Genworth MI Canada Inc.

2011 Annual Report

Enabling Homeownership.
Creating Value.

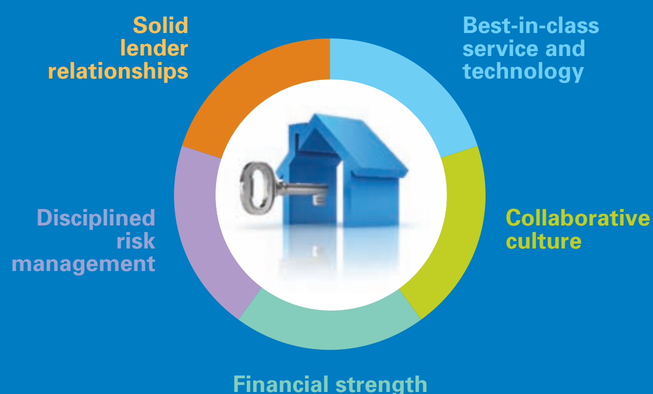
Corporate profile

We are **Canada's leading private mortgage insurer** with a history dating back to 1995. Our Company, Genworth MI Canada Inc., known as Genworth Canada, provides default mortgage insurance to Canadian residential mortgage lenders that enables first-time homebuyers to own a home more affordably.

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. Our customer-focused strategy, active risk management platform and financial strength position us well for delivering ongoing profitability.

As of December 31, 2011, Genworth Canada had $5.4 billion in total assets and $2.7 billion in shareholders' equity. The Company is based in Oakville, Ontario, and has approximately 260 employees across Canada.

COMPETITIVE STRENGTHS



VALUES

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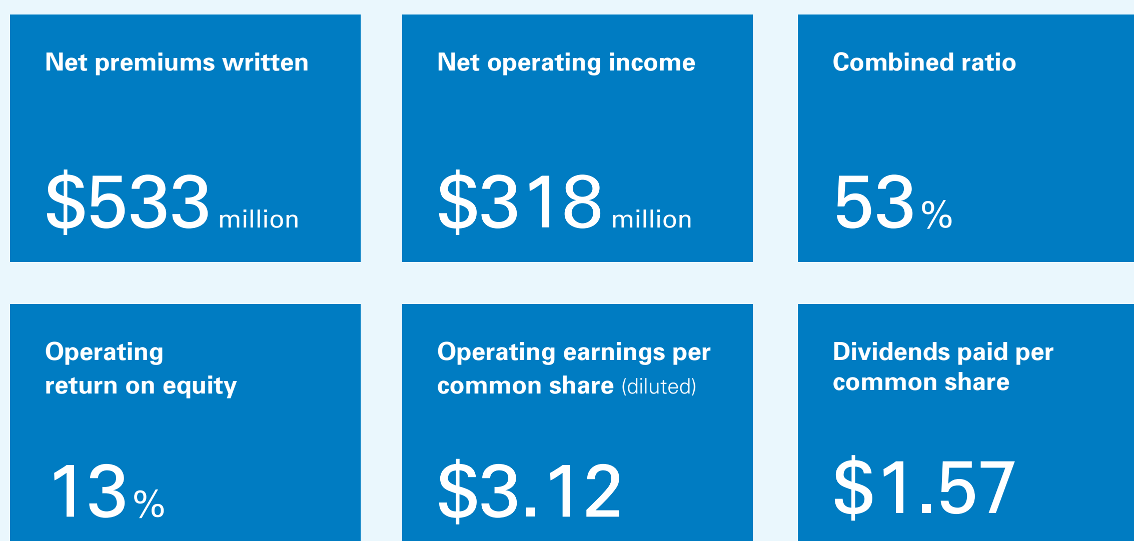
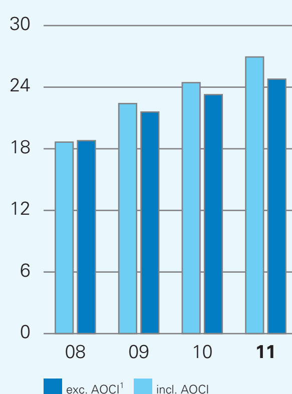
Enabling Homeownership. Creating Value.

We believe in responsible homeownership. Our goal is to make homeownership more affordable and accessible for Canadians. We do this by promoting prudent homebuying practices, contributing to responsible lending practices and actively managing risk. Our strength is in our people. We continually strive to add value to our lender customers, our shareholders, our communities and our employees.

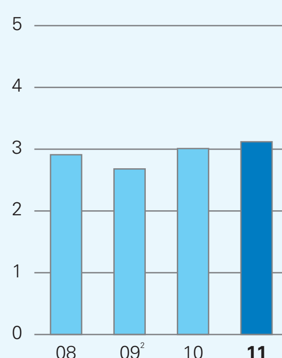
Financial and Operating Highlights



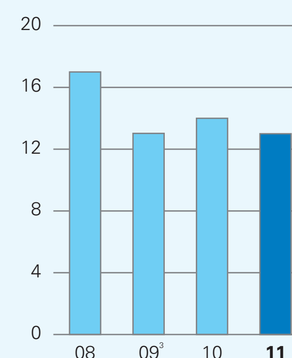
Book value per share (diluted)



Operating earnings per share (diluted)



Operating return on equity (%)



[1] Defined as accumulated other comprehensive income (AOCI).
[2] Including the impact of changes to the premium recognition curve in Q1 2009, operating earnings per share (diluted) would have been $3.23.
[3] Including the impact of changes to the premium recognition curve in Q1 2009, operating return on equity for the year ended December 31, 2009 would have been 16%.

Focused on shareholder returns

In 2011, Genworth MI Canada reported a solid 4% increase in fully diluted earnings per share, paid attractive dividends to shareholders totalling $1.57 per share, and increased book value by 10% per share.

Dear Fellow Shareholders:

Our business had another solid year in 2011. We set some aggressive goals for numerous facets of the business and made good progress on each of those areas. This was achieved in a year marked by economic stress in numerous parts of the globe. As the economy continues to gain strength and stability, our focus will continue to be on risk management and portfolio management.

Solid results

Genworth MI Canada achieved solid results in 2011, including $533 million in new premiums written, $318 million in net operating income, and a 13% operating return on equity.

We improved our market position with several of Canada's mortgage lenders, continued our contributions within the community, and enhanced our employee engagement through training and career development opportunities.

We have seen a number of positive trends, including good volumes in mortgage origination, continuing improvement in borrower creditworthiness and stable loss ratios.

Our strategic focus

Our focus is to remain the leading private mortgage insurer in Canada. By promoting responsible lending practices and providing innovative solutions, we help Canadians achieve the dream of homeownership. That is our top priority.

Our business is committed to:

- Delivering outstanding service
- Prudently and actively managing our risk
- Maintaining financial flexibility
- Delivering solid and consistent returns

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.

We take an active approach to risk management. We continue to improve our collateral property valuation process and deepen our analytics at the regional level. 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 ordinary dividend payout to shareholders in order to maintain a competitive dividend yield.

Our investment portfolio, with its short duration and ongoing reinvestment potential, continues to be well positioned.

Differentiating Genworth through service excellence

Today, our innovation strategy emphasizes competitive differentiation through service excellence. We strive to help our lending partners achieve their business objectives by providing them with high-touch service, efficient processing of claims and ongoing training for their new hires.

This strategy builds on strengths for which Genworth Canada is well recognized: fast turnaround times; dedicated sales, service and underwriting teams; and a common-sense and holistic approach to underwriting. Our goal is simply stated: to ensure that Genworth Canada is our lending partners' mortgage insurer of choice and a contributor to their business success. We are well positioned to continue to extend our market leadership.

Investing in our people and our future

Genworth Canada has invested substantially in technology, in our long-tenured employees and in our customer-focused culture to make our service difference real for our lending partners.

To protect and preserve the franchise Genworth has built, we need to emphasize two core strategies that are already at the heart of our Company. First, we need to make sure the Company continues to have the financial strength to meet its obligations towards customers and investors.

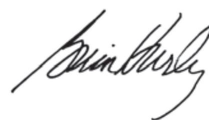
We achieve that by managing our capital base and investments prudently, by deepening our understanding of market dynamics and by constantly sharpening our risk management and underwriting expertise.

Second, to maintain our position in the Canadian mortgage insurance market, we need to continue to invest – in technology, in service, in risk management and in our people – to reinforce our unwavering focus on being the mortgage insurer of choice for our customers, every day.

Mortgage insurance is a capital-intensive business, and Genworth Canada continues to demonstrate its willingness to invest in the business and its people.

Shareholders should have every confidence that our senior management team will maintain its focus – on smart decisions, on customers and on shareholder returns.

Thank you for your continuing support.

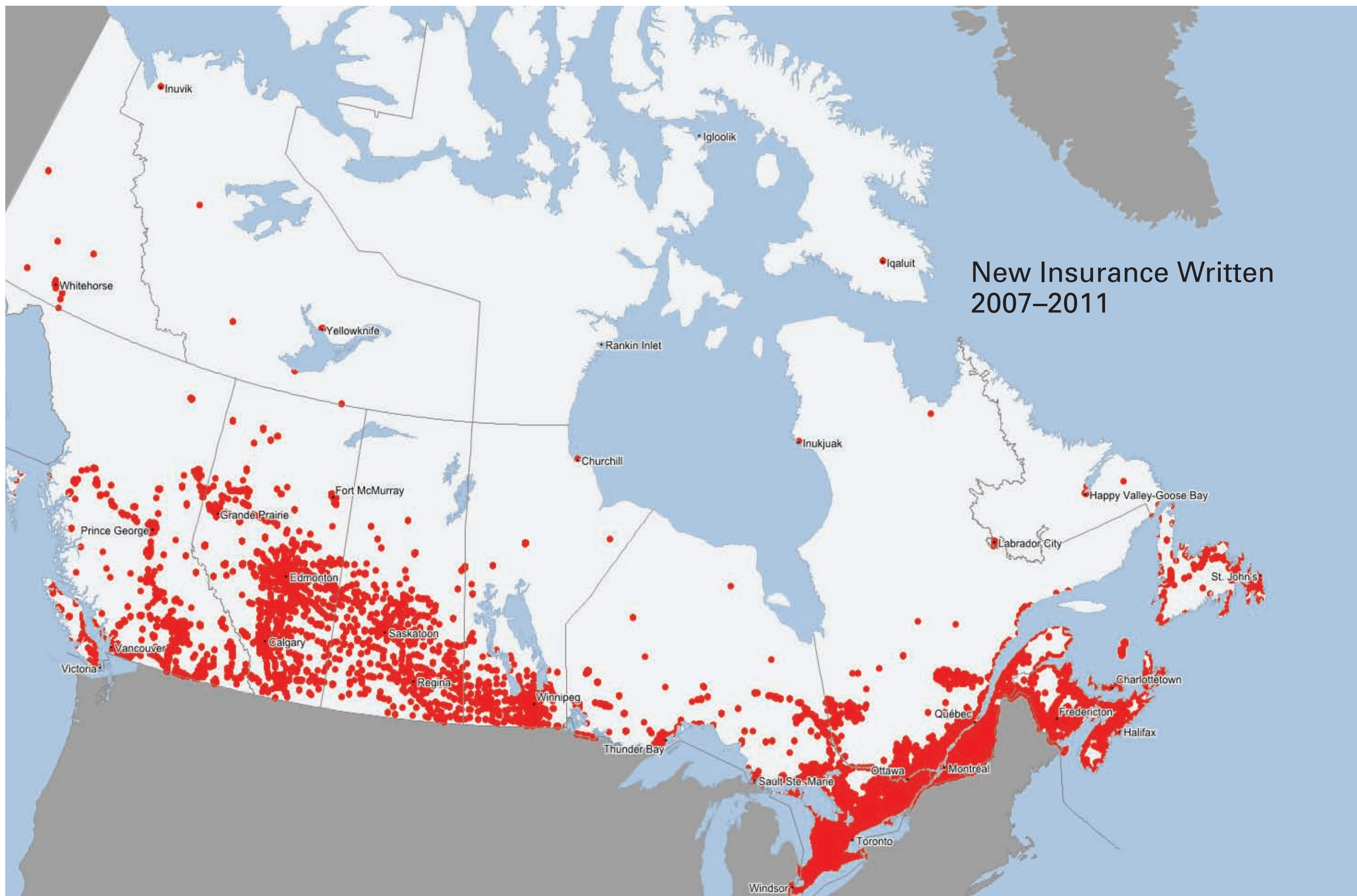


Brian Hurley
Chairman and Chief Executive Officer

Our priorities

Top line growth	Risk management	Financial strength
• Continue market leadership in customer experience • Drive deeper customer market penetration and diversification • Focus on service innovation • Continue focus on competitive positioning and government relations	• Insure high-quality, well-diversified, and high-credit-scoring loans • Target average loss ratio between 35%–40% • Continue to strengthen analytical expertise • Continue to expand asset management strategy	• Maintain strong capital position with flexibility • Balance yield versus quality in managing investment portfolio • Focus on improving return on equity • Target dividend payout ratio of 30%–40% • Maintain strong credit ratings

Helping Canadians Buy Homes from COAST TO COAST



Enabling Homeownership. Creating Value.

Differentiation drives top line growth

At Genworth Canada it's our people that make all the difference. We work collaboratively with our lending partners to establish responsible lending practices, fulfill homeownership dreams, promote financial literacy and protect the soundness and stability of Canada's housing market.

Committed to enabling responsible homeownership

Whenever Canadians are ready for the responsibility of homeownership – no matter where they want to live – we can help. We work with more than 250 financial institutions, and since 1995 we've made homeownership possible for more than 1.2 million families across Canada.

Our regional sales teams are supported by risk managers in each province, who have in-depth knowledge of the local economy and demographics. Their local expertise ensures that we apply the same standards of prudent risk management on each application, allowing us to maintain a strong portfolio from British Columbia to Newfoundland and Labrador and everywhere in between.

We are also committed to providing prospective homeowners with the tools they need to understand the homebuying process and make the right decisions. Through our consumer website – homeownership.ca – they can assess their financial situation, evaluate their mortgage options, and access a range of resources that will help them make smart choices.

Bringing value to our customers

We have an experienced team of account managers and underwriters working together to give each and every customer the highest level of service. Account managers spend more than 50% of their day, face-to-face, interacting directly with our lender customers. The goal of each account manager is to understand the clients' business and true needs, and deliver customized solutions that will help grow their business.

Our underwriters are trained to think outside the box and work with our customers to approve their files, while still adhering to our disciplined underwriting approach. We maintain very high service standards for calls into our customer service centre – answering 97% of all calls in less than 20 seconds.

We also enhanced our value proposition for the broker segment through a number of new and innovative tools. We now offer a full suite of resources including the following:

- *GenworthEdge.ca:* a dedicated website for easy access to resources
- *My Marketing Source™:* self-serve branding and marketing tools
- *Mortgage Calculator Apps:* innovative mobile mortgage calculators
- *Genworth Development Centre:* extensive professional development training.

Focused on the customer experience

Best-in-class customer service is the cornerstone of our business.

In 2011, we received the Best Industry Service Award from the Canadian Mortgage Professionals Association. Our delivery of quality customer service, our strong customer-centric vision, and our commitment to deliver value-added services to today's mortgage professionals earned us this recognition.

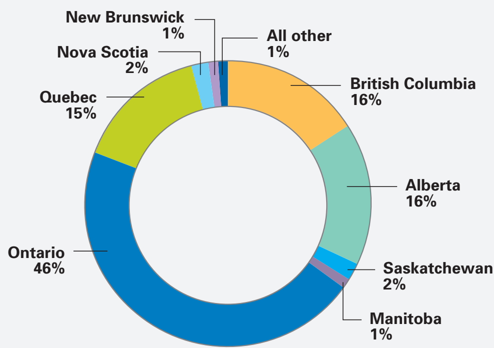
Customer focused. Knowledgeable. Results driven. That's the Genworth Canada Difference.

Risk Team

Standing: **Tim Watson** Actuary
Sitting: **Craig Sweeney** Operational Risk
Standing: **Donna Driver** Investigations
Sitting: **Cindy White** Loss Mitigation
Standing: **Rob Kirby** Loss Mitigation and Investigations
Standing: **Stuart Levings** Chief Operations Officer

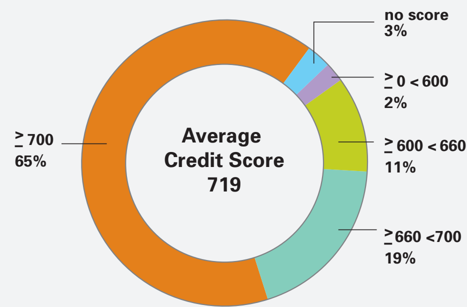
DYNAMIC *Risk Management Approach*

Geographical dispersion

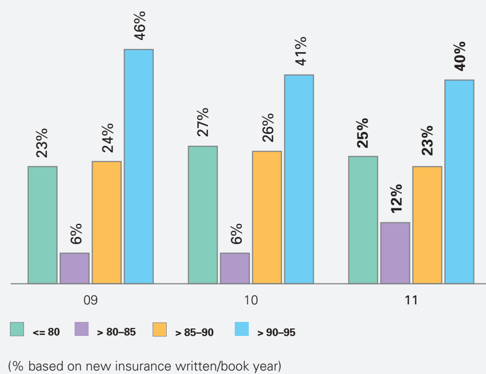


Credit score dispersion

(% based on insurance-in-force between 1995–2011)

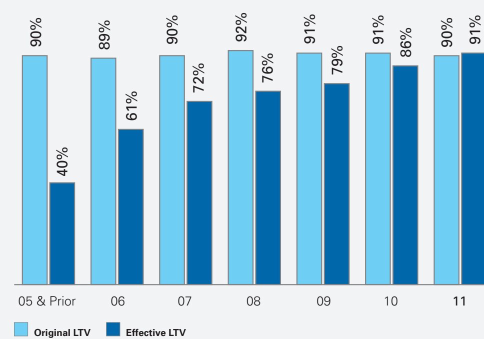


Loan-to-value



(% based on new insurance written/book year)

Effective loan-to-value



Enabling Homeownership. Creating Value.

High-quality and diversified insurance portfolio

Risk management is critical to our business. Our rigorous framework enables us to proactively identify emerging risks such as consumer indebtedness and affordability, and to mitigate these risks through our concentration limits and disciplined underwriting approach. We have over 20 years of data and have built a high-quality, well-diversified insurance portfolio.

Balancing appropriate risk concentrations

High-quality new business means insuring well-diversified and high-credit-scoring loans. We control the quality of new risk insured by setting underwriting guidelines and risk concentration limits to ensure appropriate diversification. We continuously update our internal proprietary scoring model and enhance our fraud detection tools to stay on top of emerging loss trends. These risk pillars are supported by a robust quality assurance audit program that monitors internal and external underwriting compliance.

High-credit-scoring loans: Our experience shows that high credit scores drive better loss performance. Through our ongoing focus on loan quality, our average credit score for new insurance written in 2011 was 727. The vast majority of Genworth-insured borrowers have a credit score greater than 700 and the average credit score on our insurance in-force at the end of 2011 was 719.

Average credit score*	2009	2010	2011
Insurance-in force	718	719	719
New insurance written	726	727	727

* The credit scores from all insured high-ratio borrowers were used to calculate the average score.

Lower loan-to-values: Our average loan-to-values have declined. This is a result of a reduction in the maximum loan-to-value for refinance loans in 2011, and of the mitigation of housing market risk by larger down payments. This is positive and results in a stronger borrower profile.

We underwrite every mortgage we insure

The Canadian mortgage insurance industry operates within a non-delegated structure where the insurer acts as a second set of eyes on each application. Our proprietary underwriting system screens for stacked high-risk factors, such as elevated servicing ratios and thin credit profiles. By identifying these factors, we can appropriately underwrite the risks and mitigate them, resulting in improved overall loan quality.

Loan aging lowers effective insurance exposure

As principal gets paid down and house prices increase, the original loan-to-value decreases to what we call the "effective loan-to-value." The lower the effective loan-to-value the less likely a mortgage default will result in a claim. Policies originated prior to 2007 now have a significantly lower risk of default.

Our asset management approach lowers claims

Our asset management program enables our loss mitigation team to get involved in the default management process earlier, providing greater efficiency and savings. By taking control of the real estate sales process and using our own network of realtors, we have significantly reduced the time from vacant possession to the sale of a foreclosed property. Shorter timelines result in lower interest and property management expenses, and these savings reduce the ultimate claim.

Finance Team

Philip Mayers
Chief Financial Officer

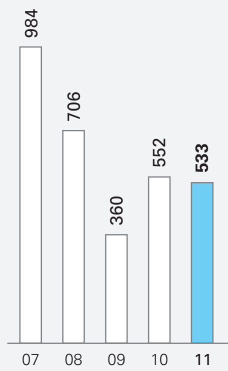
Samantha Cheung
Investor Relations

Fayeanne Beattie
Finance

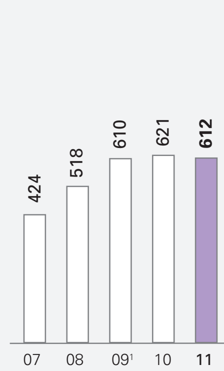
Rick Barnett
Investments Management

A STRONG *Financial Foundation*

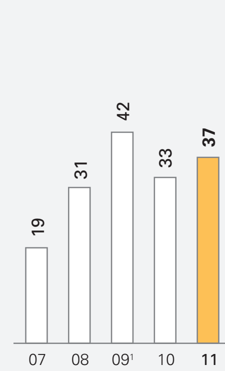
Net premiums written
($ in millions)



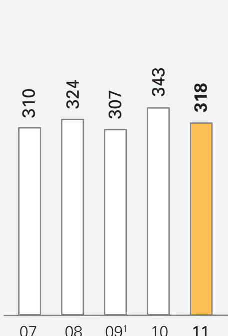
Net premiums earned
($ in millions)



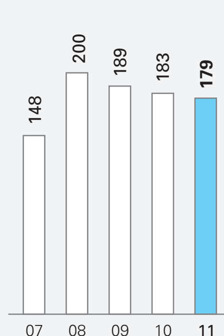
Loss ratio
(%)



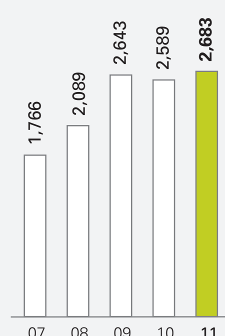
Net operating income
($ in millions)



Investment income
($ in millions)



Shareholders' equity
Including AOCI ($ in millions)



[1] Including the impact of changes to the premium recognition curve in Q1 2009, net premiums earned, the loss ratio, and net operating income would have been $710, 36% and $371 million, respectively.

Enabling Homeownership. Creating Value.

Financial strength

Genworth Canada delivered another year of solid performance. Our business model – built on effective risk management, outstanding customer service and a strong balance sheet – provides the foundation for our financial strength and ongoing profitability.

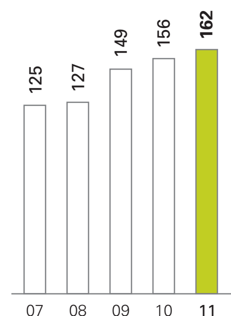
Solid financial performance in 2011

We delivered net operating income of $318 million in 2011 with an operating return on equity of 13%. During the year, the government introduced further Government Guarantee product restrictions, which led to a 5% to 10% smaller high-ratio residential mortgage insurance market. Despite the smaller origination market, the Company improved its market penetration through strong sales and service execution, resulting in net premiums written of $533 million.

The number of net new delinquencies declined by 11% as delinquencies declined from the 2007 and 2008 books, and our loss mitigation programs continued to be successful. Overall, losses on claims rose by 9% during the year to $225 million, primarily due to reserve strengthening on existing delinquencies.

Unearned premiums of $1.8 billion provide visibility into future premium revenues. We believe that unearned premiums include embedded future profits that will be earned over the next five years.

Minimum capital test ratio (MCT) (%)



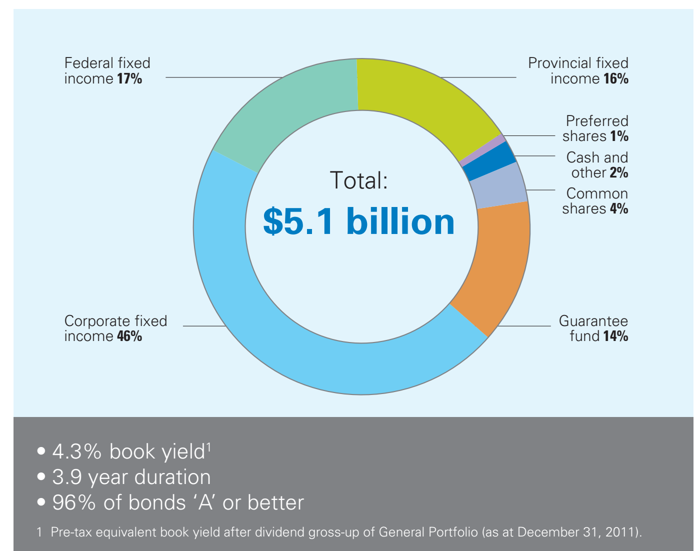
Capital management flexibility

We ended 2011 with $2.7 billion in shareholders' equity, a regulatory minimum capital test ratio of 162% and a modest debt-to-total capital ratio of 14%. As well, our operating insurance company ratings were confirmed during the year as AA by DBRS and AA(low) by S&P. Our strong capital position and high credit ratings demonstrate our financial strength and financial flexibility.

Ordinary quarterly dividends on our common shares are a priority. We increased our quarterly dividend by 12% to $0.29 per common share in the fourth quarter of 2011. We will continue to maintain capital flexibility while continuing to optimize our capital structure to enhance our returns to shareholders and create shareholder value.

High-quality investment portfolio

Our $5.1 billion investment portfolio generated investment income of $179 million, including net investment gains. The portfolio is well positioned with a duration of 3.9 years and the pre-tax equivalent book yield of 4.3%. We do not expect any material change in asset mix and actively manage the portfolio to maintain high credit quality and to deliver solid after-tax returns while preserving capital and diversifying risk.



- 4.3% book yield[1]
- 3.9 year duration
- 96% of bonds 'A' or better

1 Pre-tax equivalent book yield after dividend gross-up of General Portfolio (as at December 31, 2011).

Management roundtable Q & A

Brian Hurley
Chairman and
Chief Executive Officer

What challenges do you see for your business in the short term?

For any business leader – no matter what country you operate in – the uncertain global environment has to be a key watch item. While we have weathered the storm relatively well here in Canada, consumer confidence, sentiment and behaviour can be influenced by the world around us. For our own market, consumer debt is something we need to keep a watchful eye on. And this includes other debt in addition to mortgage debt. For us, maintaining our approach to prudent underwriting and risk management will help maintain our strong performance.

. . . and how about opportunities?

We are entering 2012 with some solid momentum on numerous fronts. We are making progress on market penetration, improving our analytics and doing a good job managing our capital. That's our opportunity – to continue to build on those key aspects of our business. Executing well on one of these levers can be impactful – but having a focused effort that can drive results simultaneously across various aspects of the business could have a positive and powerful net effect on the business overall.

Philip Mayers
Chief Financial Officer

How do you view effective capital management?

Our mortgage insurance business consistently generates profits, and as a result, we are self-funding. We spend a lot of time analyzing how our business would perform under different economic scenarios and the potential impacts on our capital position. We will continue to proactively manage our capital base, fund growth opportunities, and meet our dividend commitments, while maintaining our strong credit ratings. Our capital base is strong, and we have capital flexibility going forward as a result of our modest leverage and strong regulatory capital ratios.

How do you approach your investment portfolio and do you anticipate any changes?

We deliberately maintain a high-quality portfolio given our insurance risk profile. This conservative approach to investments delivers a steady income stream, contributing about one-third of our net operating income. We primarily focus on high-quality fixed income investments with a small allocation to dividend-paying equities. Despite the current low rates, we are maintaining the relatively short duration at 3.9 years so that we can take advantage of higher rates when the time comes. We are pleased that we were able to generate a 4.3% yield on the general investment portfolio.

Going forward, we expect implementation of the new government guarantee legislation sometime in 2012 to be positive for the investment portfolio. At that time, the federal government investments held in the segregated guarantee fund will become a part of our general portfolio, and we will no longer have to pay certain fees, resulting in increased investment income.

Debbie McPherson
Senior Vice-President,
Sales & Marketing

How has the way you do business changed over the last three years?

The ability to adapt to change is one of the most important strengths of any organization. And the changes we have seen over the past three to five years impact not only our industry but the way all companies do business. The rise of social media has forced us to revisit our strategy and come up with new ways to differentiate our value proposition. It's no longer about product offerings, but about service innovation. We need to constantly reassess our levels of service to make sure we're doing all we can to increase customer satisfaction and loyalty. We have also had to invest in a variety of marketing initiatives to increase brand awareness and consumer knowledge.

How do you grow market share in a heavily regulated environment?

We continue to do what we do best – and in our case, that's providing outstanding service, responding to client needs, and helping Canadians achieve homeownership responsibly. Our regulatory environment is praised by countries around the world because of how it has prevented the Canadian economy from the financial crisis seen in the United States and Europe. So although new rules over the last few years have changed the way we can interact with our clients, they have forced us to think outside the box and find other ways to enhance our service offering. We added securitized structured products expertise to our sales force, increased our market outreach to key influencers, such as brokers, real estate agents and builders, and restructured the way our teams interact with clients to provide a more user-friendly experience at both the account manager level and within underwriting. As a result, we saw our market share grow in 2011 and we anticipate further growth throughout 2012.

Stuart Levings
Chief Operations
Officer and acting
Chief Risk Officer

To what do you attribute the strength of Genworth's insurance portfolio?

Our strength lies in our comprehensive approach to risk management, where we focus on three key areas: writing high-quality new business; portfolio monitoring and analytics; and mitigating losses when they occur. High-quality business means insuring loans that are well diversified across credit score, geography and loan-to-value. We look for strong credit profiles and avoid excess concentrations of risk in any one area. Secondly, we constantly monitor portfolio performance. We look for trends in distribution and performance at a variety of levels including geographic region, product, loan-to-value and credit score. And finally, we engage in active loss mitigation programs. So whether it's a workout where we are keeping families in their homes, thereby preventing a claim, or an asset management strategy where we control the process to reduce costs and overall severity, the end result is improved overall loss performance.

What are Genworth's top priorities from a risk and underwriting perspective?

Our main priority in risk management is to make sure we balance our underwriting operations with the appropriate risk appetite. We want our premiums to accurately reflect the risk that we take on. Maintaining a high-quality portfolio is critical, and we will not compromise on this. Diversity across geographies, credit scores, property types and year of origination is essential so that we are not impacted greatly by a single regional economic event. Driving top analytics, having a deep knowledge of the factors that drive risk, being smart about loss mitigation, and balancing risk with good business are key success factors.

Corporate responsibility

Genworth Canada is committed to helping build stronger communities across Canada. We do this by enabling responsible homeownership, promoting financial literacy, and supporting local and national causes that our people believe in. Our values – heart, integrity and excellence – guide our people, in everything they do, at work and in their communities.

Enabling responsible homeownership

In 2011 we helped 82,219 Canadians achieve their dream of homeownership. We work together with lenders, acting as a second set of eyes, to make sure that lending decisions are sound and to protect and preserve the stability of our housing market. We are also committed to educating first-time homebuyers so they can make responsible homeownership decisions. Our consumer website – homeownership.ca – gives homebuyers access to the information and tools they need to make safe and informed decisions.

Promoting financial literacy

As a leader in mortgage education, we are committed to helping homebuyers elevate their financial understanding. Together with the Canadian Association of Credit Counselling Services (CACCS) we conducted a series of seminars across Canada teaching the basics of financial fitness and how to achieve financial goals. We also conducted our annual financial fitness survey with CACCS in order to keep a pulse on the financial fitness levels of Canadians, their consumer confidence and their views on homeownership. We continue to work with CACCS to support financial literacy initiatives across Canada.

Supporting the communities we serve

Last year marked the second year of our "Path to Home" program – a $1 million three-year commitment to provide homebuilding grants to Habitat for Humanity affiliates across Canada. Many of our employees sit on Habitat boards and participate in build projects throughout the country. It was also the fifth anniversary of our Meaning of Home Contest – a national writing contest for students in grades 4, 5 and 6 that has resulted in more than $450,000 being donated by Genworth Canada to more than 30 Habitat for Humanity Canada affiliates.

Photo courtesy of *The Guardian* newspaper of Prince Edward Island.

Genworth Canada United Way Campaign Committee, holding 2011 United Way of Oakville Award.

We also support several other national and international causes, and once again we achieved a record-breaking United Way campaign, raising $100,000 in support of United Way programs across Canada.

Many of our employees are also active in their communities and have contributed their time to various local causes, including: The British Columbia Society for the Prevention of Cruelty to Animals (Vancouver); Eden Foodbank (Mississauga); Hope Cottage (Halifax); and La Maison Benoît Labre (Montréal).

Chairman's Award recipients

Yvonne Burghardt-McEwan
Financial Controller
6 years of service

Yvonne was the main driver in the successful transformation of the Company's financial statements to conform with IFRS. This project was a significant undertaking, requiring extensive research and understanding of accounting principles. Because of Yvonne's efforts, the Company's transition to IFRS was seamless.

Jay Iyer
Senior Risk Analyst
8 years of service

Jay played an instrumental role in several high-priority analytical projects. She consistently went above and beyond to achieve her goals. Her portfolio analytical work provided management with the necessary detail to adequately explain results to investors and our Board. Jay also acted as a coordinator for our Habitat for Humanity involvement.

The annual Chairman's Award of Excellence recognizes Genworth Canada employees who consistently work within their teams to maximize business performance while focusing on the customer and providing innovative solutions.

Jason Neziol
VP, Regional Sales, Ontario & GTA
12 years of service

Jason was extremely effective in managing the Ontario Region during 2011 and keeping his sales team focused on the necessary activities to grow our business and support lenders through servicing, training and visibility. He has continued to deepen relationships with senior-level customers and is responsible for several new high-profile relationships.

Kimberley Oroszy
Senior Escalation Officer
12 years of service

Kimberley works closely with our sales teams and our customers to find solutions to challenging mortgage applications. She continually provides outstanding customer service while balancing the needs of the business. Her efforts have made a tremendous contribution to our business by improving the decision-making process.

Good corporate governance

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

In conversation with our Lead Director, Sidney Horn

What were some of the Board's key accomplishments in 2011?

While the financial service and housing sectors have experienced many challenges over the past few years, we have been able to deliver strong sustainable results to our shareholders, customers, employees and communities where we do business.

You should have confidence that your Board is committed to maintaining a high standard of corporate governance. As part of that commitment, we participate in strategic planning sessions with management each year. The Board has devoted considerable time to becoming better educated on, and obtaining a better understanding of, the components of the business, its performance and its challenges. In particular, the Board has spent time learning about International Financial Reporting Standards (IFRSs), the dynamics of the housing market, the current regulatory and competitive environment, business risks, and the use of capital. We believe that a thorough knowledge of the business is critical in order for us to be of assistance to management in implementing business strategy and achieving goals.

What is the Board's focus and direction going forward?

We continue to strengthen our capital and risk management oversight, with a focus on internal risk management controls, policies and procedures. We also engage directly in discussions with regulators and key stakeholders on a range of issues. I believe our open and transparent approach serves shareholders well. By maintaining a focus on the current environment, this Board can take steps to position the Company for the future and be able to respond prudently and quickly to challenges and opportunities as they arise. This Board is hard-working, thoughtful, and stays well informed.

The Board fully supports and endorses management's focused strategy. We are committed to working closely with Brian and his team to accomplish the objectives at hand.

Sidney Horn
Lead Director

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

The Board of Directors

Genworth MI Canada Inc. Board Members

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 Genworth Financial Mortgage Insurance Company Canada from 1994 to 1996.

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

Mr. Horn has been a director of Genworth Financial Mortgage Insurance Company Canada since 1995. He is Chair of the Compensation and Nominating Committee and is the Company's Lead Director. Mr. Horn is a partner at Stikeman Elliott LLP and specializes in commercial, corporate and securities law. He is also a director of Astral Media Inc. and the Wet Seal Inc.

Robert Brannock

Mr. Brannock is President and Chief Executive Officer of Genworth Financial, Europe. He was previously a director of Genworth Financial Mortgage Insurance Company Canada 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 Genworth Financial Mortgage Insurance Company Canada 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 Wescam Inc., Spinrite Income Fund and Husky Injection Molding Systems Ltd.

Brian Kelly(1)(3)(5)

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

Samuel Marsico(3)

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

Leon Roday(2)

Mr. Roday is the Senior Vice-President, General Counsel and Secretary of Genworth Financial Inc. Prior to joining Genworth Financial Inc. in 1996, he was a partner at LeBoeuf, Lamb, Greene, and McRae, a U.S. 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 from KPMG Peat Marwick and has held various senior financial management positions, including SVP/Chief Financial Officer, International.

John Walker(5)

Mr. Walker has been a director of Genworth Financial Mortgage Insurance Company Canada since 1996. He is a founding partner at Walker Sorensen LLP, specializing in advising insurance and reinsurance companies. He has served as a member of the board of directors of a number of financial institutions, including TD Trust Company and Concordia Life Insurance Company.

Genworth Financial Mortgage Insurance Company Canada Board Members

All of the people listed as being directors of Genworth MI Canada Inc. are also directors of Genworth Financial Mortgage Insurance Company Canada. In addition to such people, the following individuals are also directors of Genworth Financial Mortgage Insurance Company Canada:

Heather Nicol

Ms. Nicol joined the Board of Genworth Financial Mortgage Insurance Company Canada in June 2011. She has held several senior financial management positions, including Chief Financial Officer for the MaRS Discovery District and Chapters Online, as well as investment banking roles including Vice-President for BMO Nesbitt Burns (previously Burns Fry Inc.). She was also a founding board member of Desjardins Credit Union.

David Gibbins

Mr. Gibbins has been a director of Genworth Financial Mortgage Insurance Company Canada since 2007. He is also a director of Certifi Media and Patient Care Automated Services (P.C.A.S.), two private corporations. He has held senior financial management positions including Managing Director, Global Head, RBC Capital Markets.

Genworth Financial Mortgage Insurance Company Canada's Board of Directors has three (3) committees, an Audit Committee, comprised of the same members as the Company's Audit Committee; a Conduct Review Committee, comprised of Brian Kelly, Jerome Upton and John Walker; and a Risk, Capital and Investment Committee, comprised of the same members as the Company's Risk, Capital and Investment Committee.

Shareholder information

Genworth MI Canada Inc.
2060 Winston Park Drive
Suite 300
Oakville, Ontario L6H 5R7
Tel: 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, 2011, there were 98,666,796 common shares outstanding.

Independent auditor

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

Registrar and transfer agent

Canadian Stock Transfer Company, Inc.
320 Bay Street, P.O. Box 1
Toronto, Ontario M5H 4A6
Tel: 416-643-5000
Fax: 416-643-5570
www.canstockta.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 Canadian Stock Transfer Company.

Investor relations

Shareholders, security analysts and investment professionals should direct 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 general meeting of shareholders

Date: Thursday, June 14, 2012
Time: 10:30 a.m. (EST)
Location: Le Meridien King Edward Hotel
The Belgravia Room
37 King Street East
Toronto, Ontario M5C 1E9

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
Tel: 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
Tel: 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-IFRS financial measures," also apply to this Annual Report and all information and documents included herein. These documents can be found at www.sedar.com.

2011 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.

Dividend declaration dates

	Declaration date	Record date	Date payable	Amount per common share
Regular dividend	February 1, 2011	February 15, 2011	March 1, 2011	$0.26
Regular dividend	May 2, 2011	May 16, 2011	June 1, 2011	$0.26
Regular dividend	July 27, 2011	August 15, 2011	September 1, 2011	$0.26
Regular dividend	November 3, 2011	November 15, 2011	December 1, 2011	$0.29
Special dividend	November 3, 2011	November 15, 2011	December 1, 2011	$0.50

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www.genworth.ca

We make
homeownership
possible.

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Suite 300
Oakville, Ontario L6H 5R7
Tel: 905-287-5300
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www.genworth.ca

FSC logo

Genworth MI Canada Inc.

2011 Financial Report

Enabling Homeownership.
Creating Value.

Genworth MI Canada Inc.

We are Canada's leading private mortgage insurer with a history dating back to 1995. Known as Genworth Canada, "The Homeownership Company," we provide default mortgage insurance to Canadian residential mortgage lenders that enables low down payment borrowers to own a home more affordably and stay in their homes during difficult financial times.

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. Our customer-focused strategy, active risk management platform and financial strength position us well for delivering ongoing profitability.

As of December 31, 2011, Genworth Canada had $5.4 billion in total assets and $2.7 billion in shareholders' equity. The Company is based in Oakville, Ontario, and has approximately 260 employees across Canada.

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Management's Discussion and Analysis

For the fourth quarter and year ended December 31, 2011

February 23, 2012

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

The full three and twelve-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 months and the years ended December 31, 2011 and December 31, 2010.

Effective January 1, 2010, the Company adopted International Financial Reporting Standards ("IFRSs"). The audited condensed consolidated annual financial statements of the Company were prepared in accordance with IFRSs. This MD&A should be read in conjunction with these financial statements.

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.

Unless the context otherwise requires, all financial information is presented on an IFRSs basis.

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-IFRSs financial measures

To supplement its financial statements, the Company uses select non-IFRSs financial measures. Non-IFRSs 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. Other non-IFRSs measures include shareholders equity excluding AOCI, insurance in force, new insurance written, MCT ratio, delinquency ratio, severity on claims paid, operating earnings per common share (basic and diluted), book value per common share (basic and diluted; including and excluding AOCI), dividends paid per common share, and portfolio duration. The Company believes that these non-IFRSs 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-IFRSs measures do not have standardized meanings and are unlikely to be comparable to any similar measures presented by other companies. See "Non-IFRSs Financial Measures" at the end of this MD&A for a reconciliation of operating income to net income, and operating earnings per common share to earnings per common share. 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.

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. 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 main 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. The variations in premiums written 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, age, seasonality and geographic mix of delinquencies. 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 changes, mortgage origination volume, mortgage delinquencies and changes in the regulatory environment.

The current forecast of selected economic indicators for 2011 and 2012 is presented in the table below.

Canadian economic indicators	**2011**	2012 forecast
National unemployment rate	**7.5%**[(1)]	7.4%[(4)]
5-year Government of Canada bond yield	**1.28%**[(2)]	2.10%[(5)]
Change in national average home price	**7%**[(3)]	0%[(6)]

Source:
(1) Statistics Canada Labour Force Survey – December unemployment rate (January 6, 2012).
(2) Bloomberg – 5-year Government of Canada bond yield as at December 30, 2011.
(3) Teranet – National Bank National Composite House Price Index™ for November 2011 (January 25, 2012).
(4) Management estimate based on consensus economic forecast of the major bank economists (December 2011).
(5) *RBC Financial Markets Monthly* – 5-year Government of Canada bond yield forecasted as at December 31, 2012 (January 12, 2012).
(6) Management estimate based on Canadian Real Estate Association estimate for 2012 (November 15, 2011).

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

While the Company's earned premiums have benefited from amortization of previous large books of business over the past several quarters, that benefit will continue to decrease in the coming quarters as the large 2007 and 2008 books mature past their peak earnings period, and the earned premiums from the relatively smaller 2009 and 2010 books are recognized. Unearned premiums were $1.8 billion at December 31, 2011.

The Company anticipates that, in the upcoming quarter, losses on claims and the associated loss ratio will be impacted by the typical seasonal increases in delinquencies during the winter months. Overall, the Company expects that its loss ratio for 2012 should remain in the 35% to 40% range.

The Company continues to actively manage its approximately $5 billion investment portfolio. This portfolio comprises primarily highly rated fixed income securities. The Company's asset mix includes a small allocation to preferred shares and dividend-paying common shares, which currently offer higher pre-tax equivalent yields. The investment portfolio is well positioned, with a relatively short portfolio duration of 3.9 years and $437 million of maturities occurring in 2012.

The Company manages its capital to ensure capital efficiency and flexibility. At the end of the fourth quarter, the Insurance Subsidiary's minimum capital test ("MCT") was 162%, or 17 points higher than its current internal target of 145%. The Company plans to maintain its capital strength and operate above the Insurance Subsidiary's internal target and 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.

With a strong financial position including $1.8 billion of unearned premiums and $2.7 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.

Recent developments

On October 4, 2011, OSFI released a final guideline (the "OFSI Guidelines") reflecting changes to the MCT originally outlined in the December 2010 *Discussion Paper on OSFI's Proposed Changes to the Minimum Capital Test*. The changes include refining the asset risk factors applied to balance sheet assets and adding new capital charges for interest rate risk and foreign exchange risk. Interest rate risk is the risk of economic loss resulting from changes in interest rates related to interest rate–sensitive assets and liabilities. Foreign exchange risk is the risk of loss resulting from fluctuations in currency exchange rates. The estimated impact of these changes as at January 1, 2012 is approximately seven points reduction in the MCT ratio to 155%. The ultimate impact of these changes may increase or decrease subject to future regulatory developments. The Company expects that it will continue to exceed its internal MCT ratio target of 145% following the changes set out in the OFSI Guideline that took effect on January 1, 2012.

On June 26, 2011, the *Protection of Residential Mortgage or Hypothecary Insurance Act* ("PRMHIA") was passed by Parliament. The stated purposes of the PRMHIA are "(a) to authorize the Minister to provide protection in respect of certain mortgage or hypothecary insurance contracts in order to support the efficient functioning of the housing finance market and the stability of the financial system in Canada; and (b) to mitigate the risks arising from the provision of that protection."[1]

While the PRMHIA does not change the level of government guarantee provided on privately insured mortgages, it formalizes in legislation the existing mortgage insurance arrangements with private mortgage insurers, including the rules for government-backed insured mortgages and the terms for the existing agreement between the Insurance Subsidiary and the Canadian government (the "Government Guarantee Agreement"). The Government Guarantee Agreement will terminate when the provisions of PRMHIA come into force. The provisions of the PRMHIA come into force when the regulations referenced in the legislation are finalized.

(1) *Protection of Residential Mortgage or Hypothecary Insurance Act, S.C. 2011, c.15, s.20.*

The key provisions of the PRMHIA are as follows:

- The Company can only insure risk in respect of eligible mortgage loans and other risks as permitted by regulations.
- The government can establish by regulation various criteria for approved mortgage insurers. This includes, but is not limited to, the fee that the insurer will pay for the guarantee, the reinsurance activities that can be conducted, business activities beyond insuring eligible mortgages, and information made available to the public.
- The Company's existing Government Guarantee Agreement will terminate when the PRMHIA becomes effective. All risks covered by the Government Guarantee Agreement will continue to be covered under the PRMHIA.
- Upon termination of the Government Guarantee Agreement, the government guarantee fund will no longer exist. All investments and money held in the guarantee fund will revert to the Company. It is anticipated that the Company will pay a fee to the Government of Canada similar to the risk premium paid under the existing Government Guarantee Agreement. At present, the government guarantee fund (net of the related deferred tax impact) is deducted from capital available for MCT purposes.
- The Minister of Finance may require the Company to maintain capital above that required to be maintained under the *Insurance Companies Act* (the "ICA").

While the Company does not anticipate any significant changes to its current or future business prospects as a result of the legislative change to the Government Guarantee Agreement, a full assessment of the impact on the Company's business cannot be completed until the regulations referenced in the legislation have been finalized.

Results of operations

This is the fourth quarter that the Company has reported its unaudited financial results in accordance with IFRSs. Certain accounting and measurement methods previously applied under Canadian generally accepted accounting principles ("Canadian GAAP") were amended to comply with IFRSs. To date, the transition to IFRSs has not increased or decreased the volatility of financial results relative to Canadian GAAP. The Company is monitoring developments in standards, notably IFRS 4 – Insurance Contracts ("IFRS 4"), that may introduce volatility to financial results in the future. A detailed discussion of the impact of the transition from Canadian GAAP to IFRSs can be found in the "Changes in Accounting Policies" section of this MD&A.

The following table sets forth certain financial information for the three and twelve months ended December 31, 2011 and 2010.

(in millions, unless otherwise specified)	For the quarter ended Dec. 31, 2011	For the quarter ended Dec. 31, 2010	For the twelve months ended Dec. 31, 2011	For the twelve months ended Dec. 31, 2010
Income statement data				
Net premiums written	**$ 123**	$ 134	**$ 533**	$ 552
Net premiums earned	**156**	156	**612**	621
Losses on claims and expenses:				
Losses on claims	**62**	50	**225**	206
Expenses	**26**	28	**101**	103
Total losses on claims and expenses	**88**	78	**326**	309
Net underwriting income	**68**	78	**287**	312
Net investment income	**43**	44	**179**	183
Interest expense	**(6)**	(4)	**(23)**	(8)
Income before income taxes	**106**	118	**443**	486
Net income	**79**	85	**323**	348
Net operating income[1]	**$ 79**	$ 84	**$ 318**	$ 343
Selected ratios and other items				
Insurance in force	**$ 265,776**	$ 244,725	**$ 265,776**	$ 244,725
New insurance written	**6,224**	6,537	**26,586**	27,468
Loss ratio	**39%**	32%	**37%**	33%
Expense ratio	**17%**	18%	**17%**	17%
Combined ratio	**56%**	50%	**53%**	50%
Operating return on equity[(1)]	**13%**	14%	**13%**	14%
MCT ratio	**162%**	156%	**162%**	156%
Delinquency ratio	**0.20%**	0.26%	**0.20%**	0.26%
Severity on claims paid	**31%**	30%	**32%**	27%
Earnings per common share (basic)	**$ 0.80**	$ 0.81	**$ 3.18**	$ 3.08
Earnings per common share (diluted)	**$ 0.80**	$ 0.80	**$ 3.17**	$ 3.05
Operating earnings per common share (basic)[1]	**$ 0.80**	$ 0.81	**$ 3.13**	$ 3.04
Operating earnings per common share (diluted)[1]	**$ 0.80**	$ 0.80	**$ 3.12**	$ 3.01
Weighted average number of common shares outstanding				
Basic	**98,666,796**	104,789,394	**101,686,715**	112,850,311
Diluted	**98,890,074**	105,908,690	**102,003,573**	113,940,471

Notes: Amounts may not total due to rounding.

(1) This is a financial measure not calculated based on IFRSs. See the "Non-IFRSs Financial Measures" section at the end of this MD&A for additional information.

The following tables set forth the impact of transition to IFRSs on net income and net operating income for the three and twelve months ended December 31, 2010. A detailed discussion of the impact of the transition from Canadian GAAP to IFRSs can be found in the "Changes in Accounting Policies" section of this MD&A.

(in thousands)	For the quarter ended Dec. 31, 2010	For the twelve months ended Dec. 31, 2010
Canadian GAAP net income	**$ 84,328**	**$ 348,726**
Employee future benefits – prior service costs	62	245
Employee future benefits – net actuarial gains or losses	3	15
Share-based compensation	638	698
Tax impact of above changes	(207)	(282)
Tax adjustment – treatment of IPO expenses	—	(1,420)
Total impact of transition to IFRSs	**496**	**(744)**
IFRSs net income	**$ 84,824**	**$ 347,982**

(in thousands)	For the quarter ended Dec. 31, 2010	For the twelve months ended Dec. 31, 2010
Net operating income reported under Canadian GAAP	**$ 83,951**	**$ 343,448**
Total impact of transition to IFRSs	496	(744)
Net operating income reported under IFRSs	**$ 84,447**	**$ 342,704**

Fourth quarter highlights

Compared to the fourth quarter of 2010:

- Net income decreased by $6 million, or 7%, and net operating income decreased by $5 million, or 6%, to $79 million. These decreases were attributable primarily to an increase in losses on claims.
- Net premiums written decreased by $11 million, or 8%, to $123 million, which the Company believes was due to a smaller residential housing market.
- Premiums earned were flat at $156 million.
- Losses on claims increased by $11 million, or 22%, to $62 million, primarily as the result of reserve strengthening on the existing delinquencies from the 2007 and 2008 books, particularly in Alberta, which was partially offset by an accrual for expected recoveries.
- The MCT ratio was 162%, an increase of six points, primarily due to the increase in retained earnings from the Company's continued profitability and the net increase in unrealized gains of the investment portfolio.
- The transition to IFRSs did not have a material impact on the Company's financial results or key ratios.

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

(in millions, unless otherwise specified)	For the quarter ended December 31, 2011	2010[2]	Increase (decrease) and percentage change Q4'11 vs. Q4'10	
Net premiums written	**$ 123**	$ 134	$ (11)	(8)%
Net premiums earned	**$ 156**	$ 156	$ —	0%
Losses on claims and expenses:				
Losses on claims	**62**	50	11	22%
Expenses	**26**	28	(2)	(7)%
Total losses on claims and expenses	**88**	78	10	13%
Net underwriting income	**68**	78	(10)	(13)%
Investment income:				
Interest and dividend income, net of investment expenses	**42**	43	(1)	(2)%
Net gains on investments[1]	**1**	1	—	0%
Guarantee fund earnings	**—**	1	(1)	NM
Total investment income	**43**	44	(1)	(2)%
Interest expense	**(6)**	(4)	2	50%
Income before income taxes	**106**	118	(12)	(10)%
Provision for income taxes	**26**	33	(7)	(21)%
Net income	**79**	85	(6)	(7)%
Adjustment to net income:				
Net gains on investments, net of taxes	**—**	(1)	(1)	NM
Net operating income	**$ 79**	$ 84	$ (5)	(6)%
Effective tax rate	**25%**	28%	—	(3) pts
Operating return on equity	**13%**	14%	—	(1) 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 net realized gains (losses) on sale of available-for-sale investments and change in unrealized gains (losses) on fair value through profit or loss (FVTPL) investments.

(2) Detailed discussion of the impact of transition from Canadian GAAP to IFRSs can be found in the "Changes in Accounting Policies" section of this MD&A.

Fourth quarter 2011 compared to fourth quarter 2010

New insurance written on high loan-to-value mortgages decreased by $0.5 billion, or 9%, to $5.2 billion in the fourth quarter of 2011 as compared to the prior year's period, primarily due to a $0.8 billion decrease in new insurance written on refinance transactions. New insurance written on purchase transactions of high loan-to-value mortgages increased by $0.3 billion, or 6%, to $4.2 billion. As compared to the prior year's period, the Company believes new insurance written was impacted by a smaller residential housing market, particularly for high loan-to-value refinance transactions, which the Company believes was related to the government guarantee product changes that reduced the maximum amortization from 35 to 30 years and reduced the maximum loan-to-value ratio on refinance transactions from 90% to 85%.

Net premiums written decreased by $11 million, or 8%, to $123 million in the fourth quarter of 2011 as compared to the prior year's period. Improved market penetration was offset by lower new insurance written for high loan-to-value mortgages, resulting from a smaller residential housing market this quarter as compared to the prior year's period. Premiums from low loan-to-value mortgages of $5 million were comparable to those of the prior year's period.

Net premiums earned were flat at $156 million in the fourth quarter of 2011 as compared to the prior year's period as declining earnings from the large 2007 and 2008 books were offset by the increasing earnings from the smaller 2010 and 2011 books. Net premiums earned included $13 million of additional premiums earned, resulting from the quarterly update to the premium recognition curve, consistent with the prior year's period.

Losses on claims increased by $11 million, or 22%, to $62 million, as compared to the prior year's period. The Company continues to realize savings from its loss mitigation programs, including workout and asset management initiatives. During the three months ended December 31, 2011, loss reserves were strengthened to reflect continued pressure and the resulting increase in severity, primarily from the 2007 and 2008 books, particularly in Alberta.

The reserve strengthening was partially offset by a $21 million accrual for expected recoveries related to paid claims and loss reserves that decreased losses on claims and increased salvage and subrogation recoverable. When claims are paid, the Company typically obtains a legally enforceable judgment against the borrowers for the amount of the loss incurred. The Company actively engages in collection activities to recover monies from borrowers under these judgments and has built a history of successful collection activities over the past three years. As a result, the Company can now reliably estimate the expected recovery rate and recorded a $21 million accrual for recoveries.

Expenses decreased by $2 million, or 7%, to $26 million, as compared to the prior year's period, primarily as a result of lower stock-based compensation expense and lower professional fees.

Total investment income, including guarantee fund earnings and net investment gains, decreased by $1 million, or 2%, to $43 million in the fourth quarter of 2011 as compared to the prior year's period. Interest and dividend income from the general investment portfolio decreased by $1 million, or 2%, to $42 million as a $1 million increase in dividend income in the current quarter was offset by a $2 million decrease in interest income, partially the result of additional income from a bond call in the comparative period. While investment income declined, as compared to the prior year's period, the pre-tax equivalent book yield increased to 4.3%, as compared to 4.2% in the prior year's period, primarily due to the favourable impact of the increase in non-taxable dividend income in the fourth quarter of 2011. Net investments gains were $1 million in the fourth quarter of 2011, due to modest equity portfolio repositioning, as compared to net investment gains of $1 million in the fourth quarter of 2010, arising primarily from the recovery in market value of FVTPL investments in 2010.

Interest expense increased by $2 million, or 50%, to $6 million in the three months ended December 31, 2011, as compared to the prior year's period, as a result of a $150 million increase in debt outstanding on December 16, 2010. The $150 million debt was outstanding during the full period in the three months ended December 31, 2011, as compared to only 15 days in the prior year's period.

The effective tax rate decreased by three points to 25% in the fourth quarter ended December 31, 2011 as compared to the prior year's period. This decrease is primarily the result of lower substantively enacted income tax rates in 2011 compared to 2010 and an increase in non-taxable dividend income.

2011 highlights

Compared to the twelve months ended December 31, 2010:

- Net income and net operating income decreased by 7% to $323 million and $318 million, respectively, attributable primarily to higher losses on claims, lower earned premium and a full year of interest expense related to the debentures issued in the second and fourth quarters of 2010.
- Net premiums written decreased by 3% to $533 million, which the Company believes was the result of improved market penetration offset by a smaller residential housing market.
- Premiums earned decreased by 1% to $612 million as the contribution to earned premium from the large 2007 and 2008 books decreased, partially offset by an increased contribution to earned premium from the smaller 2010 and 2011 books.
- Losses on claims increased by 9% to $225 million, due primarily to a higher average claim size for Alberta delinquencies from the 2007 and 2008 books and reserve strengthening in the fourth quarter of 2011, which was partially offset by an accrual for expected recoveries.
- The MCT ratio was 162%, an increase of six points, primarily due to the increase in retained earnings from the Company's continued profitability and an increase in net unrealized gains on the investment portfolio.
- The transition to IFRSs did not have a material impact on the Company's financial results or key ratios.

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

	For the twelve months ended December 31		Increase (decrease) and percentage change	
(in millions, unless otherwise specified)	**2011**	2010[2]	2011 vs. 2010	
Net premiums written	**$ 533**	$ 552	$ (19)	(3)%
Net premiums earned	**$ 612**	$ 621	$ (9)	(1)%
Losses on claims and expenses:				
Losses on claims	**225**	206	19	9%
Expenses	**101**	103	(2)	(2)%
Total losses on claims and expenses	**326**	309	17	6%
Net underwriting income	**287**	312	(25)	(8)%
Investment income:				
Interest and dividend income, net of investment expenses	**169**	172	(3)	(2)%
Net gains on investments[1]	**7**	8	(1)	(13)%
Guarantee fund earnings	**3**	4	(1)	(25)%
Total investment income	**179**	183	(4)	(2)%
Interest expense	**(23)**	(8)	15	NM
Income before income taxes	**443**	486	(43)	(9)%
Provision for income taxes	**120**	138	(18)	(13)%
Net income	**323**	348	(25)	(7)%
Adjustment to net income:				
Net gains on investments, net of taxes	**(5)**	(5)	—	0%
Net operating income	**$ 318**	$ 343	$ (25)	(7)%
Effective tax rate	**27%**	28%	—	(1) pts
Operating return on equity	**13%**	14%	—	(1) 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 net realized gains (losses) on sale of available-for-sale investments and change in unrealized losses on fair value through profit or loss (FVTPL) investments.

[2] Detailed discussion of the impact of transition from Canadian GAAP to IFRSs can be found in the "Changes in Accounting Policies" section of this MD&A.

Full year 2011 compared to full year 2010

New insurance written on high loan-to-value mortgages decreased by $1.3 billion, or 6%, to $22 billion in the twelve months ended December 31, 2011 as compared to the prior year's period, primarily due to a $1.8 billion decrease in new insurance written on refinance transactions. New insurance written on purchase transactions of high loan-to-value mortgages marginally increased by $0.5 billion, or 3%, to $17 billion, as compared to the prior year's period. The Company believes that improved market penetration was offset by a smaller residential housing market, particularly for high loan-to-value refinance transactions, which the Company believes was related to the government guarantee product changes, in March and April 2011, which reduced the maximum amortization from 35 to 30 years and reduced the maximum loan-to-value ratio on refinance transactions from 90% to 85%.

Net premiums written decreased by $19 million, or 3%, to $533 million in the twelve months ended December 31, 2011 as compared to the prior year's period. Improved market penetration, as estimated by the Company, was offset by a smaller residential housing market for high loan-to-value transactions, primarily fewer refinance transactions, for a net decrease of $23 million on the Company's high loan-to-value business as compared to the prior year's period. Offsetting this decrease, the Company's low loan-to-value business increased by $4 million as compared to the prior year's period.

Net premiums earned decreased by $9 million, or 1%, to $612 million in the twelve months ended December 31, 2011 as compared to the prior year's period, as the large 2007 and 2008 books contributed less to premiums earned, partially offset by an increased contribution from the smaller 2010 and 2011 books. Net premiums earned included $39 million of additional premiums earned, resulting from quarterly updates to the premium recognition curve, as compared to $48 million in the prior year's period.

Losses on claims increased by $19 million, or 9%, to $225 million in the twelve months ended December 31, 2011 as compared to the prior year's period. The Company continues to realize savings from its loss mitigation programs, including workout and asset management initiatives. During the twelve months ended December 31, 2011, loss reserves were strengthened to reflect increased severity primarily from the 2007 and 2008 books, particularly in Alberta, which offset the benefits from improved housing and job markets in the rest of Canada. The Company believes that the Alberta housing market has improved over the last twelve months but remains a buyer's market. As a result, the average paid claim severity in Alberta remains elevated at $103,000, and the average paid claim severity on a national basis increased by five points to 32%. The reserve strengthening on existing delinquencies was offset by an 11% decline in the number of net new delinquencies in 2011, as compared to the prior year's period, and an adjustment for expected recoveries, which resulted in a $21 million decrease to losses on claims and a corresponding increase to subrogation recoverable.

Expenses decreased by $2 million, or 2%, to $101 million in the twelve months ended December 31, 2011, as compared to the prior year's period, as lower stock-based compensation expense offset higher expenses from lower net deferred policy acquisition costs.

Total investment income, including government guarantee fund earnings and net investment gains, decreased by $4 million, or 2%, to $179 million in the twelve months ended December 31, 2011 as compared to the prior year's period. Interest and dividend income from the general portfolio decreased by $3 million, or 2%, to $169 million as compared to the prior year's period. An increase of $6 million in dividend income in the twelve months ended December 31, 2011 was offset by a decrease of approximately $9 million in interest income driven by reinvestment rate pressures. While investment income declined as compared to the prior year's period, the pre-tax equivalent book yield increased to 4.3%, as compared to 4.1% in the prior year's period, due primarily to the favourable impact of the increase in non-taxable dividend income. Government guarantee fund earnings decreased by $1 million as compared to the prior year's period, primarily due to the increase in exit fees as compared to the prior year's period. Net investments gains were $7 million for the twelve months ended December 31, 2011, due to modest equity portfolio repositioning and the recovery of the FVTPL investments that were sold in the second quarter of 2011, as compared to net investment gains of $8 million for the twelve months ended December 31, 2010, due to modest realized gains and the recovery of FVTPL investments in 2010.

Interest expense increased by $15 million in the twelve months ended December 31, 2011, to $23 million as a result of the issuance of $275 million in debt on June 29, 2010 and $150 million in debt on December 16, 2010. During 2011, the debt was outstanding during the full annual period.

The effective tax rate decreased by one point to 27% in the twelve months ended December 31, 2011 as compared to the prior year's period. This decrease is primarily the result of lower substantively enacted income tax rates in 2011 and an increase in non-taxable dividend income in 2011, partially offset by a favourable $5 million adjustment in 2010 realized upon filing of the 2009 year-end tax return and a further favourable adjustment of $4 million in 2010 resulting from a decrease in substantively enacted income tax rates applicable to the Company's deferred taxes. Income taxes for the twelve months ended December 31, 2011 include $2 million of additional tax expense related to an adjustment in the tax rate used to calculate deferred taxes related to the government guarantee fund.

Loss and expense ratios

The following table sets forth selected ratios for the three and twelve months ended December 31, 2011 and 2010:

	For the quarter ended December 31		Increase/ (decrease)	For the twelve months ended December 31		Increase/ (decrease)
	2011	2010	Q4'11 vs. Q4'10	**2011**	2010	2011 vs. 2010
Loss ratio	**39%**	32%	7 pts	**37%**	33%	4 pts
Expense ratio	**17%**	18%	(1) pt	**17%**	17%	—
Combined ratio	**56%**	50%	6 pts	**53%**	50%	3 pts

Note: Amounts may not total due to rounding.

Three months ended December 31, 2011 compared to three months ended December 31, 2010

The loss ratio increased by seven points to 39% for the quarter ended December 31, 2011 as compared to the prior year's period, primarily as a result of reserve strengthening partially offset by an accrual for expected recoveries.

The expense ratio decreased by one point to 17% for the quarter ended December 31, 2011 as compared to the prior year's period. The decrease was primarily the result of lower stock-based compensation expense and professional fees.

Full year ended December 31, 2011 compared to full year ended December 31, 2010

The loss ratio increased by four points for the twelve months ended December 31, 2011 as compared to the prior year's period, primarily due to reserve strengthening and Alberta loss pressure partially offset by an accrual for expected recoveries.

The expense ratio remained flat at 17% for the twelve months ended December 31, 2011 as compared to the prior year's period. A decrease in stock-based compensation expense was offset by higher expenses from lower net deferred policy acquisition costs.

Statement of financial position highlights and selected financial data

	As at December 31,	As at December 31,	Increase (decrease) and percentage change	
(in millions, unless otherwise specified)	**2011**	2010[3]	2011 vs. 2010	
Investments:				
General portfolio	**$ 4,332**	$ 4,490	$ (157)	(3)%
Government guarantee fund	**731**	646	85	13%
Other assets	**330**	262	68	26%
Total assets	**5,393**	5,398	(5)	0%
Unearned premium reserves	**1,824**	1,902	(78)	(4)%
Loss reserves	**169**	207	(38)	(18)%
Long-term debt	**422**	422	—	—
Other liabilities	**295**	279	16	6%
Total liabilities	**2,710**	2,810	(100)	(4)%
Shareholders' equity excluding AOCI	**2,468**	2,464	4	0%
Accumulated other comprehensive income ("AOCI")	**215**	124	91	73%
Shareholders' equity	**2,683**	2,589	94	4%
Total liabilities and shareholders' equity	**$ 5,393**	$ 5,398	$ (5)	0%
Selected ratios				
MCT ratio	**162%**	156%	—	6 pts
Book value per common share				
Book value per common share including AOCI (basic)	**$ 27.19**	$ 24.70	$ 2.49	10%
Book value per common share excluding AOCI (basic)	**$ 25.02**	$ 23.52	$ 1.50	6%
Number of common shares outstanding (basic)[1]	**98,666,796**	104,789,394	(6,122,598)	(6)%
Book value per common share including AOCI (diluted)	**$ 26.94**	$ 24.44	$ 2.50	10%
Book value per common share excluding AOCI (diluted)	**$ 24.78**	$ 23.27	$ 1.51	6%
Number of common shares outstanding (diluted)[1]	**99,584,424**	105,907,205	(6,322,781)	(6)%
Dividends paid per common share during the year[2]	**$ 1.57**	$ 0.92	$ 0.65	71%

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 common shares outstanding is caused by the potentially dilutive impact of the grant of share-based compensation units.

(2) Dividends paid per common share reflect payment for the years ended December 31, 2011 and December 31, 2010. The fourth quarter 2011 included a special dividend of $0.50.

(3) Certain accounting and measurement methods previously applied under Canadian GAAP were amended to comply with IFRSs. The comparative figures for 2010 have been restated to reflect these adjustments. A detailed discussion of the impact of transition from Canadian GAAP to IFRSs can be found in the "Changes in Accounting Policies" section of this MD&A.

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

Reserve Development Analysis

(in millions, unless otherwise specified)	**As at Dec. 31, 2011**	As at Dec. 31, 2010	As at Dec. 31, 2009	As at Dec. 31, 2008	As at Dec. 31, 2007
Total loss reserves, at the beginning of the year	**$ 207**	$ 236	$ 172	$ 89	$ 66
Paid claims for prior years' delinquent loans	**(214)**	(200)	(160)	(67)	(36)
Loss reserves for prior years' delinquent loans, at the end of the year (A)	**(45)**	(67)	(71)	(33)	(7)
Favourable (unfavourable) development	**$ (52)**	$ (31)	$ (59)	$ (11)	$ 23
As a percentage of beginning loss reserves	**(25)%**	(13)%	(34)%	(13)%	35%
Loss reserves for current year's delinquent loans, at the end of the year (B)	**124**	140	166	139	82
Total loss reserves at the end of the year (–A+B)	**$ 169**	$ 207	$ 236	$ 172	$ 89

Note: Amounts may not total due to rounding.

The Company experienced adverse reserve development in 2011 of $52 million, or 25% of the opening unpaid claims balance, due primarily to higher claims severity, 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, 2011, the Company had total cash, cash equivalents and invested assets of $4.3 billion in the general portfolio and $731 million in the government guarantee fund established under the Government Guarantee Agreement. Unrealized gains on available-for-sale ("AFS") securities were $250 million in the general portfolio and $67 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

(in millions, unless otherwise specified)	As at December 31, 2011 Fair value	%	Unrealized gains	As at December 31, 2010 Fair value	%
General portfolio					
AFS					
Asset-backed securities	$ 168	4%	$ 9	$ 252	6%
Corporate fixed income					
Financials	1,253	29%	72	1,231	27%
Energy	308	7%	22	302	7%
Infrastructure	258	6%	21	252	6%
All other sectors	384	9%	24	309	7%
Total corporate fixed income	2,203	51%	139	2,095	47%
Short-term federal T-bills	46	1%	—	7	0%
Federal fixed income	808	18%	37	944	21%
Provincial fixed income	810	19%	65	607	13%
Total government fixed income	1,618	37%	102	1,551	34%
Preferred shares					
Financials	12	1%	—	67	1%
Industrial	1	0%	—	1	0%
Energy	10	0%	—	9	0%
Total preferred shares	23	1%	—	77	2%
Common shares					
Energy	65	1%	—	45	1%
Financials	26	1%	(1)	19	0%
Communication	40	1%	—	22	0%
All other sectors	70	1%	2	32	1%
Total common shares	202	5%	1	118	3%
Fair value through profit and loss ("FVTPL")					
Other invested assets	—	0%	—	38	1%
Total invested assets	4,260	98%	250	4,138	92%
Cash and cash equivalents	72	2%	—	351	8%
Total invested assets and cash – general portfolio	$ 4,332	100%	$ 250	$ 4,490	100%
Government guarantee fund					
Federal fixed income – AFS	$ 908	100%	$ 67[1]	$ 779	99%
Cash and cash equivalents	1	0%	—	11	1%
Total invested assets and cash – guarantee fund	$ 909	100%	$ 67	$ 790	100%
Accrued income and contributions	16		—	18	
Accrued exit fees and due to others	(194)			(162)	
Net guarantee fund assets	$ 731		$ 67	$ 646	
Total invested assets and cash	$ 5,063		$ 317	$ 5,135	

Note: Amounts may not total due to rounding.

[1] The $67 million unrealized gain is gross of the $14 million of market value related primarily to exit fees.

Credit Rating – General Portfolio (Excluding Common Shares)

	As at December 31, 2011			As at December 31, 2010	
(in millions, unless otherwise specified)	Fair value	%	Unrealized gains	Fair value	%
Cash and cash equivalents	$ 72	2%	$ —	$ 351	8%
AAA	1,254	30%	60	1,337	30%
AA	1,509	37%	113	1,427	33%
A	1,140	28%	69	1,134	26%
BBB	155	4%	7	122	3%
Below BBB	—	—	—	—	—
Total invested assets and cash (excluding common shares)	$ 4,130	100%	$ 249	$ 4,371	100%

Note: Amounts may not total due to rounding.

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 and provincial government bonds and corporate bonds, which include 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 investment policy, which has been approved by the Board.

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 investment 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.

As at the end of the fourth quarter 2011, the investment portfolio had duration of 3.9 years.

Cash and cash equivalents

Cash and cash equivalents consist primarily of cash in bank accounts and government treasury bills with original maturities of 90 days or less. 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 from $351 million as of December 31, 2010 to $72 million as of December 31, 2011, or 79%. The decrease is attributed mainly to the $160 million substantial issuer bid that was completed on June 30, 2011 and to dividend payments made during the year.

Federal and provincial government fixed income securities

The Company's investment policy requires that a minimum of 30% of the investment portfolio be invested in sovereign fixed income securities. As of December 31, 2011, 18% of the portfolio was invested in federal securities, down from 21% at the end of 2010. Provincial holdings were 19% of the portfolio, up from 13% at the end of 2010.

Corporate fixed income securities

Allocations to corporate fixed income securities are determined based on their relative value to federal government fixed income securities and adjusted for the carrying charge for the increased capital holdings required under regulations set by OSFI. As of December 31, 2011, approximately 51% of the investment portfolio was held in corporate fixed income securities, up by 4% from 47% as at the end of 2010. Securities rated below A were $155 million, or 4% of invested assets, as of December 31, 2011. 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 29% of the general portfolio, or approximately 57% of the corporate fixed income securities, as financial institutions represent greater than 50% of the corporate issuances 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 4% of the general portfolio in a combination of consumer finance securitizations and commercial mortgage-backed securities to provide yield enhancement. As of December 31, 2011, all of these securities were rated AAA.

Common shares

The Company has $202 million invested in high dividend-yield common shares as of December 31, 2011, representing 5% of the general portfolio. Approximately one-third of the common shares purchased were issued by the Canadian energy sector. The remaining balance was issued primarily by the financial and communications sectors.

Preferred shares

The Company has $23 million invested in preferred shares as of December 31, 2011, representing 1% of the general portfolio. Approximately 52% 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. The government guarantee fund will be eliminated when the PRMHIA comes into force.

Summary of quarterly results

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

	IFRSs[1]							
(in millions, unless otherwise specified)	**Q4'11**	**Q3'11**	**Q2'11**	**Q1'11**	Q4'10	Q3'10	Q2'10	Q1'10
Net premiums written	**$ 123**	**$ 160**	**$ 149**	**$ 101**	$ 134	$ 166	$ 157	$ 94
Net premiums earned	**156**	**149**	**151**	**155**	156	155	154	156
Losses on claims	**62**	**54**	**50**	**59**	50	47	49	59
Net underwriting income	**68**	**71**	**77**	**71**	78	83	80	71
Investment income, including net gains[2]	**43**	**45**	**45**	**46**	44	49	41	49
Net income	**79**	**81**	**83**	**80**	85	94	85	84
Adjustment to net income:								
Losses (gains) on investments, net of taxes	**—**	**(1)**	**(2)**	**(2)**	(1)	(3)	1	(3)
Net operating income	**$ 79**	**$ 80**	**$ 81**	**$ 78**	$ 84	$ 91	$ 86	$ 82
Selected ratios:								
Loss ratio	**39%**	**36%**	**33%**	**38%**	32%	30%	32%	38%
Expense ratio	**17%**	**16%**	**16%**	**17%**	18%	17%	16%	16%
Combined ratio	**56%**	**52%**	**49%**	**55%**	50%	47%	48%	55%
Earnings per common share (basic)	**$ 0.80**	**$ 0.82**	**$ 0.79**	**$ 0.77**	$ 0.81	$ 0.83	$ 0.73	$ 0.72
Earnings per common share (diluted)	**$ 0.80**	**$ 0.82**	**$ 0.79**	**$ 0.76**	$ 0.80	$ 0.83	$ 0.72	$ 0.71
Operating earnings per common share (basic)	**$ 0.80**	**$ 0.81**	**$ 0.78**	**$ 0.75**	$ 0.81	$ 0.81	$ 0.73	$ 0.70
Operating earnings per common share (diluted)	**$ 0.80**	**$ 0.81**	**$ 0.77**	**$ 0.74**	$ 0.80	$ 0.80	$ 0.72	$ 0.69
Operating return on equity	**13%**	**13%**	**13%**	**13%**	14%	14%	13%	13%

Note: Amounts may not total due to rounding.

[1] Certain accounting and measurement methods previously applied under Canadian GAAP were amended to comply with IFRSs. The comparative figures for 2010 have been restated to reflect these adjustments. A detailed discussion of the impact of transition from Canadian GAAP to IFRSs can be found in the "Changes in Accounting Policies" section of this MD&A.

[2] Includes realized gain (loss) on sale of AFS and change in unrealized gain (loss) on FVTPL investments.

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 maintains a portion of its investment portfolio in cash and liquid securities to meet working capital requirements and other financial commitments. At December 31, 2011, the Company held liquid assets of $451 million maturing within one year, including $72 million in cash and the remaining in bonds and debentures and short-term investments.

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 and equity. In addition, 37%, or $1,618 million, of the Company's investment portfolio comprises federal and provincial government securities for which there is a highly liquid market. Funds are used primarily for operating expenses, claims payments, and interest expense, as well as dividends and other distributions to shareholders.

As of December 31, 2011, the Company carried 2%, or $72 million, of its invested assets as cash and cash equivalents.

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, 2011:

Contractual obligations	Payment dates 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	10,175	2,223	3,553	3,092	1,307
Purchase obligations	—	—	—	—	—
Other long-term obligations	—	—	—	—	—
Total contractual obligations	$ 435,175	$ 2,223	$ 3,553	$ 153,092	$ 276,307

Operating lease expense for the year ended December 31, 2011 was $2,890 (2010 – $2,754).

Debt outstanding

The following table provides details of the Company's long-term debt:

	Series 1	Series 2
Date issued	June 29, 2010	December 16, 2010
Maturity date	June 15, 2020	December 15, 2015
Principal amount outstanding *(in millions)*	$275	$150
Fixed annual rate	5.68%	4.59%
Semi-annual interest payments due each year on	June 15, December 15	June 15, December 15

The Company's debentures are rated AA (Low) by Dominion Bond Rating Service ("DBRS") and A- (Positive Outlook) by Standard & Poor's ("S&P").

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, at the time of, and after giving effect to, such transaction no event of default and no event that, 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.

In the case of certain events of default under the terms of the debentures issued by the Company in 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 May 9, 2011, the Company made an offer (the "Offer") to repurchase up to $160 million of its common shares validly tendered to the Offer, by way of a modified Dutch auction and proportional tenders. On June 30, 2011, in accordance with the terms of the Offer, the Company repurchased 6,153,846 common shares for cancellation at a price of $26.00 per common share, for an aggregate purchase price of approximately $160 million. Genworth Financial, Inc., through its wholly owned subsidiary, Brookfield Life Assurance Company Limited, participated in the Offer by making a proportional tender, and after the share repurchase on June 30, 2011 Genworth Financial, Inc. continues to hold approximately 57.5% of the outstanding common shares of the Company.

Investments

Investments in bonds and debentures, including government guarantee fund investments, and preferred and common shares are classified either as AFS or FVTPL, and their fair value is determined using quoted market prices. FVTPL 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 income statement.

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 other comprehensive income ("OCI"). Realized gains and losses on sale, as well as losses from other-than-temporary declines in value of AFS investments, are reclassified from AOCI and recorded in net investment income in the income statement.

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

Investment sales and purchases are recorded at the investments' trade dates. Realized gains or losses recorded on investment sales are measured as the difference between cash received for the investment and the cost of the investment at the trade date, and reported as net investment gains (losses) in the income statement.

Financial assets not carried at FVTPL are assessed for impairment at each reporting period. Impairment losses are recognized by reclassifying losses from AOCI to net income.

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 and twelve months ended December 31, 2011, the Company invested approximately $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 in 2012 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 margin 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 Canada, to repurchase common shares of the Company, to declare and pay dividends or other distributions, for acquisitions, or for such other uses as permitted by law and that may be approved by the Board.

The MCT ratio of the Insurance Subsidiary at the end of December 31, 2011 was 162%, representing a one-point sequential increase over the third quarter, primarily resulting from the increase in fourth-quarter retained earnings and a net increase in unrealized gains in the investment portfolio.

On October 4, 2011, OSFI released the OSFI Guidelines reflecting changes to the MCT that were originally outlined in the December 2010 *Discussion Paper on OSFI's Proposed Changes to the Minimum Capital Test*. The changes include refining the asset risk factors applied to balance sheet assets and adding new capital charges for interest rate risk and foreign exchange risk. Interest rate risk is the risk of economic loss resulting from changes in interest rates related to interest rate–sensitive assets and liabilities. Foreign exchange risk is the risk of loss resulting from fluctuations in currency exchange rates. The estimated impact of these changes as at January 1, 2012 is approximately seven points of reduction in the MCT ratio to 155%. The ultimate impact of these changes may increase or decrease subject to future regulatory developments. The Company expects that it will continue to exceed its internal MCT ratio target of 145% following the changes set out in the OFSI Guidelines that took effect on January 1, 2012.

Restrictions on dividends and capital transactions

The Company's Insurance Subsidiary is subject to certain restrictions with respect to dividend and capital transactions. The ICA prohibits directors from declaring or paying any dividend on shares of an insurance company if there are reasonable grounds for believing that 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 S&P and 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 S&P were affirmed in June 2011, and the ratings from DBRS were confirmed in September 2011.

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 the Company's Insurance Subsidiary and its structural subordination to the policyholders of its Insurance Subsidiary. S&P has applied its standard notching criteria of three 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.

Share-based compensation

Employee stock options ("Options"), upon being exercised, provide employees with a choice between being compensated in common shares of the Company or in cash equal to the net proceeds from the sale of the common 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 fair value using the Black-Scholes valuation model at the end of each reporting period and recognized as compensation expense over the Option vesting period, with a corresponding entry to share-based compensation liabilities.

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

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 common shares as compensation for director services rendered for the period, and may be settled in common shares or cash. The DSUs granted by the Company are measured at the quoted market value of the Company's common 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 share-based compensation liabilities.

Performance Share Units ("PSUs") entitle senior executive employees to receive an amount equal to the fair market value of the Company's common shares as compensation if the Company meets certain performance conditions based on the Company's earnings per common share, return on equity and contribution margin associated with 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 common shares at the end of each reporting period and are recorded as compensation expense over the PSU vesting period with a corresponding entry to share-based compensation liabilities, based on management's best estimate of the outcome of the performance conditions.

Critical accounting estimates and judgments

The preparation of consolidated financial statements in accordance with IFRSs requires management to make estimates and judgments 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 are outlined below as accounting estimates and judgments. Actual results may differ from the estimates used, and such differences may be material.

Accounting estimates

Premiums earned

Mortgage insurance premiums are deferred and then taken into underwriting revenues over the terms of the related policies. The rates or formulae under which premiums are earned relate to the loss emergence pattern in each year of coverage. In order to match premiums earned to losses on claims, premiums written are recognized as premiums earned using a factor-based premium recognition curve. In constructing the premium recognition curve, the Company applies actuarial forecasting techniques to historical loss data to determine expected loss development and the related loss emergence pattern. The actuarial forecasting techniques incorporate economic assumptions that impact future losses and loss development including unemployment rates, interest rates and expected changes in house prices. The premium recognition curve is reviewed on a quarterly basis based on the most current available historical loss data and economic assumptions and is updated as required. The impact of the experience update for the three months and twelve months ended December 31, 2011 is a $13 million and $39 million increase in premiums earned, respectively, as compared to a $13 million and $48 million increase in premiums earned in the three months and twelve months ended December 31, 2010. The Company will continue to assess its loss experience on a quarterly basis and make adjustments as appropriate to the premium recognition curve.

Deferred policy acquisition costs

Deferred policy acquisition costs comprise premium taxes, appraisal costs, certain employee compensation, and other expenses that relate directly to acquisition of new mortgage insurance business. Policy acquisition costs are deferred and amortized to income in proportion to and over the periods in which premiums are earned. The Company estimates the expenses that are eligible for deferral, based on the nature of the expenses incurred and the results of time and activity studies performed to identify the portion of time that the Company's employees incur in the acquisition of new mortgage insurance business.

Subrogation recoverable

The Company estimates the fair value of real estate owned that is included in subrogation recoverable, based on third-party property appraisals or other types of third-party valuations deemed to be more appropriate for a particular property.

The Company estimates the borrower recoveries related to claims paid and loss reserves that are included in subrogation recoverable, based on historical recovery experience.

Loss reserves

Loss reserves represent the amount needed to provide for the expected ultimate net cost of settling claims, including adjustment expenses related to defaults by borrowers (both reported and unreported) that have occurred on or before the balance sheet date. Loss reserves are discounted to take into account the time value of money and include a supplemental provision for adverse deviation. Loss reserves are recognized when the first scheduled mortgage payment is missed by a mortgage borrower. In determining the ultimate claim amount, the Company estimates the expected recovery from the property that is securing the insured loan, and the legal, property maintenance and other loss adjustment expenses incurred in the claim settlement process. Loss reserves consist of individual 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 ultimate expected claim amount is influenced significantly by housing market conditions, changes in property values and the condition of properties in default. Accordingly, case reserves include a provision for adverse development, primarily to address a potential decline in property value.

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 using estimates of expected claim frequency and claim severity based on the most current available historical loss data.

In order to discount loss reserves to present value, the Company's external appointed actuary determines a discount rate based on the book yield of the Company's general investment portfolio.

The Company's external appointed actuary develops a margin for adverse deviation based on assessment of the adequacy of the Company's loss reserves and with reference to the current and future expected condition of the Canadian housing market and its impact on the expected development of losses. The Company determines a supplemental provision for adverse deviation ("PFAD") based on the margin developed by the actuary.

The process for the establishment of loss reserves relies on the judgment and opinions of a number of individuals, on historical precedent and trends, on prevailing legal and economic trends and on expectations as to future developments. This process involves risks that 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.

Utilization of tax losses

As at December 31, 2011, the Company has recognized $10 million of tax losses. Management considers it probable that future taxable profits will be available against which these tax losses can be utilized.

Share-based compensation

The fair value of Options is measured using the Black-Scholes valuation model. Measurement inputs are the common share price on the measurement date, the exercise price of the instrument, expected volatility, the weighted average expected life of the instrument, expected dividends and the risk-free rate. Expected volatility is estimated based on the mean volatility of the general index of Canadian financial companies and the Company's average historical volatility. The volatility of Canadian financial companies is used to supplement the volatility calculation given that the Company has limited common share price history. The weighted-average expected life of the instrument is estimated based on historical experience of affiliated companies. The dividend yield is estimated based on historical dividends and the Company's long-term expectations. The risk-free rate is determined with reference to Government of Canada bonds.

Service and performance conditions attached to Options, RSUs and PSUs are not taken into account in determining fair value. However, the Company records share-based compensation expense only to the extent that the share-based awards are expected to vest based on the Company's best estimate of the outcome of the service and performance conditions.

Employee future benefits

Actuarial valuations of benefit liabilities for pension and other post-employment benefit plans are performed as at December 31 of each year, based on the Company'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 the Company with reference to AA credit-rated bonds that have maturity dates approximating the Company's obligation terms at period end and are denominated in the same currency as the benefit obligations. Other assumptions are determined with reference to long-term expectations.

Accounting judgments

Objective evidence of impairment

As of each balance sheet date, the Company evaluates AFS financial assets in an unrealized loss position for objective evidence of impairment.

For investments in bonds and debentures, evaluation of whether impairment has occurred is based on the Company's best estimate of the cash flows expected to be collected at the individual investment level. The Company considers all available information relevant to the collectability of the investment, including information about past events, current conditions, and reasonable and supportable forecasts. Estimating such cash flows is a quantitative and qualitative process that incorporates information received from third-party sources along with certain internal assumptions and judgments regarding the future performance of any underlying collateral for asset-backed securities. Where possible, this data is benchmarked against third-party sources. Impairments for bonds and debentures in an unrealized loss position are deemed to exist when the Company does not expect full recovery of the amortized cost of the investment, based on the estimate of cash flows expected to be collected, or when the Company intends to sell the investment prior to recovery from its unrealized loss position.

For equity investments, the Company recognizes an impairment loss in the period in which it is determined that an investment has experienced significant or prolonged losses and is not expected to recover its cost within a reasonable period. The Company determines what constitutes a reasonable period on a security-by-security basis, based upon consideration of all the evidence available, including the magnitude of an unrealized loss and its duration. In any event, this period does not exceed 18 months for common equity investments.

Changes in accounting policies

International Financial Reporting Standards

This is the fourth quarter that the Company reports its unaudited financial results in accordance with IFRSs, including comparative financial results and an opening statement of financial position as at January 1, 2010 ("the transition date"). The explanatory paragraphs and financial tables that follow describe the Company's experience with IFRSs transition and the impact of IFRSs adoption on its financial results.

IFRSs transition

The transition to IFRSs has not resulted in material changes to the Company's retained earnings at the transition date or its earnings for the current and comparative periods. Accordingly, there has been no material impact on the Company's regulatory capital requirements due to transition.

IFRSs transition has resulted in additional financial disclosure requirements for the Company. The Company has developed financial reporting processes necessary to complete such disclosures including establishing procedures for the collection and timely reporting of additional information.

The transition to IFRSs has had no impact on the Company's underwriting and claims management system or other IT source systems that support the Company's financial statement balances. Consequently, there have also been no material changes to systems of internal controls upon transition.

First-time adoption of IFRSs

In its transition to IFRSs, the Company applied IFRS 1 – First-Time Adoption of International Financial Reporting Standards ("IFRS 1"). IFRS 1 generally requires retrospective adoption of IFRSs. However, it also provides certain mandatory exceptions and elective exemptions from retrospective adoption. The mandatory exception and the elective exemption taken by the Company are described below.

Mandatory exception

Estimates

Hindsight was not used to create or revise estimates, and, accordingly, the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRSs.

Elective exemption

Business combinations

The Company has applied the business combinations exemption in IFRS 1 to not apply IFRS 3 – Business Combinations ("IFRS 3") retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to the transition date.

IFRSs' impact

The following tables set forth the impact of transition to IFRSs on the Company's income statement for the three and the twelve months ended December 31, 2010.

	For the three months ended December 31, 2010			For the twelve months ended December 31, 2010		
(in thousands of dollars except per share data)	Canadian GAAP	Effect of transition to IFRSs	IFRSs	Canadian GAAP	Effect of transition to IFRSs	IFRSs
Net premiums written	$ 134,123	$ —	$ 134,123	$ 551,603	$ —	$ 551,603
Net premiums earned	156,186	—	156,186	620,834	—	620,834
Underwriting revenues	156,188	—	156,188	620,929	—	620,929
Losses on claims and expenses:						
Losses on claims	50,398	—	50,398	206,410	—	206,410
Expenses	28,387	(703)[2]	27,684	103,823	(958)[2]	102,865
Total losses on claims and expenses	78,785	(703)	78,082	310,233	(958)	309,275
Net underwriting income	77,403	703	78,106	310,696	958	311,654
Investment income	44,497	—	44,497	183,119	—	183,119
Interest expense	4,294	—	4,294	8,322	—	8,322
Income before income taxes	117,606	703	118,309	485,493	958	486,451
Provision for income taxes	33,278	207	33,485	136,767	1,702	138,469
Net income	$ 84,328	$ 496	$ 84,824	$ 348,726	$ (744)	$ 347,982
Net operating income[1]	$ 83,950	$ 496	$ 84,447	$ 343,448	$ (744)	$ 342,704
Operating return on equity	14%	—	14%	14%	—	14%
Operating earnings per common share (diluted)	$ 0.79	—	$ 0.80	$ 3.01	—	$ 3.01

Note: Amounts may not total due to rounding.

(1) This is a financial measure not calculated based on IFRSs. See the "Non-IFRSs Financial Measures" section in this MD&A for additional information.

(2) The effect of transition to IFRSs on total expenses in the fourth quarter of 2010 is a decrease of $703 thousand and comprises a decrease to employee future benefits related to prior service costs of $62 thousand, a decrease to employee future benefits related to net actuarial gains or losses of $3 thousand and a decrease to share-based compensation of $638 thousand. The effect of transition to IFRSs on total expenses in the twelve months ended December 31, 2010 is a decrease of $958 thousand and comprises a decrease to employee future benefits related to prior service costs of $245 thousand, a decrease to employee future benefits related to net actuarial gains or losses of $15 thousand and a decrease to share-based compensation of $698 thousand.

The following table sets forth the impact of transition to IFRSs on the Company's statements of financial position as at January 1 and December 31, 2010.

	December 31, 2010			January 1, 2010		
(in thousands)	Canadian GAAP	Effect of transition to IFRSs	IFRSs	Canadian GAAP	Effect of transition to IFRSs	IFRSs
Investments:						
General portfolio	$ 4,489,536	$ —	$ 4,489,536	$4,409,814	$ —	$ 4,409,814
Government guarantee fund	645,733	—	645,733	576,417	—	576,417
Other assets	262,932	—	262,932	223,695	—	223,695
Total assets	$ 5,398,201	$ —	$ 5,398,201	$5,209,926	$ —	$ 5,209,926
Unearned premium reserves	$ 1,902,164	$ —	$ 1,902,164	$1,971,396	$ —	$ 1,971,396
Loss reserves	206,611	—	206,611	236,181	—	236,181
Long-term debt	421,566	—	421,566	—	—	—
Deferred tax liability	215,428	(147)	215,281	203,218	(14)	203,204
Other liabilities	63,207	705	63,912	155,904	53	155,957
Total liabilities	2,808,976	558	2,809,534	2,566,699	39	2,566,738
Shareholders' equity	2,589,225	(558)	2,588,667	2,643,227	(39)	2,643,188
AOCI	124,369	—	124,369	96,924	—	96,924
Shareholders' equity excluding AOCI	2,464,856	(558)	2,464,298	2,546,303	(39)	2,546,264
Total liabilities and shareholders' equity	$ 5,398,201	$ —	$ 5,398,201	$5,209,926	$ —	$ 5,209,926

The following table sets forth the impact of conversion to IFRSs on net income and net operating income for the four quarters of 2010.

(in thousands)	Q1'10	Q2'10	Q3'10	Q4'10	FY'10
Canadian GAAP net income	**$ 84,092**	**$ 85,349**	**$ 94,957**	**$ 84,328**	**$ 348,726**
Employee future benefits – prior service costs	61	61	61	62	245
Employee future benefits – net actuarial gains or losses	4	4	4	3	15
Share-based compensation	265	(512)	307	638	698
Total impact on expenses	**330**	**(447)**	**372**	**703**	**958**
Tax impact of above changes	(102)	137	(110)	(207)	(282)
Tax adjustment – treatment of IPO expenses	—	—	(1,420)	—	(1,420)
Total impact of transition to IFRSs	**228**	**(310)**	**(1,158)**	**496**	**(744)**
IFRSs net income	**$ 84,320**	**$ 85,039**	**$ 93,799**	**$ 84,824**	**$ 347,982**

(in thousands)	Q1'10	Q2'10	Q3'10	Q4'10	FY'10
Net operating income reported under Canadian GAAP	**$ 81,461**	**$ 85,921**	**$ 92,116**	**$ 83,950**	**$ 343,448**
Total impact of transition to IFRSs	228	(310)	(1,158)	496	(744)
Net operating income reported under IFRS	**$ 81,689**	**$ 85,611**	**$ 90,958**	**$ 84,446**	**$ 342,704**

IFRSs' impact on expenses

Mandatory accounting policy changes

Employee future benefits

Under Canadian GAAP, prior service costs relating to plan amendments to a defined benefit plan are deferred and amortized over the average service lives of active employees. Under IFRSs, prior service costs are recognized as an expense on a straight-line basis until the benefits are vested. To the extent that the benefits are vested upon introduction of amendments to a defined benefit plan, the prior service costs are expensed immediately.

Share-based compensation

The Company granted share-based compensation to certain employees that provides the choice of settlement in cash or common shares of the Company. The Company accounted for these share-based compensation arrangements by reference to their intrinsic value under Canadian GAAP based on the assumption that these benefits will be settled in cash. Under IFRSs, the related liability has been adjusted to reflect the fair value of the outstanding share-based compensation.

Elected accounting policy changes

Employee future benefits

Under Canadian GAAP, the Company deferred net actuarial gains or losses relating to its defined benefit plans within a 10% corridor of the defined benefit obligations. While IFRSs currently permit this approach and other systematic and unbiased methods that provide for faster recognition of net actuarial gains or losses, the standards also permit the recognition of net actuarial gains or losses directly in OCI without subsequent reclassification of the net gains or losses to income. The Company has elected to recognize net actuarial gains or losses in OCI and report them in retained earnings. On January 1, 2013, upon the adoption of the revised standard IAS 19 – Employee Benefits, the recognition of net actuarial gains or losses directly in OCI without subsequent reclassification to income will become mandatory.

IFRSs' impact on tax

Under Canadian GAAP, previously unrecognized tax benefits for the year ended December 31, 2009 relating to financing costs incurred in connection with the Company's IPO were recognized in consolidated net income when the benefits met recognition criteria in the quarter ended December 31, 2010. These tax benefits would have been recognized directly in share capital if they met recognition criteria at the time of the IPO. IFRSs require backward tracing of tax expenses or benefits. Accordingly, the Company reclassified the benefits from income to share capital in the period in which the benefits met recognition criteria. With the exception of this adjustment and the tax effect of other IFRSs adjustments, no other material differences have been identified in the recognition and measurement of taxes under IFRSs.

IFRSs development

The Company is monitoring developments in standards that are expected to change subsequent to the transition date.

Investments

IFRS 9 – Financial Instruments ("IFRS 9") was issued in November 2009, superseding IAS 39 – Financial Instruments: Recognition and Measurement, with an original adoption date of January 1, 2013. In July 2011, the International Accounting Standards Board ("IASB") voted to have the implementation date moved from January 1, 2013 to January 1, 2015. 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 income. The AFS 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.

On December 16, 2011, the IASB issued the Mandatory Effective Date of IFRS 9 and the Transition Disclosures, which amends IFRS 9 to require application for annual periods beginning on or after January 1, 2015, rather than January 1, 2013. IFRS 9 is also amended so that it does not require the restatement of comparative period financial statements for the initial application of the classification and measurement requirements of IFRS 9, but instead requires modified disclosures on transition to IFRS 9.

Insurance contracts

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 the accounting for financial guarantee contracts as insurance contracts under IFRS 4.

The ED does not include a proposed transition date. The IASB may align the mandatory adoption of IFRS 9 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 comprise (i) the unbiased, probability-weighted average of future cash flows that are expected to arise as the insurer fulfills 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 re-measured 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 expenses and incremental policy acquisition costs at the inception of the insurance contract. The residual margin is not re-measured but is released over the insurance contract coverage period. Policy acquisition costs directly attributable to the acquisition of insurance contracts 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 loss emergence pattern. The ED's proposals regarding transition are expected to be re-deliberated by the IASB.

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. Based on commentary received from stakeholders, the IASB has continued to deliberate the proposed accounting for insurance contracts and has targeted to complete its review and issue a final standard in the first half of 2012.

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 predetermined risk tolerances, taking into account the conditions of the housing market and the 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 the 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 has supported 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-value ratios 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) required that all borrowers seeking mortgages of a term less than five years or seeking a variable rate mortgage must qualify for the five-year fixed rate mortgage posted by the Bank of Canada, (ii) lowered the maximum amount that borrowers can withdraw in refinancing their mortgages to 90%, from 95%, of the value of their homes, and (iii) required a minimum down payment 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.

On March 18, 2011 the Government of Canada implemented additional changes to the rules for government guaranteed mortgages, which (i) reduced the maximum amortization period to 30 years from 35 years for high loan-to-value mortgages, (ii) lowered the maximum amount that borrowers can withdraw in refinancing their mortgages to 85%, from 90%, of the value of their homes, and (iii) eliminated mortgage insurance on mortgages that do not have scheduled principal and interest payments (e.g., lines of credit). The changes were effective on April 18, 2011. These rules were formalized in an additional amendment to the Government Guarantee Agreement between the Government of Canada and the Insurance Subsidiary.

The Company supports the implementation of these changes 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 ratio. The Company believes that 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, and the reports 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 with Genworth Financial, Inc., the Company's indirect majority shareholder. 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, investment, 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 transaction 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 $1 million for the three months ended December 31, 2011, and $6 million for the twelve months ended December 31, 2011.

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 expectations regarding the Canadian government's proposed changes to the guarantee regime regarding residential mortgages, and the Company's beliefs as to 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 18, 2011. 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 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 presented for the purpose of assisting the Company's security holders 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-IFRSs financial measures

To supplement the Company's consolidated financial statements, which are prepared in accordance with IFRSs, the Company uses a non-IFRSs financial measure called net operating income. Non-IFRSs 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. Other non-IFRSs measures include shareholders equity excluding AOCI, insurance in force, new insurance written, MCT ratio, delinquency ratio, severity on claims paid, operating earnings per common share (basic and diluted), book value per common share (basic and diluted; including and excluding AOCI), dividends paid per common share, and portfolio duration. The Company believes that these non-IFRSs 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-IFRSs 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 common share for the periods specified and reconciles these figures to the Company's net income and operating earnings per common share in accordance with IFRSs for such periods.

	For the three months ended December 31		For the twelve months ended December 31	
(in millions, unless otherwise specified)	**2011**	2010[1]	**2011**	2010[1]
Net income	**$ 79**	$ 85	**$ 323**	$ 348
Adjustment to net income:				
Net gains on investments, net of taxes	**—**	(1)	**(5)**	(5)
Net operating income	**$ 79**	$ 84	**$ 318**	$ 343

	For the three months ended December 31		For the three months ended December 31	
	2011		2010[1]	
(in dollars)	**Basic**	**Diluted**	Basic	Diluted
Earnings per common share	**$ 0.80**	**$ 0.80**	$ 0.81	$ 0.80
Adjustment to earnings per common share:				
Net gains on investments, net of taxes	**—**	**—**	—	—
Operating earnings per common share	**$ 0.80**	**$ 0.80**	$ 0.81	$ 0.80

	For the twelve months ended December 31		For the twelve months ended December 31	
	2011		2010[1]	
(in dollars)	**Basic**	**Diluted**	Basic	Diluted
Earnings per common share	**$ 3.18**	**$ 3.17**	$ 3.08	$ 3.05
Adjustment to earnings per common share:				
Net gains on investments, net of taxes	**(0.05)**	**(0.05)**	(0.04)	(0.04)
Operating earnings per common share	**$ 3.13**	**$ 3.12**	$ 3.04	$ 3.01

Note: Amounts may not add due to rounding.

[1] Certain accounting and measurement methods previously applied under Canadian GAAP were amended to comply with IFRSs. The comparative figures for 2010 have been restated to reflect these adjustments. A detailed discussion of the impact of transition from Canadian GAAP to IFRSs can be found in the "Changes in Accounting Policies" section of this MD&A.

Consolidated Financial Statements

For the fourth quarter and year ended December 31, 2011

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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 International Financial Reporting Standards.

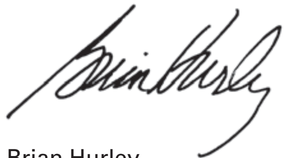
Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Company. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved 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

Independent auditors' report to the shareholders

To the Shareholders of Genworth MI Canada Inc.

We have audited the accompanying consolidated financial statements of Genworth MI Canada Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 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 International Financial Reporting Standards, 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 opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Genworth MI Canada Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
February 23, 2012

Consolidated statements of financial position

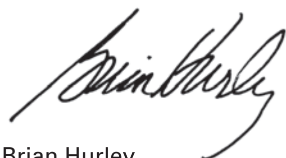
(In thousands of Canadian dollars)

	December 31, 2011[1]	December 31, 2010[1][2]	January 1, 2010[1][2]
Assets			
Cash and cash equivalents (note 9)	**$ 72,244**	$ 351,136	$ 377,512
Short-term investments (note 9)	**45,723**	6,988	253,527
Accrued investment income and other receivables	**38,155**	32,270	28,869
Bonds and debentures:			
Fair value through profit or loss ("FVTPL") (note 9)	**—**	38,290	34,485
Available-for-sale ("AFS") (note 9)	**3,712,077**	3,629,494	3,420,567
Bonds and debentures under securities lending program (AFS) (note 9)	**277,418**	268,442	323,300
Equity investments (AFS) (note 9)	**224,764**	195,186	423
Total invested assets, accrued investment income and other receivables	**4,370,381**	4,521,806	4,438,683
Income taxes recoverable	**2,625**	7,505	—
Subrogation recoverable (note 6(c))	**106,557**	40,393	13,646
Government guarantee fund (note 10)	**731,130**	645,733	576,417
Prepaid assets	**3,391**	2,019	3,017
Property and equipment (note 16)	**2,651**	2,836	3,844
Intangible assets (note 17)	**11,561**	14,119	16,307
Deferred policy acquisition costs (note 6(d))	**154,009**	152,618	146,840
Goodwill (note 18)	**11,172**	11,172	11,172
Total assets	**$ 5,393,477**	$ 5,398,201	$ 5,209,926
Liabilities			
Accounts payable and accrued liabilities	**$ 44,750**	$ 46,132	$ 28,586
Income taxes payable	**—**	—	116,230
Loss reserves (note 6(b))	**169,008**	206,611	236,181
Share-based compensation liabilities (note 15)	**3,170**	5,412	1,668
Long-term debt (note 21)	**421,945**	421,566	—
Unearned premium reserves (note 6(a))	**1,823,678**	1,902,164	1,971,396
Accrued net benefit liabilities under employee benefit plans (note 14)	**16,315**	12,368	9,473
Net deferred tax liabilities (note 11)	**231,484**	215,281	203,204
Total liabilities	**2,710,350**	2,809,534	2,566,738
Shareholders' equity			
Share capital (note 20)	**1,462,994**	1,553,463	1,734,376
Retained earnings	**1,005,276**	910,835	811,888
Accumulated other comprehensive income	**214,857**	124,369	96,924
Total shareholders' equity	**2,683,127**	2,588,667	2,643,188
Total liabilities and shareholders' equity	**$ 5,393,477**	$ 5,398,201	$ 5,209,926

[1] Refer to note 23 for a presentation of assets and liabilities expected to be recovered or settled after 12 months.
[2] Refer to note 24 for the effects of adopting IFRSs.

See accompanying notes to the consolidated financial statements.

On behalf of the Board:



Brian Hurley
Director

Brian Kelly
Director

Consolidated statements of income

(In thousands of Canadian dollars, except per share amounts)

Years ended December 31	**2011**[1]	2010[1]
Gross premiums written (note 6(a))	**$ 544,577**	$ 564,415
Net premiums written (note 6(a))	**$ 533,400**	$ 551,602
Net premiums earned (note 6(a))	**$ 611,886**	$ 620,834
Fees and other income	**547**	95
Underwriting revenue	**612,433**	620,929
Losses on claims (note 6(b))	**224,510**	206,410
Expenses:		
Premium taxes and underwriting fees	**35,580**	37,149
Employee compensation	**34,030**	36,193
Office expenses	**20,458**	20,554
Professional fees	**5,747**	7,252
Promotional expenses and travel	**5,777**	5,428
Other	**1,081**	2,067
Total expenses	**102,673**	108,643
Net change in deferred policy acquisition costs (note 6(d))	**(1,391)**	(5,778)
	101,282	102,865
Net underwriting income	**286,641**	311,654
Investment income:		
Interest	**164,706**	173,512
Dividends	**8,935**	2,816
Net realized gains on sale of investments	**5,287**	3,735
Decrease in unrealized loss on FVTPL investments	**1,878**	3,806
Guarantee fund earnings (note 10)	**2,834**	3,692
Total investment income	**183,640**	187,561
General investment expenses	**(4,393)**	(4,442)
	179,247	183,119
Interest expense (note 21)	**(22,884)**	(8,322)
Income before income taxes	**443,004**	486,451
Income taxes (note 11):		
Current	**109,025**	124,776
Deferred	**10,788**	13,693
	119,813	138,469
Net income attributable to owners of the Company	**$ 323,191**	$ 347,982
Earnings per share (note 22):		
Basic	**$ 3.18**	$ 3.08
Diluted	**3.17**	3.05

[1] Refer to note 24 for the effects of adopting IFRSs.

See accompanying notes to the consolidated financial statements.

Consolidated statements of comprehensive income

(In thousands of Canadian dollars)

Years ended December 31	**2011**	2010[1]
Net income	**$ 323,191**	$ 347,982
Other comprehensive income:		
Net change in fair value of AFS financial assets net of tax of $36,587 (2010 – $13,663)	**95,803**	37,916
Gains on AFS financial assets realized and reclassified to consolidated statement of income net of tax recovery of $2,030 (2010 – $3,773)	**(5,315)**	(10,471)
Defined benefit plan actuarial losses net of tax recovery of $582 (2010 – $415)	**(1,679)**	(1,195)
Total other comprehensive income attributable to owners of the Company net of tax of $33,975 (2010 – $9,475)	**88,809**	26,250
Total comprehensive income attributable to owners of the Company	**$ 412,000**	$ 374,232

(1) Refer to note 24 for the effects of adopting IFRSs.

See accompanying notes to the consolidated financial statements.

Consolidated statements of changes in equity

(In thousands of Canadian dollars)

	Share capital	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance at January 1, 2011	**$ 1,553,463**	**$ 910,835**	**$ 124,369**	**$ 2,588,667**
Comprehensive income:				
Net income	**—**	**323,191**	**—**	**323,191**
Other comprehensive income	**—**	**—**	**88,809**	**88,809**
Total comprehensive income	**—**	**323,191**	**88,809**	**412,000**
Transactions recognized directly in equity:				
Quarterly dividends on common shares[2]	**—**	**(108,757)**	**—**	**(108,757)**
Special dividend on common shares[3]	**—**	**(49,333)**	**—**	**(49,333)**
Issuance of common shares	**764**	**—**	**—**	**764**
Repurchase of common shares (note 20)	**(91,233)**	**(68,981)**	**—**	**(160,214)**
Defined benefit plan actuarial losses, net of tax recovery	**—**	**(1,679)**	**1,679**	**—**
Total transactions recognized directly in equity	**(90,469)**	**(228,750)**	**1,679**	**(317,540)**
Balance at December 31, 2011	**$ 1,462,994**	**$1,005,276**	**$ 214,857**	**$ 2,683,127**

	Share capital	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance at January 1, 2010[1]	$ 1,734,376	$ 811,888	$ 96,924	$ 2,643,188
Comprehensive income:				
Net income	—	347,982	—	347,982
Other comprehensive income	—	—	26,250	26,250
Total comprehensive income	—	347,982	26,250	374,232
Transactions recognized directly in equity:				
Quarterly dividends on common shares[2]	—	(104,531)	—	(104,531)
Repurchase of common shares (note 20)	(182,333)	(143,309)	—	(325,642)
Defined benefit plan actuarial losses, net of tax recovery	—	(1,195)	1,195	—
Impact from adjustments of prior period financing costs[1]	1,420	—	—	1,420
Total transactions recognized directly in equity	(180,913)	(249,035)	1,195	(428,753)
Balance at December 31, 2010[1]	$ 1,553,463	$ 910,835	$ 124,369	$ 2,588,667

(1) Refer to note 24 for the effects of adopting IFRSs.

(2) The Company paid dividends of $0.26 per common share in the first, second and third quarters of 2011 and $0.29 per common share in the fourth quarter of 2011 ($0.22 per common share in the first, second and third quarters of 2010 and $0.26 per common share in fourth quarter of 2010).

(3) The Company paid a special dividend of $0.50 per common share in the fourth quarter of 2011.

See accompanying notes to the consolidated financial statements.

Consolidated statements of cash flows

(In thousands of Canadian dollars)

Years ended December 31	**2011**	2010[1]
Cash provided by (used in):		
Operating activities:		
Net income	**$ 323,191**	$ 347,982
Adjustments for:		
Depreciation of property and equipment and amortization of intangible assets	**6,018**	5,749
Expensing of deferred policy acquisition costs	**47,278**	45,524
Income taxes	**119,813**	138,469
Interest income	**(164,706)**	(173,512)
Dividend income	**(8,935)**	(2,816)
Net realized gains on sale of investments	**(5,287)**	(3,735)
Change in unrealized loss on FVTPL investments	**(1,878)**	(3,806)
Interest expense	**22,884**	8,322
Guarantee fund earnings	**(2,834)**	(3,692)
Issuance of common shares on vesting or exercise of share-based compensation	**764**	—
	336,308	358,485
Change in non-cash balances related to operations:		
Government guarantee fund	**(56,618)**	(59,148)
Accrued investment income and other receivables	**(8,583)**	(1,918)
Prepaid assets	**(1,372)**	998
Subrogation recoverable	**(66,164)**	(26,747)
Deferred policy acquisition costs	**(48,669)**	(51,302)
Accounts payable and accrued liabilities	**(1,410)**	16,559
Loss reserves	**(37,603)**	(29,570)
Share-based compensation liabilities	**(2,242)**	3,744
Unearned premium reserves	**(78,486)**	(69,232)
Accrued net benefit liabilities under employee benefit plans	**3,947**	2,895
	39,108	144,764
Cash generated from (used in) operating activities:		
Interest paid on long-term debt	**(22,856)**	(7,232)
Interest received from bonds and debentures	**174,704**	179,775
Income taxes paid	**(132,808)**	(257,940)
Dividends received from equity investments	**8,935**	2,816
Net cash generated from operating activities	**67,083**	62,183
Investing activities:		
Purchase of short-term investments	**(45,723)**	(6,988)
Proceeds from sale of short-term investments	**6,988**	253,527
Purchase of bonds and debentures	**(924,807)**	(1,044,282)
Proceeds from sale of bonds and debentures	**968,094**	911,465
Purchase of equity investments	**(140,446)**	(193,117)
Proceeds from sale of equity investments	**111,260**	2,099
Purchase of property and equipment and intangible assets	**(3,275)**	(2,553)
Net cash used in investing activities	**(27,909)**	(79,849)
Financing activities:		
Net proceeds from long-term debt issuance	**—**	421,463
Dividends paid	**(158,090)**	(104,531)
Repurchase of common shares	**(160,214)**	(325,642)
Proceeds from exercise of share-based compensation	**238**	—
Net cash used in financing activities	**(318,066)**	(8,710)
Decrease in cash and cash equivalents	**(278,892)**	(26,376)
Cash and cash equivalents, beginning of year	**351,136**	377,512
Cash and cash equivalents, end of year	**$ 72,244**	$ 351,136

[1] No significant presentation differences have been made to the statement of cash flows upon transition to IFRSs. Refer to note 24 for the effects of adopting IFRSs.

See accompanying notes to the consolidated financial statements.

1. Reporting entity

Genworth MI Canada Inc. (the "Company") was incorporated under the *Canada Business Corporations Act* on May 25, 2009 and is domiciled in Canada. Its shares are publicly traded on the Toronto Stock Exchange under the symbol "MIC." The Company's registered office is located at Suite 300, 2060 Winston Park Drive, Oakville, Ontario, L6H 5R7, Canada.

Genworth Financial Inc., a public company listed on the New York Stock Exchange, indirectly holds approximately 57.5% of the common shares of the Company.

The Company holds a 100% ownership interest in the holding companies Genworth Canada Holdings I Limited ("Holdings I"), Genworth Canada Holdings II Limited ("Holdings II"), and MIC Holdings C Company ("Cco"). The Company also holds an indirect 100% ownership interest in Genworth Financial Mortgage Insurance Company Canada ("Genworth Mortgage Insurance Canada" or "the Insurance Subsidiary") through Holdings I and Holdings II. These consolidated financial statements as at December 31, 2011 reflect the consolidation of the Company and these subsidiaries.

The 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 preparation

(a) Statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB"). The Company's consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Canadian GAAP differs in some areas from IFRSs. In preparing these consolidated financial statements, management has amended certain accounting and measurement methods previously applied in the Canadian GAAP financial statements to comply with IFRSs. The comparative figures for 2010 have been restated to reflect these adjustments. The initial adoption of IFRS accounting policies generally requires retrospective application to determine the Company's opening statement of financial position under IFRSs. However, IFRS 1 – *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") provides a number of elective exemptions and mandatory exceptions to this general principle. In preparing these consolidated financial statements, management has elected selected transitional exemptions.

The effect of the transition to IFRSs is disclosed in note 24 with reconciliations and descriptions of the impact of transition from Canadian GAAP to IFRSs on the Company's financial position, financial performance and cash flows.

These consolidated financial statements were approved by the Board of Directors on February 23, 2012.

(b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statement of financial position:

(i) Available for sale ("AFS") and Fair Value Through Profit or Loss ("FVTPL") financial assets are measured at fair value;

(ii) Real estate and other assets recorded as subrogation recoverable are measured at the fair value of the asset at the reporting date less costs for obtaining and realizing the asset;

(iii) The government guarantee fund, which is comprised of net AFS financial assets, is measured at fair value;

(iv) Accrued benefit liabilities under employee benefit plans are recognized at the present value of the defined benefit obligations;

(v) Liabilities for cash-settled share-based compensation are measured at fair value; and

(vi) Loss reserves are discounted and include an actuarial margin for adverse deviation.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except per share amounts.

(d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the year. Actual results may differ from estimates made. See note 5 for a description of the significant judgments and estimates made by the Company.

3. Significant accounting policies

(a) Basis of consolidation

(i) Business combinations

For acquisitions on or after January 1, 2010, the Company measures goodwill at the acquisition date as the fair value of consideration transferred less the net recognized amount of the identifiable assets acquired and liabilities assumed.

As part of its transition to IFRSs, the Company elected not to restate its business combinations that occurred prior to January 1, 2010. In respect of these acquisitions, goodwill represents the amount recognized under the Company's previous accounting framework.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. Intra-group balances and transactions are eliminated in preparing consolidated financial statements.

(b) Insurance contracts

The items in the Company's consolidated financial statements that are derived from insurance contracts are premiums, losses on claims, deferred policy acquisition costs, and subrogation recoveries. Each of these items is described below.

(i) Premiums written, premiums earned and unearned premium reserves

Premiums written are recorded net of risk premiums related to the terms of the Government Guarantee Agreement (note 10).

Mortgage 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. This includes adjustments to earnings from premium written in respect of prior periods.

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.

(ii) Losses on claims and loss reserves

Losses on claims include internal and external claims adjustment expenses and are recorded net of amounts received or expected to be received from recoveries.

Loss reserves represent the amount needed to provide for the expected ultimate net cost of settling claims including adjustment expenses related to defaults by borrowers (both reported and unreported) that have occurred on or before each reporting date. Loss reserves are discounted to take into account the time value of money. The Company records a supplemental provision for adverse deviation based on an explicit margin for adverse deviation determined by the Company's actuary.

Loss reserves are derecognized after a claim has been paid and the Company's obligation under the policy has been fulfilled, or after a borrower has remedied a delinquent loan and management estimates that no loss will be incurred under the policy.

3. Significant accounting policies (continued)

(iii) Deferred policy acquisition costs

Deferred policy acquisition costs are comprised of premium taxes, appraisal costs, certain employee compensation, and other expenses that relate directly to acquisition of new mortgage insurance business. Policy acquisition costs related to unearned premiums are deferred to the extent that they can be expected to be recovered from the unearned premium reserves and are expensed in proportion to and over the periods in which the premiums are earned.

(iv) Subrogation recoveries and subrogation recoverable

Real estate and other collateral acquired as a result of settling claims are carried in subrogation recoverable at the fair value of the collateral less costs for obtaining and realizing the collateral.

Estimated borrower recoveries related to claims paid and loss reserves are recognized in subrogation recoverable net of estimated administrative fees associated with collection.

(c) Financial instruments

The Company recognizes financial assets on the trade date, at which the Company becomes a party to the contractual provisions of the financial asset contract.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(i) Cash and cash equivalents

Cash and cash equivalents are comprised of deposits in banks, treasury bills, and highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The Company has classified its financial assets as financial assets at FVTPL and AFS financial assets as described below:

(ii) Financial assets at FVTPL

A financial asset is classified as FVTPL if it is considered to be held for trading or it is designated as such upon initial recognition.

The Company's financial assets at FVTPL are its European Credit Luxembourg bonds.

The issuer of the European Credit Luxembourg bonds 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. Since the bond collateral is likely to contain embedded derivatives which are not readily identifiable, the investments are considered to be held for trading and have been classified as FVTPL at initial recognition. The European Credit Luxembourg bonds were sold during the year ended December 31, 2011.

FVTPL financial assets are recorded at fair value with realized gains and losses on sale and changes in the fair value recorded in investment income. Transaction costs related to FVTPL financial assets are recognized in income as incurred.

(iii) AFS financial assets

AFS financial assets are non-derivative financial assets that are designated as AFS and are not classified in any other specific financial asset category. The Company classifies bonds and debentures, including bonds and debentures in the government guarantee fund, short-term investments, equity investments, and cash and cash equivalents in the AFS financial asset category. These financial assets are designated as and qualified to be AFS because they are traded in an active market.

AFS financial assets are recorded at fair value with changes in the fair value of these assets recorded in other comprehensive income. Cumulative realized gains and losses on sale and cumulative realized gains and losses on AFS instrument derecognition, as well as impairment losses are reclassified from accumulated other comprehensive income and recorded on investment income.

Transaction costs are capitalized as part of the carrying value of the AFS financial assets.

(iv) Securities lending

Securities lending transactions are entered into on a collateralized basis. The transfer of the securities themselves is not derecognized on the statement of financial position given that the risks and rewards of ownership are not transferred from the Company to the counterparties in the course of such transactions. The securities are reported separately on the consolidated statement of financial position on the basis that counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities received from counterparties as collateral are not recorded on the consolidated statement of financial position given that the risk and rewards of ownership are not transferred from the counterparties to the Company in the course of such transactions and because cash collateral is not permitted as an acceptable form of collateral under the program.

(v) Interest income

Interest income from fixed income investments including bonds and debentures is recognized on an accrual basis using the effective interest method and reported as interest in investment income.

Lending fees received under the Company's securities lending program are recognized on an accrual basis and reported as interest in investment income.

Interest income from impaired fixed income investments is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Such interest is recognized only if the Company expects the interest to be received based on the financial condition of the fixed income investment issuer.

(vi) Dividend income

Dividends on equity investments are recognized when the shareholder's right to receive payment is established, which is the ex-dividend date, and are reported as dividends in investment income.

(vii) Non-derivative financial liabilities

All non-derivative financial liabilities are recognized initially on the date that the Company becomes a party to the contractual provisions of the financial instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies all non-derivative financial liabilities into the Other Financial Liabilities category. Such financial liabilities are recognized initially at fair value along with any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Non-derivative financial liabilities are comprised of the Company's long-term debt (note 21) and accounts payable and accrued liabilities including balances due to the Company's majority shareholder and companies under common control (note 12).

3. Significant accounting policies (continued)

(d) Property and equipment

(i) Recognition and measurement

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes all expenditures that are directly attributable to acquiring the asset and preparing it for its intended use.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property and equipment, and are recognized on a net basis in income.

The Company classifies computer software that is part of an operating system or is an integral part of related hardware as property and equipment.

(ii) Subsequent costs

Property and equipment replacements are recognized in the carrying amount of property and equipment if they embody future economic benefit to the Company and the carrying amount of the replaced part is derecognized. The costs of day-to-day servicing of property and equipment are expensed as incurred.

(iii) Depreciation

Depreciation on property and equipment, except for leasehold improvements, is recognized in income on a straight-line basis over the estimated useful lives of each component of an item of property and equipment from the date it is available for use. Straight-line depreciation most closely reflects the expected pattern of consumption of the future economic benefits embodied in the property and equipment. Leasehold improvements are depreciated over the terms of the related leases.

The estimated useful lives for the current and comparative periods are as follows:

Computer software	3–5 years
Computer hardware and other	3 years
Furniture and equipment	5 years
Leasehold improvements	Term of related lease

(e) Intangible assets

Goodwill

Goodwill arises upon the acquisition of subsidiaries. See note 3(a)(i) for the policy on measurement of goodwill on initial recognition. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. See note 3(f)(ii) for the policy on measurement of impairment losses on non-financial assets.

Other intangible assets

(i) Recognition and measurement

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. The Company's intangible assets consist of computer application software that is not an integral part of related hardware.

(ii) Subsequent expenditures

Subsequent expenditures that increase application software functionality are recognized in the carrying amount of intangible assets if they embody future economic benefit to the Company. All other costs including the costs of day-to-day servicing of intangible assets are expensed as incurred.

(iii) Amortization

Amortization is recognized in expense on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. The estimated useful lives for the current and comparative periods range from three years to five years.

(f) Impairment

(i) Impairment of financial assets

A financial asset not carried at FVTPL is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired include default or delinquency by the debtor, indications that the issuer of a security will enter bankruptcy, economic conditions that correlate with defaults or the disappearance of an active market for a security, a significant prolonged decline in fair value of an equity security below its cost, or lack of intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

Impairment losses on AFS financial assets are recognized by reclassifying losses accumulated in other comprehensive income ("AOCI") to income. The cumulative loss that is reclassified from AOCI to income is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in income. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of investment income. If, in a subsequent period, the fair value of an impaired AFS debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in income, then the impairment loss is reversed, with the amount of the reversal recognized in income. However, any subsequent recovery in fair value of an impaired AFS equity security is recognized in other comprehensive income ("OCI").

(ii) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

Goodwill is tested for impairment on an annual basis regardless of whether an indication of impairment exists.

For purposes of goodwill impairment testing, the comparison of estimated recoverable amount to carrying amount is performed on the Company's single cash generating unit ("CGU"), which is its mortgage insurance business.

The recoverable amount of an asset is the greater of its value in use and its fair value less expected selling costs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in income in the period in which the impairment is determined. Impairment losses recognized in respect of a CGU are allocated first to reduce the carrying amount of goodwill and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. An impairment loss in respect of goodwill is not reversed.

The assessment of impairment of non-financial assets excludes assessment of deferred policy acquisition costs. The ability of the Company to recover its deferred policy acquisition costs is assessed as part of the Company's overall insurance liability adequacy testing. In the event that a provision for premium deficiency is required based on this test, the deferred policy acquisition cost asset is reduced with a corresponding charge recognized as deferred policy acquisition expense.

(g) Income taxes

Income taxes are comprised of current and deferred taxes. Current and deferred income taxes associated with items recognized in equity are recognized directly in equity. Taxes on fair value gains and losses included in OCI are charged or credited directly to OCI. Otherwise, except to the extent that they relate to a business combination, current and deferred income taxes are recognized in income.

(i) Current tax

Current income taxes are recognized for estimated income taxes payable or recoverable for the current year and any adjustments to taxes payable in respect of prior years. The tax rates and laws used to compute these amounts are those that are enacted or substantively enacted at the date of the consolidated financial statements. Current income taxes payable and current income taxes recoverable are offset when they relate to income taxes imposed by the same taxation authority for the same legal entity and the taxation authority permits making or receiving a single net payment.

3. Significant accounting policies (continued)

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future, and taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured using currently enacted or substantively enacted income tax rates expected to apply to taxable income in the periods in which the temporary differences reverse. The most significant temporary differences relate to policy reserves and the government guarantee fund.

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable the Company will have sufficient taxable income against which they can be used. The deferred tax assets are reviewed each reporting period and are reduced to the extent that it is no longer probable that the benefit arising from the deductible temporary difference will be realized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes imposed by the same taxation authority for the same legal entity.

(h) Employee benefits

(i) Defined contribution pension plan

The defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into the plan (that is a separate legal entity) for the benefit of its employees and will have no legal or constructive obligation to pay further amounts. The obligation for contributions to the defined contribution pension plan is recognized as an expense in the period during which services are provided by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment plan other than a defined contribution plan. The Company maintains two defined benefit plans: a Supplemental Executive Retirement Plan ("SERP") and a plan for other non-pension post-employment benefits. The Company's obligation in respect of each plan is calculated separately. For each plan, the Company has adopted the following policies:

Actuarial valuations of benefit liabilities for pension and other post-employment benefit plans are performed as at December 31 of each year using the projected unit credit method 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. Obligations for the SERP 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. Obligations for other non-pension post-employment benefits are attributed to the period beginning on the employee's date of hire to the date the employee reaches the age of 55 and is entitled to benefits under the plan.

All actuarial gains and losses at January 1, 2010, the date of transition to IFRSs, were recognized in retained earnings. Subsequent actuarial gains and losses arising from changes in actuarial assumptions used to determine the benefit obligations are recognized in other comprehensive income in the period in which they arise, and reported in retained earnings.

Prior service costs arising from plan amendments are recognized in expense over the employee benefit vesting period or in the period in which the plan amendments are introduced if immediately vested.

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 the affected employees with benefit payments in the future. The Company recognizes gains or losses on settlement of a defined benefit obligation when the settlement occurs. The gain or loss is comprised of any change in the present value of the defined benefit obligation and any changes in actuarial gains and losses that had not been previously recognized.

(iii) Short-term employee benefits

Short-term employee benefit obligations, including the Company's short-term bonus, are measured on an undiscounted basis and are expensed as the related service is provided.

(iv) Share-based compensation

The Company's share-based awards include stock options with tandem stock appreciation rights ("Options"), Restricted Share Units ("RSUs"), Performance Share Units ("PSUs") and Directors' Deferred Share Units ("DSUs"). Recipients of these awards are entitled to the option of settlement in cash or shares of the Company.

The fair value of Options, RSUs, PSUs and DSUs is recognized as compensation expense over the relevant vesting period, with a corresponding entry to share-based compensation liabilities. The liability is re-measured at each reporting date and the settlement date. Any changes in the fair value of the liability are recognized as compensation expense. Share-based compensation is reclassified from liability to equity if employees choose shares when these awards vest.

Options are measured at fair value using the Black-Scholes valuation model. RSUs, PSUs and DSUs are measured at fair value using the quoted market price of the Company's shares at the end of each reporting period.

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 fair value of the Company's shares on the date the dividend equivalents are credited to the RSU, PSU or DSU account and are recorded as additional compensation expense.

Share-based awards are recorded as expense only to the extent that management expects such awards to vest based on service and performance conditions attached to the share-based awards.

(i) Share capital

Common shares are classified as equity on the consolidated statement of financial position. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(j) 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 income.

(k) Earnings per share

The Company presents basic and diluted earnings per share for its common shares. Basic earnings per share are calculated by dividing the Company's net income for the period by the weighted average number of shares outstanding during the period. Diluted earnings per share are determined by adjusting the weighted average number of shares outstanding for the effects of all dilutive potential shares, which are comprised of share-based compensation awards granted to employees and directors of the Company.

4. Future changes in accounting policies

(a) IAS 1 – *Presentation of financial statements* ("IAS 1")

In June 2011, the IASB published amendments to the requirements for presentation of items of OCI in IAS 1. The amendments require that an entity present separately the items of OCI that may be reclassified to income in the future from those that would never be reclassified to income. Entities will continue to have a choice of whether to present components of OCI before or after tax. Those that present components of OCI before tax will be required to disclose the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 and is to be applied retrospectively. Early adoption is permitted.

This amendment will have minimal impact to the Company's consolidated financial statements.

(b) IAS 19 – *Employee benefits* ("IAS 19")

In June 2011, the IASB published an amended version of IAS 19. The amendments require:

- the elimination of the corridor method with actuarial gains and losses recognized immediately in OCI;
- recognition of prior service costs in full immediately in income;
- the expected return on plan assets recognized in income to be calculated based on the rate used to discount the defined benefit obligation;
- additional disclosures that explain the characteristics of the entity's defined benefit plans and risks associated with them, as well as disclosures that describe how defined benefit plans may affect the amount, timing and uncertainty of future cash flows; and
- the recognition of termination benefits at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37 – *Provisions, contingent liabilities and contingent assets* and when the entity can no longer withdraw the offer of the termination benefits.

The amendment is effective for annual periods on or after January 1, 2013 and is to be applied retrospectively. Early adoption is permitted.

Upon IFRS transition on January 1, 2010 (note 24), the Company has elected to recognize actuarial gains and losses immediately in OCI. Furthermore, the Company has recognized all prior service costs to date fully in income as the prior service costs were fully vested at the date of transition. The Company's recognition of defined benefit plans is not impacted by changes in the calculation of expected return on plan assets as its defined benefit plans are unfunded. The only impact from this amendment to the Company upon adoption of the revised standard will be the requirement for additional disclosure related to its defined benefit plans.

(c) IFRS 13 – *Fair value measurement* ("IFRS 13")

In May 2011, the IASB published IFRS 13 as a replacement of the fair value measurement guidance contained in individual IFRSs. IFRS 13 explains how to measure fair value when it is required or permitted by other IFRSs but the standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard requires the fair value hierarchy, which was introduced by IFRS 7 – *Financial Instruments – Disclosures*, to be applied to all fair value measurements, including non-financial assets and liabilities that are measured at or based on fair value in the statement of financial position. IFRS 13 also expands disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on income or OCI.

IFRS 13 is applicable prospectively for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

The adoption of IFRS 13 may result in additional disclosure to the Company relating to inputs used to develop fair value measurements.

(d) Scope of the reporting entity and consolidation

In May 2011, the IASB published five new and revised standards that address the scope of the reporting entity and consolidation. The new standards are IFRS 10 – *Consolidated financial statements* ("IFRS 10"), IFRS 11 – *Joint arrangements* ("IFRS 11") and IFRS 12 – *Disclosure of interests in other entities* ("IFRS 12"). The revised standards are IAS 28 – *Investments in associates and joint ventures* ("IAS 28") and IAS 27 – *Consolidated and separate financial statements* ("IAS 27").

(i) IFRS 10 introduces a single consolidation model that uses the same criteria to determine control for entities of all types, irrespective of whether the investee is controlled by voting rights or other contractual arrangements. The principle that a consolidated entity presents a parent and its subsidiaries as a single entity remains unchanged, as do the mechanics of consolidation. IFRS 10 supersedes existing guidance under IAS 27 and SIC-12 – *Consolidation – Special Purpose Entities*.

(ii) IFRS 11 establishes principles for financial reporting by parties to a joint arrangement, and only differentiates between joint operations and joint ventures. The option to apply proportionate consolidation when accounting for joint ventures has been eliminated. Equity accounting is now required in accordance with IAS 28. IFRS 11 supersedes existing guidance under IAS 31 – *Interests in joint ventures* and SIC-13 – *Jointly controlled entities – non-monetary contributions by venturers*.

(iii) IFRS 12 sets out the disclosure requirements under IFRS 10, IFRS 11, and IAS 28. The enhanced disclosures in the new standard are intended to help financial statement users evaluate the nature, risks and financial effects of an entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

(iv) IAS 28 has been amended in accordance with the changes to accounting for joint ventures in IFRS 11. The amended standard prescribes the accounting for investments in associates and provides guidance on the application of the equity method when accounting for investments in associates and joint ventures.

(v) IAS 27 has been amended to provide guidance on the accounting and disclosure requirements for investments in subsidiaries, associates and joint ventures when an entity prepares separate financial statements. The amended standard requires an entity preparing separate financial statements to account for investments at cost or in accordance with IFRS 9 – *Financial Instruments*.

These standards are applicable for annual periods beginning on or after January 1, 2013. Earlier application is permitted so long as all of these new standards and changes in the existing standards are applied at the same time.

The adoption of these standards and amendments of standards will result in additional disclosure requirements for the Company. There will be no change to the Company's current requirements to consolidate subsidiaries or changes in methods of consolidation applied.

(e) IFRS 9 – *Financial instruments* ("IFRS 9")

In November 2009 the IASB issued IFRS 9 (IFRS 9 (2009)) and in October 2010 the IASB published amendments to IFRS 9 (IFRS 10 (2010)).

IFRS 9 (2009) replaces the guidance in IAS 39 – *Financial instruments – recognition and measurement* ("IAS 39"), on the classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

Gains and losses on remeasurement of financial assets measured at fair value will be recognized in income, except that for an investment in an equity instrument which is not held-for-trading, IFRS 9 (2009) provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in OCI. The election is available on an individual share-by-share basis. Amounts presented in OCI will not be reclassified to income at a later date.

IFRS 9 (2010) added guidance to IFRS 9 (2009) on the classification and measurement of financial liabilities, and this guidance is consistent with the guidance in IAS 39 except as described below.

4. Future changes in accounting policies (continued)

Under IFRS 9 (2010), for financial liabilities measured at fair value under the fair value option, changes in fair value attributable to changes in credit risk will be recognized in OCI, with the remainder of the change recognized in income. However, if this requirement creates or enlarges an accounting mismatch in income, the entire change in fair value will be recognized in income. Amounts presented in OCI will not be reclassified to income at a later date.

IFRS 9 (2010) also requires derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument to be measured at fair value, whereas such derivative liabilities are measured at cost under IAS 39.

IFRS 9 (2010) also added the requirements of IAS 39 for the derecognition of financial assets and liabilities to IFRS 9 without revision to these requirements.

The IASB has deferred the mandatory effective date of the existing chapters of IFRS 9 to annual periods beginning on or after January 1, 2015.

IFRS 9, when initially applied, will have a significant impact on the Company's financial statements, since it will be required to be applied retrospectively. The Company is not able at this time to estimate reasonably the impact that IFRS 9 will have on the financial statements.

(f) IFRS 7 – *Financial instruments – disclosures* ("IFRS 7")

In October 2010 the IASB issued *Amendments to IFRS 7 Disclosures – Transfers of financial assets*.

The amendments to IFRS 7 require disclosure of information that enables users of financial statements:

- to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets.

The amendments define "continuing involvement" for the purposes of applying the disclosure requirements.

The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2012.

The application of the amendments to IFRS 7 may result in additional disclosure to the Company relating to transfers of financial assets under its securities lending program.

(g) *Amendments to IAS 32 and IFRS 7 – Offsetting financial assets and financial liabilities*

In December 2011, the IASB published *Offsetting Financial Assets and Financial Liabilities* and issued new disclosure requirements in IFRS 7.

The amendments to IAS 32 – *Financial instruments – disclosure* ("IAS 32") clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement.

The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are:

- offset in the statement of financial position; or
- subject to master netting arrangements or similar arrangements.

The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively.

The Company does not expect the amendments to IAS 32 to have a material impact on the financial statements. The amendments to IFRS 7 may result in additional disclosure to the Company related to assets and liabilities that are offset in the Company's financial statements.

5. Significant judgments and estimates

(a) Judgments

Significant judgments made in applying accounting policies are as follows:

Objective evidence of impairment of AFS financial assets.

As of each balance sheet date, the Company evaluates AFS financial assets in an unrealized loss position for objective evidence of impairment.

For investments in bonds and debentures, evaluation of whether impairment has occurred is based on the Company's best estimate of the cash flows expected to be collected at the individual investment level. The Company considers all available information relevant to the collectability of the investment, including information about past events, current conditions, and reasonable and supportable forecasts. Estimating such cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain internal assumptions and judgments regarding the future performance of any underlying collateral for asset-backed investments. Where possible, this data is benchmarked against third party sources. Impairments for bonds and debentures in an unrealized loss position are deemed to exist when the Company does not expect full recovery of the amortized cost of the investment based on the estimate of cash flows expected to be collected or when the Company intends to sell the investment prior to recovery from its unrealized loss position.

For equity investments, the Company recognizes an impairment loss in the period in which it is determined that an investment has experienced significant or prolonged losses and is not expected to recover its cost within a reasonable period. The Company determines what constitutes a reasonable period on an investment-by-investment basis based upon consideration of all the evidence available, including the magnitude of an unrealized loss and its duration. In any event, this period does not exceed eighteen months.

(b) Estimates

Information about assumptions and estimation uncertainties that have a risk of resulting in material adjustment within the next twelve months are as follows:

(i) Premiums earned

Mortgage insurance premiums are deferred and then taken into underwriting revenues over the terms of the related policies. The rates or formulae under which premiums are earned relate to the loss emergence pattern in each year of coverage. In order to match premiums earned to losses on claims, premiums written are recognized as premiums earned using a factor-based premium recognition curve. In constructing the premium recognition curve, the Company applies actuarial forecasting techniques to historical loss data to determine expected loss development and the related loss emergence pattern. The actuarial forecasting techniques incorporate economic assumptions that impact future losses and loss development including unemployment rates, interest rates and expected changes in house prices. The premium recognition curve is reviewed quarterly based on the most current available historical loss data and economic assumptions and updated as required. See note 6(a) for disclosure of the impact of the current and comparative periods' premium recognition curve updates.

(ii) Losses

Loss reserves represent the amount needed to provide for the expected ultimate net cost of settling claims including adjustment expenses related to defaults by borrowers (both reported and unreported) that have occurred on or before the balance sheet date. Loss reserves are discounted to take into account the time value of money and include a supplemental provision for adverse deviation. Loss reserves are recognized when the first scheduled mortgage payment is missed by a mortgage borrower. In determining the ultimate claim amount, the Company estimates the expected recovery from the property securing the insured loan and the legal, property maintenance and other loss adjustment expenses incurred in the claim settlement process. Loss reserves consist of individual case reserves, Incurred But Not Reported ("IBNR") reserves and supplemental loss reserves for potential adverse deviation.

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 ultimate expected claim amount is influenced significantly by housing market conditions, changes in property values, and the condition of properties in default. Accordingly, case reserves include a provision for adverse development, primarily to address potential decline in property values.

5. Significant judgments and estimates (continued)

The Company establishes reserves for IBNR based on the reporting lag from the date of first missed payment to the reporting date for mortgages in default that have not been reported to the Company. IBNR is calculated using estimates of expected claim frequency and claim severity based on the most current available historical loss data.

In order to discount loss reserves to present value, the Company's actuary determines a discount rate based on the book yield of the Company's general investment portfolio.

The Company's actuary develops a margin for adverse deviation based on assessment of the adequacy of the Company's loss reserves (derived from an independent calculation of the reserves) and with reference to the current and future expected condition of the Canadian housing market and its impact on the expected development of losses. The Company determines a supplemental provision for adverse deviation ("PFAD") based on the margin developed by the actuary.

The process for the establishment of loss reserves relies on the judgment and opinions of a number of individuals, on historical precedent and trends, on prevailing legal and economic trends and on expectations as to future developments. This process involves risks that 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.

(iii) Subrogation recoverable

The Company estimates the fair value of real estate owned included in subrogation recoverable based on third party property appraisals or other types of third party valuations deemed to be more appropriate for a particular property.

The Company estimates borrower recoveries related to claims paid and loss reserves included in subrogation recoverable based on historical recovery experience.

(iv) Deferred policy acquisition costs

Deferred policy acquisition costs are comprised of premium taxes, appraisal costs, certain employee compensation, and other expenses that relate directly to acquisition of new mortgage insurance business. Deferred policy acquisition costs are deferred and expensed in proportion to and over the periods in which premiums are earned. The Company estimates expenses eligible for deferral based on the nature of expenses incurred and results of time and activity studies performed to identify the portion of time the Company's employees incur in the acquisition of new mortgage insurance business.

(v) Utilization of tax losses

As at December 31, 2011, the Company has recognized $9,900 of tax losses (December 31, 2010 – $2,336; January 1, 2010 – nil). Management considers it probable that future taxable profits will be available against which these tax losses can be utilized.

(vi) Share-based compensation

Stock options ("Options") are measured at fair value using the Black-Scholes valuation model. Inputs to the Black-Scholes valuation model are share price on the measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instrument, expected dividend yield and the risk-free rate. Expected volatility is estimated based on the mean volatility of the general index of Canadian financial companies and the Company's average historical volatility. The volatility of Canadian financial companies is used to supplement the volatility calculation given the Company has limited share price history. The weighted average expected life of the instrument is estimated based on historical experience of affiliated companies. Dividend yield is estimated based on historical dividends and the Company's long-term expectations. Risk-free rate is determined with reference to Government of Canada bonds.

Service and performance conditions attached to Options, RSUs and PSUs are not taken into account in determining fair value. However, the Company records share-based compensation expense only to the extent that the share-based awards are expected to vest based on management's best estimate of the outcome of the service and performance conditions.

(vii) Employee future benefits

Actuarial valuations of benefit liabilities for pension and other post-employment benefit plans are performed as at December 31 of each year based on the Company'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 the Company with reference to AA credit-rated bonds that have maturity dates approximating the Company's obligation terms at period end and are denominated in the same currency as the benefit obligations. Other assumptions are determined with reference to long-term expectations.

6. Insurance contracts

(a) Premiums and unearned premium reserves

Changes in unearned premium reserves recorded in the consolidated statement of financial position and their impact on net premiums earned are as follows:

	December 31, 2011	December 31, 2010
Unearned premium reserves, beginning of year	**$ 1,902,164**	$ 1,971,396
Net premiums written during the year	**533,400**	551,602
Net premium earned during the year	**(611,886)**	(620,834)
Unearned premium reserves, end of year	**$ 1,823,678**	$ 1,902,164

Gross premiums written of $544,577 for the year ended December 31, 2011 (year ended December 31, 2010 – $564,415) are recorded net of risk premiums related to the Government Guarantee Agreement of $11,177 (December 31, 2010 – $12,813) in accordance with the requirement described in note 10.

The Company performs actuarial studies of its multi-year loss experience on a quarterly basis. These studies have indicated a change in the Company's loss emergence pattern, reflecting a pattern of loss occurrence earlier in an insurance policy's life. Changes in the loss emergence pattern have resulted in the corresponding acceleration of premium recognition for the years ended December 31, 2011 and 2010. The cumulative impact of the experience updates for the year ended December 31, 2011 was an increase of earned premium and corresponding decrease in unearned premium reserves of $39,256 (December 31, 2010 – $48,454).

Key methodologies and assumptions

Premiums written are recognized as premiums earned using a factor-based premium recognition curve that is based on the Company's expected loss emergence pattern. The principal assumption underlying the formation of the premium recognition curve is that the Company's future claims development will follow a similar pattern to past claims emergence patterns. Approximately 80% of the Company's premiums written are recognized as premium earned within the first five years of policy inception based on the current premium recognition curve. A shift in the Company's loss emergence pattern could change the timing of the Company's recognition of earned premium and impact the Company's financial performance for a period. The actuarial forecasting technique used to establish the loss emergence pattern also incorporates economic assumptions that impact future losses and loss development including unemployment rates, interest rates, and expected changes in house prices. There is inherent risk that future economic conditions could differ, perhaps significantly, from the best estimates made.

The Company's actuary performs a liability adequacy test on the Company's unearned premium reserves using a dynamic regression model that is in accordance with accepted actuarial practice. The purpose of the test is to ensure the unearned premium liability at year end is sufficient to pay for future claims and expenses that may arise from unexpired insurance contracts. The liability adequacy test for the years ended December 31, 2011 and December 31, 2010 and as at January 1, 2010 identified a surplus in the Company's unearned premium reserves and thus no premium deficiency reserves are required at these reporting dates.

6. Insurance contracts (continued)

(b) Loss reserves

Loss reserves are comprised of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Case reserves	**$ 123,289**	$ 156,766	$ 187,815
IBNR	**40,469**	43,523	41,359
Discounting and provision for adverse deviation	**5,250**	6,322	7,007
Total loss reserves	**$ 169,008**	$ 206,611	$ 236,181

Changes in loss reserves recorded in the consolidated statement of financial position and their impact on losses on claims are as follows:

	December 31, 2011	December 31, 2010
Loss reserves, beginning of year	**$ 206,611**	$ 236,181
Claims paid during the year	**(262,113)**	(235,980)
Net losses on claims incurred during the year:		
Losses on claims related to the current year	**172,200**	175,189
Losses on claims related to prior years	**52,310**	31,221
Loss reserves, end of year	**$ 169,008**	$ 206,611

Claims development

Loss reserves are established to reflect an estimate of the ultimate cost of claim settlement as at the reporting date. Given the uncertainty in establishing the outstanding loss reserves, it is likely that the final outcome will be different than the original liability established. Claims development refers to the financial adjustment in the current period relating to claims incurred in previous periods because of new and more up to date information that has become available and to reflect changes in assumptions. The information is presented on a default year basis (claims are related to the period in which the insured event occurred and not the period in which the policy was underwritten).

The following table demonstrates the development of the estimated loss reserves for the ten most recent default years.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Development:												
Claims incurred at the end of the default year	$ 30,991	$ 34,523	$ 35,262	$ 43,825	$ 52,845	$ 70,994	$102,549	$148,493	$196,586	$175,189	$172,200	$
Claims incurred one year later	15,204	10,557	18,968	22,727	29,670	46,971	106,468	200,807	218,890	193,820		
Claims incurred two years later	14,607	9,684	21,355	21,397	30,542	54,352	112,224	204,706	247,663			
Claims incurred three years later	13,856	10,039	20,877	21,210	31,485	55,461	115,632	209,850				
Claims incurred four years later	13,828	10,004	20,868	21,001	31,431	56,072	115,816					
Claims incurred five years later	13,814	10,002	20,866	20,807	31,245	55,701						
Current estimate of claims incurred	13,814	10,002	20,866	20,807	31,245	55,701	115,816	209,850	247,663	193,820	172,200	1,091,784
Cumulative payments to date	13,814	10,002	20,866	20,807	31,245	55,701	115,723	206,301	240,990	159,148	48,179	922,776
Current loss reserves	—	—	—	—	—	—	93	3,549	6,673	34,672	124,021	169,008
Current estimate of surplus (deficiency)	$ 17,177	$ 24,521	$ 14,396	$ 23,018	$ 21,600	$ 15,293	$ (13,267)	$ (61,357)	$ (51,077)	$ (18,631)	$ —	$ —
% surplus (deficiency) of initial gross loss reserve	55%	71%	41%	53%	41%	22%	(13)%	(41)%	(26)%	(11)%	—	—

Conditions and trends that have affected the development of liabilities in the past may or may not occur in the future and, accordingly, conclusions about future results may not necessarily be derived from the information presented in the table above.

Key methodologies and assumptions

The establishment of loss reserves is based on known facts and interpretation of circumstances. The principal methodologies and assumptions underlying loss reserve estimates are as follows:

(i) Claim frequency

Claim frequency is the portion of delinquencies (both reported and unreported) that are expected to result in paid claims, after estimated cures have been removed. A cure is defined as a reported delinquency that closes with no claim payment or only nominal loss adjustment expenses. Claim frequency is influenced by labour market performance and changes in house prices. The Company estimates claim frequency for case reserves by analyzing individual reported delinquencies. The Company estimates claim frequency for IBNR by applying average delinquency-to-paid-claim ratios to historical reported delinquencies, derived from tracking and analyzing policyholder behaviour over time.

6. Insurance contracts (continued)

(ii) Claim severity

Claim severity is influenced by the performance of the housing market and will increase in a period of property value declines. The Company estimates claim severity for case reserves by analyzing individual reported delinquencies, including obtaining valuations for the properties securing claims. The Company estimates claim severity for IBNR based on historical claim amounts.

Variables that affect the determination of loss reserves are the receipt of additional claim information and other internal and external factors such as the performance of the housing market, changes in claims handling procedures, significant claim reporting lags, and uncertainties regarding the condition of properties at the time of initial loss reserve quantification.

Sensitivities

Sensitivity analyses are conducted to quantify the exposure to changes in key loss assumptions. The change in any key assumption will impact the Company's performance and financial position for a period. The following sensitivity analyses are performed for reasonable possible movements in key loss assumptions with all other assumptions held constant, showing the impact on pre-tax income and shareholders' equity. The correlation of assumptions will have a significant effect in determining ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

December 31, 2011 Sensitivity factor	**Change in assumptions**	**Impact on net income before income taxes**	**Impact on shareholders' equity**
Claim frequency	**+10%**	**$ (34,088)**	**$ (24,543)**
	-10%	**34,088**	**24,543**
Claim severity	**+10%**	**(34,088)**	**(24,543)**
	-10%	**34,088**	**24,543**

December 31, 2010 Sensitivity factor	Change in assumptions	Impact on net income before income taxes	Impact on shareholders' equity
Claim frequency	+10%	$ (31,149)	$ (21,804)
	-10%	31,149	21,804
Claim severity	+10%	(31,149)	(21,804)
	-10%	31,149	21,804

(c) Subrogation recoverable

The following table presents movement in subrogation recoverable during the year:

	December 31, 2011	December 31, 2010
Subrogation recoverable, beginning of year	**$ 40,393**	$ 13,646
Real estate assets acquired as a result of settling claims	**220,647**	86,982
Change in market value for real estate on hand	**(13,270)**	(13,086)
Real estate assets sold	**(162,460)**	(47,149)
Estimated net borrower recoveries recognized	**21,247**	—
Subrogation recoverable, end of year	**$ 106,557**	$ 40,393

When claims are paid, the Company typically obtains a legally enforceable judgment against the borrowers for the amount of the loss incurred. The Company actively engages in collection activities to recover monies from the borrowers under the judgments. During the year ended December 31, 2011, management determined that there was sufficient historical experience of successful recoveries from borrowers in order to establish an expected recovery rate and to record a recovery accrual related to past claims paid and current loss reserves. This resulted in a $21,247 decrease to losses on claims and corresponding increase to subrogation recoverable.

(d) Deferred policy acquisition costs

The following table presents movement in deferred policy acquisition costs and the impact on total expenses:

	December 31, 2011	December 31, 2010
Deferred policy acquisition costs, beginning of year	**$ 152,618**	$ 146,840
Policy acquisition costs deferred during the year	**48,669**	51,302
Deferred policy acquisition costs expensed during the year	**(47,278)**	(45,524)
Net change in deferred policy acquisition costs during the year	**1,391**	5,778
Deferred policy acquisition costs, end of year	**$ 154,009**	$ 152,618

The Company's quarterly actuarial studies of multi-year loss experience have resulted in acceleration of premium recognition. Expensing of deferred policy acquisitions costs is accelerated in proportion to the additional premiums recognized. The experience update for the year ended December 31, 2011 resulted in additional expensing of deferred policy acquisition costs of $2,857 (December 31, 2010 – $3,348).

7. Financial risk management

(a) Insurance risk

The Company is exposed to insurance risk from underwriting of mortgage insurance contracts. Mortgage insurance contracts transfer risk to the Company by indemnifying lending institutions against credit losses arising from borrower mortgage default. Under a mortgage insurance policy, a lending institution is insured against risk of loss for the entire unpaid principal balance of a loan plus interest, customary mortgage enforcement and selling costs, and expenses related to the sale of the underlying property. Insurance risk impacts the amount, timing and certainty of cash flows arising from insurance contracts. The insurance risk that the Company is exposed to is of a short-tail nature as the average duration of claims liabilities is 2.64 years (December 31, 2010 – 2.51 years; January 1, 2010 – 2.38 years).

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 ensure risks are within the Company's defined risk appetite and tolerance and to achieve profitable underwriting results and other long-term financial goals. There have been no significant changes to the Company's exposure to insurance risk or the framework used to monitor, evaluate and manage risks at December 31, 2011 compared to December 31, 2010 and January 1, 2010.

The Company has identified pricing risk, underwriting risk, claims management risk, loss reserving risk, and insurance portfolio concentration risk as its most significant sources of insurance risk. Each of these risks is described separately below:

(i) Pricing risk

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. 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, borrower credit histories and capital required to support the product.

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. These performance targets are adjusted periodically to ensure they reflect the current environment.

7. Financial risk management (continued)

(ii) Underwriting risk

Underwriting risk is the risk that the Company's underwriting function will underwrite mortgage insurance under terms that do not comply with the Company's pre-established risk guidelines, resulting in inappropriate risk acceptance by the business. The underwriting results of the mortgage insurance business can fluctuate significantly due to the cyclicality of the Canadian mortgage market. The mortgage market is affected primarily by housing supply and demand, interest rates, and general economic factors including unemployment rates.

The Company's risk management function establishes risk guidelines based on the Company's underwriting goals. The underwriting process enables assessment of high loan-to-value applications on a loan-by-loan basis, taking into account a broad range of factors and ensuring compliance with the risk guidelines. The risk guidelines are reviewed and updated regularly to manage the Company's exposures and to address emerging trends in the housing market and economic environment. Authority levels for underwriting decisions are also assigned and monitored by the risk management function. Underwriters are given authority to approve mortgage insurance applications based on their experience and levels of proficiency. Underwriter performance is reviewed continuously to facilitate continuous improvement or remedial action where necessary.

(iii) Claims management risk

Claims management risk is the risk that loss mitigation efforts will be unsuccessful, resulting in larger than anticipated losses to the Company.

Claims submitted by lending institutions are 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 experience and level of proficiency. The Company enforces a policy of actively managing and promptly settling claims in order to reduce exposure to unpredictable future developments that can adversely impact losses.

The Company has two primary loss mitigation programs. The Homeowner Assistance Program is designed to help homeowners who are experiencing temporary financial difficulties that may prevent them from making timely payments on their mortgages. 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.

The Asset Management Program is designed to accelerate the conveyance of real estate properties to the Company in select circumstances. This strategy allows for better control of the property marketing process, reduction of carrying costs and potential of realization of a higher property sales price.

In addition to its current loss mitigation programs in place, under its agreement with lending institutions, 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

Loss reserving risk is the risk that loss reserves differ significantly from the ultimate amount paid to settle claims, principally due to additional information received and external factors that influence claim frequency and severity (including performance of the Canadian housing market).

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 development that may occur during the period from 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 actuary at least annually.

(v) Insurance 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 severity of the Company's losses. Portfolio concentration risk is the risk that losses increase disproportionately where portfolio diversification is inadequate.

The exposure to insurance portfolio concentration risk is mitigated by a portfolio that is diversified across geographic regions. The Company monitors the conditions of the housing market and economy in each region of Canada against pre-determined risk tolerances and utilizes this data to customize underwriting guidelines and loss mitigation initiatives by region.

The following table presents the Company's concentration of risk by region based on gross premiums written.

	December 31, 2011		December 31, 2010	
Gross premiums written	**Amount**	**%**	Amount	%
Ontario	**$ 207,922**	**38%**	$ 214,452	38%
Quebec	**86,100**	**16%**	105,527	19%
Alberta	**119,787**	**22%**	109,356	19%
British Columbia	**68,614**	**13%**	80,490	14%
Other	**62,154**	**11%**	54,590	10%
	$ 544,577	**100%**	$ 564,415	100%

The Company is exposed to changes in housing market performance and trends by geographic region and the concentration of geographic risk may change over time.

(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 investment assets.

The total credit risk exposure at December 31, 2011 is $4,202,949 (December 31, 2010 – $4,093,016; January 1, 2010 – $4,074,817) and comprises $3,989,495 (December 31, 2010 – $3,936,226; January 1, 2010 – $3,778,352) of bonds and debentures, $23,019 (December 31, 2010 – $77,139; January 1, 2010 – $423) of preferred shares, $45,723 (December 31, 2010 – $6,988; January 1, 2010 – $253,527) of short-term investments, $38,155 (December 31, 2010 – $32,270; January 1, 2010 – $28,869) of accrued investment income and other receivables, and $106,557 (December 31, 2010 – $40,393; January 1, 2010 – $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 7(e) and 10).

The Company's investment 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 Dominion Bond Rating Service, Standard and Poor's, or Moody's.

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

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying value		Carrying value		Carrying value	
Credit rating	**Amount**	**%**	Amount	%	Amount	%
AAA	**$ 1,253,706**	**30.9**	$ 1,337,237	33.3	$ 1,614,360	40.1
AA	**1,508,484**	**37.2**	1,426,779	35.5	1,344,137	33.3
A	**1,140,721**	**28.1**	1,134,426	28.2	1,017,783	25.2
BBB	**155,185**	**3.8**	121,756	3.0	55,924	1.4
Lower than B and unrated	**141**	**—**	155	—	98	—
	$ 4,058,237	**100.0**	$ 4,020,353	100.0	$ 4,032,302	100.0

7. Financial risk management (continued)

As at December 31, 2011, 96.2% of the Company's investment portfolio was rated 'A' or better, compared to 97.0% at December 31, 2010 and 98.6% at January 1, 2010.

The following AFS investments were in an unrealized loss position:

	December 31, 2011			December 31, 2010			January 1, 2010		
	Carrying value	**Amortized cost/Cost**	**Unrealized loss**	Carrying value	Amortized cost/Cost	Unrealized loss	Carrying value	Amortized cost/Cost	Unrealized loss
Government bonds	**$ 46,382**	**$ 46,392**	**$ (10)**	$ 28,511	$ 28,910	$ (399)	$ 136,208	$ 138,674	$ (2,466)
Corporate bonds	**23,678**	**25,326**	**(1,648)**	118,055	120,523	(2,468)	329,438	340,743	(11,305)
Preferred shares	**13,671**	**14,277**	**(606)**	28,666	29,051	(385)	—	—	—
Common shares	**95,163**	**104,940**	**(9,777)**	35,192	36,732	(1,540)	—	—	—
Total	**$178,894**	**$190,935**	**$ (12,041)**	$ 210,424	$ 215,216	$ (4,792)	$ 465,646	$ 479,417	$ (13,771)

As at December 31, 2011, the cost of 38 AFS investments exceeded their fair value by $12,041 (December 31, 2010 – 75 AFS investments exceeded their fair value by $4,792; January 1, 2010 – 40 AFS investments exceeded their fair value by $13,771). This unrealized loss is recorded in AOCI as part of unrealized gains on AFS investments. In the year ended December 31, 2011, unrealized losses on investments arose primarily from volatility in the equity markets. In the year ended December 31, 2010, unrealized losses on fixed income investments arose primarily from higher prevailing interest rates compared to the prior year. At January 1, 2010, unrealized losses on fixed income investments arose primarily from an increase in credit spreads. The Company has the ability to hold these investments until there is a recovery of fair value and these unrealized losses are considered to be temporary in nature. The Company conducts a monthly review to identify and evaluate investments that show objective evidence of impairment. There are no significant or prolonged declines in value for all AFS investments.

At December 31, 2011, $141 of the Company's investments were impaired, compared to $155 at December 31, 2010 and $98 at January 1, 2010. The breakdown of the Company's impaired investments is presented below:

		December 31, 2011			December 31, 2010			January 1, 2010		
	Credit rating	**Carrying value prior to impairment**	**Cumulative impairment loss**	**Carrying value**	Carrying value prior to impairment	Cumulative impairment loss	Carrying value	Carrying value prior to impairment	Cumulative impairment loss	Carrying value
Lehman Brothers Holdings Inc. bond	Unrated	**$ 590**	**$ (541)**	**$ 141**	$ 590	$ (541)	$ 155	$ 590	$ (541)	$ 98
		$ 590	**$ (541)**	**$ 141**	$ 590	$ (541)	$ 155	$ 590	$ (541)	$ 98

Total interest income earned on impaired investments held at December 31, 2011 was nil (December 31, 2010 – nil).

(c) Liquidity risk/maturity analysis

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

Liquidity risk arises from the Company's general business activities and in the course of managing its assets, liabilities and externally imposed capital requirements (note 8). The liquidity requirements of the Company's business have been met primarily by funds generated from operations including investment asset maturities and other returns received on investments and financing activities. 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, 2011, the Company has cash and cash equivalents of $72,244 (December 31, 2010 – $351,136; January 1, 2010 – $377,512) and short-term investments of $45,723 (December 31, 2010 – $6,988; January 1, 2010 – $253,527).

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

	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
As at December 31, 2011:	**$ 378,613**	**$ 1,072,348**	**$ 1,070,995**	**$ 951,332**	**$ 561,930**	**$ 4,035,218**
As at December 31, 2010:	$ 467,544	$ 809,867	$ 1,299,013	$ 789,679	$ 570,123	$ 3,936,226
As at January 1, 2010:	$ 291,569	$ 979,151	$ 1,169,790	$ 618,344	$ 719,498	$ 3,778,352

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

	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
As at December 31, 2011:						
Loss reserves	**$ 94,598**	**$ 72,408**	**$ 2,002**	**$ —**	**$ —**	**$ 169,008**
Long-term debt	**—**	**—**	**150,000**	**275,000**	**—**	**425,000**
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 January 1, 2010:						
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 investment portfolio. 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 investments 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 investments the Company continues to hold, as well as realized gains to the extent that the relevant investments are sold. During periods of rising interest rates, the market value of the Company's existing fixed income investments will generally decrease and gains on fixed income investments will likely be reduced or become losses.

As at December 31, 2011, 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 investments, short term investments and preferred shares by approximately $147,000, representing 3.62% of the $4,058,237 fair value of these investments, and decrease the value of loss reserves by $1,301. Conversely, a 100 basis point, or 1%, decrease in interest rates would increase the market value of the AFS fixed income investments and preferred shares by approximately $157,000, representing 3.87% of the fair value, and increase the value of loss reserves by approximately $1,328.

As at December 31, 2010, 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 investments and preferred shares by approximately $146,000, representing 3.67% of the $3,982,063 fair value of these investments, 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 investments 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.

7. Financial risk management (continued)

As at January 1, 2010, 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 investments by approximately $138,000, representing 3.45% of the $3,997,394 fair value of the AFS fixed income investment 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 investments and preferred shares 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 ended December 31, 2011, the Company sold its FVTPL investment in European Credit Luxembourg bonds.

As at December 31, 2010, management estimated that a 100 basis point, or 1%, increase in interest rates would decrease the market value of the FVTPL investments by approximately $1,800, representing 4.70% of the $38,290 fair value of the FVTPL fixed income investment portfolio. Conversely, a 100 basis point, or 1%, decrease in interest rates would increase the market value of the FVTPL investments by approximately the same amount.

As at January 1, 2010, management estimated that a 100 basis point, or 1% increase in interest rates would decrease the market value of the FVTPL investments by approximately $1,500 representing 4.35% of the $34,485 fair value of the FVTPL fixed income investment portfolio. Conversely, a 100 basis point, or 1% decrease in interest rates would increase the market value of the FVTPL investments by approximately 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: (a) the existing level and composition of fixed income security assets will be maintained; (b) shifts in the yield curve are parallel; and (c) 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, 2011, the Company had a total investment in common shares of $201,745. Management estimates that a 10% increase in the equity price index would increase the market value of the common shares by $14,123 and that a 10% decrease in the equity price index would decrease the market value of the common shares by the same amount.

As at December 31, 2010, the Company had a total investment in common shares of $118,047. Management estimated that a 10% increase in the equity price index would increase the market value of the common shares by $8,617 and that a 10% decrease in the equity price index would decrease the market value of the common shares by the same amount.

As at January 1, 2010, the Company did not hold any common shares.

The Company has policies to limit and monitor exposures to individual equity investment 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, 2011 is $911,586 (December 31, 2010 – $782,649; January 1, 2010 – $701,275) and comprises $891,566 of bonds and debentures (December 31, 2010 – $703,542; January 1, 2010 – $663,161), $17,354 of short-term investments (December 31, 2010 – $75,309; January 1, 2010 – $35,291), and $2,666 (December 31, 2010 – $3,798; January 1, 2010 – $2,823) of accrued investment income.

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

	December 31, 2011		December 31, 2010		January 1, 2010	
Credit rating	**Carrying value**	**%**	Carrying value	%	Carrying value	%
AAA	**$ 908,920**	**100.0**	$ 778,851	100.0	$ 698,452	100.0
Total	**$ 908,920**	**100.0**	$ 778,851	100.0	$ 698,452	100.0

As at December 31, 2011, the cost of 5 AFS bonds exceeded their fair value by $82 (December 31, 2010 – the cost of five AFS bonds exceeded their fair value by $495; January 1, 2010 – the cost of 6 AFS bonds exceeded their fair value by $246). This unrealized loss is recorded in AOCI as part of unrealized gains on AFS investments. 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 investments until there is a recovery of fair value, which may be at maturity, these unrealized losses are not considered to be an indication of impairment.

The following AFS bonds were in an unrealized loss position:

	December 31, 2011			December 31, 2010			January 1, 2010		
	Carrying value	**Amortized cost**	**Unrealized loss**	Carrying value	Amortized cost	Unrealized loss	Carrying value	Amortized cost	Unrealized loss
Government bonds	**$ 32,584**	**$ 32,588**	**$ (4)**	$ 16,968	$ 17,312	$ (344)	$ 3,230	$ 3,298	$ (68)
Agencies unconditionally guaranteed by the Government of Canada	**58,131**	**58,209**	**(78)**	29,399	29,550	(151)	56,836	57,014	(178)
Total	**$ 90,715**	**$ 90,797**	**$ (82)**	$ 46,367	$ 46,862	$ (495)	$ 60,066	$ 60,312	$ (246)

(ii) Liquidity risk/maturity analysis

The table below summarizes the carrying value by the earliest contractual maturity of the government guarantee fund bonds and debentures and short-term investments:

	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
As at December 31, 2011	**$ 96,607**	**$ 171,675**	**$ 355,620**	**$ 107,607**	**$ 177,411**	**$ 908,920**
As at December 31, 2010	128,700	128,452	248,344	80,953	192,402	778,851
As at January 1, 2010	45,896	178,785	126,725	192,639	154,407	698,452

7. Financial risk management (continued)

(iii) Market risk

The market risk to which the government guarantee fund investments are exposed is interest rate risk.

As at December 31, 2011, 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 investments in the government guarantee fund by approximately $45,000, representing 4.95% of the $908,920 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 $9,481 (note 10). Conversely, a 100 basis point, or 1%, decrease in interest rates would increase the market value of the government guarantee fund investments by approximately $56,000, representing 6.16% of the fair value, and increase the value of the exit fee and liability to MICC by $11,726.

As at December 31, 2010, 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 investments 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 MICC by $7,112. Conversely, a 100 basis point, or 1%, decrease in interest rates would increase the market value of the government guarantee fund investments 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 January 1, 2010, 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 investments 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 MICC by $6,191. Conversely, a 100 basis point, or 1%, decrease in interest rates would increase the market value of the government guarantee fund investments 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.

8. 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% (December 31, 2010 – 120%; January 1, 2010 – 120%). To measure the degree to which the Insurance Subsidiary is able to meet regulatory capital requirements, the Company's 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% (December 31, 2010 – 145%; January 1, 2010 – 135%).

As at December 31, 2011, the Insurance Subsidiary had an MCT ratio of 162% (December 31, 2010 – 156%; January 1, 2010 – 149%) and has complied with the regulatory and internal capital requirements.

The Company's Board of Directors has adopted a capital management policy for the Company and its Insurance Subsidiary. The policy identifies sources of capital, establishes a capital adequacy target for the Insurance Subsidiary and sets a financial leverage target and dividend policy for the Company. As part of its ongoing management of capital, the Company prepares capital forecasts and regularly compares actual performance with forecasted results.

9. Investments

Investments are carried at fair value. The Company's investments, excluding the government guarantee fund, are summarized as follows:

	December 31, 2011				December 31, 2010				January 1, 2010			
	Fair value	**Amortized cost/cost**	**Unrealized gain (loss)**	**% Fair value**	Fair value	Amortized cost/cost	Unrealized gain (loss)	% Fair value	Fair value	Amortized cost/cost	Unrealized gain (loss)	% Fair value
AFS investments:												
Cash and cash equivalents:												
Government treasury bills	**$ 69,256**	**$ 69,256**	**$ —**	**1.6**	$ 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	**2,988**	**2,988**	**—**	**0.1**	12,043	12,043	—	0.2	15,152	15,152	—	0.3
	72,244	**72,244**	**—**	**1.7**	351,136	351,136	—	7.8	377,512	377,512	—	8.6
Short-term investments:												
Canadian federal government treasury bills	**45,723**	**45,723**	**—**	**1.1**	6,988	6,988	—	0.2	144,109	144,109	—	3.3
Canadian provincial government treasury bills	**—**	**—**	**—**	**—**	—	—	—	—	109,418	109,418	—	2.5
	45,723	**45,723**	**—**	**1.1**	6,988	6,988	—	0.2	253,527	253,527	—	5.8
Government bonds:												
Canadian federal government	**808,522**	**771,885**	**36,637**	**18.6**	943,858	924,887	18,971	21.0	929,008	909,398	19,610	21.0
Canadian provincial government	**810,150**	**744,673**	**65,477**	**18.7**	606,978	581,687	25,291	13.5	528,184	505,229	22,955	12.0
	1,618,672	**1,516,558**	**102,114**	**37.3**	1,550,836	1,506,574	44,262	34.5	1,457,192	1,414,627	42,565	33.0
Corporate bonds:												
Financial	**1,253,093**	**1,180,742**	**72,351**	**28.9**	1,231,336	1,170,706	60,630	27.5	1,420,446	1,370,884	49,562	32.2
Energy	**308,417**	**286,798**	**21,619**	**7.1**	301,623	288,719	12,904	6.7	230,456	220,195	10,261	5.2
Infrastructure	**257,489**	**236,859**	**20,630**	**5.9**	252,292	239,966	12,326	5.6	206,310	199,534	6,776	4.7
All other sectors	**384,099**	**360,037**	**24,062**	**8.9**	309,415	299,527	9,888	6.9	175,425	166,394	9,031	4.0
	2,203,098	**2,064,436**	**138,662**	**50.8**	2,094,666	1,998,918	95,748	46.7	2,032,637	1,957,007	75,630	46.1
Asset backed bonds	**167,725**	**159,013**	**8,712**	**3.9**	252,434	245,187	7,247	5.6	254,038	252,116	1,922	5.8
Total AFS bonds and debentures	**$ 3,989,495**	**$ 3,740,007**	**$ 249,488**	**92.0**	$ 3,897,936	$ 3,750,679	$ 147,257	86.8	$ 3,743,867	$ 3,623,750	$ 120,117	84.9

9. Investments (continued)

	December 31, 2011				December 31, 2010				January 1, 2010			
	Fair value	Amortized cost/cost	Unrealized gain (loss)	% Fair value	Fair value	Amortized cost/cost	Unrealized gain (loss)	% Fair value	Fair value	Amortized cost/cost	Unrealized gain (loss)	% Fair value
Preferred shares:												
Financial	$ 11,817	$ 12,409	$ (592)	0.3	$ 67,009	$ 66,717	$ 292	1.5	$ 423	$ 421	$ 2	—
Industrial	1,414	1,406	8	0.0	1,412	1,406	6	—	—	—	—	—
Energy	9,788	9,699	89	0.2	8,718	8,630	88	0.2	—	—	—	—
	23,019	23,514	(495)	0.5	77,139	76,753	386	1.7	423	421	2	—
Common shares:												
Energy	65,296	65,088	208	1.5	45,222	42,601	2,621	1.0	—	—	—	—
Financial	26,363	27,609	(1,246)	0.6	18,840	18,185	655	0.4	—	—	—	—
Communications	39,620	39,868	(248)	1.0	22,074	22,468	(394)	0.5	—	—	—	—
All other sectors	70,466	68,110	2,356	1.6	31,911	31,464	447	0.7	—	—	—	—
	201,745	200,675	1,070	4.7	118,047	114,718	3,329	2.6	—	—	—	—
Total AFS equities	224,764	224,189	575	5.2	195,186	191,471	3,715	4.3	423	421	2	—
FVTPL investments:												
European Credit Luxembourg Bonds:												
Financial	—	—	—	—	38,290	50,000	(11,710)	0.9	34,485	50,000	(15,515)	0.7
Total investments	$ 4,332,226	$ 4,082,163	$ 250,063	100.0	$ 4,489,536	$ 4,350,274	$ 139,262	100.0	$ 4,409,814	$ 4,305,210	$ 104,604	100.0

The fair value of investments, excluding the government guarantee fund, equity investments, and cash and cash equivalents are shown by contractual maturity of the investment. Yields are based upon fair value.

	December 31, 2011		December 31, 2010		January 1, 2010	
Terms to maturity	Fair value	Yield %	Fair value	Yield %	Fair value	Yield %
Bonds and debentures and short-term investments issued or guaranteed by the Government of Canada:						
1 year or less	$ 162,097	5.2	$ 208,244	4.6	$ 397,527	1.8
1–3 years	440,888	3.6	236,155	4.8	432,129	4.3
3–5 years	539,434	3.1	740,893	3.1	645,613	3.7
5–10 years	433,209	4.7	267,808	4.9	155,254	5.1
Over 10 years	88,767	4.7	104,724	4.6	80,196	4.8
	1,664,395	3.9	1,557,824	4.0	1,710,719	3.6
Corporate bonds and debentures and short-term investments:						
1 year or less	216,516	5.4	266,288	5.2	147,569	4.9
1–3 years	631,459	4.9	573,712	5.0	547,022	5.0
3–5 years	531,562	4.7	558,120	4.8	524,177	5.3
5–10 years	518,123	5.0	521,871	5.1	463,090	5.2
Over 10 years	473,163	5.5	465,399	5.5	639,302	5.9
	2,370,823	5.0	2,385,390	5.1	2,321,160	5.3
	$ 4,035,218	4.6	$ 3,943,214	4.6	$ 4,031,879	4.6

Securities lending

The Company participates in a securities lending program through an intermediary that is a financial institution for the purpose of generating fee income. Non-cash collateral, which exceeds the fair value of the loaned securities by at least 105%, is retained by the Company until the underlying securities have been returned to the Company.

The fair value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the fair value of the underlying securities fluctuates. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties. The intermediary indemnifies the Company against any shortfalls in collateral.

These transactions are conducted under terms that are usual and customary to security lending activities as well as requirements determined by exchanges where a financial institution acts as an intermediary.

As at December 31, 2011, the Company had loaned AFS bonds and debentures with a fair value of approximately $277,418 (December 31, 2010 – $268,442; January 1, 2010 – $323,300) and has accepted eligible securities as collateral with a fair value of approximately $295,178 (December 31, 2010 – $283,424; January 1, 2010 – $341,756).

Fair value measurements

Fair value measurements are based on a three-level fair value hierarchy based on inputs used in estimating the fair value of financial instruments. The hierarchy of inputs is summarized below:

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

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

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

The following tables set forth inputs used as of December 31, 2011 and 2010 and January 1, 2010 in valuing the Company's financial instruments carried at fair value:

December 31, 2011	**Total**	**Level 1**	**Level 2**	**Level 3**
Bonds and debentures:				
AFS	**$ 3,989,495**	**$ —**	**$ 3,989,495**	**$ —**
Preferred shares	**23,019**	**23,019**	**—**	**—**
Common shares	**201,745**	**201,745**	**—**	**—**
Short-term investments	**45,723**	**45,723**	**—**	**—**
Bonds and debentures in the government guarantee fund	**891,566**	**—**	**891,566**	**—**
Short-term investments in the government guarantee fund	**17,354**	**17,354**	**—**	**—**
	$ 5,168,902	**$ 287,841**	**$ 4,881,061**	**$ —**

December 31, 2010	Total	Level 1	Level 2	Level 3
Bonds and debentures:				
AFS	$ 3,897,936	$ —	$ 3,897,936	$ —
Bonds and debentures:				
FVTPL	38,290	—	—	38,290
Preferred shares	77,139	—	77,139	—
Common shares	118,047	118,047	—	—
Short-term investments	6,988	6,988	—	—
Bonds and debentures in the government guarantee fund	703,542	—	703,542	—
Short-term investments in the government guarantee fund	75,309	75,309	—	—
	$ 4,917,251	$ 200,344	$ 4,678,617	$ 38,290

9. Investments (continued)

January 1, 2010	Total	Level 1	Level 2	Level 3
Bonds and debentures:				
AFS	$ 3,743,867	$ —	$ 3,642,737	$ 101,130
Bonds and debentures:				
FVTPL	34,485	—	—	34,485
Preferred shares	423	—	423	—
Short-term investments	253,527	253,527	—	—
Bonds and debentures in the government guarantee fund	663,161	—	663,161	—
Short-term investments in the government guarantee fund	35,291	35,291	—	—
	$ 4,730,754	$ 288,818	$ 4,306,321	$ 135,615

During the years ended December 31, 2011 and 2010, the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

2011	**AFS bonds and debentures**	**FVTPL bonds and debentures**	**Total**
Beginning balance, January 1, 2011	**$ —**	**$ 38,290**	**$ 38,290**
Investment sales	**—**	**(40,168)**	**(40,168)**
Change in fair value through income	**—**	**1,878**	**1,878**
Ending balance, December 31, 2011	**$ —**	**$ —**	**$ —**

2010	AFS bonds and debentures	FVTPL bonds and debentures	Total
Beginning balance, January 1, 2010	$ 101,130	$ 34,485	$ 135,615
Transfers out of Level 3	(101,130)	—	(101,130)
Change in fair value through income	—	3,805	3,805
Ending balance, December 31, 2010	$ —	$ 38,290	$ 38,290

As at December 31, 2011, the Company does not hold any level 3 financial instruments. As at December 31, 2010, the Level 3 instruments comprise $38,290 European Credit Luxembourg bonds classified as FVTPL. As at January 1, 2010, the Level 3 instruments comprise $101,130 commercial mortgage backed bonds classified as AFS and $34,485 European Credit Luxembourg bonds. The European Luxembourg bonds are not externally rated but have been given an internal rating of BBB.

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.

No sensitivity analysis for valuing Level 3 financial instruments was performed as at December 31, 2011 as no financial instruments were classified in this category. At December 31, 2010, the potential impact of using reasonable possible alternative assumptions for valuing Level 3 financial instruments would increase their fair value by approximately $1,800 or decrease their fair value by approximately the same amount. At January 1, 2010, the potential impact of using reasonable possible alternative assumptions for valuing Level 3 financial instruments would increase their fair value by approximately $5,500 or decrease their fair value by approximately $5,300.

10. Government guarantee fund and Government Guarantee Agreement

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 carried a 50% risk weighting, while mortgages insured by Canada Mortgage and Housing Corporation ("CMHC"), an agency of the Government of Canada, carried 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 liabilities from MICC related to MICC's residential mortgage insurance line of business.

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 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 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 could be withdrawn from the government guarantee fund if the dollar value of the government guarantee fund was 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 Agreement (February 1992) to the date of the withdrawal up to a maximum of 25% is required to be paid to the Government of Canada.

In conjunction with the acquisition of MICC's residential mortgage insurance business, the Government Guarantee Agreement had 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.

The government guarantee fund is recorded in the consolidated statement of financial position at fair value and is comprised of the following components:

		December 31, 2011	December 31, 2010	January 1, 2010
Invested assets at fair value	(a)	**$ 909,527**	$ 789,869	$ 699,207
Accrued contribution and accrued income	(b)	**15,889**	18,201	14,700
Accrued exit fee and MICC liability	(c)	**(194,286)**	(162,337)	(137,490)
		$ 731,130	$ 645,733	$ 576,417

(a) Investments including government bonds and 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 and accrued contributions, and the Company's liability for MICC's net proportionate interest in the government guarantee fund.

10. Government guarantee fund and Government Guarantee Agreement (continued)

On June 26, 2011, the Protection of Residential Mortgage or Hypothecary Insurance Act ("PRMHIA") was passed by the Canadian Parliament. The stated purposes of the PRMHIA are "(a) to authorize the Minister to provide protection in respect of certain mortgage or hypothecary insurance contracts in order to support the efficient functioning of the housing finance market and the stability of the financial system in Canada; and (b) to mitigate the risks arising from the provision of that protection." While the PRMHIA does not change the level of government guarantee provided on privately insured mortgages, it formalizes in legislation existing mortgage insurance arrangements with private mortgage insurers.

The Agreement will terminate when the provisions of PRMHIA come into force. Upon termination of the Agreement, all investments and monies held in the government guarantee fund will revert to the Company. Any balances owing to MICC will be paid. It is anticipated that the Company will pay a fee to the Government of Canada similar to the risk premium under the existing agreement.

Contributions of assets to the government guarantee fund and the income on such assets have resulted in a tax deferral to the Company. Upon termination of the Agreement, the withdrawal of these assets from the government guarantee fund will result in a current tax obligation to the Company.

For purposes of the Insurance Subsidiary's Minimum Capital Test ("MCT"), the government guarantee fund (net of related deferred tax impact) is deducted from capital available. Upon termination of the Agreement, the legislation gives the Minister of Finance the ability to require the Insurance Subsidiary to maintain capital above that required to be maintained under the Insurance Companies Act ("the ICA").

The Company recorded the results of income from the fund of $27,055 (December 31, 2010 – $26,530) less exit fees of $24,221 (December 31, 2010 – $22,838) for a net amount of $2,834 (December 31, 2010 – $3,692) in guarantee fund earnings.

Risk premium

The Company calculates risk premium in accordance with the formula prescribed in the Government Guarantee Agreement and accrues the balance in the consolidated statement of financial position. The risk premium recorded in the consolidated statement of income for the year ended December 31, 2011 is $11,177 (December 31, 2010 – $12,813). The risk premium payable recorded in the consolidated statement of financial position at December 31, 2011 is $2,634 (December 31, 2010 – $3,192; January 1, 2010 – $3,370).

11. Income taxes

The provision for income taxes is comprised of the following:

	Year ended December 31, 2011	Year ended December 31, 2010
Current tax:		
Current income taxes	**$ 109,097**	$ 127,732
Current tax adjustment in respect of prior years	**(72)**	(2,956)
	109,025	124,776
Deferred tax:		
Origination and reversal of temporary differences	**10,788**	15,573
Impact of change in income tax rates	**—**	(1,880)
	10,788	13,693
Total income tax expense	**$ 119,813**	$ 138,469

Income taxes charged to OCI are comprised of the following:

	Year ended December 31, 2011	Year ended December 31, 2010
Tax related to net gains on AFS financial assets in the general investment portfolio	**$ 28,560**	$ 9,272
Tax related to net gains on AFS financial assets in the government guarantee fund	**5,997**	618
Tax related to defined benefit plan actuarial losses	**(582)**	(415)
Total income taxes charged to OCI	**$ 33,975**	$ 9,475

During the year ended December 31, 2010, the Company credited $1,420 of income taxes directly to share capital.

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

	Year ended December 31, 2011	Year ended December 31, 2010
Income before income taxes	**$ 443,004**	$ 486,451
Combined basic Canadian federal and provincial income tax rate	**28%**	30%
Income tax expense based on statutory tax rate	**$ 124,041**	$ 145,935
Increase (decrease) in income tax resulting from:		
Non-deductible expenses (non-taxable income)	**(3,214)**	251
Effect of increase (decrease) in tax rates on deferred income taxes[1]	**248**	(4,599)
Adjustment for prior periods	**(1,262)**	(3,118)
Income tax expense	**$ 119,813**	$ 138,469

[1] The passage of PRMHIA by the Canadian Parliament on June 26, 2011 will result in the termination of the Government of Canada Guarantee Agreement and the return of the government guarantee fund to the Company, as described in note 10. Consequently, the deferred tax liability related to the government guarantee fund is expected to reverse into current income taxes earlier than previously estimated. As a result, the deferred tax liability related to the government guarantee fund increased by $1,828 to reflect the income tax rates expected to apply when the guarantee fund is returned, and income tax expense increased by $1,696 for the year ended December 31, 2011.

The difference in the effective income tax rate of 27.0% implicit in the $119,813 provision for income taxes in 2011 from the Company's statutory income tax rate of 28.0% was primarily attributable to an increase in non-taxable dividend income.

The difference in the effective income tax rate of 28.5% implicit in the $138,469 provision for income taxes in 2010 from the Company's statutory income tax rate of 30.0% was primarily attributable to a decrease in federal and provincial income tax rates and income tax favorability relating to the 2009 taxation year which was realized upon completion of the Company's 2009 tax returns.

The decrease in statutory income tax rates from 30% in 2010 to 28% in 2011 and from 32% in 2009 to 30% in 2010 resulted from legislated decreases in the Canadian federal income tax rate and income tax rates of certain provinces.

11. Income taxes (continued)

The following table describes the components of the net deferred tax liability on the Company's consolidated statement of financial position:

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred tax assets:			
Employee benefits	$ 4,706	$ 3,485	$ 2,895
Loss reserves	2,176	2,671	3,070
Tax losses available for carryforward	9,900	2,336	—
Financing costs	555	893	—
	17,337	9,385	5,965
Deferred tax liabilities:			
Investments including unrealized gains on government guarantee fund AFS investments	(16,207)	(13,052)	(15,221)
Government guarantee fund reserve	(176,390)	(159,481)	(144,594)
Policy reserves	(53,117)	(49,547)	(46,929)
Property and equipment and intangible assets	(3,107)	(2,586)	(2,425)
	(248,821)	(224,666)	(209,169)
Net deferred tax liability	$ (231,484)	$ (215,281)	$ (203,204)

The net change in the composition of the net deferred tax liabilities is as follows:

	December 31, 2011	December 31, 2010
Balance, beginning of year	$ 215,281	$ 203,204
Expense for the year	10,788	13,693
Other comprehensive income for the year	5,415	(196)
Share capital adjustment	—	(1,420)
Balance, end of year	$ 231,484	$ 215,281

Management reviews the valuation of deferred tax assets on an ongoing basis to determine if a valuation allowance is necessary. It is probable that the Company will fully utilize the benefits available from existing deferred tax assets. No valuation allowance is required for the year ended December 31, 2011 (December 31, 2010 – nil; January 1, 2010 – nil).

12. Related party transactions and balances

Transactions with key management personnel and Company directors

Key management personnel are those persons having authority and responsibility for planning and directly controlling the activities of the Company.

Key managements' compensation includes both fixed elements (base salary, benefits, retirement benefit plans, executive allowances) and performance-based elements (short-term incentive compensation and long-term share-based compensation). The short-term incentive compensation is dependent on how well the Company performs and how well a key manager performs in his or her role. Long-term share-based compensation grants may consist of any combination of Options, RSUs, and PSUs (see note 15). In addition to the defined contribution retirement benefit plan, a defined benefit supplemental executive retirement plan ("SERP") is maintained to provide pension benefits to key management in excess of the amounts payable under the Company's registered defined contribution plan.

The Company has standard policies in place to cover various forms of termination. Key management is subject to the same terms and conditions as all other employees of the Company for resignation and termination for cause. In such situations, key management is not eligible for short-term incentives, unvested Options expire, and unvested RSUs and PSUs are forfeited. In the case of a termination that is not for cause, unvested Options, RSUs and PSUs expire. In addition, the Company has entered into an agreement with certain executive officers that provides specific protection in the event that their employment with the Company is terminated without cause due to a change in control within 36 months of the Company's IPO. If there is termination due to a change of control or termination without cause, key management is entitled to termination benefits of up to 24 months of gross salary, depending on his or her number of years of employment.

Directors must take 50% of their annual retainer in the form of DSUs and may elect to take the remaining portion in DSUs. Independent directors are required to own at least three times their annual retainer in common shares or DSUs by the later of five years from July 7, 2009, the date of the Company's IPO or the individual's appointment date. If a director has not met the Company's ownership guideline within the prescribed period, then 100% of the director's annual retainer will be paid in DSUs until such time as the guidelines are met.

Compensation for the Company's five key managers and four independent directors is comprised of the following:

	December 31, 2011	December 31, 2010
Short-term employee benefits	$ 3,121	$ 3,501
Post-employment benefits	1,044	892
Share-based payment	803	1,552
Other long-term benefits	—	—
Termination benefits	—	—
Director fees	438	276
Total compensation	$ 5,406	$ 6,221

Other related party transactions

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 majority shareholder. The agreement prescribes that these companies will provide certain services to one another, with most services being terminated within twelve months 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, investment 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 the transaction 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 $5,775 for the year ended December 31, 2011 (December 31, 2010 – $6,155). The balance owed for related party services at December 31, 2011 is $916 (December 31, 2010 – $260; January 1, 2010 – $775) and is reported in accounts payable and accrued liabilities in the consolidated statement of financial position.

13. Commitments

The Company's commitments are comprised of operating leases and expenditures relating to property and equipment and intangible assets. Information on the Company's operating leases is presented below. Information on expenditures relating to property and equipment and intangible assets is presented in notes 16 and 17.

The Company leases office space, office equipment, computer equipment and automobiles. Leases of office space have initial lease terms between 5 to 7 years with the right to extend the initial term of the lease for an additional 5 years.

Future minimum lease commitments at December 31, 2011 and December 31, 2010 are as follows:

	December 31, 2011	December 31, 2010
No later than 1 year	$ 2,223	$ 2,197
Later than 1 year and not later than 5 years	6,645	6,766
Later than 5 years	1,307	3,081
	$ 10,175	$ 12,044

Lease payments recognized as operating lease expense for the year ended December 31, 2011 were $2,890 (December 31, 2010 – $2,754).

14. Pensions and other post-employment benefits

(a) Defined contribution pension benefit plan

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. As plan sponsor, the Company is responsible for contributing a predetermined amount to an employee's retirement savings, based on a percentage of that employee's salary.

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

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

The Company maintains two types of defined benefit plans: the SERP and a defined benefit plan for 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 post-employment benefits that employees and retirees have earned as at period end. The Company's actuaries perform valuations of the benefit liabilities for pension and other employee post-employment benefits as at December 31 of each year.

Plan membership data includes the number of plan members and the average age, service period, and pensionable earnings of plan members. For the SERP, actuarial valuations for the years ended December 31, 2011 and 2010 and as at January 1, 2010 are based on plan membership data as at the respective period ends. For the other post-employment benefits, actuarial valuations for the years ended December 31, 2011 and 2010 and as at January 1, 2010 are based on plan membership data as at January 1, 2009. The next membership data update will occur as at January 1, 2012.

The Company is the sponsor of these plans. 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 recorded in the Company's consolidated statement of financial position as follows:

	SERP			Other post-employment benefits		
	December 31, 2011	December 31, 2010	January 1, 2010	**December 31, 2011**	December 31, 2010	January 1, 2010
Accrued net benefit liabilities under employee benefit plans	**$ 9,006**	$ 6,422	$ 5,495	**$ 7,309**	$ 5,946	$ 3,978

Pension and other post-employment benefits are recognized in employee compensation in the consolidated statement of income and are determined as follows:

	SERP		Other post-employment benefits	
	2011	2010	**2011**	2010
Defined benefit expense:				
Benefits earned by employees	**$ 394**	$ 402	**$ 613**	$ 440
Interest cost on accrued benefit liability	**390**	412	**376**	308
Defined benefit expense for the year	**$ 784**	$ 814	**$ 989**	$ 748
Defined contribution expense for the year	**$ 2,846**	$ 2,665	**$ —**	$ —
Total pension and other employee future benefit expenses recognized in the consolidated statement of income	**$ 3,630**	$ 3,479	**$ 989**	$ 748

The actuarial losses recognized in the consolidated statement of OCI relating to the SERP are $1,863 at December 31, 2011 (December 31, 2010 – actuarial losses of $390). The actuarial losses recognized in the consolidated statement of OCI relating to other post-employment benefits are $398 at December 31, 2011 (December 31, 2010 – actuarial losses of $1,220).

Changes in the estimated financial positions of the SERP and other employee post-employment benefit plans are as follows:

	SERP		Other post-employment benefits	
	2011	2010	**2011**	2010
Accrued net benefit liabilities under employee benefit plans beginning of year	**$ 6,422**	$ 5,495	**$ 5,946**	$ 3,978
Benefits earned by employees during the year	**394**	402	**613**	440
Interest cost on accrued liability incurred during the year	**390**	412	**376**	308
Benefits paid to pensioners and employees during the year	**(63)**	(277)	**(24)**	—
Actuarial losses	**1,863**	390	**398**	1,220
Accrued net benefit liabilities under employee benefit plans, end of year	**$ 9,006**	$ 6,422	**$ 7,309**	$ 5,946

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

The weighted average assumptions used to determine benefit liabilities are as follows:

	SERP			Other post-employment benefits		
	December 31, 2011	December 31, 2010	January 1, 2010	**December 31, 2011**	December 31, 2010	January 1, 2010
Discount rate, end of year	**5.50%**	5.75%	7.00%	**5.50%**	5.75%	7.00%
Rate of compensation increase	**3.50%**	3.50%	4.25%	**3.50%**	3.50%	4.25%
Average retirement age	**62**	62	62	**59**	62	62
Assumed overall health care trend rate[1]	**n/a**	n/a	n/a	**7.47%**	7.60%	7.71%

[1] Grading to 4.50% by 2029.

Sensitivity of assumptions

Sensitivity analyses of changes in the assumed health care cost trend rate for the years ended December 31, 2011 and 2010 are as follows:

	Other post-employment benefits	
2011	Benefit liability	Benefit expense
Assumed overall health care trend rate (%):		
Impact of:		
1% increase	$ 1,298	$ 194
1% decrease	(966)	(162)

	Other post-employment benefits	
2010	Benefit liability	Benefit expense
Assumed overall health care 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. For the purpose of this analysis, all other assumptions were held constant.

The benefit obligation and the actuarial gains or losses for the current annual period and the previous four annual periods are as follows:

SERP:

	2011	2010	2009	2008	2007
Accrued benefit liability as at December 31	**$ 9,006**	$ 6,422	$ 5,495	$ 4,487	$ 5,239
Actuarial (gain) loss	**1,863**	390	322	(1,488)	(739)

Non-pension post-employment benefits:

	2011	2010	2009	2008	2007
Accrued benefit liability as at December 31	**$ 7,309**	$ 5,946	$ 3,978	$ 3,622	$ 5,041
Actuarial (gain) loss	**398**	1,220	(258)	(2,268)	(358)

Cash flows:

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

	Pension plans		Other post-employment benefits	
	2011	2010	**2011**	2010
Benefits paid on defined benefit plans	**$ 63**	$ 277	**$ 24**	$ —
Contributions to defined contribution plans	**2,846**	2,665	**—**	—
Total	**$ 2,909**	$ 2,942	**$ 24**	$ —

The Company expects to contribute $68 to the SERP and $59 to the other post-employment benefit plan during the annual period beginning after December 31, 2011.

15. Share-based compensation

The Company provides long-term incentive plans for the granting of Options, RSUs, PSUs, and DSUs.

Options are granted to employees with an exercise price equal to the Company's share price at the date of grant. Options vest over a period of three years (50% on each of the second and third anniversaries of the grant date or equally over three years). The Options expire ten years from the date of grant and provide employees with the choice of settlement in either cash or shares of the Company. The range of exercise prices for the year ended December 31, 2011 is $19.00 to $27.12 (December 31, 2010 – $19.00 to $27.12).

RSUs entitle employees to receive an amount equal to the fair value of the Company's shares. The RSUs vest no later than December 1 in the third calendar year following the calendar year in respect of which the RSUs are granted and provide employees with the choice of settlement in either cash or shares of the Company. The RSUs may participate in dividend equivalents at the discretion of the Company's Board of Directors.

PSUs entitle employees to receive an amount equal to the fair value of the Company's shares if certain performance conditions are met. Performance conditions are measured over a three year performance period and payouts are settled at the end of the period. The awards paid out may vary, based on the Company's performance, from zero to one and one-half times the initial grant of PSUs. The performance measures associated with PSU grants include earnings growth, return on equity, contribution margin, underwriting income and investment income.

DSUs entitle eligible members of the Company's Board of Directors to receive an amount equal to the fair value of the Company's shares. The number of DSUs granted is based on the fair value of director services provided during the period and is calculated using the Company's average share price in the five days immediately preceding the period end. 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 DSUs provide directors with the choice of settlement in either cash or shares of the Company. The Board of Directors may elect to pay dividend equivalents on DSUs.

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 presents information about these share-based compensation plans:

2011	Number of Options	Weighted average exercise price	Number of RSUs	Weighted average fair value at December 31, 2011	Number of DSUs	Weighted average fair value at December 31, 2011	Number of PSUs	Weighted average fair value at December 31, 2011
Outstanding, as at January 1, 2011	984,200	$ 20.70	123,780	$ 2,537	9,831	$ 202	18,496	$ 379
Granted	194,500	26.80	35,900	736	10,238	210	18,000	369
Dividend equivalents granted	—	—	3,853	79	368	8	974	20
Exercised	(12,500)[1]	19.00	(54,278)[2]	(1,113)	—	—	—	—
Forfeited	(13,750)	19.00	(5,785)	(119)	—	—	—	—
Outstanding, as at December 31, 2011	**1,152,450**	**$ 21.77**	**103,470**	**$ 2,120**	**20,437**	**$ 420**	**37,470**	**$ 768**
Exercisable, as at December 31, 2011	436,813	$ 20.35	—	$ —	20,437	$ 420	—	$ —
Weighted average remaining contractual life (years)	7.9	—	1.3	—	—	—	1.6	—

[1] During the year ended December 31, 2011, a total of 12,500 Options were exercised, of which 11,250 were settled in cash and 1,250 were settled in shares of the Company.

[2] During the year ended December 31, 2011, a total of 54,278 RSUs were exercised, of which 35,530 were settled in cash and 18,748 were settled in shares of the Company.

2010	Number of Options	Weighted average exercise price	Number of RSUs	Weighted average fair value at December 31, 2010	Number of DSUs	Weighted average fair value at December 31, 2010	Number of PSUs	Weighted average fair value at December 31, 2010
Outstanding, as at January 1, 2010	810,000	$ 19.16	84,406	$ 2,329	3,257	$ 90	—	$ —
Granted	191,700	27.07	42,450	1,171	6,366	176	18,000	497
Dividend equivalents granted	—	—	4,082	113	208	6	496	14
Exercised	—	—	—	—	—	—	—	—
Forfeited	(17,500)	(19.00)	(7,158)	(198)	—	—	—	—
Outstanding, as at December 31, 2010	984,200	$ 20.70	123,780	$ 3,415	9,831	$ 272	18,496	$ 511
Exercisable, as at December 31, 2010	3,333	$ 24.26	—	$ —	9,831	$ 272	—	$ —
Weighted average remaining contractual life (years)	8.7	—	1.7	—	—	—	2.1	—

The fair value of Options is measured using the Black-Scholes valuation model as at the end of each reporting period. The fair value of the RSUs, PSUs and DSUs is measured at the quoted market price of the Company's shares at the end of each reporting period.

The weighted average fair value of the Options is $1,554 as at December 31, 2011 ($5,440 as at December 31, 2010).

12,500 Options have been exercised during the year ended December 31, 2011 (December 31, 2010 – nil).

The inputs used in the measurement of the fair values of the Options are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Share price at reporting date	**$ 20.50**	$ 27.59	$ 27.10
Exercise price	**$ 21.77**	$ 20.70	$ 19.16
Expected volatility	**19.13%**	13.42%	22.00%
Option life (years)	**6.0**	6.0	6.0
Expected dividend yield	**5.72%**	3.75%	4.00%
Risk-free interest rate	**1.11%**	2.60%	3.00%

The following table provides information about the expenses and liabilities arising from share-based compensation:

	December 31, 2011	December 31, 2010
Expense arising from:		
Options	**$ (1,712)**	$ 2,077
RSUs	**606**	1,346
DSUs	**148**	183
PSUs	**199**	138
Total recognized as share-based compensation expense	**$ (759)**	$ 3,744

	December 31, 2011	December 31, 2010	January 1, 2010
Total carrying amount of liabilities for cash-settled arrangements	**$ 3,170**	$ 5,412	$ 1,668
Total intrinsic value of liability for vested benefits	**$ 961**	$ 283	$ —

16. Property and equipment

The Company's property and equipment is summarized as follows:

Cost	Computer software	Furniture and equipment	Leasehold improvements	Computer hardware and other	Total
Balance at January 1, 2010	$ 905	$ 2,618	$ 2,383	$ 2,664	$ 8,570
Additions	68	163	46	289	566
Disposals	—	—	—	—	—
Balance at December 31, 2010	973	2,781	2,429	2,953	9,136
Additions	—	64	21	899	984
Disposals	—	—	—	—	—
Balance at December 31, 2011	**$ 973**	**$ 2,845**	**$ 2,450**	**$ 3,852**	**$ 10,120**

Depreciation and impairment losses	Computer software	Furniture and equipment	Leasehold improvements	Computer hardware and other	Total
Balance at January 1, 2010	$ 92	$ 1,659	$ 1,172	$ 1,803	$ 4,726
Depreciation for the year	166	553	353	502	1,574
Impairment loss	—	—	—	—	—
Disposals	—	—	—	—	—
Balance at December 31, 2010	258	2,212	1,525	2,305	6,300
Depreciation for the year	196	227	363	383	1,169
Impairment loss	—	—	—	—	—
Disposals	—	—	—	—	—
Balance at December 31, 2011	**$ 454**	**$ 2,439**	**$ 1,888**	**$ 2,688**	**$ 7,469**

Carrying amounts	Computer software	Furniture and equipment	Leasehold improvements	Computer hardware and other	Total
At January 1, 2010	$ 813	$ 959	$ 1,211	$ 861	$ 3,844
At December 31, 2010	715	569	904	648	2,836
At December 31, 2011	**519**	**406**	**562**	**1,164**	**2,651**

As at December 31, 2011, the Company has no contractual commitments relating to property and equipment (December 31, 2010 – $1,700).

17. Intangible assets

The Company's intangible assets are summarized as follows:

Cost	Computer Software
Balance at January 1, 2010	$ 25,133
Acquisitions – externally purchased	1,987
Disposals	—
Balance at December 31, 2010	27,120
Acquisitions – externally purchased	2,291
Disposals	—
Balance at December 31, 2011	**$ 29,411**

Amortization and impairment losses	Computer Software
Balance at January 1, 2010	$ 8,826
Amortization for the year	4,175
Impairment loss	—
Disposals	—
Balance at December 31, 2010	13,001
Amortization for the year	4,849
Impairment loss	—
Disposals	—
Balance at December 31, 2011	**$ 17,850**

Carrying amounts	Computer Software
At January 1, 2010	$ 16,307
At December 31, 2010	14,119
At December 31, 2011	**11,561**

As at December 31, 2011, the Company has no contractual commitments to purchase intangible assets (December 31, 2010 – $2,800).

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. The excess of the purchase price over the estimated fair value of the net assets was recorded as goodwill.

Goodwill impairment test

Goodwill is considered impaired to the extent that its carrying amount exceeds its recoverable amount. The recoverable amount of the Company's single CGU was determined based on its value in use. Value in use was calculated by discounting the future cash flows generated from continuing use of the CGU. The calculation of value in use incorporated five years of cash flow estimates and was based on the following key assumptions:

- The Company's multi-year plan was used as a proxy for five years of future cash flow estimates. The multi-year plan represents the Company's best estimate of future income and cash flows and is approved by the Company's board of directors. The plan incorporates assumptions regarding premium growth rate, loss development and relevant industry and economic assumptions.
- Terminal value incorporated into the value in use calculations was estimated by applying a growth rate of 1.8% (December 31, 2010 – 1.8%; January 1, 2010 – 0%) to the last year of the multi-year plan cash flow estimate. The growth rates at December 31, 2011 and December 31, 2010 reflect the Canadian 5 year historical average core inflation rate which does not exceed the long term average growth rate for the industry.
- A pre-tax discount rate of 12.5% (December 31, 2010 – 11.7%; January 1, 2010 – 12.5%) was applied in determining the recoverable amount of the unit. The discount rates as at December 31, 2011 and December 31, 2010 were based on the Company's weighted average cost of capital, adjusted for liquidity and a risk premium. The discount rate as at January 1, 2010 was based on the Company's estimated incremental borrowing rate, adjusted for variability in cash flow estimates and liquidity.

Based on the value in use calculation, the recoverable amount of the unit was determined to be higher than its carrying amount. No goodwill impairment charge has been recognized in the year ended December 31, 2011 (December 31, 2010 – nil).

19. Transactions with lenders

Gross premiums written from 2 major unrelated lenders (defined as lenders that individually account for more than 10% of the Company's gross premiums written) were $228,694, representing 41% of the Company's total gross premiums written for the year ended December 31, 2011 (2010 – gross premiums written from one major lender that accounted for more than 10% of the Company's gross premiums written were $211,285 or 37%).

20. Share capital

The share capital of the Company comprises the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Authorized:			
Unlimited common shares with nominal or no par value[1]			
1 special share[2]			
Issued:			
98,666,796 common shares (104,789,394 at December 31, 2010; 117,100,000 at January 1, 2010)	**$ 1,462,994**	$ 1,553,463	$ 1,734,376
1 special share (1 at December 31, 2010 and January 1, 2010)	**—**	—	—
Share capital	**$ 1,462,994**	$ 1,553,463	$ 1,734,376

[1] All issued shares are fully paid. Holders of common shares will, except where otherwise provided by law and subject to the rights of the holder of the Special Share, be entitled to elect a portion of the Board of Directors, vote at all meetings of shareholders of the Company, and be entitled to one vote per common share. Holders of common shares are entitled to receive dividends as and when declared by the Board and, upon voluntary or involuntary liquidation, dissolution or winding-up of the Company, the holders of common shares are entitled to receive the remaining property and assets of the Company available for distribution, after payment of liabilities.

[2] Only one special share may be authorized for issuance. The special share is held by the Company's majority shareholder, Genworth Financial Inc. The attributes of the special share provide that the holder of the special share will 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 its affiliates beneficially own from time to time. Accordingly, for so long as Genworth Financial Inc. beneficially owns a specified percentage of common shares, the holder of the special share will be entitled to nominate and elect a specified number of the Company's directors as set out in the table below:

Common share ownership	Number of directors
Greater than or equal to 50%	5/9
Less than 50% but not less than 40%	4/9
Less than 40% but not less than 30%	3/9
Less than 30% but not less than 20%	2/9
Less than 20% but not less than 10%	1/9
Less than 10%	None

Under the shareholder agreement, the selling shareholder will agree that the special share may not be transferred except to and among affiliates of Genworth Financial Inc. Subject to applicable law, the special share will be automatically redeemed for $1.00 immediately upon (a) any transfer to a non-affiliate of Genworth Financial Inc., (b) the time that any affiliate of Genworth Financial Inc. who, at the relevant time, holds the special share is no longer an affiliate of Genworth Financial Inc., (c) the time that Genworth Financial Inc. first ceases to beneficially own at least 10% of the outstanding common shares, or (d) demand by the holder of the special share.

The following table presents changes in the number of common shares outstanding that occurred during each year:

	2011	2010
Common shares, January 1	**104,789,394**	117,100,000
Common shares issued in connection with share-based compensation plans	**31,248**	—
Common shares retired under share repurchase	**(6,153,846)**	(12,310,606)
Common shares, December 31	**98,666,796**	104,789,394

At December 31, 2011, subsidiaries of Genworth Financial Inc. owned 56,710,094 common shares of the Company or approximately 57.5% (December 31, 2010 – 60,247,996 or approximately 57.5%; January 1, 2010 – 67,325,900 or approximately 57.5%).

20. Share capital (continued)

Share repurchase

On May 9, 2011, the Company made an offer to repurchase up to $160 million of its common shares validly tendered to the offer. On June 30, 2011, in accordance with the terms of the offer, the Company repurchased 6,153,846 common shares at a price of $26.00 per common share, representing 5.87% of the public float, for an aggregate of approximately $160 million in cash.

On July 19, 2010, the Company made an 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 indirect wholly owned subsidiary Brookfield Life Assurance Limited participated in the offers by making proportional tenders and continued to own approximately 57.5% of the Company subsequent to the share repurchase transactions.

Upon completion of the offers, the Company's share capital was reduced by an amount equal to the average carrying value of the shares repurchased 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, was recorded as a reduction to retained earnings.

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.

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 and discount are amortized over the respective terms of the debentures using the effective interest method.

The following table provides details of the Company's long-term debt:

	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
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's long-term debt balances are as follows:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Series 1	**Series 2**	Series 1	Series 2	Series 1	Series 2
Carrying value (amortized cost)	**$ 272,744**	**$ 149,201**	$ 272,545	$ 149,021	$ —	$ —
Fair value	**287,064**	**154,610**	278,451	150,806	—	—

The fair value of the debt is determined using quoted market prices at the end of the reporting period.

The Company incurred interest expense of $22,884 and $8,322 for the years ended December 31, 2011 and 2010, with accrued interest payable of $1,015 at December 31, 2011 (December 31, 2010 – $987; January 1, 2010 – nil).

22. Earnings per share

Basic and diluted earnings per share have been calculated using the weighted average and diluted weighted average number of common shares outstanding during the year ended December 31, 2011 of 101,686,715 (2010 – 112,850,311) and 102,003,573 (2010 – 113,940,471), respectively. The difference between basic and diluted earnings per share is caused by the grant of share-based compensation.

Earnings per share are computed below:

	December 31, 2011	December 31, 2010
Basic earnings per share:		
Net income	**$ 323,191**	$ 347,982
Common shares outstanding, beginning of year	**104,789,394**	117,100,000
Effect of share-based compensation exercised during the year	**16,394**	—
Effect of repurchase of common shares during the year	**(3,119,073)**	(4,249,689)
Weighted average common shares outstanding during the year	**101,686,715**	112,850,311
Basic net earnings per common share	**$ 3.18**	$ 3.08
Diluted earnings per share:		
Basic weighted average common shares outstanding during the year	**101,686,715**	112,850,311
Effect of share-based compensation during the year	**316,858**	1,090,160
Diluted weighted average common shares outstanding during the year	**102,003,573**	113,940,471
Diluted net earnings per common share	**$ 3.17**	$ 3.05

At December 31, 2011, 396,200 Options were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. At December 31, 2010, no exclusions were made from the diluted weighted average number of common shares calculation.

23. Non-current assets and liabilities

The following table presents financial assets and liabilities the Company expects to recover or settle after 12 months at December 31, 2011, December 31, 2010 and January 1, 2010:

	December 31, 2011	December 31, 2010	January 1, 2010
Assets:			
Bonds and debentures: FVTPL	**$ —**	$ 38,290	$ 34,485
Bonds and debentures: AFS	**3,656,605**	3,468,682	3,486,783
Equity investments	**224,764**	195,186	423
Government guarantee fund	**812,313**	645,733	576,417
Subrogation recoverable	**16,064**	—	—
Total assets	**4,709,746**	4,347,891	4,098,108
Liabilities:			
Long-term debt	**421,945**	421,566	—
Loss reserves	**74,410**	97,687	65,832
Total liabilities	**496,355**	519,253	65,832
Net assets due after one year	**$ 4,213,391**	$ 3,828,638	$ 4,032,276

24. Transition to IFRSs

The Company has adopted IFRSs effective January 1, 2010 ("the transition date") and has prepared its opening IFRS consolidated statement of financial position as at that date. Prior to the adoption of IFRSs the Company prepared its consolidated financial statements in accordance with Canadian GAAP.

The Company's consolidated financial statements for the year ended December 31, 2011 are the first annual financial statements that comply with IFRSs.

(a) Elected exemptions from full retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1 – *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), the Company has applied an optional exemption from full retrospective application of IFRSs. The Company has applied the business combinations exemption in IFRS 1 to not apply IFRS 3 – *Business Combinations* ("IFRS 3") retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to the transition date.

(b) Mandatory exception to retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied a mandatory exception from full retrospective application of IFRSs. Hindsight was not used to create or revise estimates and, accordingly, the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRSs.

(c) Recognition and measurement of insurance contracts

The objective of IFRS 4 – *Insurance Contracts* ("IFRS 4") is to provide guidance for the measuring and recording of insurance contracts by an entity that issues such contracts until the IASB completes its continuing project for the implementation of a revised standard for insurance contracts. Except for limited requirements specified in this provisional standard, the standard prescribes that an insurer may change its accounting policies for insurance contracts if, and only if, the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. Consequently, until the revised standard is issued, the Company will continue its current practice for measuring and recording insurance contracts.

(d) Reconciliation of consolidated shareholders' equity as reported under Canadian GAAP and IFRSs

In preparing its first annual consolidated financial statements in accordance with IFRSs, the Company has adjusted amounts reported previously in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of consolidated statement of financial position:

		As at January 1, 2010			As at December 31, 2010		
	Note	Canadian GAAP	Effect of transition to IFRSs	IFRSs	Canadian GAAP	Effect of transition to IFRSs	IFRSs
Assets:							
Cash and cash equivalents		$ 377,512	$ —	$ 377,512	$ 351,136	$ —	$ 351,136
Short-term investments		253,527	—	253,527	6,988	—	6,988
Accrued investment income and other receivables		28,869	—	28,869	32,270	—	32,270
Bonds and debentures: FVTPL		34,485	—	34,485	38,290	—	38,290
Bonds and debentures: AFS		3,420,567	—	3,420,567	3,629,494	—	3,629,494
Bonds and debentures under securities lending program: AFS		323,300	—	323,300	268,442	—	268,442
Equity investments: AFS		423	—	423	195,186	—	195,186
Income taxes recoverable		—	—	—	7,505	—	7,505
Subrogation recoverable		13,646	—	13,646	40,393	—	40,393
Government guarantee fund		576,417	—	576,417	645,733	—	645,733
Prepaid assets		3,017	—	3,017	2,019	—	2,019
Property and equipment and intangible assets		20,151	—	20,151	16,955	—	16,955
Deferred policy acquisition costs		146,840	—	146,840	152,618	—	152,618
Goodwill		11,172	—	11,172	11,172	—	11,172
		$ 5,209,926	$ —	$ 5,209,926	$ 5,398,201	$ —	$ 5,398,201

24. Transition to IFRSs (continued)

Reconciliation of consolidated statement of financial position (continued):

		As at January 1, 2010			As at December 31, 2010		
	Note	Canadian GAAP	Effect of transition to IFRSs	IFRSs	Canadian GAAP	Effect of transition to IFRSs	IFRSs
Liabilities:							
Accounts payable and accrued liabilities		$ 28,586	$ —	$ 28,586	$ 46,132	$ —	$ 46,132
Income taxes payable		116,230	—	116,230	—	—	—
Loss reserves		236,181	—	236,181	206,611	—	206,611
Share-based compensation liabilities	c	1,798	(130)	1,668	6,240	(828)	5,412
Long-term debt		—	—	—	421,566	—	421,566
Unearned premium reserves		1,971,396	—	1,971,396	1,902,164	—	1,902,164
Accrued net benefit liabilities under employee benefit plans	a,b	9,290	183	9,473	10,835	1,533	12,368
Net deferred tax liabilities		203,218	(14)	203,204	215,428	(147)	215,281
		2,566,699	39	2,566,738	2,808,976	558	2,809,534
Shareholders' equity:							
Share capital	d	1,734,376	—	1,734,376	1,552,043	1,420	1,553,463
Retained earnings	f	811,927	(39)	811,888	912,813	(1,978)	910,835
Accumulated other comprehensive income		96,924	—	96,924	124,369	—	124,369
		2,643,227	(39)	2,643,188	2,589,225	(558)	2,588,667
		$ 5,209,926	$ —	$ 5,209,926	$ 5,398,201	$ —	$ 5,398,201

Reconciliation of consolidated net income and comprehensive income:

	Note	Canadian GAAP	Effect of transition to IFRSs	IFRSs
				Year ended December 31, 2010
Net premiums earned		$ 620,834	$ —	$ 620,834
Fees and other income		95	—	95
Underwriting revenue		620,929	—	620,929
Losses on claims		206,410	—	206,410
Expenses:				
Premium taxes and underwriting fees		37,149	—	37,149
Employee compensation	a,b,c	37,151	(958)	36,193
Office expenses		20,554	—	20,554
Professional fees		7,252	—	7,252
Promotional expenses and travel		5,428	—	5,428
Other		2,067	—	2,067
		109,601	(958)	108,643
Change in deferred policy acquisition costs		(5,778)	—	(5,778)
		103,823	(958)	102,865
Net underwriting income		310,696	958	311,654
Investment income		183,119	—	183,119
Interest expense		(8,322)	—	(8,322)
Income before income taxes		485,493	958	486,451
Income taxes	d,e	136,767	1,702	138,469
Net income		$ 348,726	$ (744)	$ 347,982
Other comprehensive income:				
Net change in fair value of AFS financial assets		$ 37,916	$ —	$ 37,916
Gains on AFS financial assets realized		(10,471)	—	(10,471)
Defined benefit plan actuarial losses	b	—	(1,195)	(1,195)
Total other comprehensive income		27,445	(1,195)	26,250
Total comprehensive income		$ 376,171	$ (1,939)	$ 374,232
Earnings per share:				
Basic		$ 3.09	$ (0.01)	$ 3.08
Diluted		3.06	(0.01)	3.05

(e) Material adjustments to the consolidated statement of cash flows

There are no material differences between the consolidated statement of cash flows presented under IFRSs and the consolidated statement of cash flows presented under Canadian GAAP.

24. Transition to IFRSs (continued)

(f) Notes to the reconciliations

(a) Prior service costs relating to pension benefits

Under Canadian GAAP, prior service costs relating to plan amendments to a defined benefit plan are deferred and amortized over the average service lives of active employees. Under IAS 19, prior service costs are recognized as an expense on a straight-line basis until the benefits are vested. To the extent that the benefits are vested upon introduction of amendments to a defined benefit plan, the prior service costs are expensed immediately. At January 1, 2010, all prior service costs relating to plan amendments to the Company's defined benefit pension plan were fully vested. Upon transition to IFRSs, these previously deferred prior service costs were fully recognized as an adjustment to retained earnings.

The impact arising from the change is summarized as follows:

	As at January 1, 2010	Year ended December 31, 2010
Consolidated statement of income:		
Employee compensation	$ —	$ 245
Adjustment before income taxes	$ —	$ 245
Consolidated statement of financial position:		
Accrued net benefit liabilities under employee benefit plans	$ (2,502)	$ (2,257)
Related tax effect	651	588
Adjustment to retained earnings	$ (1,851)	$ (1,669)

(b) Actuarial gains relating to pension and other post-employment benefits

Under Canadian GAAP, the Company deferred net actuarial gains or losses relating to its defined benefit plans within a 10% corridor of the defined benefit obligations. At the date of transition, all previously unrecognized cumulative actuarial gains were recognized in retained earnings in accordance with the Company's new accounting policy under IAS 19 to immediately recognize net actuarial gains or losses in OCI and report these gains or losses in retained earnings.

The impact arising from the change is summarized as follows:

	As at January 1, 2010	Year ended December 31, 2010
Consolidated statement of income:		
Employee compensation	$ —	$ 15
Adjustment before income taxes	$ —	$ 15
Consolidated statement of other comprehensive income:		
Defined benefit plan actuarial losses	$ —	$ 1,610
Adjustment before income taxes	$ —	$ 1,610
Consolidated statement of financial position:		
Accrued net benefit liabilities under employee benefit plans	$ 2,319	$ 724
Related tax effect	(603)	(192)
Adjustment to retained earnings	$ 1,716	$ 532[1]

[1] Total impact to retained earnings reflects $1,716 opening adjustment to retained earnings at January 1, 2010 (net of tax of $603), $15 adjustment to income for the year ended December 31, 2010 (net of tax of $4) and $(1,610) adjustment to OCI at December 31, 2010 (net of tax of $(415)).

(c) Share-based compensation

The Company grants share-based compensation benefits to certain employees that provide the choice of settlement in cash or shares of the Company. The Company accounted for these share-based payment arrangements by reference to their intrinsic value under Canadian GAAP based on the assumption that these benefits will be settled in cash. Under IFRS 2 – *Share-based compensation* ("IFRS 2"), the related liability has been adjusted to reflect the fair value of the outstanding shared-based payment liabilities.

The impact arising from the change is summarized as follows:

	As at January 1, 2010	Year ended December 31, 2010
Consolidated statement of income:		
Employee compensation	$ —	$ 698
Adjustment before income taxes	$ —	$ 698
Consolidated statement of financial position:		
Share-based compensation liabilities	$ 130	$ 828
Related tax effect	(34)	(249)
Adjustment to retained earnings	$ 96	$ 579

(d) Income taxes

Under Canadian GAAP, previously unrecognized tax benefits for the year ended December 2009 related to financing costs incurred in connection with the Company's IPO were recognized in consolidated net income when the benefits met recognition criteria in the year ended December 31, 2010. These tax benefits would have been recognized directly in share capital if they met the recognition criteria at the time of the IPO. IAS 12 – *Income Taxes* ("IAS 12") requires backward tracing of tax expenses or benefits. Accordingly, the Company reclassified the benefits from consolidated income to consolidated share capital in the period in which the benefits met recognition criteria.

The impact arising from the change is summarized as follows:

	As at January 1, 2010	Year ended December 31, 2010
Consolidated statement of income:		
Deferred income tax expense	$ —	$ (1,420)
Consolidated statement of financial position:		
Share capital	$ —	$ (1,420)
Adjustment to retained earnings	$ —	$ (1,420)

(e) The impact arising from changes in taxes is summarized as follows:

	Notes	Year ended December 31, 2010
Consolidated statement of income:		
Impact from pension and other post-employment benefits	a, b	$ (67)
Impact from share-based compensation	c	(215)
Impact from adjustments of prior period financing costs	d	(1,420)
Adjustment to taxes		$ (1,702)

24. Transition to IFRSs (continued):

(f) The impact arising from changes in retained earnings is summarized as follows:

	Notes	As at January 1, 2010	Year ended December 31, 2010
Pension and other post-employment benefits	a, b	$ (183)	$ (1,533)
Share-based compensation	c	130	828
Taxes	a, b, c, d	14	(1,273)[1]
Adjustment to retained earnings		$ (39)	$ (1,978)

[1] Total impact of taxes on retained earnings reflects $14 opening adjustment to retained earnings at January 1, 2010, $(1,702) adjustment to income for the year ended December 31, 2010 and $415 adjustment to OCI at December 31, 2010.

Glossary

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

"90% Guarantee" means the guarantee of the Canadian government 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. Currently the 90% Guarantee is provided under the terms of the Government Guarantee Agreement. The 90% Guarantee will continue to be provided for under the terms of PRMHIA, after PRMHIA comes into force and the Government Guarantee Agreement is terminated pursuant to such legislation.

"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 650 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, in most instances, 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.

"Government Guarantee Agreement" means the agreement Genworth Mortgage Insurance Canada has with the Canadian government pursuant to which the Canadian government guarantees that lenders will receive the benefits payable under eligible mortgage insurance policies issued by Genworth Mortgage Insurance Canada, less 10% of the original principal amount of an 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.

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

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

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

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

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

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

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

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

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

Glossary

Certain terms and abbreviations used in this annual information form 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.

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

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

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

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

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

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

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

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

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

"net underwriting income" means the sum of net premiums earned, fees and other income, less losses on claims, 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.

"NHA" means the National Housing Act (Canada).

"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.

"PRMHIA" means the *Protection of Residential Mortgages Hypothec Insurance Act* (Canada).

"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.

"Shareholder Agreement" means the agreement between Genworth Financial, Brookfield Life Assurance Company Limited and Genworth Canada dated July 7, 2009 entered into in connection with the closing of the initial public offering of Genworth Canada.

"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

Years ended December 31 (in millions, unless otherwise specified)	**2011**	2010	2009	2008	2007
Income statement data					
Gross premiums written	**$ 545**	$ 564	$ 374	$ 722	$ 997
Net premiums earned	**612**	621	610	518	424
Impact of change in premium recognition curve			100		
Underwriting revenues	**612**	621	710	518	424
Losses	**225**	206	256	160	79
Expenses	**101**	103	98	78	60
Investment income	**179**	183	189	200	148
Interest expense	**(23)**	(8)	(1)	(3)	(3)
Pre-tax income	**443**	486	544	477	430
Net income	**323**	348	379[1]	337	308
Net operating income	**318**	343	371[1]	324	310
Balance sheet data					
Cash and investments	**5,063**	5,135	4,986	4,698	4,102
Total assets	**5,393**	5,398	5,210	4,915	4,291
Unearned premium reserves	**1,824**	1,902	1,971	2,322	2,133
Debt	**422**	422	—	67	67
Total liabilities	**2,710**	2,810	2,567	2,826	2,525
Shareholders' equity	**2,683**	2,589	2,643	2,089	1,766
AOCI	**215**	124	97	(15)	19
Shareholders' equity, excluding AOCI	**2,468**	2,464	2,546	2,104	1,747
Key ratios and other items					
Loss ratio	**37%**	33%	36%[2]	31%	19%
Expense ratio	**17%**	17%	14%[2]	15%	14%
Combined ratio	**53%**	50%	50%[2]	46%	33%
Operating return on equity	**13%**	14%	16%[3]	17%	20%
MCT ratio	**162%**	156%	149%	127%	125%
Delinquency rate	**0.20%**	0.26%	0.28%	0.25%	0.19%
Severity ratio	**32%**	27%	27%	26%	24%
Leverage	**14%**	14%	0%	3%	4%
Operating earnings per share (diluted)	**$ 3.12**	$ 3.01	$ 3.23[4]	$ 2.91	$ 2.95
Book value per share (diluted, exc. AOCI)	**$ 24.78**	$ 23.27	$ 21.58	$ 18.79	$ 15.98
Book value per share (diluted, incl. AOCI)	**$ 26.94**	$ 24.44	$ 22.40	$ 18.65	$ 16.15

[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.

2010 and 2011 quarterly information

(For the quarter ended, in millions, unless otherwise specified)				2011				2010
	Q4'11	**Q3'11**	**Q2'11**	**Q1'11**	Q4'10	Q3'10	Q2'10	Q1'10
Net premiums written	**$ 123**	**$ 160**	**$ 149**	**$ 101**	$ 134	$ 166	$ 157	$ 94
Net premiums earned	**156**	**149**	**151**	**155**	156	155	154	156
Impact of change in net premium recognition curve								
Underwriting revenues	**156**	**149**	**151**	**155**	156	155	154	156
Losses on claims	**62**	**54**	**50**	**59**	50	47	49	59
Expenses	**26**	**24**	**25**	**26**	28	26	24	26
Net underwriting income	**68**	**71**	**77**	**71**	78	83	80	71
Investment income	**43**	**45**	**45**	**46**	44	49	41	49
Interest expense	**(6)**	**(6)**	**(6)**	**(6)**	(4)	(4)	—	—
Net income	**79**	**81**	**83**	**80**	85	94	85	84
Adjustment to net income:								
Losses/(gains) on investments, net of taxes	**(0)**	**(1)**	**(2)**	**(2)**	(1)	(3)	1	(3)
Net operating income	**79**	**80**	**81**	**78**	84	91	86	82
Loss ratio	**39%**	**36%**	**33%**	**38%**	32%	30%	32%	38%
Expense ratio	**17%**	**16%**	**16%**	**17%**	18%	17%	16%	16%
Combined ratio	**56%**	**52%**	**49%**	**55%**	50%	47%	48%	55%
Operating earnings per share diluted	**$ 0.80**	**$ 0.81**	**$ 0.77**	**$ 0.74**	$ 0.80	$ 0.80	$ 0.72	$ 0.69

Designed by bmir Bryan Mills Iradesso www.bmir.com

Shareholder information

Genworth MI Canada Inc.
2060 Winston Park Drive
Suite 300
Oakville, Ontario L6H 5R7
Tel: 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, 2011, there were 98,666,796 common shares outstanding.

Independent auditor

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

Registrar and transfer agent

Canadian Stock Transfer Company, Inc.
320 Bay Street, P.O. Box 1
Toronto, Ontario M5H 4A6
Tel: 416-643-5000
Fax: 416-643-5570
www.canstockta.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 Canadian Stock Transfer Company.

Investor relations

Shareholders, security analysts and investment professionals should direct 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 general meeting of shareholders

Date: Thursday, June 14, 2012
Time: 10:30 a.m. (EST)
Location: Le Meridien King Edward Hotel
The Belgravia Room
37 King Street East
Toronto, Ontario M5C 1E9

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
Tel: 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
Tel: 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-IFRS financial measures," also apply to this Annual Report and all information and documents included herein. These documents can be found at www.sedar.com.

2011 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.

Dividend declaration dates

	Declaration date	Record date	Date payable	Amount per common share
Regular dividend	February 1, 2011	February 15, 2011	March 1, 2011	$0.26
Regular dividend	May 2, 2011	May 16, 2011	June 1, 2011	$0.26
Regular dividend	July 27, 2011	August 15, 2011	September 1, 2011	$0.26
Regular dividend	November 3, 2011	November 15, 2011	December 1, 2011	$0.29
Special dividend	November 3, 2011	November 15, 2011	December 1, 2011	$0.50

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