

Leading the way
to homeownership



We are the homeownership company

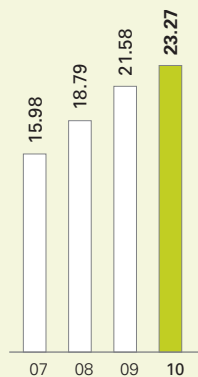
We are the **leading private mortgage insurance provider** in Canada, with a history dating from 1995. We work with lenders, mortgage brokers, real estate agents and home builders to make homeownership more accessible to all Canadians in all parts of the country and have **helped over one million Canadian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



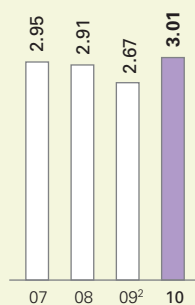
Financial and operating highlights

Net premiums written	Net operating income	Combined ratio	Operating return on equity	Operating earnings per common share (diluted)
\$552 million	\$343 million	50%	14%	\$3.01

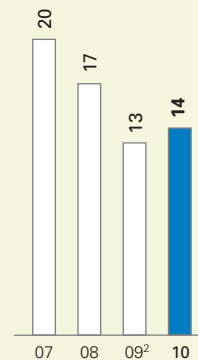
Book value per common share (diluted)
(exc. AOCI¹)
(\$ per share)



Operating earnings per common share (diluted)
(\$ per share)



Operating return on equity
(%)



CONTENTS

- 1 Accomplishments and priorities
- 2 Report to shareholders
- 4 Customer focus
- 6 Risk management
- 8 Financial strength
- 10 Corporate responsibility
- 11 Corporate governance
- 12 Shareholder information

1 Defined as accumulated other comprehensive income (AOCI). As at December 31, 2010, AOCI was \$124 million.

2 Including the impact of the change to the premium recognition curve in the first quarter of 2009, the operating diluted earnings per common share (diluted) and operating return on equity for the year ended December 31, 2009 would have been \$3.23 and 16%, respectively.

Proven results, promising future

Our strong business execution in 2010 delivered solid results with higher premiums written and lower losses. Going forward, we have the financial flexibility to support our insurance in-force, to fund growth opportunities, to maintain strong credit ratings and to optimize returns.

	2010 results	2011 priorities and beyond
Growth strategy	<ul style="list-style-type: none"> • Over \$27 billion of new insurance written • Net premiums written of \$552 million • Expanded relationships with existing customers and added new customers • 97% overall customer satisfaction • Enhanced customer experience through lender-specific initiatives 	<ul style="list-style-type: none"> • Increase new insurance written • Drive deeper customer market penetration • Further diversify lender base • Continue focus on government relations and competitive positioning
Risk management	<ul style="list-style-type: none"> • Loss ratio of 33% and combined ratio of 50% • Delinquency ratio of 0.26% as at December 31, 2010 • Enhanced regional housing analytics and property valuation system • Over 5,100 families assisted through our Homeownership Assistance Program 	<ul style="list-style-type: none"> • Average loss ratio in mid-30% range • Overall delinquency ratio less than 0.30% • Strengthen stochastic modeling capabilities • Expand asset management strategies
Financial	<ul style="list-style-type: none"> • Net operating income of \$343 million and operating earnings per diluted share of \$3.01 • Underwriting income of \$311 million • Investment income of \$183 million including net investment gains • Operating return on equity of 14% • Strong capital position with minimum capital test ratio of 156% 	<ul style="list-style-type: none"> • Maintain efficient capital structure with flexibility • Enhance yield and maintain a high-quality investment portfolio • Progress towards target of mid-teens return on equity • Dividend payout ratio of 30%–40% • Maintain strong credit ratings

Well positioned to deliver strong returns

“Against a backdrop of an improving economy, 2010 was another successful year for our business. We achieved our targeted objectives and our team of dedicated employees delivered strong financial results.”

Brian Hurley Chairman and CEO

Dear shareholders

Our performance

Genworth MI Canada had a solid year in 2010. We started the year with economic uncertainty and a slower than normal mortgage origination market. But the market – and our position in the market – improved as the year progressed. The housing market was strong and it returned to a balanced state. Throughout the year, we remained focused on business execution and delivered strong results for our shareholders.

Last year was an economic environment marked by low interest rates, improving employment, stable consumer confidence and prudent mortgage policy changes. Our commitment to putting our customers first, leveraging our competitive strengths, collaborating with our business partners, and engaging our dedicated employees had a high impact on our performance.

We achieved:

- \$552 million in net premiums written, a 53% increase
- \$343 million in net operating income, a 12% increase¹
- 14% operating return on equity, representing a one point increase¹

We also ended the year with a strong balance sheet with \$5.4 billion in total assets and \$2.6 billion in shareholders' equity.

The foundation, which we have been building since we started in the mortgage insurance business in Canada over 15 years ago, supports this performance. Our seasoned leadership team is highly motivated, deeply engaged and

strongly committed to building on this foundation by delivering innovation and differentiation across our business functions. The strength of our team and business model was demonstrated by our resilience to the recent financial situation and global recession.

Our focus

Our focus is to remain the leading private mortgage insurer in Canada. By promoting responsible lending practices and innovative solutions, we help Canadians achieve the dream of homeownership. As “The Homeownership Company,” this is our top priority.

Our business is committed to:

- Exceeding customer needs by delivering outstanding service
- Prudently and actively managing our insurance risk
- Maintaining financial flexibility through a strong capital position
- Delivering strong and consistent returns



¹ Comparisons exclude the impact of the change to the premium recognition curve in the first quarter of 2009. Including this change, net operating income would have been \$371 million and operating return on equity would have been 16%.

Leadership team

Brian Hurley

Chairman and
Chief Executive Officer

Peter Vukanovich

Executive Vice-President,
Corporate Development

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



By working with lenders, we help them grow their mortgage origination businesses through our expertise and tailored service strategies. We have earned high customer satisfaction ratings and continue to be the private mortgage insurer of choice. As a result, in 2010, we were rewarded with more premium volume.

Our active approach to risk management was reflected in the low loss ratios experienced during the year. We took steps to improve our collateral property valuation process and deepened our analytics at the regional level. This resulted in a higher-quality book of business. We also expanded our Homeowner Assistance Program, increasing the penetration of the program with our lenders and executing our asset management strategy, resulting in improved loss performance. Our objective remains to insure high-quality prime mortgages that are diversified across lenders, geographies and loan to values.

The business has built a solid balance sheet with strong capital ratios and modest leverage that supports our plans for prudent, profitable organic growth. During the year, we increased our dividend payout to shareholders to ensure our returns were keeping pace with market demands. Our investment portfolio, with its short duration and ongoing reinvestment potential, continues to be well positioned to take advantage of an increasing interest rate environment.

The Canadian market has a sound financial system and comprehensive regulatory oversight. This environment, with its disciplined lending practices, is critical for the overall health of the mortgage industry. We have developed solid relationships with the government and regulatory agencies, providing them with data, expertise and insight into the mortgage industry to assist them in developing policies and guidelines.

Our future

This year will come with challenges from a macroeconomic perspective. Interest rates will likely increase, pressuring affordability, and home prices will likely be flat. We are confident about the position we have built in our segment of the market and the opportunities ahead of us.

Our competitive strengths combined with our track record of success will help us flourish. Focusing on our customers and improving the value that we bring to them will be our top priorities. We expect this to drive top-line growth in premiums written going forward. In addition, we will continue to invest in the business during the coming year to ensure we provide maximum value to our lender partners.

Our people, technology, partnerships and differentiated strategies deepen our relationships with our lenders. We will maintain our relentless focus on active risk management and we will build on the strength of our financial foundation. From our business, you should expect strong financial controllership and smart business execution.

We thank our customers for their support and we value these relationships. In addition, each one of our employees deserves to be recognized for their dedication, passion and hard work. Thank you for working together to achieve success.

We appreciate your trust, your confidence in us and your partnership. Thank you for your ongoing support of our Company.

Brian Hurley
Chairman and Chief Executive Officer

Our customer is at the centre of everything we do

“We are dedicated to being the leader in the mortgage insurance industry by delivering a best-in-class customer experience. Working collaboratively with our customers to identify sales and marketing strategies is a key business objective and continues to be an important driver of our strong premium growth.”

Deborah McPherson Senior Vice-President, Sales and Marketing



Focused on customer growth through service excellence

We have a knowledgeable team that is focused on building solid relationships based on transparency, two-way communication and flexibility in response to the changing demands of the marketplace.

Working with our customers, we provide products and services that are customized to meet individual needs.

Known for our best-in-class service and extensive expertise, we deliver value at every stage of the mortgage process. We look to differentiate ourselves from our competitors through initiatives such as the **Homeowner Assistance Program** and **Homebuyer Privileges™ Program**.

These services are designed to add incremental value beyond the insured loan. We always strive for new ways to help our customers drive business growth, while remaining nimble enough to adjust to market and regulatory changes as required.

By focusing on business fundamentals and remaining true to our core competencies, we are able to build new relationships with lenders and brokers, grow our book of business and maintain our strong position in the marketplace.

Commitment to educating homebuyers

Our priority is to provide first-time homebuyers with the information they need to make smart homeownership choices. In conjunction with our lender and broker customers, we help educate the homebuyer in their homeownership journey. We continue to invest in the development of technology, tools and resources that help increase the financial literacy of all Canadians.



The Genworth difference

- **Service excellence:** best-in-class customer service is the cornerstone of our business. We are committed to the delivery of customer service excellence, strong customer-centric focus, and providing value-added services to today's mortgage professionals.
- **Commitment to training:** a leader in mortgage industry training and education, Genworth is dedicated to helping raise the bar for mortgage professionals. We have delivered over 10,000 training courses across the country and continue to enhance our training offering with the launch of the online webinar series as part of the Genworth Development Centre.
- **Homebuyer Privileges™ Program:** an online program that provides Genworth-insured customers with access to great savings on home-related products and services – everything from moving services and paint to appliances.
- **Homeowner Assistance Program:** a program that enables Genworth to work hand-in-hand with homeowners and lenders to find alternative solutions to keep people in their homes during times of financial hardship. In 2010, we helped over 5,100 families through the Homeowner Assistance Program, representing an increase of 13% over the previous year.



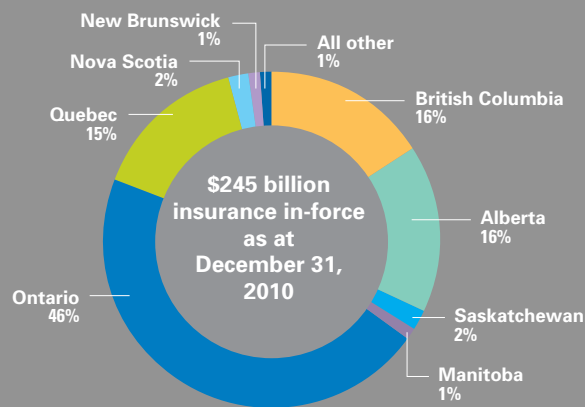
Risk management is critical to success

“We employ a comprehensive risk management system and disciplined underwriting approach to build a high-quality, well-diversified insurance portfolio. This approach drives a quality portfolio that has performed well during varying economic circumstances, resulting in loss ratios within or below our pricing target range of 35% to 40%.”

Stuart Levings Senior Vice-President and Chief Risk Officer

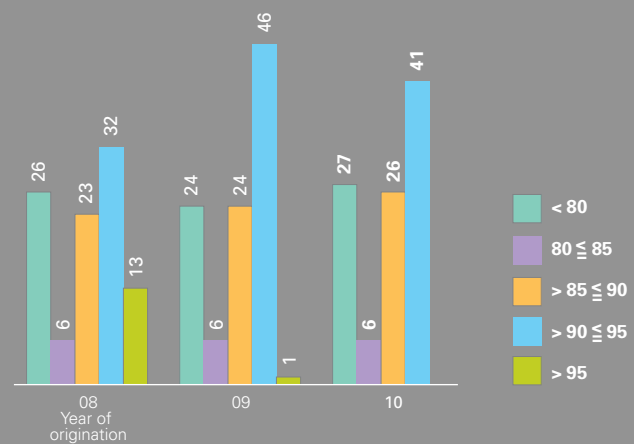
High-quality, well-diversified insurance portfolio

Geographical dispersion



Loan-to-value

(% based on new insurance written/book year)



Active risk management is critical to our business

Our risk management framework focuses on building a high-quality, well-diversified portfolio, while supporting our lender partners with excellent customer service delivered through prudent underwriting guidelines and leading-edge technology. This framework is built on a foundation of over 20 years of historical mortgage performance data, which powers a highly efficient automated underwriting system.

In 2010, we made enhancements to our property valuation processes which drove further improvements in loan approval turnaround times. We continued to strengthen our advanced risk management processes to drive smarter underwriting decisions using the best information available.

Disciplined underwriting approach

OmniScore™ distribution Our proprietary mortgage scoring model, OmniScore™, predicts the likelihood of default based on historical loss experience. Through our ongoing underwriting discipline, we have increased our average OmniScore™ in recent years, despite a tougher economic environment.

Loan-to-value distribution We have also seen our average loan-to-value decline, through the elimination of the 100% product in 2008 and the mitigation of housing market risk through increased downpayments.

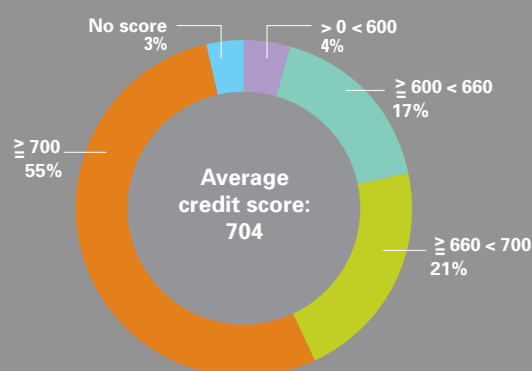
Comprehensive risk factor analysis

Experience has shown that certain loan characteristics are more commonly associated with high-risk applications. Our underwriting system screens for high-risk factors – for example, loans with low credit scores and high loan-to-value ratios. By identifying these factors, we get the opportunity to appropriately underwrite the risks and to mitigate them.

33%
Loss ratio

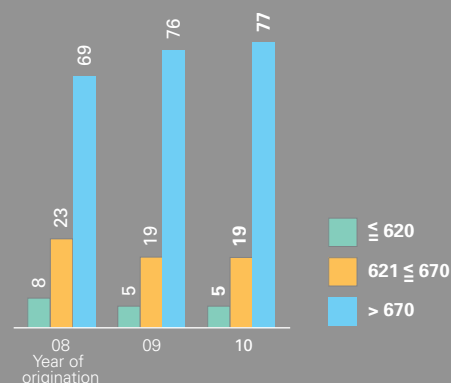
0.26%
Delinquency ratio

Credit score dispersion¹
(% of high loan-to-value portion of portfolio)



¹ Based on insurance written between 1995 and 2010

OmniScore™ distribution
(% of high loan-to-value portion of portfolio per book year)



Our target market: first-time buyers

Demographics – Average age of borrower: 25 to 45 years

Due to our focus on high-ratio mortgages, we insure a high number of first-time homebuyers, who are more conservative by nature as reflected in the high proportion of fixed-rate mortgages. This lends a degree of interest rate protection to our portfolio.

Family income: \$84,000 Our average family income is higher than the market average. This is driven by the relatively higher proportion of dual-income families, often required to make homeownership affordable in many urban centres.

Property characteristics – Average property price: \$287,000

The average property price in our portfolio is lower than the market average of approximately \$340,000 due to the higher proportion of first-time homebuyers in our portfolio who focus on entry-level homes.

Average mortgage: \$254,000 The lower average property price drives a lower average mortgage, which, when combined with the higher average family income, drives better price-to-income and debt service ratios.

Housing market assessment

Housing metrics We believe a comprehensive view of the market is necessary to make the right decisions. We monitor each key housing market very closely, including changes in price, affordability and supply-demand trends as measured by metrics like home price appreciation, and price-to-income and sales-to-listings ratios. We take a comprehensive view of the local, regional and national markets, tracking the current level and historical average of these metrics. Trigger points drive underwriting policy reviews and actions as necessary. We understand the differing markets and reflect those differences in underwriting, focused on building a high-quality mortgage insurance portfolio.

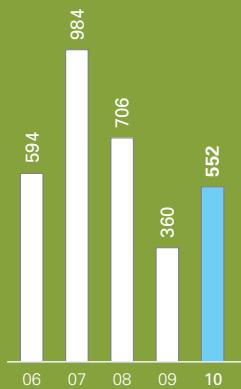
Normalizing In our view, the Canadian housing market achieved a balanced state characterized by reasonable affordability and supply-demand balance in the latter half of 2010, which we believe will continue over this year.

We have the financial foundation for growth

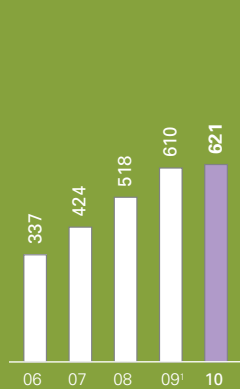
“Our solid performance reflects the combination of the successful execution of our business strategies and a strong balance sheet. The Company’s financial strength is built on three key elements – a strong capital base, modest and manageable financial leverage and a high-quality investment portfolio.”

Philip Mayers Senior Vice-President and Chief Financial Officer

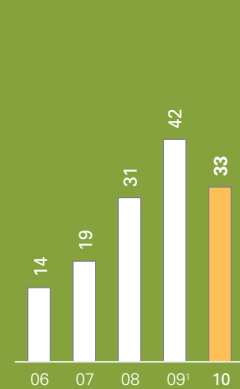
Net premium written
(in millions)



Net premium earned
(in millions)



Loss ratio
(%)



Strong operating performance in 2010

Our solid net operating income of \$343 million, an increase of 12%, reflects the continued execution of our core strategies in an improving economic environment. Our customer-centric sales and service delivery was a key driver of the 53% growth in our net premiums written.

Likewise, the execution of our focused risk management and loss mitigation strategies contributed significantly to a 20% decrease in losses on claims and resulted in a lower loss ratio of 33%.

Unearned premium reserve of \$1.9 billion represents future revenues

We receive a single upfront premium for our mortgage insurance coverage and this has resulted in a significant unearned premium reserve. Unearned premiums are amortized into revenues as premiums earned based on our expected loss emergence pattern.

Unearned premiums provide visibility into future underwriting revenues and add a measure of stability to our future underwriting profit.

¹ Including the impact of the change to the premium recognition curve in the first quarter of 2009, the net premiums earned and loss ratio for the year ended December 31, 2009 would have been \$710 million and 36%, respectively.

Well capitalized

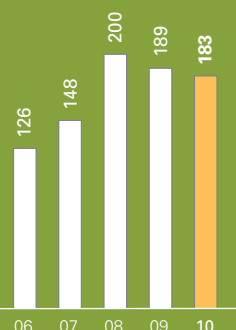
We are well positioned to fund growth opportunities as a result of our \$2.6 billion in shareholders' equity (or \$2.5 billion of shareholders' equity excluding AOCI¹), a regulatory minimum capital test ratio of 156%, well in excess of our internal targets, and a modest leverage ratio of 14%. We will continue to manage our balance sheet to maintain capital flexibility while continuing to optimize our capital structure to enhance our returns to shareholders. In the fourth quarter of 2010, we increased our quarterly dividend by 18% to \$0.26 per common share and we target an ongoing dividend payout ratio of 30% to 40%.

As well, our operating insurance company is rated AA by DBRS and AA(low) by S&P. Our strong capital position and high credit ratings give comfort to both our customers and regulators of our claims-paying ability and overall financial stability.

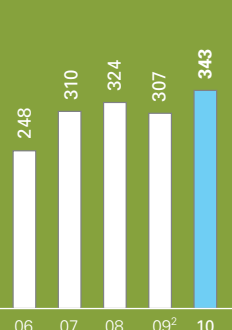
Minimum capital test ratio (%)



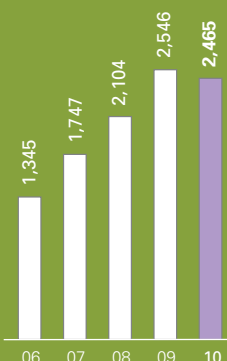
Investment income (in millions)



Net operating income (in millions)



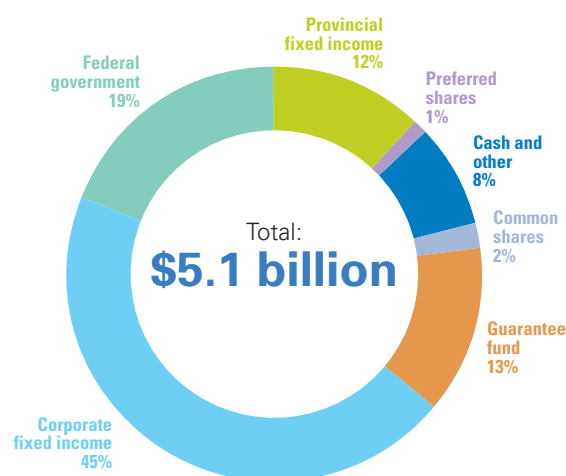
Shareholders' equity Excluding AOCI¹ (in millions)



High-quality investment portfolio provides income support

Our \$5.1 billion investment portfolio generated investment income of \$183 million, including net investment gains. Investment income represents about one-third of our net operating income. The portfolio consists primarily of highly rated fixed income securities with a small allocation to preferred shares and dividend-paying common shares.

We actively manage the portfolio to maintain high credit quality and to earn appropriate risk adjusted returns. The portfolio is well-positioned with a short duration of 3.6 years and is expected to benefit from a rising interest rate environment in 2011.



- Book yield of 4.2% as at December 31, 2010
- Portfolio duration 3.6 years
- Investment gains of \$8 million

¹ Defined as accumulated other comprehensive income (AOCI). As at December 31, 2010, AOCI was \$124 million.

² Including the impact of the change to the premium recognition curve in the first quarter of 2009, net operating income for the year ended December 31, 2009 would have been \$371 million.

Doing the right thing **in our community**

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. These are some highlights from the year:



Volunteer of the year award



Hossam Khedr with his award.

4,030 hours

Total hours of volunteer work by employees up 43%

Helping build better communities



Habitat for Humanity

We are proud of our continuing partnership with Habitat for Humanity Canada. In 2010, we announced a commitment of \$1 million over three years to Habitat for Humanity's project called "The Path to Home." This program will support home building grants, including access to educational material and resources. Our annual "Meaning of Home" writing competition raises awareness of the importance of homeownership among elementary school students. According to data from Habitat for Humanity, 1.5 million Canadian families require affordable housing, and our Company is committed to helping in any way that we can, whether it is through monetary contributions, representation on boards, or volunteer hours.



United Way

In 2010, Genworth had a record-breaking United Way employee campaign and increased employee participation by 60% and total contributions by 30%, with the Company matching employee donations dollar for dollar.

Disaster relief: Haiti and Pakistan

In response to global-scale natural disasters, Genworth matched employee donations for humanitarian relief efforts following the earthquake in Haiti and floods in Pakistan.

Our Board of Directors has the mandate to supervise the management and affairs of the Company. The Board, directly and through its committees, provides direction to ensure the best interests of the Company and its shareholders are maintained. The Board of Directors is committed to maintaining best practices in contemporary corporate governance practices.

- (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 held various management positions including President and CEO of the Insurance Company* from 1994 to 1996.



Peter Vukanovich
Executive Vice-President,
Corporate Development

Mr. Vukanovich assumed the role of Executive Vice-President, Corporate Development on March 1, 2011. Prior to that, he was President and Chief Operating Officer of the Company. During his career, he has held various senior roles in finance, risk and operations. 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 Prime Restaurants Inc. Mr. Horn is a member of the Alberta and Quebec Bar Associations and holds an MBA degree. Mr. Horn is Chair of the Compensation and Nominating Committee and is the Company's Lead Director.



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 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 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, a US law firm, for 14 years. Mr. Roday is a member of the New York State and Virginia bar associations.



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 Genworth MI Canada Inc.



Genworth MI Canada Inc.

2060 Winston Park Drive
Suite 300
Oakville, Ontario L6H 5R7
Phone: 905-287-5300
Fax: 905-287-5472
www.genworth.ca

Exchange listing

The Toronto Stock Exchange:
Common shares (MIC)

Common shares

As at December 31, 2010, there were 104,789,394 common shares outstanding.

Independent auditor

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

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

All inquiries related to address changes, elimination of multiple mailings, transfer of MIC shares, dividends or other shareholder account issues should be forwarded to the offices of CIBC Mellon.

Investor relations

Shareholders, security analysts and investment professionals should direct their inquiries to:

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

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, Genworth Financial Mortgage Insurance Company of Canada.

The Company holds a conference call following the release of its quarterly results. These calls are archived in the Investor section of the Company's website.

Annual meeting of shareholders

Date: Friday, May 6, 2011
Time: 10:30 a.m. (EST)
The Waterside Inn
Port Credit Ballroom
15 Stavebank Road South
Mississauga, Ontario L5G 2T2

Board of Directors

Complaints about the Company's internal accounting controls or auditing matters or any other concerns may be addressed directly to 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

Concerns related to compliance with the law, Genworth policies or government contracting requirements may be directed to:

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 statements

The cautionary statements included in the Company's Management's Discussion and Analysis and Annual Information Form, 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. These documents can be found at www.sedar.com.

Dividend declaration dates

Declaration date	Record date	Date payable	Amount per common share
January 28, 2010	February 16, 2010	March 1, 2010	\$0.22
April 29, 2010	May 15, 2010	June 1, 2010	\$0.22
July 29, 2010	August 16, 2010	September 1, 2010	\$0.22
October 28, 2010	November 15, 2010	December 1, 2010	\$0.26

2010 common share dividend dates

The declaration and payment of dividends and the amount thereof are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flow and other factors the Board considers relevant from time to time.

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.

Genworth MI Canada Inc.

2010 Financial Report

Leading the way to homeownership



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

CONTENTS	1	Management's discussion and analysis
	30	Management statement on responsibility for financial reporting
	31	Independent auditor's report to the shareholders
	32	Consolidated financial statements and notes
	61	Glossary
	63	Five-year financial review
	64	2009 and 2010 quarterly information
	IBC	Shareholder information

Management's Discussion and Analysis

For the fourth quarter and year ended December 31, 2010

Formation of the Company

Genworth MI Canada Inc. ("Genworth Canada" or the "Company") completed its initial public offering ("IPO") on July 7, 2009.

The full three- and 12-month results and prior period comparative results for the Company reflect the consolidation of the Company and its subsidiaries, including Genworth Financial Mortgage Insurance Company Canada (the "Insurance Subsidiary"). The Insurance Subsidiary is engaged in mortgage insurance in Canada and is regulated by the Office of the Superintendent of Financial Institutions ("OSFI") as well as financial services regulators in each province.

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations as approved by the Company's Board of Directors (the "Board") is prepared for the three- and 12-months ended December 31, 2010 and 2009. The discussion should be read in conjunction with the audited consolidated 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.

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 Financial Measures" at the end of this document for reconciliation to net income. These measures are defined in the Company's glossary, which is posted on the Company's website at <http://investor.genworthmicanada.ca> and can be accessed by clicking on the "Glossary of Terms" link in the Investor Resources subsection on the left navigation bar.

Management's discussion and analysis

For the fourth quarter and year ended December 31, 2010

Overall performance

Business background

Genworth Canada is the leading private-sector residential mortgage insurer in Canada and has been providing 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. Premiums written vary each quarter, while net premiums earned, investment income and sales, underwriting and administrative expenses are relatively stable from quarter to quarter. These variations are driven by mortgage origination activity and associated 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 and characteristics of the insurance in-force portfolio, such as size and age, and seasonality. Typically, losses on claims increase during the winter months.

Outlook

The mortgage insurance business is affected by changes in economic, employment and housing market trends. More specifically, the housing market is affected by trends in interest rates, home price appreciation, mortgage origination volume, mortgage delinquencies and changes in the regulatory environment.

The current forecast of selected economic indicators for 2011 is presented in the table below.

<i>Canadian economic indicators</i>	2010	2011 Forecast
National unemployment rate	7.60%	7.40% ¹
Five-year Government of Canada bond yield	2.42% ¹	2.87% ²
Change in national average home price	5.8% ³	(1.3)% ⁴

Source:

⁽¹⁾ Bloomberg, January 20, 2011 for 2010 five-year Government of Canada bond yield and Q4'11 unemployment rate.

⁽²⁾ Management estimate based on interpolation of Bloomberg consensus estimate of two-year and 10-year Government of Canada bond yields as of January 20, 2011.

⁽³⁾ Canadian Real Estate Association, January 11, 2011.

⁽⁴⁾ Canadian Real Estate Association, November 5, 2010.

The Company believes that the housing market has normalized, with housing supply and demand in most regions of Canada having returned to a balanced state. Looking forward into 2011, the Company expects a relatively flat housing market with stable home prices.

The Department of Finance announced several changes to the mortgage insurance eligibility rules to be implemented on March 18, 2011, namely reducing the maximum mortgage amortization to 30 years, from 35 years, limiting the refinances to 85% loan-to-value, from 90% loan-to-value, and eliminating government-insured home equity lines of credit. These changes are expected to have a limited impact on home-buying activity, but the changes may reduce the premiums written opportunity for the insured mortgage market by 5% to 10% due to lower premium rates for 30-year amortization mortgages and 85% refinance mortgages. The Company believes that these changes are prudent and will improve the Company's portfolio quality over time. The Company's loss ratio target remains unchanged at 35% to 40%.

The Company remains focused on continuing to grow market share by executing its customer-focused sales and service strategies. At the same time, the Company intends to continue to maintain a high-quality insurance portfolio through active risk management.

While the Company's earned premiums benefited from the previous large books of business and have been relatively consistent sequentially over the past five quarters, it is expected that the benefit will decrease in the coming quarters as the large 2007 and 2008 books mature past their peak earnings period.

In late 2010, the unemployment rate in Canada decreased to 7.6% at the end of December from 8.0% at the end of September. The Company believes that the national unemployment rate should decline modestly in 2011, leading to further improvement in the Company's overall mortgage delinquency rates. In 2011, losses on claims and the associated loss ratio should benefit from a stabilizing housing market, the declining unemployment rate and the execution of the Company's loss mitigation strategies. Overall, the Company expects that its loss ratios for 2011 should remain within, or below, the Company's long-term target loss ratio range of 35% to 40%.

The Company continues to manage its approximately \$5 billion investment portfolio proactively and prudently. This portfolio is comprised primarily of highly rated fixed income securities. The Company recently adjusted its asset mix to allocate a small portion of its portfolio to preferred shares and dividend-paying common shares. The Company expects to benefit from the higher pre-tax equivalent yields offered by these securities. With relatively short portfolio duration of 3.6 years and \$579 million of maturities in 2011, the investment portfolio is appropriately positioned to benefit from the anticipated rising interest rate environment in 2011.

The Company continues to manage its capital to ensure capital efficiency and flexibility. The minimum capital test ("MCT") ratio at the end of the fourth quarter was 156%, or 11% higher than the Insurance Subsidiary's internal target of 145%. The Company plans to maintain its capital strength and operate above the Insurance Subsidiary's internal target. As well, the current debt-to-capital ratio is 14%. The Company intends to maintain a strong capital position to provide the flexibility necessary to support its in-force insurance to fund growth opportunities, to maintain strong credit ratings and to optimize returns to shareholders.

In summary, Genworth Canada continues to maintain a strong financial position with \$1.9 billion of unearned premiums and \$2.6 billion of shareholders' equity. The Company is well positioned as the leading private mortgage insurer through its significant scale, execution of customer-focused sales and service strategies, proactive risk management of its insurance portfolio and prudent investment management.

Management's discussion and analysis

For the fourth quarter and year ended December 31, 2010

Results of operations

The following table sets forth certain financial information for the three and twelve months ended December 31, 2010 and 2009.

(in millions, unless otherwise specified)	For the quarter ended Dec. 31,		For the year ended Dec. 31,	
	2010	2009	2010	2009
Income statement data				
Net premiums written	\$ 134	\$ 110	\$ 552	\$ 360
Underwriting revenues:				
Net premiums earned	156	155	621	610
Impact of change in premium recognition curve	—	—	—	100 ²
Underwriting revenues	156	155	621	710
Losses on claims and expenses:				
Losses on claims	50	60	206	256
Sales, underwriting and administrative expenses	28	25	104	98
Total losses on claims and expenses	79	85	310	354
Net underwriting income	77	70	311	357
Investment income	44	46	183	189
Interest expense	(4)	—	(8)	(1)
Income before income taxes	118	117	485	544
Net income	84	87	349	379 ²
Net operating income ¹	\$ 84	\$ 85	\$ 343	\$ 371 ²
Key ratios and other items				
Insurance in-force	244,725	223,842	244,725	223,842
New insurance written	6,537	5,307	27,468	18,007
Loss ratio	32%	39%	33%	36% ²
Expense ratio	18%	16%	17%	14% ²
Combined ratio	50%	55%	50%	50% ²
Operating return on equity ¹	14%	14%	14%	16% ²
Minimum capital test (MCT) ratio	156%	149%	156%	149%
Delinquency ratio	0.26%	0.28%	0.26%	0.28%
Severity on claims paid	30%	27%	27%	27%
Earnings per Common Share (basic)	\$ 0.80	\$ 0.75	\$ 3.09	\$ 3.31 ²
Earnings per Common Share (diluted)	\$ 0.80	\$ 0.74	\$ 3.06	\$ 3.30 ²
Operating earnings per Common Share (basic) ¹	\$ 0.80	\$ 0.73	\$ 3.04	\$ 3.24 ²
Operating earnings per Common Share (diluted) ¹	\$ 0.79	\$ 0.72	\$ 3.01	\$ 3.23 ²
Weighted average number of shares outstanding				
Basic	104,789,394	117,100,000	112,850,311	114,487,123
Diluted	105,908,690	117,992,765	113,940,471	114,917,515

Note: Amounts may not total due to rounding.

⁽¹⁾ This is a financial measure not calculated based on GAAP. See the "Non-GAAP Financial 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 of 2009, financial measures for the year ended December 31, 2009 would have been: net premiums earned \$610, net income \$315, net operating income \$307, loss ratio 42%, expense ratio 15%, combined ratio 57%, operating return on equity 13%, earnings per share (basic) \$2.75, earnings per share (diluted) \$2.74, operating earnings per share (basic) \$2.68, operating earnings per share (diluted) \$2.67.

Fourth quarter highlights

- Compared to the fourth quarter of 2009 and excluding net \$6 million of favourable tax adjustments, net income increased by 4% to \$84 million and net operating income increased by 6% to \$84 million. The increase in both net income and in net operating income was attributable primarily to lower losses on claims, offset by interest expense related primarily to the \$275 million of debentures issued in June 2010.
- Compared to the fourth quarter of 2009, net premiums written increased 22%, or \$24 million, due to improved market penetration and a larger residential mortgage insurance market, as estimated by the Company.
- Compared to the fourth quarter of 2009, losses on claims decreased 17%, or \$10 million, due to improved economic conditions and continued loss mitigation activities.
- The MCT ratio was 156%, which is an increase of 7 points over the prior year's period, primarily due to the increase in retained earnings from the Company's continued profitability and the increase in unrealized gains in the Company's investment portfolio resulting from low interest rates in the fixed income market.

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

<i>(in millions, unless otherwise specified)</i>	For the quarter ended Dec. 31,		Increase (decrease) and percentage change	
	2010	2009	Q4'10 vs. Q4'09	
Net premiums written	\$ 134	\$ 110	\$ 24	22%
Underwriting revenues:				
Net premiums earned	\$ 156	\$ 155	\$ 1	1%
Fees and other income	—	—	—	—
Underwriting revenues	156	155	1	1%
Losses on claims and expenses:				
Losses on claims	50	60	(10)	(17)%
Sales, underwriting and administrative	28	25	3	12%
Total losses on claims and expenses	79	85	(6)	(7)%
Net underwriting income	77	70	7	10%
Investment income:				
Interest and dividend income, net of investment expenses	43	42	1	2%
Gain (loss) on investments ⁽¹⁾	1	3	(2)	(67)%
Guarantee fund earnings	1	1	—	—
Total investment income	44	46	(2)	(4)%
Interest expense	(4)	—	(4)	NM
Income before income taxes	118	117	1	1%
Provision for income taxes	33	29	4	14%
Net income	84	87	(3)	(3)%
Adjustment to net income:				
Loss (gain) on investments, net of taxes	—	(2)	2	NM
Net operating income	\$ 84	\$ 85	\$ (1)	(1)%
Effective tax rate	28%	25%	—	3 pts
Operating return on equity	14%	14%	—	—

Notes: Amounts may not total due to rounding.

The Company defines "NM" as not meaningful for increases or decreases greater than 100%.

⁽¹⁾ Includes realized gain (loss) on sale of available-for-sale investments and change in unrealized gain (loss) on held-for-trading investments.

Management's discussion and analysis

For the fourth quarter and year ended December 31, 2010

Fourth quarter 2010 compared to fourth quarter 2009

New insurance written on high loan-to-value mortgages increased by \$1 billion, or 15%, to \$6 billion in the fourth quarter of 2010 compared to the prior year's period. The Company believes that improved market penetration and a marginally larger residential mortgage insurance market were the primary drivers of the growth in new business.

Net premiums written increased by \$24 million, or 22%, to \$134 million in the fourth quarter of 2010 as compared to the prior year's period. Improved market penetration and a slightly larger mortgage insurance market, as estimated by the Company, accounted for approximately \$20 million of the increase, including \$3 million of higher low loan-to-value net premiums written. The remaining \$4 million of the increase resulted from a higher average premium rate associated with a marginal increase in the proportion of purchase transactions, versus refinance transactions.

Net premiums earned increased by \$1 million, or 1%, to \$156 million in the fourth quarter of 2010 as compared to the prior year's period. The increase was due primarily to seasoning of the Company's large 2007 and 2008 books of business. Net premiums earned included \$13 million of additional premiums earned resulting from the quarterly update to the premium recognition curve in the fourth quarter of 2010. This amount is consistent with the result of the update to the premium recognition curve in the fourth quarter of 2009.

Losses on claims decreased by \$10 million, or 17%, to \$50 million in the fourth quarter of 2010 as compared to the prior year's period. The decrease in losses on claims was primarily driven by the combination of an improved economic environment and continued loss mitigation activities, which contributed to lower severity on new reported delinquencies as reflected by a 13% decrease in the average reserve per delinquent loan of \$60,800 compared to the prior year's period. During the fourth quarter of 2010, as part of its loss mitigation efforts, the Company approved 1,411 workouts as compared to 1,387 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 reduced losses on claims. Severity on claims paid was 30% due to the mix of claims paid during the quarter.

Sales, underwriting and administrative costs increased \$3 million, or 12%, to \$28 million in the fourth quarter of 2010 as compared to the prior year's period. This increase is primarily related to higher operating costs, including professional fees, stock-based compensation and amortization of deferred acquisition costs.

Total investment income, including guarantee fund earnings and net gains and losses, decreased by \$2 million, or 4%, to \$44 million in the fourth quarter of 2010 as compared to the prior year's period. Interest and dividend income from the general portfolio increased by \$1 million, or 2%, to \$43 million. This \$1 million increase was attributable primarily to an increase in the pre-tax equivalent book yield from 4.0% in the prior year's period to 4.2% in the current period. A further \$1 million of positive impact from a bond call that occurred in the fourth quarter was offset by a \$1 million decrease in interest income from a slightly lower average invested asset balance. Guarantee fund earnings remained flat as compared to the prior year's period as higher exit fees from an increase in gross premiums written was offset by an increase in yields. The Company recorded a \$2 million decrease in gains and losses on investments. Of this sum, \$1 million was attributable to the net change in the unrealized loss position on held-for-trading ("HFT") investments and \$1 million was attributable to the decrease in realized gains on available-for-sale ("AFS") securities.

Interest expense in the fourth quarter of 2010 was \$4 million and is related primarily to the \$275 million of debentures issued on June 29, 2010, which bear interest at a fixed annual rate of 5.68%. The Company issued a further \$150 million of debentures on December 16, 2010, which bear interest at a fixed annual rate of 4.59%.

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

<i>(in millions, unless otherwise specified)</i>	For the quarter ended Dec. 31, 2010		For the quarter ended Dec. 31, 2009	
	\$	Rate	\$	Rate
Income before income taxes	\$ 118		\$ 117	
Income tax expense excluding adjustment	\$ 35	30%	\$ 37	32%
Adjustment for prior period's income taxes	—	—	—	—
Effect of decrease in tax rates on future income taxes	(2)	(2)%	(8)	(7)%
Income tax expense	\$ 33	28%	\$ 29	25%

Note: Amounts may not total due to rounding.

The effective tax rate was 28% in the fourth quarter of 2010 compared to 25% in the prior year's period. The difference in effective tax rate is due primarily to a favourable adjustment that was reflected in the previous period as the 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 insurance policy reserves. Excluding the impact of the adjustment, the effective tax rate decreased from 32% to 30% or 2 points. This decrease is attributable primarily to lower current federal and provincial tax rates as compared to the prior year's period.

Net income decreased by \$3 million, or 3%, to \$84 million and net operating income decreased by \$1 million, or 1%, to \$84 million in the fourth quarter of 2010. Excluding the net \$6 million favourable tax adjustment related primarily to the prior period, net income would have increased by 4% to \$84 million and net operating income would have increased by 6% to \$84 million. The increase in both net income and in net operating income was attributable primarily to lower losses on claims, offset by interest expense related to the \$275 million of debentures issued in June 2010.

2010 Highlights

- Compared to the year ended December 2009 and excluding the \$63 million after-tax impact of the change in the premium recognition curve that occurred in the first quarter of 2009, net income and net operating income increased 11%, or \$34 million, and 12%, or \$36 million, respectively. The increase in both net income and net operating income resulted primarily from lower losses on claims, offset by interest expense related primarily to the debentures issued by the Company in June 2010.
- Compared to the year ended December 2009, net premiums written increased 53%, or \$192 million, due to improved market penetration and a larger residential mortgage insurance market, as estimated by the Company, resulting from improved economic conditions, and a higher average premium rate resulting from an increased proportion of purchase transactions, versus refinance transactions.
- Compared to the year ended December 2009, losses on claims decreased 20%, or \$50 million, due to improved economic conditions and continued loss mitigation activities.
- The MCT ratio was 156%, which is an increase of 7 points over the prior year's period due to the increase in retained earnings from the Company's continued profitability and the increase in unrealized gains in the Company's investment portfolio driven by low interest rates in the fixed income market.

Management's discussion and analysis

For the fourth quarter and year ended December 31, 2010

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

<i>(in millions, unless otherwise specified)</i>	For the year ended Dec. 31,		Increase (decrease) and percentage change	
	2010	2009	2010 vs. 2009	
Net premiums written	\$ 552	\$ 360	\$ 192	53%
Underwriting revenues:				
Net premiums earned	\$ 621	\$ 610	\$ 11	2%
Impact of initial change in premium recognition curve on net premiums earned		100	(100)	NM
Fees and other income	—	—	—	—
Underwriting revenues	621	710 ²	(89)	(13)%
Losses on claims and expenses:				
Losses on claims	206	256	(50)	(20)%
Sales, underwriting and administrative	104	98	6	6%
Total losses on claims and expenses	310	354	(44)	(12)%
Net underwriting income	311	357	(46)	(13)%
Investment income:				
Interest and dividend income, net of investment expenses	172	173	(1)	(1)%
Gain (loss) on investments ¹	8	12	(4)	(33)%
Guarantee fund earnings	4	5	(1)	(20)%
Total investment income	183	189	(6)	(3)%
Interest expense	(8)	(1)	(7)	NM
Income before income taxes	485	544	(59)	(11)%
Provision for income taxes	137	165	(28)	(17)%
Net income	349	379 ²	(30)	(8)%
Adjustment to net income:				
Loss (gain) on investments, net of taxes	(5)	(8)	3	(38)%
Net operating income	\$ 343	\$ 371 ²	\$ (28)	(8)%
Effective tax rate	28%	30%	—	(2) pts
Operating return on equity	14%	16% ²	—	(2) pts

Notes: Amounts may not total due to rounding.

The Company defines "NM" as not meaningful for increases or decreases greater than 100%.

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

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

Full year 2010 compared to full year 2009

New insurance written on high loan-to-value mortgages increased by \$7 billion, or 40%, to \$17 billion in the year ended December 31, 2010 as compared to the prior year's period. The Company believes this increase was driven by improved market penetration and a larger residential mortgage insurance market.

Net premiums written increased by \$192 million, or 53%, to \$552 million in the year ended December 31, 2010 as compared to the prior year's period. Improved market penetration and a larger mortgage insurance market, as estimated by the Company, accounted for \$160 million of the increase, including higher low loan-to-value net premiums written of \$12 million. The remaining \$32 million increase resulted from a higher average premium rate associated with an increased proportion of purchase transactions versus refinance transactions.

Excluding the \$100 million impact of the initial change in the premium recognition curve, of which \$12 million related to the first quarter 2009, net premiums earned increased by \$11 million, or 2%, to \$621 million in the year ended December 31, 2010 as compared to the prior year's period. The \$11 million increase consisted of additional earned premium resulting primarily from continuing quarterly updates to the premium recognition curve in 2010. The updates to the premium recognition curve match the Company's premiums earned to its most recent loss development experience. An additional increase of premiums earned related to the continued seasoning of the Company's 2007 and 2008 books was partially offset by a decrease in premiums earned related to the termination of insurance in-force in 2009 from lower policy cancellations.

Losses on claims decreased by \$50 million, or 20%, to \$206 million in the year ended December 31, 2010 as compared to the prior year. The decrease in losses on claims was driven by the combination of an improved economic environment and continued loss mitigation activities, which contributed to 6% fewer new reported delinquencies and lower severity on new reported delinquencies as reflected by a 13% lower average reserve per delinquent loan of \$60,800 compared to the prior year's period. As part of its loss mitigation efforts, the Company approved 5,196 workouts as compared to 4,616 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 reduced losses on claims.

Sales, underwriting and administrative costs increased by \$6 million, or 6%, to \$104 million in the year ended December 31, 2010 as compared to the prior year. This increase is primarily related to full-year public company costs and higher operating costs, including professional fees, stock-based compensation and amortization of deferred acquisition costs of approximately \$12 million, which were offset by approximately \$6 million related to the amortization of deferred acquisition costs from the cumulative impact of the initial change in the net premium recognition curve in the first quarter of 2009.

Total investment income, including guarantee fund earnings and net gains and losses, decreased by \$6 million, or 3%, to \$183 million in the year ended December 31, 2010 as compared to the prior year. Interest and dividend income from the general portfolio decreased by \$1 million, or 1%, to \$172 million. The \$1 million decrease was attributable primarily to the net negative impact from bond calls that occurred during 2010. The average invested asset balance, excluding unrealized gains and losses, and the pre-tax equivalent book yield of 4.1% remained relatively flat during the year. Guarantee fund earnings decreased by \$1 million, or 20%, due to higher exit fees resulting from an increase in gross written premiums. The Company recorded a \$4 million decrease in gains and losses on investments consisting of a \$1 million increase in realized gains on AFS securities that was offset by a \$5 million decrease attributable to the net change in the unrealized loss position on HFT investments.

Interest expense in the year ended December 31, 2010 was \$8 million, and was primarily related to the \$275 million of debentures issued on June 29, 2010, bearing interest at a fixed annual rate of 5.68%. The Company issued a further \$150 million of debentures on December 16, 2010, which bear interest at a fixed annual rate of 4.59%. In 2009, the Company incurred \$1 million of interest on a related party loan that was repaid prior to the Company's IPO.

Management's discussion and analysis

For the fourth quarter and year ended December 31, 2010

The following table sets forth the full-year income tax expense for the Company.

(in millions, unless otherwise specified)	For the year ended Dec. 31, 2010		For the year ended Dec. 31, 2009	
	\$	Rate	\$	Rate
Income before income taxes	\$ 485		\$ 544	
Income tax expense excluding adjustment	\$ 146	30%	\$ 174	32%
Adjustment for prior period's income taxes	(5)	(1)%	—	—
Effect of decrease in tax rates on future income taxes	(4)	(1)%	(10)	(2)%
Other			1	—
Income tax expense	\$ 137	28%	\$ 166	30%

Note: Amounts may not total due to rounding.

The Company's effective tax rate decreased by 2 points to 28% in the year ended December 31, 2010 as compared to the prior year's period. This decrease is primarily attributable to lower current federal and provincial tax rates as compared to the prior year's period. A favourable adjustment of \$5 million in the current period resulted from a lower combined federal and provincial tax rate realized upon the completion of the Company's 2009 tax returns. A further favourable adjustment of \$4 million resulted from decreases in substantively enacted income tax rates applicable to the Company's future taxes. 2009 also benefited from a favourable adjustment of \$10 million resulting from decreases in the Company's future taxes, offset by a \$1 million increase in taxes related to the enactment of new tax legislation applicable to financial institutions.

Excluding the \$63 million impact of the change in the premium recognition curve that occurred in the first quarter of 2009, net income increased by \$34 million, or 11%, to \$349 million, and net operating income increased by \$39 million, or 12%, to \$343 million in the year ended December 31, 2010. The increase in both net income and net operating income resulted primarily from lower losses on claims, offset by interest expense related primarily to the first series of debentures issued by the Company in June 2010.

Loss and expense ratios

The following table sets forth selected ratios for the three and twelve months ended December 31, 2010 and 2009:

	For the quarter ended Dec. 31,		For the year ended Dec. 31,		Increase (decrease)	
	2010	2009	2010	2009 ¹	Q4'10 vs. Q4'09	2010 vs. 2009
Loss ratio	32%	39%	33%	36%	(7) pts	(3) pts
Expense ratio	18%	16%	17%	14%	2 pts	3 pts
Combined ratio	50%	55%	50%	50%	(5) pts	—

Note: Amounts may not total due to rounding.

⁽¹⁾ Excluding the impact of changes to the premium recognition curve, the loss ratio, expense ratio and combined ratio at December 31, 2009 would have been 42%, 15% and 57%, respectively.

Fourth quarter 2010 compared to fourth quarter 2009

The loss ratio decreased 7 points to 32% for the quarter ended December 31, 2010. This decrease is attributable to a lower average reserve per delinquent loan due to lower severity on new delinquent loans associated with an improved housing market.

The expense ratio increased 2 points to 18% for the quarter ended December 31, 2010. This increase is attributable primarily to higher operating costs, including professional fees, stock-based compensation costs and amortization of deferred acquisition costs.

Full year ended December 31, 2010 compared to full year ended December 31, 2009

The loss ratio decreased 3 points to 33% for the year ended December 31, 2010. Excluding the \$100 million increase in net premiums earned arising from the initial change in the premium recognition curve in the first quarter of 2009, the loss ratio would have decreased 9 points from 42%. This decrease is driven by lower severity on new delinquent loans associated with improved economic conditions and continued loss mitigation activities.

The expense ratio increased 3 points to 17% for the year ended December 31, 2010. Excluding the impact of the change in the premium recognition curve in the first quarter of 2009, the expense ratio would have increased 2 points from 15% due to full year public company costs and higher operating costs, including professional fees, stock-based compensation and amortization of deferred acquisition costs.

Balance sheet highlights and select financial data

	As at Dec. 31,	As at Dec. 31,	Increase (decrease) and percentage change	
<i>(in millions, unless otherwise specified)</i>	2010	2009	2010 vs. 2009	
Investments:				
General portfolio	\$ 4,490	\$ 4,410	\$ 80	2%
Government guarantee fund	646	576	70	12%
Total assets	5,398	5,210	188	4%
Unearned premium reserves	1,902	1,971	(69)	(4)%
Loss reserves	207	236	(29)	(12)%
Debt	422	—	422	NM
Total liabilities	2,809	2,567	242	9%
Shareholders' equity	2,589	2,643	(54)	(2)%
Accumulated other comprehensive income ("AOCI")	124	97	27	28%
Shareholders' equity excluding AOCI	\$ 2,465	\$ 2,546	\$ (81)	(3)%
Select ratios				
MCT ratio	156%	149%	—	7 pts
Book value per share				
Book value per share including AOCI (basic)	\$ 24.71	\$ 22.57	\$ 2.14	9%
Book value per share excluding AOCI (basic)	\$ 23.52	\$ 21.74	\$ 1.78	8%
Number of shares outstanding (basic) ¹	104,789,394	117,100,000	(12,310,606)	(11)%
Book value per share including AOCI (diluted)	\$ 24.45	\$ 22.40	\$ 2.05	9%
Book value per share excluding AOCI (diluted)	\$ 23.27	\$ 21.58	\$ 1.69	8%
Number of shares outstanding (diluted) ¹	105,907,205	117,997,663	(12,090,458)	(10)%
Dividends paid per share	\$ 0.92	\$ 0.22	\$ 0.70	NM

Notes: Amounts may not total due to rounding.

The Company defines "NM" as not meaningful for increases or decreases greater than 100%.

⁽¹⁾ The difference between basic and diluted number of shares outstanding is caused by the grant of employee stock options, Restricted Share Units ("RSUs") and Directors' Deferred Share Units ("DSUs"). As at December 31, 2010, the number of stock options, RSUs and DSUs was 984,200, 123,780 and 9,831, respectively, and as at December 31, 2009, the number of stock options, RSUs and DSUs was 810,000, 84,406 and 3,257, respectively.

Management's discussion and analysis

For the fourth quarter and year ended December 31, 2010

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

Reserve development analysis

	As at Dec. 31,	As at Dec. 31,	As at Dec. 31,	As at Dec. 31,	As at Dec. 31,
<i>(in millions, unless otherwise specified)</i>	2010	2009	2008	2007	2006
Total loss reserves, at beginning of the year	\$ 236	\$ 172	\$ 89	\$ 66	\$ 53
Paid claims for prior years' delinquent loans	(200)	(160)	(67)	(36)	(21)
Loss reserves for prior years' delinquent loans, at the end of the year (A)	(67)	(71)	(33)	(7)	(6)
Favourable (unfavourable) development	\$ (31)	\$ (59)	\$ (11)	\$ 23	\$ 26
As a percentage of beginning loss reserves	(13)%	(34)%	(13)%	35%	48%
Loss reserves for current year's delinquent loans, at the end of the year (B)	\$ 140	\$ 166	\$ 139	\$ 82	\$ 60
Total loss reserves at end of the year (-A+B)	\$ 207	\$ 236	\$ 172	\$ 89	\$ 66

The Company experienced adverse reserve development in 2010 of \$31 million or, 13%, of the opening unpaid claims balance due primarily to an increase in loss severity resulting from higher than originally estimated home price depreciation, particularly in Alberta, and a higher number of incurred but not reported claims. 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, 2010, the Company had total cash, cash equivalents and invested assets of \$4.5 billion in the general portfolio and \$646 million in the government guarantee fund established under the Insurance Subsidiary's guarantee agreement with the Canadian government (the "Government Guarantee Agreement"). Unrealized gains on AFS securities were \$151 million in the general portfolio and \$34 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, 2010			As at Dec. 31, 2009	
	Fair value	%	Unrealized gains (losses)	Fair value	%
<i>(in millions, unless otherwise specified)</i>					
General portfolio					
Asset backed	\$ 252	6%	\$ 7	\$ 254	6%
Corporate fixed income ¹					
Financial	1,231	27%	61	1,420	32%
Energy	302	7%	13	230	5%
Infrastructure	252	6%	12	206	5%
All other sectors	309	7%	10	175	4%
Total corporate fixed income	2,095	47%	96	2,033	46%
Federal fixed income	951	21%	19	1,073	24%
Provincial fixed income	607	13%	25	638	14%
Total government fixed income	1,558	34%	44	1,711	38%
Preferred shares					
Financials	67	1%			
Industrial	1	0%			
Energy	9	0%			
Total preferred shares	77	2%	—	0	—
Common shares					
Energy	45	1%	2		
Financials	19	0%	1		
Communication	22	0%			
All other sectors	32	1%	1		
Total common shares	118	3%	4	—	—
Other invested assets – HFT ²	38	1%	—	34	1%
Total invested assets	4,138	92%	151	4,032	91%
Cash and cash equivalents	351	8%	—	378	9%
Total invested assets and cash – general portfolio	\$ 4,490	100%	\$ 151	\$ 4,410	100%
Government guarantee fund					
Federal fixed income	\$ 779	99%	\$ 34 ³	\$ 698	100%
Cash and cash equivalents	11	1%	—	1	—
Total invested assets and cash – guarantee fund	\$ 790	100%	\$ 34	\$ 699	100%
Accrued income and contributions	18		—	15	
Accrued exit fees and due to others	(162)			(137)	
Net guarantee fund assets	\$ 646		\$ 34	\$ 576	
Total invested assets and cash	\$ 5,135		\$ 185	\$ 4,986	

Note: Amounts may not total due to rounding.

⁽¹⁾ The portfolio classifications and holding were realigned to be consistent with the portfolio benchmark.

⁽²⁾ 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 on HFT investments at December 31, 2010 were \$12 million.

⁽³⁾ The \$34 million unrealized gain is gross of the \$7 million of market value related primarily to exit fees.

Management's discussion and analysis

For the fourth quarter and year ended December 31, 2010

Credit rating – general portfolio

<i>(in millions, unless otherwise specified)</i>	As at Dec. 31, 2010			As at Dec. 31, 2009	
	Fair value	%	Unrealized gains (losses)	Fair value	%
Cash and cash equivalents	\$ 351	8%	\$ —	\$ 378	9%
AAA	1,337	30%	31	1,614	37%
AA	1,427	33%	68	1,344	30%
A	1,134	26%	47	1,018	23%
BBB	122 ¹	3%	1	56	1%
Below BBB	—	—	—	—	—
Total invested assets (excluding common shares)	\$ 4,371	100%	\$ 148	\$ 4,410	100%

Note: Amounts may not total due to rounding.

⁽¹⁾ The BBB category includes HFT investments of \$38 million. 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 on HFT investments at December 31, 2010 were \$12 million.

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, and mortgage loans on commercial real estate. The Company also holds other invested assets, which include short-term investments, preferred shares and common shares. In all cases, investments are required to comply with restrictions imposed by laws and insurance regulatory authorities as well as the Company's policy, which has been approved by the Board.

The Company recently adjusted its asset mix to allocate a small portion of its portfolio to preferred shares and dividend-paying common shares. The Company expects to benefit from the higher pre-tax equivalent yields offered by these securities.

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 historical 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, and time 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's cash holdings decreased to \$351 million or, 8%, as of December 31, 2010, from \$378 million as of December 31, 2009. The decrease is attributed mainly to the purchase of common and preferred equities during 2010, offset by the net proceeds from the recent completion of the offering of the debentures on December 15, 2010.

During the fourth quarter of 2010, the Company invested a net amount of \$73 million in securities, consisting of \$125 million in preferred shares and common shares, offset by \$52 million in maturities of corporate bonds, government bonds and short-term securities. The portfolio duration has increased to 3.6 years from 3.1 years in the prior year.

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, 2010, 21% of the portfolio was invested in federal securities, down from 24% at the end of 2009. Provincial holdings were 13% of the portfolio, down from 14% at the end of 2009.

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 regulations set by the OSFI. As of December 31, 2010, approximately 47% of the investment portfolio was held in corporate fixed income securities, up 1% from 46% as at the end of 2009. Securities rated below A were \$122 million, or 3%, of invested assets, as of December 31, 2010. The investment policy limits the percentage of the portfolio that can be invested in any single issuer or group of related issuers.

Financial sector exposure represents 27% of the general portfolio, or approximately 59% of the corporate fixed income securities, as financial institutions are the predominant issuers of fixed income securities in the Canadian marketplace. The Company continuously monitors and repositions its exposure to the financial services sector.

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, 2010, all of these securities were rated AAA.

Other invested assets

The Company has invested directly in a European investment fund to diversify its holdings, without associated exposure to foreign currency fluctuations. As of December 31, 2010, this investment had a fair value of \$38 million, or 1% of invested assets, up from \$34 million at the end of 2009, and was classified as HFT in the Company's financial statements.

Common shares

The Company had \$118 million invested in high-dividend yield common shares as of December 31, 2010, representing 3% of the general portfolio. Approximately one-third of the common shares purchased were issued by the Canadian energy sector; the remaining balance was invested mainly in the financial and communication sectors.

Preferred shares

The Company had \$77 million invested in preferred shares as of December 31, 2010, representing 2% of the general portfolio. Approximately 90% of the preferred shares were issued by Canadian financial institutions. The Company's investment guidelines require that preferred shares be rated P-1 or P-2 at the time of purchase.

Government guarantee fund assets

In accordance with the terms of the Government 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 Government of Canada or agencies unconditionally guaranteed by the Government of Canada.

Management's discussion and analysis

For the fourth quarter and year ended December 31, 2010

Summary of quarterly results

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

<i>(in millions, unless otherwise specified)</i>	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09	Q2'09 ³	Q1'09 ³
Net premiums written	\$ 134	\$ 166	\$ 157	\$ 94	\$ 110	\$ 104	\$ 82	\$ 64
Underwriting revenues:								
Net premiums earned	\$ 156	\$ 155	\$ 154	\$ 156	\$ 155	\$ 154	\$ 153	\$ 147 ²
Impact of initial change in premium recognition curve on net premiums earned	—	—	—	—	—	—	—	100 ²
Underwriting revenue	156	155	154	156	155	154	153	247
Losses on claims	50	47	49	59	60	64	71	60
Net underwriting income	77	82	81	71	70	66	59	161
Investment income, including gains (losses) ¹	44	49	41	49	46	49	51	43
Net income	84	95	85	84	87	79	75	138 ²
Adjustment to net income:								
Losses (gains) on investments, net of taxes	—	(3)	1	(3)	(2)	(4)	(5)	3
Net operating income	\$ 84	\$ 92	\$ 86	\$ 81	\$ 85	\$ 75	\$ 70	\$ 141 ²
Selected ratios:								
Loss ratio	32%	30%	32%	38%	39%	42%	46%	24% ²
Expense ratio	18%	17%	15%	17%	16%	15%	15%	10% ²
Combined ratio	50%	47%	47%	55%	55%	57%	62%	35% ²
Earnings per common share (basic)	\$ 0.80	\$ 0.84	\$ 0.73	\$ 0.72	\$ 0.75	\$ 0.67	\$ 0.67	\$ 1.23 ²
Earnings per common share (diluted)	\$ 0.80	\$ 0.84	\$ 0.72	\$ 0.71	\$ 0.74	\$ 0.67	\$ 0.67	\$ 1.23 ²
Operating earnings per common share (basic)	\$ 0.80	\$ 0.82	\$ 0.73	\$ 0.70	\$ 0.73	\$ 0.64	\$ 0.63	\$ 1.26 ²
Operating earnings per common share (diluted)	\$ 0.79	\$ 0.81	\$ 0.73	\$ 0.69	\$ 0.72	\$ 0.63	\$ 0.63	\$ 1.26 ²
Operating return on equity	14%	14%	13%	13%	14%	12%	12%	26% ²

Note: Amounts may not total due to rounding.

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

⁽²⁾ Excluding the impact of change to the premium recognition curve in the first quarter 2009, financial measures for the quarter ended March 31, 2009 would have been net premiums earned \$147, net income \$74, net operating income \$77, loss ratio 41%, expense ratio 13%, combined ratio 54%, earnings per share (basic) \$0.66, earnings per share (diluted) \$0.66, operating earnings per share (basic) \$0.69, operating earnings per share (diluted) \$0.69, and operating return on equity 14%.

⁽³⁾ These prior periods' 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 Insurance Subsidiary. Prior to the third quarter of 2009, the Company's Management's Discussion and Analysis, as available on SEDAR, only reflected Genworth Canada Holdings I Limited's results. The primary difference is the elimination of interest paid from the Insurance Subsidiary 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 five primary sources of funds, consisting of premiums written from operations, investment income, cash and short-term investments, investment maturities or sales, and proceeds from the issuance of debt. In addition, 34% or \$1,558 million of the Company's investment portfolio is comprised of federal and provincial government-guaranteed securities for which there is a highly liquid market. Funds are used primarily for operating expenses including claims payments, interest expense, as well as dividends and distributions to shareholders.

Throughout 2008 and into early 2009, the Company had increased its cash and cash equivalent balance to conserve regulatory capital and strengthen liquidity in response to the 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. As of December 31, 2010, the Company's cash and cash equivalent balance decreased to \$351 million, or 8% of cash and invested assets, primarily due to purchases of common shares offset by \$149 million in net proceeds from the completion of the offering of its debentures on December 16, 2010.

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, 2010:

Contractual obligations	Payments due by period (in thousands)				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	\$ 425,000	\$ —	\$ —	\$ 150,000	\$275,000
Capital lease obligations	—	—	—	—	—
Operating leases	12,044	2,197	3,742	3,024	3,081
Purchase obligations	—	—	—	—	—
Other long-term obligations	—	—	—	—	—
Total contractual obligations	—	—	—	—	—

Operating lease expense for the year ended December 31, 2010 was \$ 2,754 (2009 – \$3,001; 2008 – \$2,902).

Debt outstanding

On June 29, 2010 the Company issued debentures for gross proceeds of \$274.9 million at a price of \$99.95 per \$100 principal amount, before issuance costs of \$2.4 million. On December 16, 2010 the Company issued additional debentures for gross proceeds of \$150 million at par, before issuance costs of \$1 million.

These debentures, along with the cost of issuing the debt outstanding, are classified as debt outstanding and will be amortized over the term of the debentures using the effective interest method.

The principal debt covenants associated with the debentures are as follows:

1. A negative pledge under which the Company will not assume or create any security interest (other than permitted encumbrances) unless the debentures are secured equally and ratably with (or prior to) such obligation.
2. The Company will not, nor will it permit any of its subsidiaries to, amalgamate, consolidate or merge with or into any other person or liquidate, wind up or dissolve itself unless (a) the Company or one of its wholly owned subsidiaries is the continuing or successor company or (b) if the successor company is not a wholly owned subsidiary, then at the time of, and after giving effect to, such transaction, no event of default, and no event which, after notice or lapse of time, or both, would become an event of default, shall have happened and be continuing under the trust indenture, in each case subject to certain exceptions and limitations set forth in the trust indenture.
3. The Company will not request that the rating agencies withdraw their ratings of the debentures.

Management's discussion and analysis

For the fourth quarter and year ended December 31, 2010

In the case of certain events of default under the terms of the debentures issued by the Company during 2010, the aggregate unpaid principal amount of such debentures, together with all accrued and unpaid interest thereon and any other amounts owing with respect thereto, shall become immediately due and payable. The events of default that would trigger such an acceleration of payment include if the Company takes certain voluntary insolvency actions, such as instituting proceedings for its winding up, liquidation or dissolution, or consents to the filing of such proceedings against it; or if involuntary insolvency proceedings go uncontested by the Company or are not dismissed within a specified time period or the final order sought in such proceedings is granted against the Company.

For more specific details on the terms and conditions of the debentures, please see the trust indenture of the Company dated June 29, 2010, a copy of which is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

Share repurchase

On August 27, 2010, the Company repurchased, through an offer made on July 19, 2010, 12,310,606 common shares for cancellation at a price of \$26.40 per common share, for an aggregate purchase price of approximately \$325 million. Genworth Financial Inc., through its wholly owned subsidiary, Brookfield Life Assurance Company Limited, participated in the offer by making a proportional tender and continues to hold approximately 57.5% of the outstanding common shares of the Company.

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 and year ended December 31, 2010, the Company invested well under \$1 million and \$3 million, respectively, for risk management and underwriting technologies. The Company expects that future capital expenditures will continue to be focused on underwriting and risk management technology improvements. The Company expects that capital expenditures for 2011 will be in the \$3 million to \$5 million range.

Regulatory capital management

The Insurance Subsidiary is regulated by OSFI. Under the 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 customized methodology applied to the policy liabilities of mortgage insurers and the risk profile of the Insurance Subsidiary, OSFI has established a minimum supervisory capital target of 120% for the Insurance Subsidiary. To maintain an adequate cushion above this supervisory minimum, in July 2010 the Insurance Subsidiary revised its internal MCT ratio target to 145%.

Capital above the amount required to meet the Insurance Subsidiary's MCT ratio targets could be used to support organic growth of the business and, if distributed to Genworth MI Canada Inc., to repurchase shares, to declare and pay dividends or other distributions, for acquisitions, or for such other uses as permitted by laws and that may be approved by the Board.

The MCT ratio of the Insurance Subsidiary at the end of December 31, 2010 was 156%, representing a 3-point sequential increase over the third quarter, primarily resulting from the increase in fourth quarter net income offset by a decrease in unrealized gains on investments.

Restrictions on dividends and capital transactions

The Company's Insurance Subsidiary is subject to certain restrictions with respect to dividend 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 Insurance Subsidiary has financial strength ratings from both Standard & Poor's ("S&P") and the Dominion Bond Rating Service ("DBRS"). Although the Insurance Subsidiary is not required to have ratings to conduct its business, ratings are helpful to maintain confidence in an insurer and in the marketing of its products. The Insurance Subsidiary is rated AA- (Very Strong), with a positive outlook, by S&P and AA (Superior), with a stable outlook, by DBRS. The ratings, from both agencies, were affirmed in June 2010. In addition S&P revised the outlook from stable to positive.

The Company has a counterparty credit rating and debenture ratings from S&P of A-, with a positive outlook, and an issuer rating from DBRS of AA (Low). The rating from S&P is a function of the financial strength rating on its Insurance Subsidiary and its structural subordination to the policyholders of its Insurance Subsidiary. S&P has applied its standard notching criteria of 3 notches between an operating company and a holding company, the Insurance Subsidiary and the Company, respectively. The rating from DBRS is a function of the structural subordination of the parent's financial obligations relative to those of the regulated operating subsidiary. DBRS applied a one-notch differential between the Insurance Subsidiary and the Company. The Company's debentures are rated AA (Low) by Dominion Bond Rating Service and A- (Positive Outlook) by Standard & Poor's.

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, and preferred and common shares 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.

Interest income from fixed income securities is recognized on an accrual basis and reported as interest on the consolidated statements of income. Dividends are recognized when the shareholders' right to receive payment is established, which is the ex-dividend date, and they are reported in Dividends on the consolidated statement of 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

Management's discussion and analysis

For the fourth quarter and year ended December 31, 2010

25 to 35 years. The rates or formulas 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 match premiums earned to losses on claims. The formulas under which premiums are earned are adjusted quarterly in accordance with such estimates and were last updated in December 2010, resulting in a \$13 million increase in premiums earned during the fourth quarter of 2010 and a \$48 million increase for the year ended December 31, 2010. The cumulative impact of the initial update of the premium recognition curve for the three months and year ended December 31, 2009 was \$13 million and \$136 million, respectively. The Company will continue to assess its loss experience on a quarterly basis and make adjustments as appropriate to the premium recognition curve.

Policy acquisition costs are those expenses incurred in the acquisition of business. Acquisition costs are comprised of premium taxes and other expenses which relate directly 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 the 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, 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 the Insurance Subsidiary 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 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 AA credit-rated bonds that have maturity dates approximating the Company's obligation terms. Other assumptions are determined with reference to long-term expectations.

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.

Performance Share Units ("PSUs") entitle senior executive employees to receive an amount equal to the fair market value of the Company's shares as compensation if the Company meets certain performance conditions based on the Company's earnings per share, net income, contribution margin, underwriting income and investment income at the end of a three-year period. The PSUs 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 PSU vesting period with a corresponding entry to accrued benefit liability under employer benefit plans, based on management's best estimate of the outcome of the performance conditions.

Changes in accounting policies

International Financial Reporting Standards ("IFRS")

Canadian publicly accountable enterprises will be required to prepare their financial statements in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), for reporting periods beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement, and disclosures.

Effective January 1, 2011, the Company adopted IFRS as the basis for preparing its consolidated financial statements. Starting with the first quarter of 2011, the Company will report its unaudited financial results in accordance with IFRS including comparative financial results and an opening balance sheet as at January 1, 2010 (the transition date). The differences between the Company's accounting policies and IFRS requirements, combined with the Company's decisions on the optional exemptions from retroactive application of IFRS, will result in measurement and recognition differences upon the transition to IFRS. The net impact of these differences will be recorded in the Company's opening retained earnings.

Management's discussion and analysis

For the fourth quarter and year ended December 31, 2010

The Company has developed a comprehensive IFRS conversion plan being carried out by our IFRS conversion project team. The project is led by the Company's financial controller with oversight from the Company's senior management team and the Audit Committee. In addition to regular progress reports to its Board of Directors and Audit Committee, the Company's Insurance Subsidiary has provided semi-annual status updates to OSFI.

To date, the Company has made steady progress towards IFRS conversion and is on track to report its first quarter of 2011 financial results under IFRS. The conversion plan consists of three key phases, each with clearly defined milestones as outlined below:

Phase	Milestones	Status
Planning	<ol style="list-style-type: none">1. Define project scope and prepare for project implementation	<ul style="list-style-type: none">• Assembled project team and assigned project leader• Trained project team and key accounting staff
Assessment	<ol style="list-style-type: none">1. Research applicable IFRS standards and identify differences from Canadian GAAP2. Assess impact of conversion on key business processes, systems and internal controls:<ol style="list-style-type: none">a) Business systems (underwriting, claims management, investments)b) Financial reporting systemsc) Internal controlsd) Capital managemente) Financial planningf) Incentive compensation	<ul style="list-style-type: none">• Selected IFRS accounting policies and IFRS 1 elections and obtained senior management and Audit Committee approval for such policies and elections• Determined expected impact of conversion on opening balance sheet and interim comparative results• Completed assessment of impact on processes, systems and other areas of the business
Implementation	<ol style="list-style-type: none">1. Modify financial reporting systems2. Prepare January 1, 2010 opening balance sheet under IFRS3. Prepare 2010 quarterly comparative financial statements under IFRS	<ul style="list-style-type: none">• Drafted preliminary interim IFRS financial statement format and disclosures, including reconciliations of opening balances• Compiled preliminary quarterly comparative financial statements• Currently drafting annual financial statement note disclosure templates• Continuous monitoring of new and amended IFRS standards

Through completion of the planning and assessment phases outlined above, the Company has completed its comprehensive evaluation and identified applicable differences between Canadian GAAP and IFRS. The Company has also made all relevant transition choices and policy elections prescribed by IFRS 1 – First-time Adoption of International Financial Reporting Standards. The following are the significant optional exemptions available under IFRS 1 that the Company expects to apply in preparing our first financial statements under IFRS.

Business combinations	The Company has elected not to restate business combinations that took place prior to the IFRS transition date.
Employee benefits	Upon adoption of IFRS, the Company has elected to record net actuarial gains and losses in other comprehensive income (“OCI”). At January 1, 2010, however, the Company has taken the election under IFRS 1 to apply “Fresh Start” accounting and record all existing unrecognized net actuarial gains at that date directly in retained earnings.

Expected impact of IFRS differences from existing Canadian GAAP

Based on review completed and decisions made, the Company does not anticipate the transition to IFRS to have a significant impact on the financial statements in 2011. The impact is summarized in the following table:

Standard	Description of change	Increase (decrease) to shareholders' equity (\$000s)
IAS 19 – Employee Benefits	• Immediate recognition of past service costs	\$ (2,502)
	• Immediate recognition of actuarial gains (losses)	\$ 2,658
	• Amortization of original transitional obligation	\$ (339)
Total IAS 19 impact		\$ (183)
IFRS 2 – Share-based Payments	• Measurement of stock options with tandem stock appreciation rights	\$ 130
Total impact before income taxes		\$ (53)
Net after-tax impact on shareholders' equity at January 1, 2010		\$ (39)

The Company has engaged its auditors to review its IFRS assessment and the quantification of the IFRS impact on the January 1, 2010 opening balance sheet.

Employee benefits

With respect to the Company's defined benefit liabilities, under Canadian GAAP, past service costs relating to amendments to a defined benefit plan are deferred and amortized over the service life of active employees. Under IFRS, past service costs are recognized as an expense on a straight-line basis until the benefits are vested. To the extent that the benefits are already vested upon introduction of amendments to a defined benefit plan, the past service costs are expensed immediately. Upon transition to IFRS, previously deferred past service costs related to the Company's defined benefit pension and benefit liabilities are fully recognized as an adjustment to opening retained earnings, resulting in a \$2.5 million reduction of retained earnings at January 1, 2010 under IFRS.

Under Canadian GAAP, the Company defers actuarial gains or losses within a 10% corridor of its defined benefit pension and benefit obligations. While IFRS permits the “corridor approach” or other systematic and unbiased methods that provide for faster recognition of gains and losses, it also permits the recognition of actuarial gains or losses directly in shareholders' equity, through OCI, without subsequent reclassification of the gains or losses from OCI to income. At January 1, 2010, the Company has taken an election under IFRS 1 to apply “Fresh Start” accounting and record all of its unrecognized net actuarial gains in retained earnings. This results in a \$2.7 million increase in retained earnings at transition. Subsequent to transition, the Company has elected to record net actuarial gains and losses directly in OCI.

Management's discussion and analysis

For the fourth quarter and year ended December 31, 2010

Share-based compensation

Under Canadian GAAP, the Company currently measures the cost associated with its stock options with tandem stock appreciation rights ("SARs") at the amount by which the quoted market value of the shares exceeds the exercise price. IFRS requires stock options to be measured using an option-pricing model with a revaluation to current assumptions at the end of each reporting period. Under IFRS, the Company will use the Black Scholes option-pricing model to value its stock options with tandem SARs, resulting in a \$0.1 million increase in opening retained earnings as at January 1, 2010.

Insurance contracts

Under IAS 39 – Financial Instruments Recognition and Measurement, a financial guarantee contract "requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument." This broad definition and terminology does not specifically align with the classes of insurance definitions within the Insurance Companies Act, and mortgage insurance fits into this definition of a financial guarantee contract. As a result, the Company has the option under IFRS to elect irrevocably to account for its mortgage insurance policies as either a financial instrument under IAS 39 or an insurance contract under IFRS 4 – Insurance Contracts. OSFI has communicated the expectation that all Canadian insurers that issue credit insurance products that meet the IFRS definition of a financial guarantee contract will account for these contracts as insurance, consistent with the purpose of their licence granted under the Insurance Companies Act. Consequently, the Company has elected to account for its mortgage insurance policies under IFRS 4. IFRS 4 is a provisional standard that is currently under review by the International Accounting Standards Board ("IASB"). Any mandatory changes resulting from this review are not expected to be implemented until after 2013, when Phase II of IFRS 4 becomes mandatory for insurance companies. Until such time, IFRS 4 is similar to Canadian GAAP with the exception of the requirement for additional note disclosure. The Company will, therefore, continue using its current practice for measuring and recording insurance liabilities.

IFRS developments

The Company is monitoring developments in standards that are expected to change subsequent to the mandatory transition date of January 1, 2010.

IFRS 9 – Financial Instruments was issued in November 2009, superseding IAS 39, with mandatory adoption on January 1, 2013. This new standard will impact the Company's financial statements significantly 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 OCI, and where the vast majority of the Company's financial instruments are currently recorded, will cease to exist. Prior to the mandatory adoption of IFRS 9 on January 1, 2013, IFRS 4 permits the existing measurement of insurance contracts under Canadian GAAP to continue until the new standard is issued.

On July 30, 2010, the IASB issued an Exposure Draft ("ED") on Phase II of IFRS 4, which is intended to result in a single, consistent recognition and measurement standard for insurance contracts internationally. The ED continues to apply the same definition for insurance contracts as set out in the existing standard. At the same time, it modifies the scope to require that financial guarantee contracts be accounted for as insurance contracts under IFRS 4.

The ED does not include a proposed transition date. Further, the IASB may defer the mandatory adoption of IFRS 9 – Financial Instruments – Recognition and Measurement for insurers to coincide with the adoption of Phase II of IFRS 4. The most significant changes to IFRS 4 pertain to the recognition and measurement of insurance contracts. The IASB is proposing that an insurer measure its insurance liabilities using a model based on fulfillment cash flows. The insurance liability is to be comprised of: i) the unbiased, probability-weighted average of future cash flows expected to arise as the insurer fulfils its obligation under an insurance contract discounted to present value and ii) a risk adjustment to reflect the uncertainty about the amount and timing of the future cash flows. Both the cash flows and the risk margin are to be remeasured each reporting period. In addition to the fulfillment cash flows, the ED requires that the measurement of an insurance contract include a residual margin. The residual margin represents a calibration that eliminates positive differences between expected premiums and expected claims, handling expense and incremental deferred

acquisition costs at the inception of the insurance contract. The residual margin is not remeasured, but is released over the insurance contract coverage period based on the passage of time or the timing of expected claims. Incremental deferred policy acquisition costs may be included in the determination of fulfillment cash flows. All other acquisition costs are expensed as incurred.

At the date of transition, the ED requires that an insurer measure each portfolio of insurance contracts based on fulfillment cash flows. If a difference between the insurer's existing insurance liabilities and the new measurement arises, that difference is recognized directly in retained earnings. Any existing balances of deferred acquisition costs are also derecognized at the transition date. Thus, to the extent that the Company's existing unearned premium balance exceeds fulfillment cash flows plus risk margin, the excess is recorded directly in retained earnings and is no longer released into income over the insurance contract coverage period based on the expected timing of claims.

The ED is in its preliminary stages and is subject to change. Comments on the ED were submitted to the IASB by November 30, 2010 and are currently being reviewed.

IFRS impact on business processes, IT systems and internal controls

Given that IFRS 4 permits the existing measurement of insurance contracts under Canadian GAAP to continue until the new standard is issued, IFRS does not impact business processes and IT systems related to underwriting and claims management at this time. As a result, the Company does not anticipate significant changes to its systems of internal controls in this area. However, there are additional disclosure requirements related to insurance contracts. The Company is currently working to develop financial reporting processes necessary to complete these disclosures.

Given that there are currently no significant differences between Canadian GAAP and IFRS related to the Company's recognition and measurement of investments, there will be no change to the Company's investment reporting system at the time of conversion.

The Company has evaluated the impact of changeover to IFRS on regulatory capital requirements and does not expect that there will be a material impact on regulatory capital requirements.

IFRS impact on financial reporting and disclosure controls and procedures

The Company has implemented new financial reporting processes for IFRS and has drafted the IFRS disclosure templates for the quarterly unaudited financial statements as part of the process of converting Canadian GAAP disclosures to IFRS-compliant disclosures. These processes involve establishing new financial reporting processes and associated internal controls related to the collection and timely reporting of financial information, including the quarterly and annual financial statements, and the Management's Discussion and Analysis.

IFRS impact on regulatory capital, debt covenants and executive compensation

As noted above, the conversion to IFRS primarily impacts the accounting for employee benefits and does not have a material impact on the shareholders' equity of the Company. Consequently, the conversion to IFRS is not expected to materially impact the Company's regulatory capital ratios or the executive compensation short-term or long-term incentive plans.

The debt covenants associated with the Company's debt outstanding are set out under the section "Debt Outstanding." The Company has reviewed the debt covenants and concluded that conversion to IFRS does not materially impact the debt covenants.

Update on IFRS conversion progress

The Company regularly reviews progress on its IFRS conversion with its external auditors and the Audit Committee of the Board of Directors including discussion of potential transition and ongoing reporting changes along with an overview of developments in accounting and regulatory guidance related to IFRS and their impact on the financial statements.

As the Company prepares for the conversion, management continues to monitor ongoing changes to IFRS and adjusts the conversion and implementation plans accordingly.

The Company has allocated sufficient resources to its conversion project to meet the filing requirements for its first quarter of 2011 financial statements and Management Discussion and Analysis under IFRS.

Management's discussion and analysis

For the fourth quarter and year ended December 31, 2010

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 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 2009, 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 to these internal actions, the Company supports the Government of Canada's decisions from 2008 to 2011 to introduce restrictions on insured mortgages. In 2008, the government eliminated insurance products for mortgages with loan-to-values of greater than 95%, interest-only mortgages and amortization periods greater than 35 years. On April 19, 2010, the Government of Canada implemented additional changes to the rules for government-guaranteed mortgages which (i) require that all borrowers seeking mortgages of a term less than five years or seeking a variable rate mortgage qualify for the five-year fixed rate mortgage posted by the Bank of Canada, (ii) lower the maximum amount borrowers can withdraw in refinancing their mortgages to 90%, from 95%, of the value of their homes, and (iii) require a minimum downpayment of 20% on non-owner-occupied properties purchased for speculation. These rules were formalized in an amendment to the Government Guarantee Agreement between the Government of Canada and the Insurance Subsidiary. The Company supported the implementation of these additional rules and views them as prudent steps taken to protect and maintain the health and stability of the housing market.

On January 17, 2011, the Government of Canada announced additional changes to the rules for government guaranteed mortgages which (i) reduce the maximum amortization period to 30 years from 35 years for high loan-to-value mortgages effective March 18, 2011, (ii) lower the maximum amount borrowers can withdraw in refinancing their mortgages to 85%, from 90%, of the value of their homes, effective March 18, 2011, and (iii) eliminate mortgage insurance on mortgages that do not have scheduled principal and interest payments (e.g. lines of credit), effective April 18, 2011. These rules will be formalized in an amendment to the Government Guarantee Agreement between the Government of Canada and the Insurance Subsidiary. The Company supports the implementation of these additional rules and views them as prudent steps taken to protect and maintain the health and stability of the housing market.

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. These evaluation criteria include 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

Following the closing of the Company's IPO on July 7, 2009, the Company and the 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 information technology, finance, human resources, legal and compliance 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 million for the year ended December 31, 2010.

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 the Company, are intended to identify forward-looking statements. Specific forward-looking statements in this document include, but are not limited to, statements with respect to the Company's housing demand and home price appreciation, unemployment rates, future operating and financial results, expectations regarding premiums written, capital expenditure plans, dividend policy and the ability to execute on its future operating, investing and financial strategies.

The forward-looking statements contained herein are based on certain factors and assumptions, certain of which appear proximate to the applicable forward-looking statements contained herein, including the economic assumptions described in the "Outlook" section of this MD&A. Inherent in the forward-looking 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 statements.

The Company's actual results and performance could differ materially from those anticipated in these forward-looking statements as a result of both known and unknown risks, including risks related to changes in government regulation; competition from other providers of mortgage insurance in Canada; a downturn in the global or Canadian economies; a decline in the Company's regulatory capital or an increase in its regulatory capital requirements; changes to laws mandating mortgage insurance; a decrease in the volume of high loan-to-value mortgage originations; ineffective or unsuccessfully implemented risk management standards by the Company; a downgrade or potential downgrade in the Company's financial strength ratings; interest rate fluctuations; the loss of members of the Company's senior management team; potential legal, tax and regulatory investigations and actions; the failure of the Company's computer systems; and potential conflicts of interest between the Company and its majority shareholder, Genworth Financial, Inc.

This is not an exhaustive list of the factors that may affect any of the Company's forward-looking statements. Some of these and other factors are discussed in more detail in the Company's annual information form ("AIF") dated March 22, 2010. Investors and others should carefully consider these and other factors and not place undue reliance on the forward-looking statements. Further information regarding these and other risk factors is included in the Company's public filings with provincial and territorial securities regulatory authorities and can be found on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com, including the AIF. The forward-looking statements contained in this MD&A represent the Company's views only as of the date hereof. Forward-looking 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; therefore, they are

Management's discussion and analysis

For the fourth quarter and year ended December 31, 2010

presented for the purpose of assisting the Company's securityholders 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 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 and operating earnings per share for the periods specified and reconciles these figures to the Company's net income and operating earnings per share in accordance with GAAP for such periods.

<i>(in millions, unless otherwise specified)</i>	For the quarter ended Dec. 31,		For the year ended Dec. 31,	
	2010	2009	2010	2009
Net income	\$ 84	\$ 87	\$ 349	\$ 379 ¹
Adjustment to net income:				
Gains (losses) on investments, net of taxes	—	(2)	(5)	(8)
Net operating income	\$ 84	\$ 85	\$ 343	\$ 371 ¹

Note:

⁽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.

For the quarter ended Dec. 31,

(in dollars)

	2010		2009	
	Basic	Diluted	Basic	Diluted
Earnings per share	\$ 0.80	\$ 0.80	\$ 0.75	\$ 0.74
Adjustment to earnings per share:				
Gains (losses) on investments, net of taxes	—	(0.01)	(0.02)	(0.02)
Operating earnings per share	\$ 0.80	\$ 0.79	\$ 0.73	\$ 0.72

For the year ended Dec. 31,

(in dollars)

	2010		2009	
	Basic	Diluted	Basic	Diluted
Earnings per share	\$ 3.09	\$ 3.06	\$ 3.31 ¹	\$ 3.30 ¹
Adjustment to earnings per share:				
Gains (Losses) on investments, net of taxes	(0.05)	(0.05)	(0.07)	(0.07)
Operating earnings per share	\$ 3.04	\$ 3.01	\$ 3.24 ¹	\$ 3.23 ¹

Note:

⁽¹⁾ Excluding the impact of changes to the premium recognition curve in the first quarter 2009, financial measures for the year ended December 31, 2009, would have been earnings per share (basic) \$2.75, earnings per share (diluted) \$2.74, operating earnings per share (basic) \$2.68, and operating earnings per share (diluted) \$2.67.

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 judgment. The consolidated financial statements are prepared in conformity with Canadian generally accepted accounting principles.

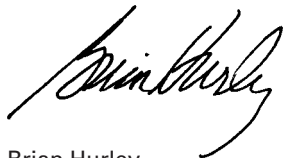
Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Company. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved 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, comprising directors who are neither officers nor employees of the Company, meets 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 its 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 ("OSFI") 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 LLP, 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 auditors' 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 17, 2011

Independent auditors' report to the shareholders

We have audited the accompanying consolidated financial statements of Genworth MI Canada Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, 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, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Genworth MI Canada Inc. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010 in accordance with Canadian generally accepted accounting principles.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and extends to the right, ending under the 'P'.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
February 17, 2011

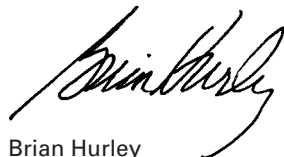
Consolidated balance sheets

(In thousands of dollars)

December 31	2010	2009
Assets		
Invested assets:		
Cash and cash equivalents (note 8)	\$ 351,136	\$ 377,512
Short-term securities (note 8)	6,988	253,527
Bonds and debentures:		
Held-for-trading (note 8)	38,290	34,485
Available-for-sale (note 8)	3,897,936	3,743,867
Equities (note 8)	195,186	423
Government guarantee fund (note 9)	645,733	576,417
	5,135,269	4,986,231
Other:		
Accrued investment income and other receivables	32,270	28,869
Income taxes recoverable (note 11)	7,505	—
Subrogation recoverable	40,393	13,646
Deferred policy acquisition costs	152,618	146,840
Goodwill (note 18)	11,172	11,172
Intangible assets (note 17)	14,119	16,307
Premises and equipment (note 16)	2,836	3,844
Other assets	2,019	3,017
	262,932	223,695
	\$ 5,398,201	\$ 5,209,926
Liabilities and shareholders' equity		
Policy liabilities:		
Loss reserves (note 10)	\$ 206,611	\$ 236,181
Unearned premium reserves (note 5)	1,902,164	1,971,396
	2,108,775	2,207,577
Other liabilities:		
Accounts payable and accrued liabilities	45,872	27,811
Due to parent and companies under common control (note 12)	260	775
Income taxes payable	—	116,230
Long-term debt (note 21)	421,566	—
	467,698	144,816
Net future income taxes (note 11)	215,428	203,218
Accrued benefit liability under employee benefit plans (notes 14 and 15)	17,075	11,088
Total liabilities	2,808,976	2,566,699
Shareholders' equity:		
Share capital (note 20)	1,552,043	1,734,376
Retained earnings	912,813	811,927
Accumulated other comprehensive income	124,369	96,924
	2,589,225	2,643,227
Commitments (note 13)		
	\$ 5,398,201	\$ 5,209,926

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)

<i>Years ended December 31</i>	2010	2009	2008
Gross premiums written	\$ 564,415	\$ 373,954	\$ 722,057
Net premiums written	\$ 551,603	\$ 359,679	\$ 706,126
Net premiums earned	\$ 620,834	\$ 609,804	\$ 517,561
Initial impact of change in premium recognition curve (note 5)	—	100,144	—
Fees and other income	95	62	320
Underwriting revenue	620,929	710,010	517,881
Losses on claims and expenses:			
Losses on claims (note 10)	206,410	255,756	159,985
Sales, underwriting and administrative	103,823	91,291	78,153
Initial impact of change in premium recognition curve on change in deferred policy acquisition costs (note 5)	—	6,370	—
	310,233	353,417	238,138
Net underwriting income	310,696	356,593	279,743
Investment income:			
Interest	173,512	177,136	185,730
Dividends	2,816	—	—
Net realized gains on sale of investments	3,735	2,984	40,470
Change in unrealized (loss) on held-for-trading securities	3,806	8,625	(21,748)
Equity in earnings of government guarantee fund (note 9)	3,692	4,981	(533)
General investment expenses	(4,442)	(4,552)	(3,799)
	183,119	189,174	200,120
Interest on long-term debt (note 21)	(8,322)	—	—
Interest on related party debt	—	(1,463)	(2,857)
Income before income taxes	485,493	544,304	477,006
Income taxes (note 11):			
Current	124,776	160,372	107,850
Future	11,991	5,192	32,465
	136,767	165,564	140,315
Net income	\$ 348,726	\$ 378,740	\$ 336,691
Earnings per share (note 22):			
Basic	\$ 3.09	\$ 3.31	\$ 3.02
Diluted	3.06	3.30	3.02

See accompanying notes to consolidated financial statements.

Consolidated statements of changes in shareholders' equity

(In thousands of dollars)

<i>Years ended December 31</i>	2010	2009	2008
Share capital (note 20)			
Share capital, beginning of year	\$1,734,376	\$ 1,642,709	\$ 1,622,709
Issuance of common shares	—	91,667	50,000
Capital reduction	—	—	(30,000)
Repurchase of common shares	(182,333)	—	—
Share capital, end of year	\$1,552,043	\$ 1,734,376	\$ 1,642,709
Retained earnings			
Retained earnings, beginning of year	\$ 811,927	\$ 461,299	\$ 124,608
Net income	348,726	378,740	336,691
Dividends	(104,531)	(28,112)	—
Repurchase of common shares (note 20)	(143,309)	—	—
Retained earnings, end of year	\$ 912,813	\$ 811,927	\$ 461,299
Accumulated other comprehensive income (loss)			
Accumulated other comprehensive income (loss), beginning of year, net of income taxes of \$43,484 (2009 – \$(5,984); 2008 – \$11,598)	\$ 96,924	\$ (14,912)	\$ 18,631
Other comprehensive income (loss):			
Change in unrealized gains on available-for-sale assets, net of income taxes of \$13,663 (2009 – \$51,220; 2008 – \$4,401)	37,916	115,798	13,171
Recognition of realized gains on available-for-sale assets, net of income taxes of \$(3,773) (2009 – \$(1,752); 2008 – \$(21,983))	(10,471)	(3,962)	(46,714)
Total comprehensive income (loss)	27,445	111,836	(33,543)
Accumulated other comprehensive income (loss), end of year, net of income taxes of \$53,374 (2009 – \$43,484; 2008 – \$(5,984))	\$ 124,369	\$ 96,924	\$ (14,912)
Total shareholders' equity	\$2,589,225	\$ 2,643,227	\$ 2,089,096

See accompanying notes to consolidated financial statements.

Consolidated statements of comprehensive income

(In thousands of dollars)

<i>Years ended December 31</i>	2010	2009	2008
Net income	\$ 348,726	\$ 378,740	\$ 336,691
Other comprehensive income (loss)	27,445	111,836	(33,543)
Comprehensive income	\$ 376,171	\$ 490,576	\$ 303,148

See accompanying notes to consolidated financial statements.

Consolidated statements of cash flows

(In thousands of dollars)

Years ended December 31	2010	2009	2008
Cash provided by (used in):			
Operating activities:			
Net income	\$ 348,726	\$ 378,740	\$ 336,691
Items not involving cash:			
Amortization of premiums on investments	7,871	5,562	9,199
Amortization of intangible assets	4,175	2,991	2,562
Depreciation of premises and equipment	1,574	1,492	1,331
Change in deferred policy acquisition costs	(5,778)	3,288	(30,396)
Future income taxes	11,991	5,192	32,465
Net realized gains on sale of investments	(3,735)	(2,984)	(42,604)
Investment impairments	—	—	2,134
Change in unrealized loss on held-for-trading securities	(3,806)	(8,625)	21,748
Amortization of long-term debt discount and issuance costs	103	—	—
	361,121	385,656	333,130
Change in non-cash balances related to operations:			
Government guarantee fund	(62,840)	(43,947)	30,399
Accrued investment income and other receivable	(3,401)	2,349	3,091
Current income taxes	(131,679)	63,144	30,713
Other assets and subrogation recoverable	(25,749)	(6,827)	(6,529)
Accounts payable and accrued liabilities	18,061	(22,058)	(9,668)
Due to parent and companies under common control	(515)	(72,514)	5,530
Loss reserves	(29,570)	64,448	82,638
Unearned premium reserves	(69,232)	(350,269)	188,565
Accrued net benefit liability under employee benefit plans	5,987	3,006	1,810
	62,183	22,988	659,679
Financing activities:			
Net proceeds from long-term debt issuance	421,463	—	—
Dividends paid	(104,531)	(28,112)	—
Net proceeds from issuance of common shares	—	91,667	50,000
Repurchase of common shares	(325,642)	—	—
Capital reduction	—	—	(30,000)
	(8,710)	63,555	20,000
Investing activities:			
Purchase of bonds	(1,044,282)	(591,728)	(1,500,505)
Proceeds from sale of bonds	911,465	441,555	1,476,013
Purchase of short-term securities	(6,988)	(253,527)	(113,066)
Proceeds from sale of short-term securities	253,527	113,066	53,111
Purchase of equities	(193,117)	—	—
Proceeds from sale of equities	2,099	—	—
Purchase of intangible assets	(1,987)	(8,608)	(9,144)
Purchase of premises and equipment	(566)	(1,443)	(1,582)
	(79,849)	(300,685)	(95,173)
Increase (decrease) in cash and cash equivalents	(26,376)	(214,142)	584,506
Cash and cash equivalents, beginning of year	377,512	591,654	7,148
Cash and cash equivalents, end of year	\$ 351,136	\$ 377,512	\$ 591,654
Supplemental cash flow information:			
Income taxes paid	\$ 257,940	\$ 100,705	\$ 77,151
Interest paid on related party debt	—	2,206	2,856
Interest paid on long-term debt	7,232	—	—

See accompanying notes to consolidated financial statements.

Notes to consolidated financial statements

(In thousands of dollars, except per share amounts) For the years ended December 31, 2010, 2009 and 2008

1. Reporting entity

Genworth MI Canada Inc. (the "Company") was incorporated under the Canada Business Corporations Act and is domiciled in Canada. Its shares are publicly traded on the Toronto Stock Exchange under the symbol "MIC." The Company's majority shareholder is Brookfield Life Assurance Company Limited ("Brookfield"). Brookfield's 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 are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

3. Significant accounting policies

The significant accounting policies used in the preparation of the consolidated financial statements are summarized below:

(a) Basis of consolidation

Subsidiaries are businesses in which 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) Premiums

Premiums written are recorded net of risk premiums.

Insurance premiums are deferred and then taken into underwriting revenues over the terms of the related policies. The unearned portion of premiums is included in the liability for unearned premium reserves. The majority of policies to date have been written for terms of 25 to 35 years. The rates or formulae under which premiums are earned relate to the loss emergence pattern in each year of coverage. The Company performs actuarial studies of its multi-year loss experience on a quarterly basis and adjusts the formulae under which premiums are earned in accordance with the results of such studies.

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 at December 31, 2010, 2009, and 2008.

(c) 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 establishment of the provision for 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 the provision for 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.

(d) Deferred policy acquisition costs

Deferred policy acquisition costs comprise premium taxes and other expenses that relate directly to the acquisition of new mortgage insurance business. Deferred policy acquisition costs 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 the related premiums and over the periods in which the related premiums are earned.

(e) Subrogation recoverable

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

(f) Investments

Investment sales and purchases are recorded at the investment's trade date.

Interest income from fixed income securities is recognized on an accrual basis and reported as investment income in the consolidated statement of income. Dividends are recognized when the shareholders' right to receive payment is established, which is the ex-dividend date, and are reported as investment income in the consolidated statement of income.

Realized gains or losses recorded on financial asset sales are measured as the difference between cash received for the financial asset and the cost of the financial asset at the trade date and recognized as investment income in the consolidated statement of income.

The Company has classified its financial assets into the held-for-trading ("HFT") and available-for-sale ("AFS") financial assets categories. Each of these categories is described below.

(i) Financial assets classified as HFT

The HFT financial assets 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 securities have been designated as HFT at initial recognition. The basis for designation as HFT is a likelihood of the existence of derivatives in the note collateral with no feasible way to detect and bifurcate these derivatives.

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

(ii) Financial assets classified as AFS

AFS financial assets are non-derivative financial assets that are designated as AFS and that are not classified in any other specific financial asset category. The Company classifies bonds and debentures (including bonds and debentures held in the government guarantee fund) and equities in the AFS financial asset category.

AFS financial assets are recorded at fair value with changes in the fair value of these assets recorded in unrealized gains and losses, which are included in other comprehensive income. Realized gains and losses on sale, as well as losses from other-than-temporary declines in the value of AFS investments, are reclassified from accumulated other comprehensive income ("AOCI") and recorded in investment income in the consolidated statements of income. 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) Cash and cash equivalents

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

(h) Long-term debt

The Company's senior unsecured debentures issued during the year together with associated issuance costs are classified as long-term debt on the consolidated balance sheet and are accounted for at amortized cost using the effective interest method.

Notes to consolidated financial statements

(In thousands of dollars, except per share amounts) For the years ended December 31, 2010, 2009 and 2008

3. Significant accounting policies (continued)

(i) 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 seven years or 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.

(j) 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.

(k) Income taxes

Current income taxes are recognized as the 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.

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

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

(l) Pensions and other post-employment benefits

(i) Defined benefit pension and other post-employment plans

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

- a) 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 Accountants ("CICA") Handbook Section 3461, Employee Future Benefits, based on management's assumptions on the discount rate, rate of compensation increase, retirement age, mortality, and health care trend rate. The discount rate is determined by management with reference to AA credit-rated bonds that have maturity dates approximating the Company's obligation terms. 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.
- b) 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.
- c) 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.

(ii) Defined contribution plan

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

(m) 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 such 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 of the Company 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.

Performance Share Units ("PSUs") are RSUs with performance conditions attached. PSUs granted by the Company are measured at the quoted market value of the Company's shares at the end of each reporting period. These awards are recorded as compensation expense over the PSU vesting period, with a corresponding entry to accrued liability under employee benefit plans based on management's best estimate of the outcome of the performance conditions.

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.

RSUs, PSUs, and DSUs 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, PSU or DSU accounts and are recorded as additional compensation expense.

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

(n) 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 recorded as 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 period in which impairment is determined. There have been no write-downs of goodwill due to impairment for the years ended December 31, 2010, 2009 and 2008.

(o) Transactions with related parties

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

(p) Foreign currency translation:

Transactions in foreign currencies are translated to Canadian dollars at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Canadian dollars at period-end rates. Foreign currency differences arising on translation are 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(b) and note 5), other-than-temporary declines in the value of investments (note 6), loss reserves (note 10), pensions and other post-employment benefits (note 14), and share-based compensation (note 15). Actual results may differ from the estimates used in preparing the consolidated financial statements.

Notes to consolidated financial statements

(In thousands of dollars, except per share amounts) For the years ended December 31, 2010, 2009 and 2008

4. Future changes in accounting policies

International Financial Reporting Standards

Canadian publicly accountable enterprises will be required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), for reporting periods beginning on or after January 1, 2011.

Effective January 1, 2011, the Company will adopt IFRS as the basis for preparing its consolidated financial statements. The Company will initially report its financial results for the period ended March 31, 2011 prepared on an IFRS basis. The Company will also provide comparative financial results on an IFRS basis, including an opening balance sheet, as at January 1, 2010 (the transition date).

The differences between the Company's accounting policies and IFRS requirements, combined with the Company's decisions on the optional exemptions from retroactive application of IFRS, will result in measurement and recognition differences upon the transition to IFRS. The net impact of these differences will be recorded in the Company's opening retained earnings.

The areas that will be impacted by transition to IFRS include pension and other post-employment benefits, share-based compensation, income taxes and financial statement presentation.

5. Change in estimate of unearned premium reserves

The Company's actuarial studies of multi-year loss experience, performed in accordance with its accounting policy for premiums, have indicated an acceleration of premium recognition. The impact of the experience update for the year ended December 31, 2010 was an increase of premiums earned of \$48,454 (December 31, 2009 – \$136,354, including the cumulative impact of the initial update of the premium recognition curve in the first quarter of 2009 of \$100,144).

6. 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 preventive controls.

(a) Insurance risk

The Company is exposed to insurance risk arising from the underwriting of mortgage insurance policies. Under a mortgage insurance policy, in the event of borrower default, a lender is insured against risk of loss for the entire unpaid loan balance plus interest, customary selling costs and expenses related to the sale of the underlying property. The Company's risk management framework facilitates the identification and assessment of risks, and the ongoing monitoring and management of these risks. The objective of the framework and related internal control procedures is to enhance underwriting income and long-term financial performance.

The Company's risk management framework encompasses the management of pricing risk, underwriting risk, claims management risk, loss reserving risk, and portfolio concentration risk.

(i) Pricing risk

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. The underwriting results of the mortgage insurance business can fluctuate significantly due to the cyclicity of the Canadian mortgage market. The mortgage market is affected primarily by housing supply and demand, interest rates, and general economic factors. The Company's premium rates vary with the perceived risk of a claim on an insured loan, which takes into account the Company's long-term historical loss experience on loans with similar loan-to-value ratios, terms and types of mortgages, and the borrower credit histories. Before the Company introduces a new product, it establishes specific performance targets, including delinquency rates and loss ratios, which the Company monitors frequently to identify any deviations from expected performance so that it can take corrective action when necessary.

(ii) *Underwriting risk*

Underwriting risk is the risk that the total cost of claims and acquisition expenses will exceed premiums received. The Company employs disciplined underwriting practices across multiple products and geographies. The Company's risk management and underwriting process enables it to assess high loan-to-value mortgage applications on a loan-by-loan basis, taking into account a broad range of factors and ensuring that the underwriting guidelines and procedures established by the Company's risk management function are adhered to. The Company's underwriting policies and procedures are reviewed and updated regularly to manage the Company's exposures and to address emerging trends in the housing market and economic environment.

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, 2010, the Company's loss ratio was 33% (2009 – 36%).

(iii) *Claims management risk*

The Company's agreements with lenders require a claim to be filed when the lender has suffered a loss under an insured mortgage policy. The claim is subject to the Company's review, appraisal and possible adjustment. Loss mitigation officers with the requisite degree of experience and competence have authority to approve claim payments up to a maximum dollar amount, based on their level of experience and seniority.

The Homeowner Assistance Program, the Company's primary loss mitigation program, is designed to help homeowners who are experiencing temporary financial difficulties that may prevent them from making timely payments on their mortgage. Initiatives currently employed under the Homeowner Assistance Program include capitalizing arrears, deferring payments for a specified period, arranging a partial payment plan, and increasing the mortgage amortization period.

Under its agreement with lenders, the Company has the right to recover losses from borrowers once a claim has been paid. The Company actively pursues such recoveries.

(iv) *Loss reserving risk*

When a borrower is in arrears with his or her mortgage payments, the insured lender is obligated to diligently pursue efforts to require the borrower to remedy such arrears. Lenders report delinquent loans that are more than 90 days in arrears to the Company on a monthly basis. Loss reserves represent management's best estimate of the amount needed to provide for the expected ultimate cost of settling and adjusting claims related to defaults by borrowers (both reported and unreported) that have occurred on or before each balance sheet date. Loss reserves may differ from the ultimate amount paid to settle claims principally due to additional claim information received and external factors that influence claim frequency and severity, including housing market performance.

The Company reviews its case reserves on an ongoing basis, updates the case reserves as appropriate, and maintains a supplemental loss reserve for potential adverse developments that may occur during the period from the borrower default date to the claim settlement date. Management has established procedures to evaluate the appropriateness of loss reserves, which include a review of the loss reserves by the Company's independent appointed actuary at least annually.

(v) *Portfolio concentration risk*

A national or regional economic downturn may increase the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect home values, which increases the Company's losses. The exposure to insurance portfolio concentration risk is mitigated by a portfolio that is diversified across the various concentrations of risk. The Company carefully monitors portfolio concentrations by borrower credit quality, product and geography against predetermined risk tolerances, taking into account the conditions of the housing market and economy in each region of Canada. The Company leverages and utilizes this data to customize underwriting guidelines by product and to develop more effective loss prevention and loss mitigation initiatives.

Notes to consolidated financial statements

(In thousands of dollars, except per share amounts) For the years ended December 31, 2010, 2009 and 2008

6. Financial risk management (continued)

(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, 2010 is \$4,093,016 (2009 – \$4,074,817) and comprises \$3,936,226 (2009 – \$3,778,352) of bonds and debentures, \$77,139 (2009 – \$423) of preferred shares, \$6,988 (2009 – \$253,527) of short-term securities, \$32,270 (2009 – \$28,869) of accrued investment income and other receivables, and \$40,393 (2009 – \$13,646) 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 6(e) and 9).

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, business sector, or credit rating category, as specified in its investment policy. Credit quality of financial instrument issuers is assessed based on ratings supplied by rating agencies Standard & Poor's, Moody's, or Dominion Bond Rating Service.

The breakdown of the Company's bonds and debentures, preferred shares, and short-term securities by credit ratings is presented below:

Credit rating	2010 Fair value		2009 Fair value	
	Amount	%	Amount	%
AAA	\$ 1,337,237	33.3	\$ 1,614,360	40.1
AA	1,426,779	35.5	1,344,137	33.3
A	1,134,426	28.2	1,017,783	25.2
BBB	121,756	3.0	55,924	1.4
Lower than B and unrated	155	—	98	—
	\$ 4,020,353	100.0	\$ 4,032,302	100.0

As at December 31, 2010, 97.0% of the Company's investment portfolio was rated 'A' or better, compared to 98.6% at December 31, 2009.

As at December 31, 2010, the cost of 75 AFS securities exceeded their fair value by \$4,792 (2009 – 40 AFS securities exceeded their fair value by \$13,771). This unrealized loss is recorded in AOCI as part of unrealized gains (losses) on AFS securities. In 2010, nominal unrealized losses on these securities arose primarily from higher prevailing interest rates compared to the prior year. In 2009, the unrealized losses on the securities 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 securities 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 or not 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 securities were in an unrealized loss position:

	2010			2009		
	Fair value	Amortized cost/Cost	Unrealized loss	Fair value	Amortized cost/Cost	Unrealized loss
Government bonds	\$ 28,511	\$ 28,910	\$ (399)	\$ 136,208	\$ 138,674	\$ (2,466)
Corporate bonds	118,055	120,523	(2,468)	329,438	340,743	(11,305)
Preferred shares	28,666	29,051	(385)	—	—	—
Common shares	35,192	36,732	(1,540)	—	—	—
Total	\$ 210,424	\$ 215,216	\$ (4,792)	\$ 465,646	\$ 479,417	\$ (13,771)

At December 31, 2010, \$155 of the Company's investments were impaired, compared to \$98 at December 31, 2009. The breakdown of the Company's other-than-temporarily impaired investments is presented below:

	Credit rating	2010			2009		
		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)	\$ 155	\$ 590	\$ (541)	\$ 98
		\$ 590	\$ (541)	\$ 155	\$ 590	\$ (541)	\$ 98

Total interest income earned on impaired investments held at December 31, 2010 and sold during the year was \$nil (2009 – \$nil; 2008 – \$1,466).

(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 7). 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, 2010, the Company had cash and cash equivalents of \$351,136 (2009 – \$377,512) and short-term securities of \$6,988 (2009 – \$253,527).

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, 2010:						
Bonds and debentures	\$ 467,544	\$ 809,867	\$ 1,299,013	\$ 789,679	\$ 570,123	\$ 3,936,226
As at December 31, 2009:						
Bonds and debentures	291,569	979,151	1,169,790	618,344	719,498	3,778,352

Notes to consolidated financial statements

(In thousands of dollars, except per share amounts) For the years ended December 31, 2010, 2009 and 2008

6. 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, 2010:						
Loss reserves	\$ 108,924	\$ 95,685	\$ 2,002	\$ —	\$ —	\$ 206,611
Long-term debt	—	—	150,000	275,000	—	425,000
As at December 31, 2009:						
Loss reserves	170,349	59,249	6,583	—	—	236,181
Long-term debt	—	—	—	—	—	—

(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 risks to which the Company is exposed are interest rate risk and equity price risk.

(i) 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 this 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 that 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 become losses.

As at December 31, 2010, 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 and preferred shares by approximately \$146,000, representing 3.67% of the \$3,982,063 fair value of these securities, and decrease the value of loss reserves by \$1,582. Conversely, a 100 basis point, or 1%, decrease in interest rates would increase the market value of the AFS fixed income securities and preferred shares by approximately \$157,000, representing 3.94% of the fair value, and increase the value of loss reserves by approximately \$1,614.

As at December 31, 2009, management estimated 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, 2010, management estimates that a 100 basis point, or 1%, increase in interest rates would decrease the market value of the HFT securities by approximately \$1,800, representing 4.70% of the \$38,290 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 approximately the same amount.

As at December 31, 2009, management estimated 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.

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.

(ii) *Equity price risk*

Equity price risk is the risk that the fair values of equities will decrease as a result of changes in the levels of equity indices and the values of individual stocks. Equity price risk exposure arises from the Company's investment in common shares. As at December 31, 2010, the Company had a total investment in common shares of \$118,047. Management estimates that a 10% increase in equity prices would increase the market value of the common shares by \$11,805 and that a 10% decrease in equity prices would decrease the market value of the common shares by the same amount. The Company has policies to limit and monitor exposures to individual issuers and its aggregate exposure to equities.

(e) **Government guarantee fund**

(i) *Credit risk*

The total credit risk exposure for the government guarantee fund at December 31, 2010 is \$778,851 (2009 – \$698,452) and comprises \$703,542 of bonds and debentures (2009 – \$663,161) and \$75,309 of short-term securities (2009 – \$35,291).

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 guarantee fund investment portfolio by credit rating is presented below:

<i>Credit rating</i>	2010 Fair value		2009 Fair value	
	Amount	%	Amount	%
AAA	\$ 778,851	100.0	\$ 698,452	100.0
Total	\$ 778,851	100.0	\$ 698,452	100.0

As at December 31, 2010, the cost of 5 AFS bonds exceeded their fair value by \$495 (2009 – the cost of 6 AFS bonds exceeded their fair value by \$246). This unrealized loss is recorded in AOCI as part of unrealized gains (losses) on AFS securities. Due to the fact that the bond issuers are either 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, which may be at maturity, these unrealized losses are considered temporary in nature.

The following AFS bonds were in an unrealized loss position:

	2010			2009		
	Carrying value	Amortized cost	Unrealized loss	Carrying value	Amortized cost	Unrealized loss
Government bonds	\$ 16,968	\$ 17,312	\$ (344)	\$ 3,230	\$ 3,298	\$ (68)
Agencies unconditionally guaranteed by the Government of Canada	29,399	29,550	(151)	56,836	57,014	(178)
	\$ 46,367	\$ 46,862	\$ (495)	\$ 60,066	\$ 60,312	\$ (246)

Notes to consolidated financial statements

(In thousands of dollars, except per share amounts) For the years ended December 31, 2010, 2009 and 2008

6. Financial risk management (continued)

(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, 2010:						
Bonds and debentures	\$ 139,593	\$ 128,452	\$ 248,344	\$ 80,953	\$ 192,402	\$ 789,744
As at December 31, 2009:						
Bonds and debentures	10,605	178,785	126,725	192,639	154,407	663,161

(iii) Market risk

As at December 31, 2010, 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 \$35,000, representing 4.49% of the \$778,851 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 \$7,112 (note 9). Conversely, a 100 basis point, or 1%, decrease in interest rates would increase the market value of the government guarantee fund by approximately \$40,000, representing 5.14% of the fair value, and increase the value of the exit fee and liability to MICC by \$7,945.

As at December 31, 2009, management estimated 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 MICC by \$6,191 (note 9). 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.

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 the government guarantee fund investments will be maintained; (ii) shifts in the yield curve are parallel; and (iii) credit and liquidity risks have not been considered.

7. Capital management and regulatory requirements

Capital comprises 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 Insurance Companies Act ("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 the Insurance Subsidiary of 120% (2009 – 120%). 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. In addition, the Company has established an internal capital ratio for the Insurance Subsidiary of 145% (2009 – 135%).

As at December 31, 2010, the Insurance Subsidiary had an MCT ratio of 156% (2009 – 149%) and had 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.

8. Investments

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

	December 31, 2010				December 31, 2009			
	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	\$ 339,093	\$ 339,093	\$ —	7.6	\$ 231,519	\$ 231,519	\$ —	5.3
Bankers'								
acceptances	—	—	—	—	64,898	64,898	—	1.5
Time deposits	—	—	—	—	65,943	65,943	—	1.5
Cash	12,043	12,043	—	0.2	15,152	15,152	—	0.3
	351,136	351,136	—	7.8	377,512	377,512	—	8.6
Available-for-sale securities:								
Government bonds:								
Canadian federal	950,846	931,875	18,971	21.2	1,073,117	1,053,507	19,610	24.3
Canadian provincial	606,978	581,687	25,291	13.5	637,602	614,647	22,955	14.5
	1,557,824	1,513,562	44,262	34.7	1,710,719	1,668,154	42,565	38.8
Corporate bonds:								
Financial	1,231,336	1,170,706	60,630	27.5	1,420,446	1,370,884	49,562	32.2
Energy	301,623	288,719	12,904	6.7	230,456	220,195	10,261	5.2
Infrastructure	252,292	239,966	12,326	5.6	206,310	199,534	6,776	4.7
All other sectors	309,415	299,527	9,888	6.9	175,425	166,394	9,031	4.0
	2,094,666	1,998,918	95,748	46.7	2,032,637	1,957,007	75,630	46.1
Preferred shares:								
Financial	67,009	66,717	292	1.5	423	421	2	—
Industrial	1,412	1,406	6	—	—	—	—	—
Energy	8,718	8,630	88	0.2	—	—	—	—
	77,139	76,753	386	1.7	423	421	2	—
Common shares:								
Energy	45,222	42,601	2,621	1.0	—	—	—	—
Infrastructure	18,840	18,185	655	0.4	—	—	—	—
Communications	22,074	22,468	(394)	0.5	—	—	—	—
All other sectors	31,911	31,464	447	0.7	—	—	—	—
	118,047	114,718	3,329	2.6	—	—	—	—
Asset-backed bonds	252,434	245,187	7,247	5.6	254,038	252,116	1,922	5.8
	4,100,110	3,949,138	150,972	91.3	3,997,817	3,877,698	120,119	90.7
Held-for-trading securities:								
Financial	38,290	50,000	(11,710)	0.9	34,485	50,000	(15,515)	0.7
Total investments	\$ 4,489,536	\$ 4,350,274	\$ 139,262	100.0	\$ 4,409,814	\$ 4,305,210	\$ 104,604	100.0

Notes to consolidated financial statements

(In thousands of dollars, except per share amounts) For the years ended December 31, 2010, 2009 and 2008

8. Investments (continued)

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

Terms to maturity	2010		2009	
	Fair value	Yield %	Fair value	Yield %
Debt securities issued or guaranteed by the Government of Canada:				
One year or less	\$ 208,244	4.6	\$ 397,527	1.8
One to three years	236,155	4.8	432,129	4.3
Three to five years	740,893	3.1	645,613	3.7
Five to ten years	267,808	4.9	155,254	5.1
Over ten years	104,724	4.6	80,196	4.8
	1,557,824	4.0	1,710,719	3.6
Corporate debt securities:				
One year or less	266,288	5.2	147,569	4.9
One to three years	573,712	5.0	547,022	5.0
Three to five years	558,120	4.8	524,177	5.3
Five to ten years	521,871	5.1	463,090	5.2
Over ten years	465,399	5.5	639,302	5.9
	2,385,390	5.1	2,321,160	5.3
	\$ 3,943,214	4.6	\$ 4,031,879	4.6

(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. The fair value of securities participating in the securities-lending program at December 31, 2010 was \$269,928 (December 31, 2009 – \$325,482).

(b) Fair value measurements

The following table sets forth inputs used as of December 31, 2010 and 2009 in valuing the Company's financial instruments carried at fair value:

2010	Total	Level 1	Level 2	Level 3
Investments:				
Bonds and debentures – AFS	\$ 3,897,936	\$ —	\$ 3,897,936	\$ —
Bonds and debentures – HFT	38,290	—	—	38,290
Preferred shares	77,139	—	77,139	—
Common shares	118,047	118,047	—	—
Short-term securities	6,988	6,988	—	—
Bonds and debentures in the government guarantee fund	703,542	—	703,542	—
Short-term securities in the government guarantee fund	75,309	75,309	—	—
	\$ 4,917,251	\$ 200,344	\$ 4,678,617	\$ 38,290

2009	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	423	—	423	—
Short-term securities	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	—	—
	<u>\$ 4,730,754</u>	<u>\$ 288,818</u>	<u>\$4,306,321</u>	<u>\$ 135,615</u>

During the years ended December 31, 2010 and 2009, the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	AFS bonds and debentures	HFT bonds and debentures	Total
2010			
Beginning balance, January 1, 2010	\$ 101,130	\$ 34,485	\$ 135,615
Purchases	—	—	—
Sales and settlements	—	—	—
Transfers into Level 3	—	—	—
Transfers out of Level 3	(101,130)	—	(101,130)
Amortization of bond premium	—	—	—
Change in fair value through income	—	3,805	3,805
Change in fair value through OCI	—	—	—
Ending balance, December 31, 2010	<u>\$ —</u>	<u>\$ 38,290</u>	<u>\$ 38,290</u>
	AFS bonds and debentures	HFT bonds and debentures	Total
2009			
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	<u>\$ 101,130</u>	<u>\$ 34,485</u>	<u>\$ 135,615</u>

For the year ended December 31, 2010, the Level 3 instruments comprise \$38,290 European Luxembourg notes classified as HFT. For the year ended December 31, 2009, the Level 3 instruments comprise \$101,130 commercial mortgage-backed bonds classified as AFS and \$34,485 European Luxembourg notes. The European Luxembourg notes are not externally rated but have been given an internal rating of BBB. The commercial mortgage-backed bonds are all investment grade and rated AAA.

During the year ended December 31, 2010, \$101,130 of bonds and debentures classified as AFS were transferred from Level 3. The transfers from Level 3 resulted primarily from observable market data now being available, thus eliminating the need to estimate data beyond observable data available.

The potential impact of using reasonable possible alternative assumptions for valuing Level 3 financial instruments at December 31, 2010 would be to increase their fair value by approximately \$1,800 or decrease their fair value by approximately the same amount (December 31, 2009 – increase fair value by approximately \$5,513 or decrease fair value by approximately \$5,337).

Notes to consolidated financial statements

(In thousands of dollars, except per share amounts) For the years ended December 31, 2010, 2009 and 2008

9. 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, 2010 is \$645,733 (2009 – \$576,417).

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

	December 31, 2010	December 31, 2009
Invested assets at fair value (a)	\$ 789,869	\$ 699,207
Accrued contribution and accrued income (b)	18,201	14,700
Accrued exit fee and MICC liability (c)	(162,337)	(137,490)
	<u>\$ 645,733</u>	<u>\$ 576,417</u>

- (a) Investments held under the Government Guarantee Agreement including government bonds, bonds unconditionally guaranteed by the Government of Canada, and cash; plus
- (b) the Company's accrued contributions of 10.5% of premiums written on insured mortgages for the last quarter of the year and accrued interest on invested assets; 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, and the Company's liability for the net proportionate interest in the guarantee fund of its predecessor MICC.

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 weighting. The BIS capital guidelines did not provide a reduced risk weighting for residential mortgages insured by a private mortgage insurer, thereby putting private mortgage insurers at a disadvantage to CMHC. In 1988, 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 weighting 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 was 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.

Equity in earnings of the government guarantee fund of \$3,692 (2009 – \$4,981; 2008 – \$(533)) is included in net income. Equity in the earnings of the government guarantee fund comprises investment income of \$26,530 (2009 – \$21,827; 2008 – \$23,529) less exit fees of \$22,838 (2009 – \$16,846; 2008 – \$24,062).

10. Loss reserves

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. The discount rate used to determine present value at December 31, 2010 was 3.59% (2009 – 3.57%). The margin for adverse deviation used to determine the provision for adverse deviation at December 31, 2010 was 4.5% (2009 – 3.5%). 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, 2010, 2009 and 2008 and their impact on losses and adjustment expenses are as follows:

	2010	2009	2008
Loss reserves, beginning of year	\$ 236,181	\$ 171,733	\$ 89,095
Incurred losses and adjustment expenses:			
Increase in losses and expenses on claims occurring in prior years	31,221	59,170	11,472
Increase in losses and expenses on claims occurring in the current year	175,189	196,586	148,513
Paid losses occurring during:			
Prior years	(200,232)	(160,263)	(67,292)
Current year	(35,748)	(31,045)	(10,055)
Loss reserves, end of year	<u>\$ 206,611</u>	<u>\$ 236,181</u>	<u>\$ 171,733</u>

11. Income taxes

Provision for income taxes comprises the following:

	2010	2009	2008
Consolidated statements of income			
Provision for income taxes:			
Current	\$ 124,776	\$ 160,372	\$ 107,850
Future	11,991	5,192	32,465
	<u>\$ 136,767</u>	<u>\$ 165,564</u>	<u>\$ 140,315</u>
Consolidated statements of other comprehensive income			
Income tax expense (recovery) related to:			
Change in unrealized gains (losses) on AFS securities	\$ 13,663	\$ 51,220	\$ 4,401
Recognition of realized gains on AFS securities	(3,773)	(1,752)	(21,983)
	<u>\$ 9,890</u>	<u>\$ 49,468</u>	<u>\$ (17,582)</u>

Income taxes are payable on the change in unrealized gains or losses reported in the Company's consolidated statements 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 sheets.

Notes to consolidated financial statements

(In thousands of dollars, except per share amounts) For the years ended December 31, 2010, 2009 and 2008

11. Income taxes (continued)

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

	2010	2009	2008
Income before income taxes	\$ 485,493	\$ 544,304	\$ 477,006
Combined basic Canadian federal and provincial income tax rate	30.0%	32.0%	32.0%
Income tax expense based on statutory rate	\$ 145,648	\$ 174,177	\$ 152,642
Increase (decrease) in income tax expense resulting from:			
Non-deductible (non-taxable) expenses	251	106	182
Effect of decrease in rates on future income taxes	(4,312)	(9,849)	(12,354)
Effect of tax rate adjustment relating to enactment of new legislation	—	1,144	—
Adjustment for prior periods	(4,820)	(14)	(155)
Income tax expense	\$ 136,767	\$ 165,564	\$ 140,315

The difference in the effective income tax rate of 28.2% implicit in the \$136,767 provision for income taxes in 2010 from the Company's statutory income tax rate of 30% was primarily attributable to a decrease in federal and provincial income tax rates and income tax rate favourability relating to the 2009 taxation year which was realized upon completion of the Company's 2009 tax returns.

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.

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.

Future income tax liability comprises the following:

	2010	2009
Future income tax assets:		
Employee benefits	\$ 3,338	\$ 2,881
Policy liabilities	2,671	3,070
Losses available for carry-forward	2,336	—
Financing costs	893	—
Total future income tax assets	9,238	5,951
Future income tax liabilities:		
Investments including unrealized gains on AFS securities	(13,052)	(15,221)
Guarantee fund reserve	(159,481)	(144,594)
Policy reserves	(49,547)	(46,929)
Premises and equipment and intangible assets	(2,586)	(2,425)
Total future income tax liabilities	(224,666)	(209,169)
Net future income tax liability	\$ (215,428)	\$ (203,218)

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 was required for the years ended December 31, 2010, 2009 and 2008.

The aggregate amount of income taxes paid for the year ended December 31, 2010 was \$257,940 (2009 – \$100,705; 2008 – \$77,151).

12. Related party transactions and balances

Following the closing of the Company's IPO on July 7, 2009, 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 information technology, finance, human resources, legal and compliance, 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, and are measured at the exchange amount. Balances owing for service transactions are non-interest bearing and are settled on a quarterly basis.

The Company incurred net related party charges of \$6,155 for the year ended December 31, 2010 (2009 – \$6,984; 2008 – \$9,803). The balance owed for related party services at December 31, 2010 is \$260 (December 31, 2009 – \$775).

13. 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, 2010:

2011	\$	2,197
2012		1,995
2013		1,747
2014		1,505
2015		1,519
	\$	<u>8,963</u>

Operating lease expense for the year ended December 31, 2010 was \$2,754 (2009 – \$3,001; 2008 – \$2,902).

Software and hardware related to the Company's application infrastructure will require upgrades during 2011 and 2012. The total expenditure related to these upgrades is expected to be in the range of \$4,500 to \$5,000.

14. 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.

Notes to consolidated financial statements

(In thousands of dollars, except per share amounts) For the years ended December 31, 2010, 2009 and 2008

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

(b) Defined benefit pension and other employee future benefits

The Company maintains two types of benefit liabilities: defined benefit pension liabilities for a Supplemental Executive 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.

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. The actuarial valuation for the year ended December 31, 2010 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.

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 represent 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 represent 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. Second, 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.

Prior service costs 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 plans 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	
	2010	2009	2010	2009
Accrued benefit liability	\$ 4,409	\$ 3,630	\$ 6,426	\$ 5,660
Fair value of plan assets	—	—	—	—
Unfunded benefit liability	\$ 4,409	\$ 3,630	\$ 6,426	\$ 5,660

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

	Pension benefits			Other post-employment benefits		
	2010	2009	2008	2010	2009	2008
Defined benefit expense:						
Benefits earned by employees	\$ 402	\$ 257	\$ 349	\$ 441	\$ 373	\$ 541
Interest cost on accrued benefit liability	412	365	305	308	253	307
Net actuarial gain recognized in expense	(9)	(35)	—	(89)	(119)	—
Amortization of prior service costs	245	233	214	—	—	—
Amortization of transitional obligation	7	7	7	106	106	106
Annual benefits expense	\$ 1,057	\$ 827	\$ 875	\$ 766	\$ 613	\$ 954
Defined contribution expense	\$ 2,665	\$ 2,346	\$ 2,544	\$ —	\$ —	\$ —
Total annual pension and other employee future benefit expenses recognized in the consolidated statements of income	\$ 3,722	\$ 3,173	\$ 3,419	\$ 766	\$ 613	\$ 954
Weighted average assumptions used to determine benefit expenses:						
Discount rate	7.00%	7.50%	7.50%	7.00%	7.50%	7.50%
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	7.89%	6.50%

⁽¹⁾ Trending to an ultimate assumed health care cost trend rate 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	
	2010	2009	2010	2009
Benefit liability, beginning of year	\$ 5,496	\$ 4,487	\$ 3,978	\$ 3,621
Benefits earned by employees	402	257	441	373
Interest cost on accrued liability	412	365	308	253
Benefits paid to pensioners and employees	(278)	(218)	—	(12)
Actuarial loss (gain)	390	328	1,220	(257)
Prior service costs	—	277	—	—
Benefit liability, end of year	\$ 6,422	\$ 5,496	\$ 5,947	\$ 3,978
Weighted average assumptions used to determine the benefit liability:				
Discount rate, end of year	5.75%	7.00%	5.75%	7.00%
Rate of compensation increase	3.50%	4.25%	3.50%	4.25%
Assumed overall health care cost trend rate	n/a	n/a	7.60% ¹	7.71%
Benefit liability, end of year	\$ 6,422	\$ 5,496	\$ 5,947	\$ 3,978
Unrecognized actuarial gain	258	657	692	2,001
Unrecognized prior service costs	(2,258)	(2,502)	—	—
Unrecognized transitional obligation	(13)	(21)	(213)	(319)
Accrued benefit liability, end of year	\$ 4,409	\$ 3,630	\$ 6,426	\$ 5,660

⁽¹⁾ Trending to an ultimate health care cost trend rate of 4.50%.

Notes to consolidated financial statements

(In thousands of dollars, except per share amounts) For the years ended December 31, 2010, 2009 and 2008

14. 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:

	Other post-employment benefits	
	Benefit liability	Benefit expense
Assumed overall health care cost trend rate (%):		
Impact of:		
1% increase	\$ 1,012	\$ 139
1% decrease	(761)	(103)

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		
	2010	2009	2008	2010	2009	2008
Benefits paid on defined benefit plans	\$ 278	\$ 218	\$ 20	\$ —	\$ 12	\$ —
Contributions to defined contribution plans	2,665	2,346	2,544	—	—	—
	\$ 2,943	\$ 2,564	\$ 2,564	\$ —	\$ 12	\$ —

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
2011	\$ 59	\$ 43
2012	141	59
2013	379	77
2014	122	98
2015	59	123
2016 to 2020	1,350	1,051

15. Share-based compensation

In connection with its IPO, the Company adopted long-term incentive plans that provide for the granting of employee stock options ("Options"), employee Restricted Share Units ("RSUs"), and directors' Deferred Share Units ("DSUs"). Each of these plans is described below:

(a) Options

The Options incentive plan provides employees with the choice of receiving compensation in the form of common shares of the Company or cash equal to the difference between the quoted market value of the Company's shares and the exercise price on the exercise date. The majority of Options outstanding vest 50% on each of the second and third anniversaries of the grant date. The Options expire 10 years from the date of grant.

(b) RSUs

The RSU incentive plan provides 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. RSUs must be redeemed no later than December 1 in the third calendar year in respect of which the RSUs are granted.

Performance Share Units ("PSUs") are RSUs with performance conditions attached. The PSUs vest three years from the date of grant provided that certain performance conditions are met by the Company. The performance conditions are based on the Company's earnings per share, net income, contribution margin, underwriting income and investment income.

(c) DSUs

DSUs are granted to the eligible directors of the Company on a quarterly basis as compensation for director services performed. The DSUs vest immediately on the date of grant and must be redeemed no later than December 15 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 quoted market value of the Company's shares on the redemption date, or any combination of cash and common shares.

RSUs, PSUs, and DSUs may participate in dividend equivalents at the discretion of the Company's Board of Directors. Dividend equivalents are calculated based on the quoted market value of the Company's shares on the date the dividend equivalents are credited to the RSU, PSU or DSU accounts.

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:

	Number of options	Weighted average exercise price	Fair value at Dec. 31, 2010	Number of RSUs	Fair value at Dec. 31, 2010	Number of DSUs	Fair value at Dec. 31, 2010	Number of PSUs	Fair value at Dec. 31, 2010
2010									
Outstanding, as at									
January 1, 2010	810,000	\$ 19.16	\$ 6,828	84,406	\$ 2,329	3,257	\$ 90	—	\$ —
Granted	191,700	27.07	100	42,450	1,171	6,366	176	18,000	497
Dividend equivalents granted	—	—	—	4,082	113	208	6	496	14
Forfeited	(17,500)	(19.00)	(150)	(7,158)	(198)	—	—	—	—
Outstanding, as at December 31, 2010	984,200	\$ 20.70	\$ 6,778	123,780	\$ 3,415	9,831	\$ 272	18,496	\$ 511
Weighted average period (in years) over which expense is recognized	2.6	—	—	2.7	—	—	—	3.0	—
Outstanding as a percentage of outstanding shares	0.94%	—	—	0.12%	—	0.01%	—	0.02%	—

Notes to consolidated financial statements

(In thousands of dollars, except per share amounts) For the years ended December 31, 2010, 2009 and 2008

15. Share-based compensation (continued)

2009	Number of options	Weighted average exercise price	Fair value at December 31, 2009	Number of RSUs	Fair value at December 31, 2009	Number of DSUs	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, DSUs and PSUs for the year ended December 31, 2010 is \$2,775, \$1,346, \$183 and \$138, respectively, for a total of \$4,442 recognized in sales, underwriting and administrative expenses (December 31, 2009 – Options, RSUs and DSUs of \$1,270, \$440 and \$88, respectively, for a total of \$1,798). The total share-based liability outstanding as at December 31, 2010 is \$6,240 (December 31, 2009 – \$1,798).

16. Premises and equipment

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

2010	Cost	Accumulated depreciation	Net book value
Software	\$ 973	\$ 258	\$ 715
Furniture and equipment	2,781	2,212	569
Leasehold improvements	2,429	1,525	904
Computer hardware and other	2,953	2,305	648
	\$ 9,136	\$ 6,300	\$ 2,836

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
Computer hardware and other	2,664	1,803	861
	\$ 8,570	\$ 4,726	\$ 3,844

17. Intangible assets

The Company's intangible assets are summarized as follows:

2010	Cost	Accumulated amortization	Net book value
Software	\$ 27,120	\$ 13,001	\$ 14,119

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

18. 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 was charged to amortization expense. Goodwill is tested at least annually for impairment (note 3(n)).

No impairment charge has been recognized on goodwill to date.

19. Transactions with lenders

Gross premiums written from one major lender (defined as a lender that individually accounts for more than 10% of the Company's gross premiums written) was \$211,285, representing 37% of the Company's total gross premiums written for the year ended December 31, 2010 (2009 and 2008 – gross premiums written from two and three unrelated major lenders that accounted for more than 10% of the Company's gross premiums written were \$175,276 or 47% and \$274,382 or 38%, respectively).

20. Share capital

The share capital of the Company comprises the following:

	2010	2009
Authorized:		
Unlimited common shares		
1 special share		
Issued:		
104,789,394 common shares (117,100,000 at December 31, 2009)	\$ 1,552,043	\$ 1,734,376
1 special share (1 at December 31, 2009)	—	—
Share capital	<u>\$ 1,552,043</u>	<u>\$ 1,734,376</u>

(a) Share repurchase

On July 19, 2010, the Company made an offer ("the Offer") to repurchase up to \$325 million of its common shares validly tendered to the Offer. On August 27, 2010, in accordance with the terms of the Offer, the Company repurchased 12,310,606 common shares at a price of \$26.40 per common share, representing 10.5% of its public float, for an aggregate of approximately \$325 million in cash. Genworth Financial Inc., through its wholly owned subsidiary Brookfield, participated in the Offer by making a proportional tender and continues to hold approximately 57.5% of the outstanding common shares of the Company.

Upon the completion of the Offer, the Company's share capital was reduced by an amount equal to the average carrying value of the repurchased shares for cancellation. The excess of the aggregate purchase price over the average carrying value, together with the incremental after-tax costs associated with the transaction, were recorded as a reduction to retained earnings.

(b) Reorganization and initial public offering ("IPO")

At incorporation on May 25, 2009, the Company issued one common share for cash of \$1.00. On June 29, 2009, the Company issued one special share to Brookfield. The attributes of the special share provide that the holder 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.

Pursuant to an underwriting agreement dated June 29, 2009, the Company filed a prospectus that qualified issuance of 44,740,000 common shares at a purchase price of \$19.00. Of these shares, 5,100,000 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 the parent company, which 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 common share. Following the exercise of the overallotment option, Brookfield has an approximate 57.5% ownership interest in the Company.

Notes to consolidated financial statements

(In thousands of dollars, except per share amounts) For the years ended December 31, 2010, 2009 and 2008

21. Long-term debt

On June 29, 2010, the Company completed an offering of \$275,000 principal amount of senior unsecured debentures ("Series 1"). The Series 1 debentures were issued for gross proceeds of \$274,862 or a price of \$99.95, before approximate issuance costs of \$2,413. The issuance costs of \$2,413 and the discount of \$138 will be amortized over the term of the debentures using the effective interest method. The debentures bear interest at a fixed annual rate of 5.68% until maturity on June 15, 2020, payable in equal semi-annual instalments commencing on December 15, 2010. The debentures may be redeemed at the option of the issuer, in whole or in part, at any time.

On December 16, 2010, the Company completed an additional offering of \$150,000 principal amount of senior unsecured debentures ("Series 2"). The Series 2 debentures were issued at par, before approximate issuance costs of \$986. The issuance costs of \$986 will be amortized over the term of the debentures using the effective interest method. The debentures bear interest at a fixed annual rate of 4.59% until maturity on December 15, 2015, payable in equal semi-annual instalments commencing on June 15, 2011. The debentures may be redeemed at the option of the issuer, in whole or in part, at any time.

The following details the Company's long-term debt as at December 31, 2010:

	Series 1	Series 2
Date issued	June 29, 2010	December 16, 2010
Maturity date	June 15, 2020	December 15, 2015
Principal amount outstanding	\$275,000	\$150,000
Carrying value (unamortized cost)	\$272,545	\$149,021
Fair value	\$278,451	\$150,806
Fixed annual rate	5.68%	4.59%
Semi-annual interest payment due each year on:	June 15, December 15	June 15, December 15

The Company incurred interest expense of \$8,322 for the year ended December 31, 2010, with accrued interest payable of \$987 as at December 31, 2010.

22. Earnings per share

Basic and diluted earnings per share were calculated using the weighted average and dilutive number of shares outstanding during the year of 112,850,311 (2009 – 114,487,123; 2008 – 111,408,332) and 113,940,471 (2009 – 114,917,515; 2008 – 111,408,332), respectively. The difference between basic and diluted earnings per share is caused by the grant of Options, RSUs, and DSUs.

The earnings per share are computed below:

	December 31, 2010	December 31, 2009	December 31, 2008
Basic earnings per share:			
Net income	\$ 348,726	\$ 378,740	\$ 336,691
Weighted average common shares outstanding	112,850,311	114,487,123	111,408,332
Basic net earnings per common share	\$ 3.09	\$ 3.31	\$ 3.02
Diluted earnings per share:			
Weighted average common shares outstanding	113,940,471	114,917,515	111,408,332
Diluted net earnings per common share	\$ 3.06	\$ 3.30	\$ 3.02

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 approximation 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.

“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.

“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.

“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.

“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.

Glossary

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

“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.

“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)

	2010	2009	2008	2007	2006
Income statement data					
Gross premiums written	\$ 564	\$ 374	\$ 722	\$ 997	\$ 604
Net premiums earned	621	610	518	424	337
Impact of change in premium recognition curve		100			
Underwriting revenues	621	710	518	424	351
Losses	206	256	160	79	46
Expenses	104	98	78	60	67
Investment income	183	189	200	148	126
Interest expense	(8)	(1)	(3)	(3)	(2)
Pre-tax income	485	544	477	430	362
Net income	349	379 ¹	337	308	251
Net operating income	343	371 ¹	324	310	248
Balance sheet data					
Cash and investments	5,135	4,986	4,698	4,102	3,174
Total assets	5,398	5,210	4,915	4,291	3,298
Unearned premium reserves	1,902	1,971	2,322	2,133	1,573
Debt	422	—	67	67	67
Total liabilities	2,809	2,567	2,826	2,525	1,953
Shareholders' equity	2,589	2,643	2,089	1,766	1,345
AOCI	124	97	(15)	19	—
Shareholders' equity, excluding AOCI	2,465	2,546	2,104	1,747	1,345
Key ratios and other items					
Loss ratio	33%	36% ²	31%	19%	14%
Expense ratio	17%	14% ²	15%	14%	20%
Combined ratio	50%	50% ²	46%	33%	34%
Operating return on equity	14%	16% ²	17%	20%	20%
MCT ratio	156%	149%	127%	125%	125%
Delinquency rate	0.26%	0.28%	0.25%	0.19%	0.18%
Severity ratio	27%	27%	26%	24%	23%
Leverage	14%	0%	3%	4%	5%
Operating earnings per share (diluted)	\$ 3.01	\$ 3.23 ⁴	\$ 2.91	\$ 2.95	
Book value per share (diluted, excluding AOCI)	\$ 23.27	\$ 21.58	\$ 18.79	\$ 15.98	

⁽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.

2009 and 2010 quarterly information

<i>(in millions, unless otherwise specified)</i>	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09	Q2'09	Q1'09
Net premiums written	\$ 134	\$ 166	\$ 157	\$ 94	\$ 110	\$ 104	\$ 82	\$ 64
Net premiums earned	156	155	154	156	155	154	153	147
Impact of change in net premium recognition curve						—		100
Underwriting revenues	156	155	154	156	155	154	153	247
Losses on claims	50	47	49	59	60	64	71	60
Expenses	28	26	23	26	25	24	24	26
Net underwriting income	77	82	81	71	70	66	59	161
Investment income	44	49	41	49	46	49	51	43
Net income	84	95	85	84	87	79	75	138 ¹
Adjustment to net income: Losses/(gains) on investments, net of taxes	(0)	(3)	1	(3)	(2)	(4)	(5)	3
Net operating income	84	92	86	81	85	75	70	141 ¹
Loss ratio	32%	30%	32%	38%	39%	42%	46%	24% ²
Expense ratio	18%	17%	15%	17%	16%	15%	15%	10% ²
Combined ratio	50%	47%	47%	55%	55%	57%	62%	35% ²
Operating earnings per share diluted (excluding AOCI)	\$ 0.79	\$ 0.81	\$ 0.73	\$ 0.69	\$ 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, 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, 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 (MIC)

Common shares

As at December 31, 2010, there were 104,789,394 common shares outstanding.

Independent auditor

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

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

All inquiries related to address changes, elimination of multiple mailings, transfer of MIC shares, dividends or other shareholder account issues should be forwarded to the offices of CIBC Mellon.

Investor relations

Shareholders, security analysts and investment professionals should direct their inquiries to:

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

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, Genworth Financial Mortgage Insurance Company of Canada.

The Company holds a conference call following the release of its quarterly results. These calls are archived in the Investor section of the Company's website.

Annual meeting of shareholders

Date: Friday, May 6, 2011
Time: 10:30 a.m. (EST)
The Waterside Inn
Port Credit Ballroom
15 Stavebank Road South
Mississauga, Ontario L5G 2T2

Board of Directors

Complaints about the Company's internal accounting controls or auditing matters or any other concerns may be addressed directly to 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

Concerns related to compliance with the law, Genworth policies or government contracting requirements may be directed to:

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 statements

The cautionary statements included in the Company's Management's Discussion and Analysis and Annual Information form, 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. These documents can be found at www.sedar.com.

Dividend declaration dates

Declaration date	Record date	Date payable	Amount per common share
January 28, 2010	February 16, 2010	March 1, 2010	\$0.22
April 29, 2010	May 15, 2010	June 1, 2010	\$0.22
July 29, 2010	August 16, 2010	September 1, 2010	\$0.22
October 28, 2010	November 15, 2010	December 1, 2010	\$0.26

2010 common share dividend dates

The declaration and payment of dividends and the amount thereof are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flow and other factors the Board considers relevant from time to time.

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.

Genworth MI Canada Inc.

2060 Winston Park Drive
Suite 300
Oakville, Ontario L6H 5R7

Phone: 905-287-5300
Fax: 905-287-5472

www.genworth.ca

We make
homeownership
possible



Genworth MI Canada Inc.

2060 Winston Park Drive
Suite 300

Oakville, Ontario L6H 5R7

Phone: 905-287-5300

Fax: 905-287-5472

www.genworth.ca