of claims and acquisition expenses will exceed premiums received and can arise from numerous factors, including pricing risk, reserving risk and catastrophic loss risk.

The Company's underwriting objective is to develop business on a prudent basis and to achieve profitable underwriting results. For the year ended December 31, 2009, the Company's loss ratio was 36% (2008 – 31%; 2007 – 19%).

(i) *Pricing risk*

Pricing risk arises when actual loss experience differs from the assumptions included in pricing calculations. The underwriting results of the mortgage insurance business can fluctuate significantly due to the cyclicality of the Canadian housing market. The housing market is affected primarily by housing supply and demand, interest rates and general economic factors. Products are priced taking into account numerous factors including the credit profile of potential homeowners, historic claims frequency and severity trends, investment yields and capital required to support the product line. The pricing process is designed to ensure an appropriate return on capital while also providing long-term stability. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

(ii) *Reserving risk*

Reserving risk arises due to (i) for loss reserves, the length of time between the occurrence of a loss, the reporting of the loss to the insurer and the ultimate resolution of the claim, and (ii) for unearned premium reserves, the need to estimate the frequency, severity and timing of losses.

Loss reserves are expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, and on estimates of trends in claims severity, claims frequency, adverse claim development and other factors. Variables in the reserve estimation process can be affected by receipt of additional claim information and other internal and external factors such as significant changes in severity or frequency of claims relative to historical trends, changes in claims handling procedures and changes in performance of the Canadian housing market and economy. Due to the amount of time between the occurrence of a loss, the actual reporting of the loss and the ultimate payment, losses may ultimately develop differently from the assumptions made when initially estimating the loss reserves.

7. Financial risk management (continued)

Unearned premium reserves are calculated according to a premium recognition curve that utilizes rates or formulae related to the loss emergence pattern in each year of coverage as estimated by management based primarily on the past incidence of losses on claims. Variables in the unearned premium reserve estimation process can be affected by changes in the timing of loss emergence and by changes in the expected loss development of past incidences of losses that have been used to update the premium recognition curve.

The loss reserves and unearned premium reserves are reviewed and reported on by the Appointed Actuary of the Insurance Subsidiary, an actuary appointed pursuant to the Insurance Companies Act (Canada) (the "Act").

(iii) *Catastrophic loss risk*

Catastrophic loss risk is the exposure to losses resulting from multiple claims arising out of a single catastrophic event. Property and casualty insurance companies experience large losses arising from man-made or natural catastrophes that can result in significant underwriting losses. These losses may have continuing effects that could delay or hamper efforts to accurately assess the full extent of the damage they cause on a timely basis. The incidence and severity of catastrophes are inherently unpredictable. Given the nature of mortgage default insurance, the exposure to catastrophes is deemed minimal.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. The Company is exposed to credit risk principally through its invested assets.

The total credit risk exposure at December 31, 2009 is $4,074,817 (2008 – $3,601,600) and is comprised of $3,778,352 (2008 – $3,448,901) of bonds and debentures, $423 (2008 – nil) of preferred shares, $253,527 (2008 – $113,066) of short-term securities, $28,869 (2008 – $31,218) of accrued investment income and accounts receivable, and $13,646 (2008 – $8,415) of subrogation recoverable.

The Company is indirectly exposed to credit risk through its proportionate interest in the investment assets of the government guarantee fund under the Government Guarantee Agreement (notes 7(f) and 10).

The Company's risk management strategy is to invest primarily in debt instruments of Canadian government agencies and other high-credit-quality issuers and to limit the amount of credit exposure with respect to any one issuer or type of financial instrument. The Company attempts to limit credit exposure by imposing portfolio limits on individual corporate issuers as well as requiring investments to be made within specific investment mix ranges, as specified in its investment policy. Credit quality of financial instrument issuers is assessed based on ratings supplied by rating agencies Standard and Poor's, Moody's Investors Service, Inc. or Dominion Bond Rating Service. The breakdown of the Company's investment portfolio by credit ratings is presented below:

	2009 Fair value		2008 Fair value	
Credit rating	**Amount**	**%**	Amount	%
AAA	**$ 1,614,360**	**40.1**	$ 1,324,354	37.2
AA	**1,344,137**	**33.3**	1,130,609	31.7
A	**1,017,783**	**25.2**	852,165	23.9
BBB	**55,924**	**1.4**	247,856	7.0
B	**—**	**—**	6,934	0.2
Lower than B and unrated	**98**	**—**	49	—
	$ 4,032,302	**100.0**	$ 3,561,967	100.0

As at December 31, 2009, 98.6% of the Company's investment portfolio was rated 'A' or better, compared to 92.8% at December 31, 2008.

As at December 31, 2009, the Company has 40 AFS bonds where cost exceeds fair value by $13,771 (2008 – 212 AFS bonds where cost exceeded fair value by $122,076). This unrealized loss is recorded in AOCI as part of unrealized gains (losses) on AFS securities. The unrealized losses on the bonds arose primarily from an increase in credit spreads. Based on factors including underlying credit ratings of the issuers, the Company expects that future interest and principal payments will continue to be

received on a timely basis. Since the Company has the ability and intent to hold these bonds until there is a recovery of fair value, which may be at maturity, these unrealized losses are considered temporary in nature. The Company conducts a monthly review to identify and evaluate investments that show indications of impairment.

An investment is considered impaired if its fair value falls below its cost, and a write-down is recorded when the decline is considered other-than-temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, financial condition and near-term prospects of the issuer and the ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

The following AFS bonds were in an unrealized loss position:

			2009			2008
	Fair value	**Amortized cost**	**Unrealized loss**	Fair value	Amortized cost	Unrealized loss
Government bonds	**$ 136,208**	**$ 138,674**	**$ (2,466)**	$ 55,805	$ 56,860	$ (1,055)
Corporate bonds	**329,438**	**340,743**	**(11,305)**	1,636,357	1,757,378	(121,021)
Total	**$ 465,646**	**$ 479,417**	**$ (13,771)**	$1,692,162	$ 1,814,238	$ (122,076)

At December 31, 2009, $98 of the Company's investments were impaired, compared to $17,082 at December 31, 2008. The breakdown of the Company's other-than-temporarily impaired investments is presented below:

			2009				2008
	Credit rating	**Carrying value prior to impairment**	**Cumulative impairment loss**	**Fair value**	Carrying value prior to impairment	Cumulative impairment loss	Fair value
Lehman Brothers Holdings Inc.	**Unrated**	**$ 590**	**$ (541)**	**$ 98**	$ 590	$ (541)	$ 49
Rio Can Real Estate Investment	**BBB**	**—**	**—**	**—**	18,333	(1,300)	17,033
		$ 590	**$ (541)**	**$ 98**	$ 18,923	$ (1,841)	$ 17,082

Total interest income earned on impaired investments both held at December 31, 2009 and sold during the year was nil (2008 – $1,466; 2007 – nil).

(c) Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet financial commitments and policy obligations as they fall due without raising funds at unfavourable rates or selling assets on a forced basis.

Liquidity risk arises from the Company's general business activities and in the course of managing its assets, liabilities and externally imposed capital requirements (note 8). The liquidity requirements of the Company's business have been met primarily by funds generated from operations, asset maturities, and income and other returns received on securities. Cash provided from these sources is used primarily for loss and loss adjustment expense payments, operating expenses, and payment of dividends. To ensure liquidity requirements are met, the Company holds a portion of investment assets in liquid securities. At December 31, 2009, the Company has cash and cash equivalents of $377,512 (2008 – $591,654) and short-term securities of $253,527 (2008 – $113,066). The Company does not have any debt obligations.

The table below summarizes the carrying value by the earliest contractual maturity of the Company's bonds and debentures:

	Within one year	One to three years	Three to five years	Six to ten years	Over ten years	Total
As at December 31, 2009:						
Bonds and debentures (fair value)	**$ 291,569**	**$ 979,151**	**$ 1,169,790**	**$ 618,344**	**$ 719,498**	**$ 3,778,352**
As at December 31, 2008:						
Bonds and debentures (fair value)	245,861	875,143	782,823	860,913	684,161	3,448,901

7. Financial risk management (continued)

The table below shows the expected payout pattern of the Company's financial liabilities:

	Within one year	One to three years	Three to five years	Six to ten years	Over ten years	Total
As at December 31, 2009:						
Loss reserves	**$ 170,349**	**$ 59,249**	**$ 6,583**	**$ —**	**$ —**	**$ 236,181**
As at December 31, 2008:						
Loss reserves	148,023	22,145	1,565	—	—	171,733
Related party debt (note 13)	28,226	38,500	—	—	—	66,726

(d) Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign currency exchange rates and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. The market risk to which the Company is primarily exposed is interest rate risk.

(e) Interest rate risk

Fluctuations in interest rates have a direct impact on the market valuation of the Company's fixed income securities portfolio. Generally, investment income will move with interest rates over the long term. Short-term interest rate fluctuations will generally create unrealized gains or losses. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher-yielding fixed income securities are called, mature or are sold and the proceeds are reinvested at lower rates, and will likely result in unrealized gains in the value of fixed income securities the Company continues to hold, as well as realized gains to the extent the relevant securities are sold. During periods of rising interest rates, the market value of the Company's existing fixed income securities will generally decrease and gains on fixed income securities will likely be reduced or result in losses.

As at December 31, 2009, management estimates that an immediate hypothetical 100 basis point, or 1% increase in interest rates would decrease the market value of the AFS fixed income securities by approximately $138,000, representing 3.45% of the $3,997,394 fair value of the AFS fixed income securities portfolio, and decrease the value of loss reserves by $1,810. Conversely, a 100 basis point, or 1% decrease in interest rates would increase the market value of the AFS fixed income securities by approximately $138,000, representing 3.45% of the fair value and increase the value of loss reserves by approximately $1,847. During the year, the Company significantly shortened the durations of its AFS investment portfolio. As a result, portfolio convexity has been reduced.

As at December 31, 2008, management estimates that an immediate hypothetical 100 basis point, or 1% increase in interest rates would decrease the market value of the AFS fixed income securities by approximately $133,000, representing 3.76% of the $3,536,107 fair value of the AFS fixed income securities portfolio, and decrease the value of loss reserves by $1,303. Conversely, a 100 basis point, or 1% decrease in interest rates would increase the market value of the AFS fixed income securities by approximately $150,000, representing 4.24% of the fair value and increase the value of loss reserves by approximately $1,328.

As at December 31, 2009, management estimates that a 100 basis point, or 1% increase in interest rates would decrease the market value of the HFT securities by approximately $1,500, representing 4.35% of the $34,485 fair value of the HFT fixed income securities portfolio. Conversely, a 100 basis point, or 1% decrease in interest rates would increase the market value of the HFT securities by the same amount.

As at December 31, 2008, management estimates that a 100 basis point, or 1% increase in interest rates would decrease the market value of the HFT securities by approximately $1,700, representing 6.57% of the $25,860 fair value of the HFT fixed income securities portfolio. Conversely, a 100 basis point, or 1% decrease in interest rates would increase the market value of the HFT securities by the same amount.

Computations of the prospective effects of hypothetical interest rate changes are based on numerous assumptions and should not be relied on as indicative of future results. The analysis in this section is based on the following assumptions: (i) the existing level and composition of fixed income security assets will be maintained; (ii) shifts in the yield curve are parallel; and (iii) credit and liquidity risks have not been considered.

(f) Government guarantee fund

(i) *Credit risk*

The total credit risk exposure for the government guarantee fund at December 31, 2009 is $698,452 and comprised $663,161 of bonds and debentures and $35,291 of short-term securities.

The Company limits credit exposure relative to the government guarantee fund by investing 100% of the portfolio into securities issued by the Government of Canada or agencies unconditionally guaranteed by the Government of Canada. The breakdown of the Company's investment portfolio by credit ratings is presented below:

	2009 Fair value		2008 Fair value	
Credit rating	**Amount**	**%**	Amount	%
AAA	**$ 698,452**	**100.0**	$ 548,861	99.7
AA	**—**	**—**	1,624	0.3
Total	**$ 698,452**	**100.0**	$ 550,485	100.0

As at December 31, 2009, the cost of six AFS bonds exceeded their fair value by $246 (2008 – the cost of nine AFS bonds exceeded their fair value by $1,941). This unrealized loss is recorded in AOCI as part of unrealized gains (losses) on AFS securities. Based on factors including the issuers being the Government of Canada or agencies unconditionally guaranteed by the Government of Canada, the Company expects that future interest and principal payments will continue to be received on a timely basis. Since the Company has the ability and intent to hold these securities until there is a recovery of fair value, these unrealized losses are considered temporary in nature.

The following AFS bonds were in an unrealized loss position:

	2009			2008		
	Carrying value	**Book value**	**Unrealized loss**	Carrying value	Book value	Unrealized loss
Government bonds	**$ 3,230**	**$ 3,298**	**$ (68)**	$ 2,927	$ 3,340	$ (413)
Agencies unconditionally guaranteed by the Government of Canada	**56,836**	**57,014**	**(178)**	13,578	15,106	(1,528)
	$ 60,066	**$ 60,312**	**$ (246)**	$ 16,505	$ 18,446	$ (1,941)

(ii) *Liquidity risk*

The table below summarizes the carrying value by the earliest contractual maturity of the guarantee fund bonds and debentures:

	Within one year	One to three years	Three to five years	Six to ten years	Over ten years	Total
As at December 31, 2009:						
Bonds and debentures (fair value)	**$ 10,605**	**$ 178,785**	**$ 126,725**	**$ 192,639**	**$ 154,407**	**$ 663,161**
As at December 31, 2008:						
Bonds and debentures (fair value)	$ —	67,056	135,069	110,358	161,413	473,896

7. Financial risk management (continued)

(iii) *Market risk*

As at December 31, 2009, management estimates that an immediate hypothetical 100 basis point, or 1% increase in interest rates would decrease the market value of the AFS fixed income securities in the government guarantee fund by approximately $32,000, representing 4.58% of the $698,452 fair value of the government guarantee fund investment portfolio, and decrease the value of the exit fee and liability to The Mortgage Insurance Company of Canada ("MICC") by $6,191 (note 10). Conversely, a 100 basis point, or 1% decrease in interest rates would increase the market value of the government guarantee fund by approximately $36,000, representing 5.15% of the fair value and increase the value of the exit fee and liability to MICC by $6,903.

As at December 31, 2008, management estimates that an immediate hypothetical 100 basis point, or 1% increase in interest rates would decrease the market value of the AFS fixed income securities in the government guarantee fund by approximately $31,000, representing 5.63% of the $550,485 fair value of the government guarantee fund investment portfolio, and decrease the value of the exit fee and liability to MICC by $5,700 (note 10). Conversely, a 100 basis point, or 1% decrease in interest rates would increase the market value of the government guarantee fund by $33,000, representing 5.99% of the fair value and increase the value of the exit fee and liability to MICC by $6,100.

Computations of the prospective effects of hypothetical interest rate changes are based on numerous assumptions and should not be relied on as indicative of future results. The analysis in this section is based on the following assumptions: (a) the existing level and composition of the government guarantee fund investments will be maintained; (b) shifts in the yield curve are parallel; and (c) credit and liquidity risks have not been considered.

8. Capital management and regulatory requirements

Capital is comprised of the Company's shareholders' equity.

The Company's objectives when managing capital are to maintain financial strength and a strong external financial strength rating, to protect its loss paying abilities and to maximize returns to shareholders over the long term.

The Insurance Subsidiary is a regulated insurance company governed by the provisions of the Act, which is administered by OSFI. As such, the Insurance Subsidiary is subject to certain requirements and restrictions contained in the Act. The Act limits dividends to shareholders under certain circumstances.

The Insurance Subsidiary is required under the Act to meet a minimum capital test ("MCT") to support its outstanding mortgage insurance in force. The MCT ratio is calculated based on a model developed by OSFI. The statutory minimum is 100%, and OSFI has established a supervisory MCT ratio for Genworth Mortgage Insurance Canada of 135%. To measure the degree to which the Insurance Subsidiary is able to meet regulatory capital requirements, the Appointed Actuary must present an annual report to the Audit Committee and management on the Insurance Subsidiary's current and future solvency under various projected scenarios.

As at December 31, 2009, the Insurance Subsidiary had an MCT ratio of 149% (2008 – 127%) and has complied with the regulatory capital requirements.

Senior executive management is responsible for developing the capital strategy and overseeing the capital management processes of the Company and its Insurance Subsidiary. Capital forecasting techniques are used to predict the adequacy of capital for planning purposes. Based on forecasted capital, capital management is accomplished through establishing appropriate investment policies and incorporating capital requirements into dividend capacity planning.

9. Investments

The fair values of invested assets, excluding the government guaranteed fund, are summarized as follows:

	December 31, 2009				December 31, 2008			
	Market value	**Amortized cost**	**Unrealized gain (loss)**	**% market value**	Market value	Amortized cost	Unrealized gain (loss)	% market value
Cash and cash equivalents:								
Government treasury bills	**$ 231,519**	**$ 231,519**	**$ —**	**5.3**	$ 504,922	$ 504,922	$ —	12.2
Bankers' acceptances	**64,898**	**64,898**	**—**	**1.5**	27,574	27,574	—	0.7
Time deposits	**65,943**	**65,943**	**—**	**1.5**	23,604	23,604	—	0.6
Money market mutual funds	**—**	**—**	**—**	**—**	16,517	16,517	—	0.4
Commercial paper	**—**	**—**	**—**	**—**	1,134	1,134	—	—
Cash	**15,152**	**15,152**	**—**	**0.3**	17,903	17,903	—	0.4
	377,512	**377,512**	**—**	**8.6**	591,654	591,654	—	14.3
Available-for-sale securities:								
Government bonds:								
Canadian federal	**1,073,117**	**1,053,507**	**19,610**	**24.3**	649,618	617,231	32,387	15.6
Canadian provincial	**637,602**	**614,647**	**22,955**	**14.5**	644,905	619,683	25,222	15.5
	1,710,719	**1,668,154**	**42,565**	**38.8**	1,294,523	1,236,914	57,609	31.1
Corporate bonds:								
Financial	**1,420,446**	**1,370,884**	**49,562**	**32.2**	1,356,895	1,438,946	(82,051)	32.7
Energy	**230,456**	**220,195**	**10,261**	**5.2**	204,007	213,143	(9,136)	4.9
Infrastructure	**206,310**	**199,534**	**6,776**	**4.7**	157,038	165,237	(8,199)	3.8
All other sectors	**175,425**	**166,394**	**9,031**	**4.0**	270,090	274,960	(4,870)	6.5
	2,032,637	**1,957,007**	**75,630**	**46.1**	1,988,030	2,092,286	(104,256)	47.9
Preferred shares:								
Financial	**423**	**421**	**2**	**—**	—	—	—	—
Asset backed bonds	**254,038**	**252,116**	**1,922**	**5.8**	253,554	260,409	(6,855)	6.1
	3,997,817	**3,877,698**	**120,119**	**90.7**	3,536,107	3,589,609	(53,502)	85.1
Held-for-trading securities:								
Financial	**34,485**	**50,000**	**(15,515)**	**0.7**	25,860	50,000	(24,140)	0.6
Total securities	**$ 4,409,814**	**$ 4,305,210**	**$ 104,604**	**100.0**	$ 4,153,621	$ 4,231,263	$ (77,642)	100.0

9. Investments (continued)

The fair value amounts of invested assets, excluding government guarantee fund, preferred shares, and cash and cash equivalents are shown by contractual maturity of the security. Yields are based upon fair value.

	2009		2008	
Terms to maturity	**Fair value**	**Yield %**	Fair value	Yield %
Investment securities issued or guaranteed by the Government of Canada:				
One year or less	**$ 397,527**	**1.8**	$ 264,247	3.7
One to three years	**432,129**	**4.3**	378,820	5.0
Three to five years	**645,613**	**3.7**	301,337	4.7
Five to ten years	**155,254**	**5.1**	247,094	5.0
Over ten years	**80,196**	**4.8**	103,025	5.0
	1,710,719	**3.6**	1,294,523	4.7
Corporate investment securities:				
One year or less	**147,569**	**4.9**	94,680	5.9
One to three years	**547,022**	**5.0**	496,323	5.0
Three to five years	**524,177**	**5.3**	481,486	5.1
Five to ten years	**463,090**	**5.2**	613,819	5.2
Over ten years	**639,302**	**5.9**	581,136	6.0
	2,321,160	**5.3**	2,267,444	5.4
	$ 4,031,879	**4.6**	$ 3,561,967	5.1

(a) Securities lending

The Company participates in a securities-lending program through an intermediary, whereby the Company lends securities it owns to other financial institutions to allow them to meet delivery commitments. Securities with an estimated fair value of at least 105% of the fair value of the securities loaned are received as collateral.

(b) Fair value measurements

The following table sets forth inputs used as of December 31, 2009 in valuing the Company's financial instruments carried at fair value:

	Total	Level 1	Level 2	Level 3
Investments:				
Bonds and debentures – AFS	$ 3,743,867	$ —	$ 3,642,737	$ 101,130
Bonds and debentures – HFT	34,485	—	—	34,485
Preferred shares – AFS	423	—	423	—
Short term securities – AFS	253,527	253,527	—	—
Bonds and debentures in the government guarantee fund	663,161	—	663,161	—
Short-term securities in the government guarantee fund	35,291	35,291	—	—
	$ 4,730,754	$ 288,818	$ 4,306,321	$ 135,615

During the year ended December 31, 2009, the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	Available for Sale Bonds and debentures	Held for Trading Bonds and debentures	Total
Beginning balance January 1, 2009	$ 117,911	$ 25,860	$ 143,771
Purchases	46	—	46
Sales and settlements	(18,902)	—	(18,902)
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Amortization of bond premium	(188)	—	(188)
Change in fair value through income	—	8,625	8,625
Change in fair value through OCI	2,263	—	2,263
Ending balance December 31, 2009	$ 101,130	$ 34,485	$ 135,615
Total change in unrealized gain for assets held at December 31, 2009	$ 840	$ 8,625	$ 9,465

The level 3 instruments comprise $101,130 or 75% commercial mortgage backed bonds classified as AFS and $34,485 or 25% European Luxembourg bonds classified as HFT. The commercial mortgage backed bonds are all investment grade and rated AAA. The European Luxembourg bonds are not externally rated but have been given an internal rating of BBB.

The potential impact of using reasonable possible alternative assumptions for valuing Level 3 financial instruments would increase their fair value by $5,513 or decrease their fair value by $5,337.

10. Government guarantee fund and government guarantee agreement

The government guarantee fund reflects the Company's proportionate interest in the assets held in the government guarantee fund established under the Government Guarantee Agreement including accrued income and net of applicable accrued exit fees. The fair value of the government guarantee fund as at December 31, 2009 is $576,417 (2008 – $544,810).

The following table summarizes the components of the government guarantee fund:

	2009	2008
Investments at fair value, accrued investment income and cash, net of liability to the Mortgage Insurance Company of Canada (a)	**$ 691,852**	$ 641,148
Accrued contribution (b)	**11,878**	16,183
Exit fee at fair value (c)	**(127,313)**	(112,521)
	$ 576,417	$ 544,810

The fair value of the government guarantee fund is estimated based on:

(a) the Company's proportionate interest in the fair value of investments held under the Government Guarantee Agreement; plus

(b) the Company's accrued contributions of 10.5% of premiums written on eligible insured mortgages for the last quarter of the year; less

(c) the cumulative exit fee applicable to the fair value of the Company's proportionate interest in investments held under the Government Guarantee Agreement and accrued contributions.

10. Government guarantee fund and government guarantee agreement (continued)

The 1988 Bank for International Settlements ("BIS") agreement signed by the Government of Canada introduced risk-related capital adequacy guidelines for Canadian chartered banks. Qualifying residential mortgages carry a 50% risk weighting, while mortgages insured by Canada Mortgage and Housing Corporation ("CMHC"), an agency of the Government of Canada, carry no risk weight. The BIS capital guidelines did not provide a reduced risk weight for residential mortgages insured by a private mortgage insurer, thereby putting private mortgage insurers at a disadvantage to CMHC. In 1988, the Mortgage Insurance Company of Canada ("MICC") was such an insurer. In 1995, the Company acquired certain assets and assumed certain government guarantee fund liabilities from MICC related to MICC's residential mortgage insurance line of business for $20,000.

Effective January 1, 1991, MICC entered into an agreement with the Government of Canada to ensure that it could effectively compete with CMHC. This agreement (the "Government Guarantee Agreement") provided MICC with a Government of Canada guarantee of its obligations under eligible residential mortgage insurance policies. In the event of wind-up, the Government of Canada will pay an amount of claims less 10% of the original insured amount. As a result of the credit support provided by the Government of Canada guarantee, the risk weight for eligible insured mortgages was reduced from 50% to 5%.

The Government Guarantee Agreement requires:

(a) contribution of 10.5% of premiums written on eligible insured mortgages over the next 25 years to a guarantee fund, which could be used in the event that the guarantee is called; and

(b) payment of an annual risk premium equal to 1% of the estimated Government of Canada net exposure.

Monies can be withdrawn from the government guarantee fund if the dollar value of the government guarantee fund is at least equal to the sum of the estimated Government of Canada gross exposure on the guarantee plus the greater of 15% of the estimated Government of Canada gross exposure and $10 million. Upon withdrawal of the monies from the government guarantee fund, an exit fee of 1% of the amount of the fund for each year from the effective date of the Government Guarantee Agreement (February 1992) to the date of the withdrawal up to a maximum of 25% must be paid to the Government of Canada.

In conjunction with the acquisition of MICC's residential mortgage insurance business, the Government Guarantee Agreement has been assigned to the Company with the consent of Her Majesty In Right of Canada. The mortgage insurance policies issued by MICC prior to the assignment of the Government of Canada Guarantee Agreement continue to be covered by the guarantee. MICC assigned its interest in the assets held in the government guarantee fund to the Company and the Company agreed to pay MICC the value of MICC's proportionate interest in the government guarantee fund when the value of MICC's proportionate interest in the government guarantee fund is at least equal to the sum of MICC's estimated Government of Canada gross exposure on the guarantee plus the greater of 15% of MICC's estimated Government of Canada gross exposure and $10 million. Effective 2004, given that the threshold had been reached, the Company commenced payment to MICC under the terms of the agreement, increasing the Company's interest in the government guarantee fund.

The Company records the results of income from the fund less exit fees of $16,846 (2008 – $24,062; 2007 – $23,197) as investment income or expense.

Equity in earnings from the government guarantee fund of $4,981 (2008 – ($533); 2007 – ($4,384)) is included in net income.

11. Loss reserves

The carrying amount and fair value of loss reserves are summarized as follows:

	2009		2008	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Loss reserves	**$ 236,181**	**$ 233,210**	$ 171,733	$ 171,733

The carrying value of loss reserves reflects the present value of expected claims costs and expenses plus provisions for adverse deviation and is considered to be an indicator of fair value. There is no ready market for the trading of loss reserves and the value agreed between parties in an arm's length transaction may be materially different.

Changes in loss reserves recorded in the balance sheet for the years ended December 31, 2009, 2008 and 2007 and their impact on losses and adjustment expenses are as follows:

	2009	2008	2007
Loss reserves, beginning of year	**$ 171,733**	$ 89,095	$ 66,587
Incurred losses and adjustment expenses:			
Increase in losses and expenses on claims occurring in prior years	**59,170**	11,472	(23,350)
Increase in losses and expenses on claims occurring in the current year	**196,586**	148,513	102,550
Paid losses occurring during:			
Prior years	**(160,263)**	(67,292)	(36,045)
Current year	**(31,045)**	(10,055)	(20,647)
Loss reserves, end of year	**$ 236,181**	$ 171,733	$ 89,095

12. Income taxes

Provision for income taxes is comprised of the following:

	2009	2008	2007
Consolidated Statements of Income			
Provision for income taxes:			
Current	**$ 160,372**	$ 107,850	$ 105,815
Future	**5,192**	32,465	15,957
	$ 165,564	$ 140,315	$ 121,772
Consolidated Statements of Comprehensive Income			
Income tax expense (recovery) related to:			
Change in unrealized gains on AFS securities	**$ 49,468**	$ (17,582)	$ (13,803)

Income taxes are payable on the change in unrealized gains or losses reported in the Company's consolidated statement of comprehensive income in the year in which they are incurred, and are included in the income taxes payable balance on the Company's consolidated balance sheet.

Income taxes reflect an effective tax rate that differs from statutory tax rate for the following reasons:

	2009	2008	2007
Income before income taxes	**$ 544,304**	$ 477,006	$ 429,952
Combined basic Canadian federal and provincial income tax rate	**32.0%**	32.0%	35.0%
Income tax expense based on statutory rate	**$ 174,177**	$ 152,642	$ 150,483
Increase (decrease) in income tax expense resulting from:			
Non-deductible expenses	**106**	182	242
Effect of decrease in rates on future income taxes	**(9,849)**	(12,354)	(28,835)
Effect of tax rate adjustment relating to enactment of new legislation	**1,144**	—	—
Other	**(14)**	(155)	(118)
Income tax expense	**$ 165,564**	$ 140,315	$ 121,772

The difference in the effective income tax rate of 30.4% implicit in the $165,564 provision for income taxes in 2009 from the Company's statutory income tax rate of 32.0% was primarily attributable to the effect of a decrease of rates on future income taxes, including the revaluation of the Company's opening future tax liability, offset by the enactment of tax legislation which caused income previously subject to tax at future income tax rates to be taxable in the current period.

12. Income taxes (continued)

The difference in the effective income tax rate of 29.4% implicit in the $140,315 provision for income taxes in 2008 from the Company's statutory income tax rate of 32.0% was primarily attributable to the effect of a decrease of rates on future income taxes, including the revaluation of the Company's opening future tax liability.

The difference in the effective income tax rate of 28.3% implicit in the $121,772 provision for income taxes in 2007 from the Company's statutory income tax rate of 35.0% was primarily attributable to the effect of a decrease of rates on future income taxes, including the revaluation of the Company's opening future tax liability.

Future income tax liability is comprised of the following:

	2009	2008
Future income tax assets:		
Employee future benefits	**$ 2,881**	$ 2,182
Policy liabilities	**3,070**	2,168
Other	**—**	150
	5,951	4,500
Future income tax liabilities:		
Investments including unrealized gains on guarantee fund AFS securities	**(15,221)**	(16,324)
Government guarantee fund reserve	**(144,594)**	(138,188)
Policy reserves	**(46,929)**	(45,779)
Capital assets and intangible assets	**(2,425)**	(2,537)
	(209,169)	(202,828)
Net future income tax liability	**$ (203,218)**	$ (198,328)

Management reviews the valuation of future income tax assets on an ongoing basis to determine if a valuation allowance is necessary. The Company expects to fully utilize the benefits available from existing future income tax assets. No valuation allowance is required for the years ended December 31, 2009, 2008 and 2007.

The aggregate amount of income taxes paid for the year ended December 31, 2009 was $100,705 (2008 – $77,151; 2007 – $170,039).

13. Related party transactions and balances

(a) Related party transactions

Following the closing of the Company's IPO, the Company and its Insurance Subsidiary entered into a Transition Services Agreement ("TSA") with Genworth Financial Inc., the Company's ultimate parent company. The agreement prescribes that these companies will provide certain services to one another, with most services being terminated if Genworth Financial Inc. ceases to beneficially own more than 50% of the common shares of the Company. The services rendered by Genworth Financial Inc. and affiliated companies consist of finance, human resources, legal and compliance, information technology and other specified services. The services rendered by the Company and the Insurance Subsidiary relate mainly to financial reporting and tax compliance support services. These transactions are in the normal course of business. Accordingly, they are measured at fair value. Balances owing for service transactions are non-interest bearing and are settled on a quarterly basis. The Company incurred net related party charges of $6,984 for the year ended December 31, 2009 (2008 – $9,803; 2007 – $5,313). The net balance owed for related party services at December 31, 2009 is $775 (December 31, 2008 – $5,822).

(b) Related party debt

During 2006 and 2004, the Company issued debt to GFIH. On March 31, 2007, GFIH contributed all of the Company's outstanding common shares to Brookfield, a Bermuda company, another direct subsidiary of GFIH. As a result of this contribution, the Company became a direct, wholly owned subsidiary of Brookfield. The parent of GFIH, Genworth Financial, Inc., remains the ultimate parent entity of the Company at December 31, 2009.

On July 7, 2009, the Company repaid debentures issued to GFIH of $66,726 along with accrued interest to July 7, 2009 of $791 using a portion of the proceeds from the IPO.

The terms of the debentures are set out below:

	2009	2008
Subordinated debenture issued March 25, 2004 bearing interest at a fixed rate of 4.30% until maturity, maturing 2009	$ —	$ 28,226
Subordinated debenture issued September 28, 2006 bearing interest at a fixed rate of 4.235% until maturity, maturing 2011	—	38,500
	$ —	$ 66,726

Interest expense on debt for the year ended December 31, 2009 was $1,463 (2008 – $2,857; 2007 – $2,844).

14. Commitments

The Company leases office space, office equipment, computer equipment and automobiles. Future minimum rental commitments for non-cancellable leases with initial or remaining terms of one year or more consist of the following at December 31, 2009:

2010	$ 2,275
2011	2,006
2012	1,751
2013	1,572
2014	1,358
	$ 8,962

Operating lease expense for the year ended December 31, 2009 was $3,001 (2008 – $2,902; 2007 – $2,499).

Software related to the Company's underwriting system will require upgrades during 2010. The expenditure related to these upgrades is expected to be in the range of $2,400 to $3,000.

15. Pensions and other post-employment benefits

(a) Defined contribution pension benefits

The Company's eligible employees participate in a registered defined contribution pension plan. The plan provides pension benefits to employees of the Company with two years of service with the exception of Quebec employees, who are entitled to pension benefits after one year of service. The Company is responsible for contributing a predetermined amount to a participant's retirement savings, based on a percentage of that employee's salary.

The cost of the defined contribution plan is recognized as compensation expense as services are provided by participants in the plan.

(b) Defined benefit pension and other employee future benefits

The Company maintains two types of benefit liabilities: defined benefit pension liabilities for a Supplemental Retirement Plan ("SERP") and other non-pension post-employment benefits.

The SERP is a supplemental plan that provides pension benefits in excess of the amounts payable under the Company's registered defined contribution plan. The other non-pension post-employment benefits provide medical and life insurance coverage upon retirement.

15. Pensions and other post-employment benefits (continued)

The benefit liabilities represent the amount of pension and other employee future benefits that employees and retirees have earned as at year end. The Company's actuaries perform valuations of the benefit liabilities for pension and other employee future benefits as at December 31 of each year using the projected benefit method prorated on service, based on management's assumptions on the discount rate, rate of compensation increase, retirement age, mortality and the trend in the health care cost rate. The actuarial valuation for the year ended December 31, 2009 was performed based on pension and other employee future benefit membership data as at January 1, 2009. The next actuarial update of the membership data will occur as at January 1, 2012. The discount rate is determined by management with reference to market conditions at year end. Other assumptions are determined with reference to long-term expectations.

Components of the change in the benefit liabilities year over year and the pension and other employee future benefit expense are as follows:

Benefits earned by employees represents benefits earned in the current year. They are determined with reference to the current workforce and the amount of benefits to which employees will be entitled upon retirement, based on the provisions of the benefit plans.

Interest costs on benefit liabilities represents the increase in the liabilities that results from the passage of time.

Actuarial gains or losses may arise in two ways. First, each year the Company's actuaries recalculate the benefit liabilities and compare them to those estimated as at the previous year end. Any differences that result from changes in assumptions or from plan experience being different from management's expectations at the previous year end are considered actuarial gains or losses. Secondly, actuarial gains or losses arise when there are differences between expected and actual return on plan assets. Actuarial gains and losses based on plan asset return do not impact the Company, as both defined benefit plans are unfunded.

At the beginning of each year, a determination is made as to whether the unrecognized actuarial gain or loss is more than 10% of the defined benefit liability balances. Any unrecognized actuarial gain or loss in excess of this 10% threshold is recognized in expense over the remaining service period of active employees.

Plan amendments are changes in the benefit liabilities as a result of changes to provisions of the plans. These amounts are recognized in expense over the remaining service period of active employees.

Settlements occur when benefit liabilities for plan participants are settled, usually through lump sum cash payments, and as a result the Company no longer has a liability to provide these employees with benefit payments in the future.

Transitional obligation is the unrecognized benefit liability at the beginning of the year to which CICA Handbook Section 3461 first applied. The transitional obligation is recognized in expense over the remaining service period of active employees.

The SERP and other post-employment benefit plan are unfunded. Pension and benefit payments related to these plans are paid directly by the Company. The benefit liabilities in respect of the plans are as follows:

	Pension benefits		Other post-employment benefits	
	2009	2008	**2009**	2008
Accrued benefit liability	**$ 3,630**	$ 3,022	**$ 5,660**	$ 5,060
Fair value of plan assets	—	—	—	—
Unfunded benefit liability	**$ 3,630**	$ 3,022	**$ 5,660**	$ 5,060

Pension and other post-employee benefit expenses are determined as follows:

	Pension benefits			Other post-employment benefits		
	2009	2008	2007	**2009**	2008	2007
Defined benefit expense:						
Benefits earned by employees	**$ 257**	$ 349	$ 375	**$ 373**	$ 541	$ 564
Interest cost on accrued benefit liability	**365**	305	299	**253**	307	269
Net actuarial gain recognized in expense	**(35)**	—	52	**(119)**	—	14
Amortization of plan amendment costs	**233**	214	214	**—**	—	—
Amortization of transitional obligation	**7**	7	7	**106**	106	106
Annual benefits expense	**$ 827**	$ 875	$ 947	**$ 613**	$ 954	$ 953
Defined contribution expense	**$ 2,346**	$ 2,544	$ 2,427	**$ —**	$ —	$ —
Total annual pension and other employee future benefit expenses recognized in the consolidated statements of income	**$ 3,173**	$ 3,419	$ 3,374	**$ 613**	$ 954	$ 953
Weighted average assumptions used to determine benefit expenses:						
Discount rate	**7.50%**	7.50%	5.50%	**7.50%**	7.50%	5.50%
Rate of compensation increase	**4.25%**	4.25%	4.25%	**4.25%**	4.25%	4.25%
Assumed overall health care cost trend rate[1]	**n/a**	n/a	n/a	**7.71%**[1]	6.50%	6.89%

[(1)] Trending to an ultimate assumed health care rate of increase of 4.50%.

Changes in the estimated financial positions of the pension benefit plans and other employee future benefit plans are as follows:

	Pension benefits		Other post-employment benefits	
	2009	2008	**2009**	2008
Benefit liability, beginning of year	**$ 4,487**	$ 5,239	**$ 3,621**	$ 5,041
Benefits earned by employees	**257**	349	**373**	541
Interest cost on accrued liability	**365**	305	**253**	307
Benefits paid to pensioners and employees	**(218)**	(20)	**(12)**	—
Actuarial (gain) loss	**328**	(1,488)	**(257)**	(2,268)
Plan amendments	**277**	102	**—**	—
Benefit liability, end of year	**$ 5,496**	$ 4,487	**$ 3,978**	$ 3,621
Weighted average assumptions used to determine the benefit liability:				
Discount rate, end of year	**7.00%**	7.50%	**7.00%**	7.50%
Rate of compensation increase	**4.25%**	4.25%	**4.25%**	4.25%
Assumed overall healthcare cost trend	**n/a**	n/a	**7.71%**	8.50%
Benefit liability, end of year	**$ 5,496**	$ 4,487	**$ 3,978**	$ 3,621
Unrecognized actuarial gain	**657**	1,022	**2,001**	1,864
Unrecognized cost of plan amendments	**(2,502)**	(2,459)	**—**	—
Unrecognized transitional obligation	**(21)**	(28)	**(319)**	(425)
Accrued benefit liability, end of year	**$ 3,630**	$ 3,022	**$ 5,660**	$ 5,060

15. Pensions and other post-employment benefits (continued)

Sensitivity of assumptions:

A sensitivity analysis of changes in the assumed health care cost trend rate is as follows:

	Pension benefits		Other post-employment benefits	
	Benefit liability	Benefit expense	Benefit liability	Benefit expense
Assumed overall health care cost trend rate (%):				
Impact of:				
1% increase	n/a	n/a	$ 604	$ 110
1% decrease	n/a	n/a	(462)	(83)

This sensitivity analysis is hypothetical. Actual experience may differ from expected experience.

Cash flows:

Cash payments made by the Company during the year in connection with employee future benefit plans are as follows:

	Pension benefits			Other post-employment benefits		
	2009	2008	2007	**2009**	2008	2007
Benefits paid on defined benefit plans	**$ 218**	$ 20	$ 26	**$ 12**	$ —	$ 3
Contributions to defined contribution plans	**2,346**	2,544	2,427	**—**	—	—
	$ 2,564	$ 2,564	$ 2,453	**$ 12**	$ —	$ 3

Estimated future benefit payments:

Estimated future benefit payments in the next five years and thereafter are as follows:

	Pension benefit plan	Other employee future benefit plan
2010	$ 29	$ 32
2011	29	43
2012	105	59
2013	366	77
2014	94	99
2015 to 2019	1,658	894

16. Share-based compensation

In connection with its IPO, the Company adopted long-term incentive plans that provided for the granting of employee stock options ("Options"), employee Restricted Share Units ("RSUs"), and Directors' Deferred Share Units ("DSUs").

Upon completion of the IPO, the Company granted 787,500 Options and 85,900 RSUs to the employees of Genworth Mortgage Insurance Canada and Genworth MI Canada Inc. The exercise price of the Options is equal to the initial price per common share under the IPO of $19.00. These initial grants of Options and RSUs vest 50% on each of the second and third anniversaries of the grant date, which is the IPO closing date of July 7, 2009. The Option and RSU incentive plans provide employees with the choice of receiving compensation in the form of common shares of the Company or cash equal to the quoted market value of the Company's shares on the exercise or redemption date. The Options expire 10 years from the date of grant and the RSUs must be redeemed no later than December 1 in the third calendar year following the calendar year in respect of which the RSUs are granted.

During the quarter-ended December 31, 2009, the Company granted an additional 25,000 Options to employees who joined the Company subsequent to the IPO date. The terms of these grants are similar to the terms of the Options issued in the original IPO grant.

On September 30, 2009 and December 31, 2009, the Company granted DSUs to the eligible directors of Genworth MI Canada Inc. (i.e. all independent directors) as compensation for director services performed in the third and fourth quarters. The DSUs vest immediately on the date of grant and shall be redeemed no later than December 15th of the calendar year commencing immediately after the Director's termination date. The DSU incentive plan provides the Board of Directors with the discretion to elect to pay DSUs credited to directors in common shares of the Company, cash equal to the fair value of the Company's shares on the redemption date, or any combination of cash and common shares.

The Company has reserved 3,000,000 common shares of its issued and outstanding shares for issuance under these long-term incentive plans.

The following table summarizes information about these share-based compensation plans:

2009	Number of stock options	Weighted average exercise price	Weighted average fair value at December 31, 2009	Number of RSUs	Weighted average fair value at December 31, 2009	Number of DSUs	Weighted average fair value at December 31, 2009
Granted	**812,500**	**$ 19.16**	**$ 6,454**	**85,900**	**$ 2,328**	**3,243**	**$ 88**
Dividend equivalents granted	**—**	**—**	**—**	**706**	**19**	**14**	**—**
Forfeited	**2,500**	**19.00**	**(20)**	**(2,200)**	**(60)**	**—**	**—**
Outstanding, end of year	**810,000**	**$ 19.16**	**$ 6,434**	**84,406**	**$ 2,287**	**3,257**	**$ 88**
Weighted average period (in years) over which expense is recognized	**2.5**	**—**	**—**	**2.5**	**—**	**—**	**—**
Outstanding as a percentage of outstanding shares	**0.69%**	**—**	**—**	**0.07%**	**—**	**—**	**—**

The total compensation expense related to Options, RSUs and DSUs for the year ended December 31, 2009 is $1,270, $440, and $88 respectively for a total of $1,798 recognized in sales, underwriting and administrative expenses in the statement of consolidated income. The amount of $1,798 is included in the accrued net benefit liability under employee benefit plans on the consolidated balance sheet.

17. Premises and equipment

The Company's premises and equipment consist of the following assets:

2009	**Cost**	**Accumulated depreciation**	**Net book value**
Software	**$ 905**	**$ 92**	**$ 813**
Furniture and equipment	**2,618**	**1,659**	**959**
Leasehold improvements	**2,383**	**1,172**	**1,211**
Other	**2,664**	**1,803**	**861**
	$ 8,570	**$ 4,726**	**$ 3,844**

17. Premises and equipment (continued)

2008	Cost	Accumulated depreciation	Net book value
Software	$ 195	$ 14	$ 181
Furniture and equipment	2,328	1,109	1,219
Leasehold improvements	2,255	829	1,426
Other	2,349	1,282	1,067
	$ 7,127	$ 3,234	$ 3,893

18. Intangible assets

The Company's intangible assets are summarized as follows:

2009	**Cost**	**Accumulated amortization**	**Net book value**
Software	**$ 25,133**	**$ 8,826**	**$ 16,307**

2008	Cost	Accumulated amortization	Net book value
Software	$ 16,525	$ 5,835	$ 10,690

19. Goodwill

On January 17, 1995, the Company acquired certain assets and assumed certain liabilities from MICC related to MICC's residential mortgage insurance line of business for total cash consideration of $20,000. The excess of the purchase price over the estimated fair value of the net assets acquired of $19,581 was recorded as goodwill. After the acquisition date and prior to the adoption of CICA Handbook Section 3062, $8,409 of the value of goodwill charged to amortization expense. Currently, goodwill is tested at least annually for impairment (note 3(m)).

No impairment charge has been recognized on goodwill to date.

20. Transactions with lenders

Gross premiums written from two unrelated major lenders (defined as lenders which individually account for more than 10% of the Company's gross premium written) were $175,276 representing 47% of the Company's total gross premium written for the year ended December 31, 2009 (2008 and 2007 – gross premiums written from three unrelated major lenders that accounted for more than 10% of the Company's gross premium written were $274,382 or 38% and $428,861 or 43% respectively).

21. Share capital

The share capital of the Company is comprised of the following:

	2009	2008
Authorized:		
Unlimited common shares		
1 special share		
Issued:		
117,100,000 common shares (111,999,999 at December 31, 2008)	**$ 1,734,376**	$ 1,642,709
1 special share (nil at December 31, 2008)	**—**	—
Share capital	**$ 1,734,376**	$ 1,642,709

(a) Reorganization and IPO

At incorporation, the Company issued one common share for cash of $1.00. On June 29, 2009, the Company issued one special share to its parent company Brookfield Life Assurance Company Limited ("Brookfield"). The attributes of the special share provide that the holder of the special share be entitled to nominate and elect a certain number of directors to the Board, as determined by the number of common shares that the holder of the special share and affiliates beneficially own.

No dividends will be declared or paid by the Company on the special share. In the event of liquidation, dissolution or wind-up, whether voluntary or involuntary, the holder of the special share will be entitled to receive $1.00 for the special share.

Pursuant to an underwriting agreement dated June 29, 2009, the Company filed a prospectus which qualified issuance of 44,740,000 common shares at a purchase price of $19.00 per share. 5,100,000 of these shares were newly issued common shares of the Company, for which the Company collected net proceeds of $91,667. The remaining shares issued to public shareholders were previously owned by Brookfield, who collected the remaining proceeds from the IPO. The IPO was completed on July 7, 2009.

On July 30, 2009, the underwriters of the IPO exercised an overallotment option to purchase an additional 5,034,100 common shares of the Company from Brookfield at the IPO purchase price of $19.00 per share. Following the exercise of the overallotment option, Brookfield has a 57.5% ownership interest in the Company.

Immediately prior to the completion of the IPO, the Company completed a reorganization whereby the Company acquired all the issued and outstanding shares of Genworth Canada Holdings I Limited ("Holdings I") and Genworth Canada Holdings II Limited ("Holdings II") from Brookfield in return for 111,999,999 newly issued common shares. Share capital as of December 31, 2008 reflects the book value of the share capital of each of Holdings I and Holdings II, and the number of common shares shown as outstanding at that date and throughout 2008 and 2007 has been conformed to the number of shares issued to Brookfield by the Company in exchange for the shares of Holdings I and Holdings II. Upon completion of the IPO transaction, the Company used $67,500 of the IPO proceeds to purchase additional common shares in Holdings I. The capital provided by the Company allowed Holdings I to repay the debentures issued to Genworth Financial International Holdings, Inc., a company under common control, of $66,726, along with interest on the debentures accrued to July 7, 2009 of $791.

(b) Capital transactions

On July 13, 2008, Holdings II was incorporated under the Canada Business Corporations Act. On August 5, 2008, Brookfield contributed $50,000 cash to Holdings II in exchange for newly issued common shares. On August 18, 2008, Holdings I made a capital distribution of $30,000 cash to Brookfield. The distribution resulted in a reduction of paid-in capital of Holdings I of $30,000.

For the year ended December 31, 2007, the Company issued 94,307 common shares for net proceeds of $94,307.

22. Earnings per share

Basic and diluted earnings per share have been calculated using the weighted average and dilutive number of shares outstanding during the year of 114,487,123 (2008 – 111,408,332; 2007 – 104,973,675) and 114,917,515 (2008 – 111,408,332; 2007 – 104,973,675), respectively. The difference between basic and diluted earnings per share is caused by the granting of potentially dilutive securities such as Options, RSUs and DSUs.

The earnings per share are computed below:

	2009	2008	2007
Basic earnings per share:			
Net income	**$ 378,740**	$ 336,691	$ 308,180
Weighted average common shares outstanding	**114,487,123**	111,408,332	104,973,675
Basic net earnings per common share	**$ 3.31**	$ 3.02	$ 2.94
Diluted earnings per share:			
Weighted average common shares outstanding	**114,917,515**	111,408,332	104,973,675
Diluted net earnings per common share	**$ 3.30**	$ 3.02	$ 2.94

23. Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

Glossary

Certain terms and abbreviations used in this annual report are defined below.

"**90% Guarantee**" means the guarantee of the Canadian government provided under the terms of the Government Guarantee Agreement (as defined herein) of the benefits payable under eligible mortgage insurance policies issued by the Company, less 10% of the original principal amount of each insured loan, in the event that Genworth Mortgage Insurance Canada fails to make claim payments with respect to that loan due to its bankruptcy or insolvency.

"**accumulated other comprehensive income**" or "**AOCI**" is a component of shareholders' equity and reflects the unrealized gains and losses, net of taxes, related to available-for-sale investments. Unrealized gains and losses on investments classified as available-for-sale are recorded in the consolidated statement of comprehensive income and included in accumulated other comprehensive income until recognized in the consolidated statement of income.

"**Alt A mortgages**" means mortgages provided to self-employed borrowers with strong credit and reduced income documentation. Specific loan qualification criteria apply, including down payment documentation, assessment of income reasonableness and a 660 minimum credit score for mortgages with loan-to-value ratios exceeding 85%.

"**available-for-sale**" or "**AFS**" means investments recorded at fair value on the balance sheet, using quoted market prices, with changes in the fair value of these investments included in AOCI.

"**book yield**" means the ratio (expressed as a percentage) of interest income to the average amortized cost for all or a given portion of invested assets during a specified period.

"**case reserves**" means the expected losses on claims associated with reported delinquent loans. Lenders report delinquent loans to the Company on a monthly basis. The Company analyzes reported delinquent files on a case-by-case basis and derives an estimate of the expected loss. Case reserve estimates incorporate the amount expected to be recovered from the ultimate sale of the residential property securing the insured mortgage.

"**claim**" means the amount demanded under a policy of insurance arising from the loss relating to an insured event.

"**combined ratio**" means the sum of the loss ratio and the expense ratio. The combined ratio provides a measure of the Company's ability to generate profits from its insurance underwriting activities.

"**compound annual growth rate**" or "**CAGR**" means the annualized year-over-year growth rate of the applicable measure over a specified period of time.

"**credit score**" means the lowest average credit score of all borrowers on a mortgage insurance application. Average credit scores are calculated by averaging the score obtained from both Equifax and TransUnion for each borrower on the application.

"**debt-to-capital ratio**" means the ratio (expressed as a percentage) of debt to total capital (the sum of debt and equity).

"**deferred policy acquisition costs**" means the expenses incurred in the acquisition of new business, comprised of premium taxes and other expenses that relate directly to the acquisition of new business. Policy acquisition costs are only deferred to the extent that they are in excess of the service fees and can be expected to be recovered from unearned premium reserves and are amortized into income in proportion to and over the periods in which premiums are earned.

"**delinquency rate**" means the ratio (expressed as a percentage) of the total number of delinquent loans to the total number of policies in-force at a specified date.

"**delinquent loans**" means loans where the borrowers have failed to make scheduled mortgage payments under the terms of the mortgage and where the cumulative amount of mortgage payments missed exceeds the scheduled payments due in a three-month period.

"**effective loan-to-value**" means a Company estimate based on the estimated balance of loans insured (original balance less principal repayments on a standard amortization schedule) divided by the estimated fair market value of the mortgaged property (original value plus or minus adjustments for changes in home prices for the province in which the property is located).

"**expense ratio**" means the ratio (expressed as a percentage) of sales, underwriting and administrative expenses to net premiums earned for a specified period.

"**government guarantee fund**" means a trust account which is intended to provide the federal government with a source of funds in the event it is required to make a guarantee payment.

"**general portfolio**" means invested assets (including cash and cash equivalents, short-term securities, bonds or other fixed income securities and preferred shares) excluding the government guarantee fund.

"**gross premiums written**" means gross payments received from insurance policies issued during a specified period.

"**guarantee fund earnings**" means the investment income from the cash and invested assets held in the government guarantee fund, net of applicable exit fees.

"**high loan-to-value mortgage insurance**" means mortgage insurance covering an individual mortgage that typically has a loan-to-value ratio of greater than 80% at the time the loan is originated.

"**incurred but not reported**" or "**IBNR**" reserves means the estimated losses on claims for delinquencies that have occurred prior to a specified date, but have not been reported to the Company.

"**insurance in-force**" means the amount of all mortgage insurance policies in effect at a specified date, based on the original principal balance of mortgages covered by such insurance policies, including any capitalized premiums.

"**loan-to-value ratio**" means the original balance of a mortgage loan divided by the original value of the mortgaged property.

"**loss adjustment expenses**" means all costs and expenses incurred by the Company in the investigation, adjustment and settlement of claims. Loss adjustment expenses include third-party costs as well as the Company's internal expenses, including salaries and expenses of loss management personnel and certain administrative costs.

"**losses on claims**" means the estimated amount payable by an insurer under mortgage insurance policies during a specified period. A portion of reported losses on claims represents estimates of costs of pending claims that are still open during the reporting period, as well as estimates of losses associated with claims that have yet to be reported and the cost of investigating, adjusting and settling claims.

"**loss ratio**" means the ratio (expressed as a percentage) of the total amount of losses on claims associated with insurance policies incurred during a specified period to net premiums earned during such period.

"**loss reserves**" means case reserves based on delinquencies reported to the Company, an estimate for losses on claims based on delinquencies that are IBNR, supplemental loss reserves for potential adverse developments related to claim severity and loss adjustment expenses representing an estimate for the administrative costs of investigating, adjusting and settling claims.

"**low loan-to-value**" or **"conventional"** mortgage insurance mean mortgage insurance covering an individual mortgage that has a loan-to-value ratio equal to or less than 80% at the time the loan is insured.

"**market share**" or "**share**" of a mortgage insurer means the insurer's gross premiums written as a percentage of the reported gross premiums written of the Canadian mortgage insurance industry.

"**Minimum Capital Test**" or "**MCT**" means the minimum capital test for certain federally regulated insurance companies established by OSFI (as defined herein). Under MCT, companies calculate a ratio of capital available to capital required using a defined methodology prescribed by OSFI in monitoring the adequacy of a company's capital.

"**multi-family**" means dwellings with five or more units, including apartment buildings and long-term care facilities, but excluding individual condominium units.

"**net operating income**" means net income excluding after-tax net realized gains (losses) on sale of investments and unrealized gains (losses) on held for trading securities.

"**net premiums earned**" means the portion of net premiums written from current and prior periods that is recognized as revenue in a specified period. Premiums written are initially deferred and recorded as unearned premium reserves and then recognized in revenue as premiums earned over the term of the related policies based on the expected pattern of loss emergence.

"**net premiums written**" means gross payments received from insurance policies issued during a specified period, net of the risk premiums payable pursuant to the Government Guarantee Agreement in respect of those policies.

"**net underwriting income**" means the sum of net premiums earned and fees and other income, less losses on claims and sales, underwriting and administrative expenses during a specified period.

"**new insurance written**" means the original principal balance of mortgages, including any capitalized premiums, insured during a specified period.

"**operating return on equity**" means the net operating income for a period divided by the average of the beginning and ending shareholders' equity, excluding AOCI, for such period. For quarterly results, the operating return is the annualized operating return on equity using the average of beginning and ending shareholders' equity, excluding AOCI, for such quarter.

"**premium tax**" means a tax paid by insurance companies to provincial and territorial governments calculated as a percentage of gross premiums written.

"**residential mortgage insurance market**" means the mortgage insurance market for residential properties, including properties with one to four residential units or individual condominium units, but excluding multi-family units.

"**sales, underwriting and administrative expenses**" means the cost of marketing and underwriting new mortgage insurance policies and other general and administrative expenses, including premium taxes and net of the change in deferred policy acquisition costs.

"**severity**" means the dollar amount of losses on claims.

"**severity ratio**" means the ratio (expressed as a percentage) of the dollar amount of paid claims during a specified period on insured loans to the original insured mortgage amount relating to such loans. The main determinants of the severity ratio are the loan-to-value, age of the mortgage loan, the value of the underlying property, accrued interest on the loan, expenses advanced by the insured and foreclosure expenses.

"**shortfall sale**" means a sale of a property by the owner for less than the amount owing on the mortgage**.**

"**total debt service ratio**" or "**TDS**" means the percentage of borrowers' monthly debt servicing costs as a percentage of borrowers' monthly gross income.

"**underwriter**" means an individual who examines and accepts or rejects mortgage insurance risks based on the Company's approved underwriting policies and guidelines.

"**unearned premium reserves**" or "**UPR**" means that portion of premiums written that has not yet been recognized as revenue. Unearned premium reserves are recognized as revenue over the policy term in accordance with the expected pattern of loss emergence as derived from actuarial analysis of historical loss development.

Five-year financial review

Key financial metrics

(in millions, unless otherwise specified)	**2009**	2008	2007	2006	2005
Income Statement Data					
Net premiums written	**$ 360**	$ 706	$ 984	$ 594	$ 461
Net premiums earned	**610**	518	424	337	277
Impact of change in first quarter to premium recognition curve	**100**				
Underwriting revenues	**710**	518	424	351	296
Losses	**256**	160	79	46	34
Sales, underwriting and administrative	**98**	78	60	67	61
Investment income	**189**	200	148	126	105
Pre-tax income	**544**	477	430	362	307
Net income	**379**[(1)]	337	308	251	206
Net operating income	**371**[(1)]	324	310	248	205
Balance Sheet Data					
Cash and investments	**4,986**	4,699	4,102	3,174	2,581
Total assets	**5,210**	4,915	4,291	3,298	2,677
Unearned premium reserves	**1,971**	2,322	2,133	1,573	1,316
Total liabilities	**2,567**	2,826	2,525	1,953	1,583
Shareholders' equity	**2,643**	2,089	1,766	1,345	1,094
Accumulated Other Comprehensive Income (AOCI)	**97**	(15)	19	–	–
Shareholders' equity, excluding AOCI	**2,546**	2,104	1,747	1,345	1,094
Key Ratios and Other Items					
Loss ratio	**36%**[(2)]	31%	19%	14%	12%
Expense ratio	**14%**[(2)]	15%	14%	20%	22%
Combined ratio	**50%**[(2)]	46%	33%	34%	35%
Operating return on equity	**16%**[(3)]	17%	20%	20%	21%
Minimum Capital Test (MCT) ratio	**149%**	127%	125%	125%	129%
Delinquency rate	**0.28%**	0.25%	0.19%	0.18%	0.21%
Severity ratio	**27%**	26%	24%	23%	23%
Operating earnings per share (diluted)	**$ 3.23**[(4)]	$ 2.91	$ 2.95		
Book value per share (diluted)	**$ 21.58**	$ 18.79	$ 18.47		

(1) Excluding the impact of changes to the premium recognition curve, net income and net operating income for the year ended December 31, 2009 would have been $315 million and $307 million, respectively.

(2) Excluding the impact of changes to the premium recognition curve, loss ratio, expense ratio and combined ratio for the year ended December 31, 2009 would have been 42%, 15% and 57%, respectively.

(3) Excluding the impact of changes to the premium recognition curve, operating return on equity for the year ended December 31, 2009 would have been 13%.

(4) Excluding the impact of changes to the premium recognition curve, operating earnings per share (diluted) would have been $2.67.

2008 and 2009 quarterly information

(in millions, unless otherwise specified)	**Q4'09**	**Q3'09**	**Q2'09**	**Q1'09**	Q4'08	Q3'08	Q2'08	Q1'08
Net premiums written	**$ 110**	**$ 104**	**$ 82**	**$ 64**	$ 152	$ 222	$ 200	$ 131
Net premiums earned	**155**	**154**	**153**	**147**	138	133	125	122
Impact of change in premium recognition curve		**–**		**100**	–	–	–	–
Underwriting revenues	**155**	**154**	**153**	**247**[2]	138	133	125	122
Losses on claims	**60**	**64**	**71**	**60**	58	36	30	35
Net underwriting income	**70**	**66**	**59**	**161**	53	79	78	70
Investment income	**46**	**49**	**51**	**43**	44	46	71	39
Net Income	**87**	**79**	**75**	**138**(1)	74	85	105	73
Adjustment to net income: Losses/(gains) on investments, net of taxes	**(2)**	**(4)**	**(5)**	**3**	1	0	(18)	4
Net operating income	**85**	**75**	**70**	**141**(1)	75	85	87	77
Loss ratio	**39%**	**42%**	**46%**	**24%**(2)	42%	27%	24%	29%
Expense ratio	**16%**	**15%**	**15%**	**10%**(2)	19%	14%	15%	14%
Combined ratio	**55%**	**57%**	**62%**	**35%**(2)	61%	41%	39%	43%
Operating earnings per share (diluted)	**$ 0.72**	**$ 0.63**	**$ 0.63**	**$ 1.26**(3)				

(1) Excluding the impact of changes to the premium recognition curve, net income and net operating income for the quarter ended March 31, 2009 would have been $74 million and $77 million, respectively.

(2) Excluding the impact of changes to the premium recognition curve, net premiums earned, loss ratio, expense ratio and combined ratio for the quarter ended March 31, 2009 would have been $147 million, 41%, 13% and 54%, respectively.

(3) Excluding the impact of changes to the premium recognition curve, operating earnings per share (diluted) for the quarter ended March 31, 2009 would have been $0.69.

Shareholder information

Exchange listing

The Toronto Stock Exchange:
Common Shares
Ticker Symbol: MIC

Auditor

KPMG LLP
Bay Adelaide Centre
333 Bay Street, Suite 4600
Toronto, Ontario M5H 2S5

Banker

Royal Bank of Canada
200 Bay Street
South Tower, Royal Bank Plaza
Toronto, Ontario M5J 2J5

Registrar and Transfer agent

CIBC Mellon Trust Company
320 Bay Street
P.O. Box 1
Toronto, Ontario M5H 4A6
Phone: 416-643-5000
www.cibcmellon.com

To change your address, eliminate multiple mailings, transfer MIC shares, inquire about dividends or for other shareholder account inquiries, please contact the offices of CIBC Mellon.

Shareholder contact

Samantha Cheung
Vice-President, Investor Relations
samantha.cheung@genworth.com

Annual Meeting of Shareholders

Date: Wednesday, May 5, 2010
Time: 10:30 a.m. (EST)

TSX Broadcast Centre

The Exchange Tower
130 King Street
Toronto, Ontario M5X 1J2

Board of Directors

For reporting complaints about the Company's internal accounting controls or auditing matters or any other concerns you may write to or call the Board of Directors or the Audit Committee at:

Board of Directors

Genworth MI Canada Inc.
c/o Winsor Macdonell, Secretary
2060 Winston Park Drive
Suite 300
Oakville, Ontario L6H 5R7
Phone: 905-287-5484

Corporate Ombudsperson

To report concerns related to compliance with the law, Genworth policies or government contracting requirements, contact:

Genworth Ombudsperson

2060 Winston Park Drive
Suite 300
Oakville, Ontario L6H 5R7
Phone: 905-287-5510
Canada-ombudsperson@genworth.com

Disclosure documents

Corporate governance, disclosure and other investor information is available online from the investor relations pages of the Company's website at http://investor.genworthmicanada.ca

Cautionary statement

The cautionary statements included in the Company's MD&A, including the "Special Note regarding Forward-Looking Statements" and the "Non-GAAP Financial Measures," also apply to this Annual Report and all information and documents included herein.

2009 dividends

Declaration date: October 28, 2009
Record date: November 16, 2009
Date payable: December 1, 2009
Amount per common share: $0.22

Eligible dividend designation

For purposes of the dividend tax credit rules contained in the Income Tax Act (Canada) and any corresponding provincial or territorial tax legislation, all dividends (and deemed dividends) paid by Genworth MI Canada Inc. to Canadian residents are designated as eligible dividends. Unless stated otherwise, all dividends (and deemed dividends) paid by the Company hereafter are designated as eligible dividends for the purposes of such rules.

Information for shareholders outside of Canada

Dividends paid to residents in countries with which Canada has bilateral tax treaties are generally subject to the 15% Canadian non-resident withholding tax. There is no Canadian tax on gains from the sale of shares (assuming ownership of less than 25%) or debt instruments of the Company owned by non-residents not carrying on business in Canada. No government in Canada levies estate taxes or succession duties.

Capital stock

As at December 31, 2009, there were 117,100,000 common shares outstanding.

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Fax: 905-287-5472

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