

Genworth MI Canada Inc.

Management's Discussion and Analysis

For the fourth quarter and year ended December 31, 2010

February 17, 2011

Formation of the Company

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

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

Management’s Discussion and Analysis

The following Management’s Discussion and Analysis (“MD&A”) of the financial condition and results of operations as approved by the Company’s board of directors (the “Board”) is prepared for the three and 12 months ended December 31, 2010 and 2009. The discussion should be read in conjunction with the audited financial statements of the Company which have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”).

Interpretation

Unless the context otherwise requires, all references in this MD&A to “Genworth Canada” or the “Company” refer to Genworth MI Canada Inc. and its subsidiaries.

Forward-Looking Statements

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

Non-GAAP Financial Measures

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

Overall Performance

Business Background

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

Seasonality

The mortgage insurance business is seasonal. Premiums written vary each quarter, while net premiums earned, investment income and sales, underwriting and administrative expenses are relatively stable from quarter to quarter. These variations are driven by mortgage origination activity and associated mortgage insurance policies written, which typically peak in the spring and summer months. Losses on claims vary from quarter to quarter primarily as the result of prevailing economic conditions, characteristics of the insurance in-force portfolio, such as size and age and seasonality. Typically, losses on claims increase during the winter months.

Outlook

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

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

<u>Canadian Economic Indicators</u>	<u>2010</u>	<u>2011 Forecast</u>
National unemployment rate	7.60%	7.40% ¹
5 year Government of Canada bond yield	2.42% ¹	2.87% ²
Change in national average home price ³	5.8%	(1.3)%
Source: ¹ Bloomberg January 20, 2011 for 2010 5 year Government of Canada bond yield and Q4'11 unemployment rate ² Management estimate based on interpolation of Bloomberg consensus estimate of 2-Year and 10-Year government of Canada bond yields as of January 20, 2011 ³ Canadian Real Estate Association - January 11, 2011 for December 2010 actual ³ Canadian Real Estate Association - Nov 5, 2010 for December 2011 forecast		

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

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

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

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

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

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

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

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

Results of Operations

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

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

Notes: Amounts may not total due to rounding.

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

² Excluding the impact of change to the premium recognition curve in the first quarter of 2009, financial measures for the year ended December 31, 2009 would have been: net premiums earned \$610, net income \$315, net operating income \$307, loss ratio 42%, expense ratio 15%, combined ratio 57%, operating return on equity 13% and earnings per share (basic) \$2.75, earnings per share (diluted) \$2.74, operating earnings per share (basic) \$2.68, operating earnings per share (diluted) \$2.67.

Fourth Quarter Highlights

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

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

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

Notes: Amounts may not total due to rounding.

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

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

Fourth quarter 2010 compared to fourth quarter 2009

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

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

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

Losses on claims decreased by \$10 million, or 17%, to \$50 million in the fourth quarter of 2010 as compared to the prior year's period. The decrease in losses on claims was primarily driven by the combination of an improved economic environment and continued loss mitigation activities, which contributed to lower severity on new reported delinquencies as reflected by a 13% decrease in the average reserve per delinquent loan of \$60,800 compared to the prior year's period. During the fourth quarter of 2010, as part of its loss mitigation efforts, the Company approved 1,411 workouts as compared to 1,387 in the prior year's period. While not all files where a workout is performed would have ultimately resulted in claims, loss mitigation activities, including workouts, have reduced losses on claims. Severity on claims paid was 30% due to the mix of claims paid during the quarter.

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

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

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

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

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

Note: Amounts may not total due to rounding.

The effective tax rate was 28% in the fourth quarter of 2010 compared to 25% in the prior year's period. The difference in effective tax rate is due primarily to a favourable adjustment that was reflected in the previous period as the result of decreases in substantively enacted income tax rates applicable to the Company's future taxes. Future income taxes arise primarily from temporary differences created by the Company's guarantee fund reserve and insurance policy reserves. Excluding the impact of the adjustment, the effective tax rate decreased from 32% to 30% or 2 points. This decrease is attributable primarily to lower current federal and provincial tax rates as compared to the prior year's period.

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

2010 Highlights

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

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

<i>(in millions, unless otherwise specified)</i>	Year ended December 31,		Increase (decrease) and percentage change	
	2010	2009	2010 vs. 2009	
Net premiums written	\$ 552	\$ 360	\$ 192	53%
Underwriting revenues:				
Net premiums earned	\$ 621	\$ 610	\$ 11	2%
Impact of initial change in premium recognition curve on net premiums earned		100	(100)	NM
Fees and other income	-	-	-	-
Underwriting revenues	621	710²	(89)	(13)%
Losses on claims and expenses:				
Losses on claims	206	256	(50)	(20)%
Sales, underwriting and administrative	104	98	6	6%
Total losses on claims and expenses	310	354	(44)	(12)%
Net underwriting income	311	357	(46)	(13)%
Investment income:				
Interest and dividend income, net of investment expenses	172	173	(1)	(1)%
Gain (loss) on investments ¹	8	12	(4)	(33)%
Guarantee fund earnings	4	5	(1)	(20)%
Total investment income	183	189	(6)	(3)%
Interest expense	(8)	(1)	(7)	NM
Income before income taxes	485	544	(59)	(11)%
Provision for income taxes	137	165	(28)	(17)%
Net income	349	379²	(30)	(8)%
Adjustment to net income:				
Loss (gain) on investments, net of taxes	(5)	(8)	3	(38)%
Net operating income	\$ 343	\$ 371²	\$ (28)	(8)%
Effective tax rate	28%	30%	-	(2) pts
Operating return on equity	14%	16% ²	-	(2) pts

Notes: Amounts may not total due to rounding.

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

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

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

Full year 2010 compared to full year 2009

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

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

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

Losses on claims decreased by \$50 million, or 20%, to \$206 million in the year ended December 31, 2010 as compared to the prior year. The decrease in losses on claims was driven by the combination of an improved economic environment and continued loss mitigation activities which contributed to 6% fewer new reported delinquencies and lower severity on new reported delinquencies as reflected by a 13% lower average reserve per delinquent loan of \$60,800 compared to the prior year's period. As part of its loss mitigation efforts, the Company approved 5,196 workouts as compared to 4,616 in the prior year. While not all files where a workout is performed would have ultimately resulted in claims, loss mitigation activities including workouts have reduced losses on claims.

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

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

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

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

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

Notes: Amounts may not total due to rounding.

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

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

Loss and Expense Ratios

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

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

Note: Amounts may not total due to rounding.

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

Fourth quarter 2010 compared to fourth quarter 2009

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

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

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

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

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

Balance Sheet Highlights and Select Financial Data

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

Notes: Amounts may not total due to rounding.

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

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

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

The Company experienced adverse reserve development in 2010 of \$31 million or 13% of the opening unpaid claims balance due primarily to an increase in loss severity resulting from higher than originally estimated home price depreciation, particularly in Alberta, and a higher number of incurred but not reported claims. The Company's loss reserving methodology is reviewed on a quarterly basis and incorporates the most currently available information.

Financial Instruments and Other Instruments

Portfolio of Invested Assets

As of December 31, 2010, the Company had total cash, cash equivalents and invested assets of \$4.5 billion in the general portfolio and \$646 million in the government guarantee fund established under the Insurance Subsidiary's guarantee agreement with the Canadian government (the "Government Guarantee Agreement"). Unrealized gains on AFS securities were \$151 million in the general portfolio and \$34 million in the government guarantee fund.

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

Asset Class	As at December 31, 2010			As at December 31, 2009	
	Fair Value	%	Unrealized Gains/ (Losses)	Fair Value	%
<i>(in millions, unless otherwise specified)</i>					
General portfolio					
Asset backed	\$ 252	6%	\$ 7	\$ 254	6%
Corporate fixed income ¹					
Financial	1,231	27%	61	1,420	32%
Energy	302	7%	13	230	5%
Infrastructure	252	6%	12	206	5%
All other sectors	309	7%	10	175	4%
Total corporate fixed income	2,095	47%	96	2,033	46%
Federal fixed income	951	21%	19	1,073	24%
Provincial fixed income	607	13%	25	638	14%
Total government fixed income	1,558	34%	44	1,711	38%
Preferred Shares					
Financials	67	1%			
Industrial	1	0%			
Energy	9	0%			
Total preferred shares	77	2%	-	0	0%
Common Shares					
Energy	45	1%	2		
Financials	19	0%	1		
Communication	22	0%			
All other sectors	32	1%	1		
Total common shares	118	3%	4	0	0%
Other invested assets – HFT ²	38	1%	-	34	1%
Total invested assets	4,138	92%	151	4,032	91%
Cash and cash equivalents	351	8%	-	378	9%
Total invested assets and cash					
– general portfolio	\$ 4,490	100%	\$ 151	\$4,410	100%

Asset Class	As at December 31, 2010			As at December 31, 2009	
	Fair Value	%	Unrealized Gains/ (Losses)	Fair Value	%
<i>(in millions, unless otherwise specified)</i>					
Government guarantee fund					
Federal fixed income	\$ 779	99%	\$ 34 ³	\$ 698	100%
Cash and cash equivalents	\$ 11	1%	-	1	0%
Total invested assets and cash – guarantee fund	\$ 790	100%	\$ 34	\$ 699	100%
Accrued income and contributions	18		-	15	
Accrued exit fees and due to others	(162)			(137)	
Net Guarantee Fund assets	\$646		\$34	\$576	
Total invested assets and cash	\$ 5,135		\$ 185	\$4,986	

Notes: Amounts may not total due to rounding.

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

²HFT investments in the general portfolio are recorded at fair value with realized gains and losses and changes in fair value recorded in investment income. Unrealized losses on HFT investments at December 31, 2010 were \$12 million.

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

Credit Rating – General Portfolio	As at December 31, 2010			As at December 31, 2009	
	Fair Value	%	Unrealized Gains/Losses	Fair value	%
<i>(in millions, unless otherwise specified)</i>					
Cash and Cash equivalents	\$ 351	8%	\$ -	\$ 378	9%
AAA	1,337	30%	31	1,614	37%
AA	1,427	33%	68	1,344	30%
A	1,134	26%	47	1,018	23%
BBB	122 ¹	3%	1	56	1%
Below BBB	-	-	-	-	-
Total invested assets (excluding common share)	\$ 4,371	100%	\$ 148	\$4,410	100%

Notes: Amounts may not total due to rounding.

¹The BBB category includes HFT investments of \$38 million. HFT investments in the general portfolio are recorded at fair value with realized gains and losses and changes in fair value recorded in investment income. Unrealized losses on HFT investments at December 31, 2010 were \$12 million.

General Portfolio

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

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

To diversify management styles and to broaden credit resources, the Company has split these assets between two external Canadian investment managers. The Company works with these managers to optimize the performance of the portfolios within the stated investment objectives outlined in its investment policy. The policy takes into account

the current and expected condition of capital markets, the historic return profiles of various asset classes and the variability of those returns over time, the availability of assets, diversification needs and benefits, regulatory capital required to support the various asset types, security ratings and other material variables likely to effect the overall performance of the Company's investment portfolio. Compliance with the policy is monitored by the Company and reviewed at least quarterly with the Company's management-level investment committee and the Risk, Capital and Investment Committee of the Board.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash in bank accounts, government treasury bills, bankers' acceptances notes, and time deposits with maturities within 90 days of the balance sheet date. The Company determines its target cash holdings based on near-term liquidity needs, market conditions and perceived favourable future investment opportunities. The Company's cash holdings decreased to \$351 million or 8% as of December 31, 2010 from \$378 million as of December 31, 2009. The decrease is attributed mainly to the purchase of common and preferred equities during 2010, offset by the net proceeds from the recent completion of the offering of the Debentures on December 15, 2010.

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

Federal and Provincial Fixed Income Securities

The Company's investment policy requires a minimum of 10% of the investment portfolio be invested in federal fixed income securities. As of December 31, 2010, 21% of the portfolio was invested in federal securities, down from 24% at the end of 2009. Provincial holdings were 13% of the portfolio, down from 14% at the end of 2009.

Corporate Fixed Income Securities

Allocations to corporate fixed income securities are determined based on their relative value to federal fixed income securities and adjusted for the carrying charge for the increased capital holdings required under regulations set by the OSFI. As of December 31, 2010, approximately 47% of the investment portfolio was held in corporate fixed income securities, up 1% from 46% as at the end of 2009. Securities rated below A were \$122 million, or 3% of invested assets, as of December 31, 2010. The investment policy limits the percentage of the portfolio that can be invested in any single issuer or group of related issuers.

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

Asset Backed Securities

The Company has invested approximately 6% of the general portfolio in a combination of consumer finance securitizations and commercial mortgage backed securities to provide yield enhancement. As of December 31, 2010, all of these securities were rated AAA.

Other Invested Assets

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

Common Shares

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

Preferred Shares

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

Government Guarantee Fund Assets

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

Summary of Quarterly Results

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

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

Notes: Amounts may not total due to rounding

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

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

³These prior periods' comparative results for the Company reflect the consolidation of the Company and its subsidiaries Genworth Canada Holdings I Limited and Genworth Canada Holdings II Limited, including the Insurance Subsidiary. Prior to the third quarter of 2009, the Company's management discussion and analysis, as available on SEDAR, only reflected Genworth Canada Holdings I Limited's results. The primary difference is the elimination of interest paid from the Insurance Subsidiary to Genworth Canada Holdings II Limited.

Liquidity

The purpose of liquidity management is to ensure there is sufficient cash to meet all of the Company's financial commitments and obligations as they fall due. The Company believes it has the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill its cash requirements during the current financial year and to satisfy regulatory capital requirements. The Company has five primary sources of funds, consisting of premiums written from operations, investment income, cash and short-term investments, investment maturities or sales, and proceeds from the issuance of debt. In addition, 34% or \$1,558MM of the Company's investment portfolio is comprised of federal and provincial government guaranteed securities for which there is highly liquid market. Uses of funds are primarily for operating expenses including claims payments, interest expense, as well as dividends and distributions to shareholders.

Throughout 2008 and into early 2009, the Company had increased its cash and cash equivalent balance to conserve regulatory capital and strengthen liquidity in response to the slowing economic environment. As of December 31, 2009, the Company held a significant cash balance of \$378 million, or 9% of cash and invested assets, in the general portfolio. As of December 31, 2010, the Company's cash and cash equivalent balance decreased to \$351 million, or 8% of cash and invested assets, primarily due to purchases of common shares offset by \$149 million in net proceeds from the completion of the offering of its debentures on December 16, 2010.

The Company leases office space, office equipment, computer equipment and automobiles. Future minimum rental commitments for non-cancellable leases with initial or remaining terms of one year or more consist of the following at December 31, 2010:

Contractual Obligations	Payments Dues by Period (in thousands)				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long Term Debt	425,000	-	-	150,000	275,000
Capital Lease Obligations	-	-	-	-	-
Operating Leases	12,044	2,197	3,742	3,024	3,081
Purchase Obligations	-	-	-	-	-
Other Long Term Obligations	-	-	-	-	-
Total Contractual Obligations	-	-	-	-	-

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

Debt Outstanding

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

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

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

1. A negative pledge under which the Company will not assume or create any security interest (other than permitted encumbrances) unless the debentures are secured equally and ratably with (or prior to) such obligation;

2. The Company will not, or permit any of its subsidiaries, to amalgamate, consolidate or merge with or into any other person or liquidate, wind-up or dissolve itself unless (a) the Company, or one of its wholly owned subsidiaries is the continuing or successor company or (b) if the successor company is not a wholly owned subsidiary, then at the time of, and after giving effect to, such transaction, no event of default, and no event which, after notice or lapse of time, or both, would become an event of default, shall have happened and be continuing under the trust indenture, in each case subject to certain exceptions and limitations set forth in the trust indenture.
3. The Company will not request that the rating agencies withdraw their ratings of the debentures.

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

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

Share Repurchase

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

Capital Expenditures

The Company's capital expenditures primarily relate to technology investments aimed at improving operational efficiency and effectiveness for sales, underwriting, risk management and loss mitigation. For the three months and year ended December 31, 2010, the Company invested well under \$1 million and \$3 million, respectively, for risk management and underwriting technologies. The Company expects that future capital expenditures will continue to be focused on underwriting and risk management technology improvements. The Company expects that capital expenditures for 2011 will be in the \$3 to \$5 million range.

Regulatory Capital Management

The Insurance Subsidiary is regulated by OSFI. Under the MCT an insurer calculates a ratio of capital available to capital required in a prescribed manner. Mortgage insurers are required to maintain a minimum ratio of core capital (capital available as defined for MCT purposes, but excluding subordinated debt) to required capital of 100%. As a result of the customized methodology applied to the policy liabilities of mortgage insurers and the risk profile of the Insurance Subsidiary, OSFI has established a minimum supervisory capital target of 120% for the Insurance Subsidiary. To maintain an adequate cushion above this supervisory minimum, in July 2010 the Insurance Subsidiary revised its internal MCT ratio target to 145%.

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

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

Restrictions on Dividends and Capital Transactions

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

Financial Strength Ratings

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

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

Critical Accounting Estimates

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

Investments

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

AFS investments are recorded at fair value with changes in the fair value of these investments recorded in unrealized gains and losses, which are included in Accumulated Other Comprehensive Income ("AOCI"). Realized gains and losses

on sale, as well as losses from other than temporary declines in value of AFS investments, are reclassified from AOCI and recorded in net investment income in the consolidated statement of income and comprehensive income.

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

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

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

Premiums Earned and Deferred Policy Acquisition Costs

Insurance premiums are deferred and then taken into underwriting revenues as earned premiums over the life of the related policies based on the expected loss emergence pattern. The majority of policies to date have been written with amortization policy terms of 25 to 35 years. The rates or formulas under which premiums are earned relate to the amount of risk in each year of coverage as estimated by management, based primarily on the past incidence of losses on claims. Based on historical experience, the majority of losses on claims generally occur within two to five years of policy origination. Therefore, the majority of premiums written are recognized as net premiums earned within five years of policy origination, in an effort to match premiums earned to losses on claims. The formulas under which premiums are earned are adjusted quarterly in accordance with such estimates and were last updated in December 2010, resulting in a \$13 million increase in premiums earned during the fourth quarter of 2010 and a \$48 million increase for the year ended December 31, 2010. The cumulative impact of the initial update of the premiums recognition curve for the three months and year ended December 31, 2009 was \$13 million and \$136 million respectively. The Company will continue to assess its loss experience on a quarterly basis and make adjustments as appropriate to the premium recognition curve.

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

Loss Reserves

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

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

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

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

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

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

Pension and Other Post-Employment Benefits

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

Share-based Compensation

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

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

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

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

Changes in Accounting Policies

International Financial Reporting Standards (“IFRS”)

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

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

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

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

Phase	Milestones	Status
Planning	1. Define project scope and prepare for project implementation	<ul style="list-style-type: none"> Assembled project team and assigned project leader Trained project team and key accounting staff
Assessment	1. Research applicable IFRS standards and identify differences from Canadian GAAP 2. Assess impact of conversion on key business processes, systems and internal controls: <ol style="list-style-type: none"> Business systems (Underwriting, Claims Management, Investments) Financial reporting systems Internal controls Capital management Financial Planning Incentive compensation 	<ul style="list-style-type: none"> Selected IFRS accounting policies and IFRS 1 elections and obtained senior management and audit committee approval for such policies and elections Determined expected impact of conversion on opening balance sheet and interim comparative results Completed assessment of impact on processes, systems and other areas of the business
Implementation	1. Modify financial reporting systems 2. Prepare January 1, 2010 opening balance sheet under IFRS 3. Prepare 2010 quarterly comparative financial statements under IFRS	<ul style="list-style-type: none"> Drafted preliminary interim IFRS financial statement format and disclosures, including reconciliations of opening balances Compiled preliminary quarterly comparative financial statements Currently drafting annual financial statement note disclosure templates Continuous monitoring of new and amended IFRS standards

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

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

Expected Impact of IFRS Differences From Existing Canadian GAAP

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

Standard	Description of Change	Increase / (decrease) to Shareholders’ Equity (\$000’s)
IAS 19-Employee Benefits	<ul style="list-style-type: none"> Immediate recognition of past service costs 	(\$2,502)
	<ul style="list-style-type: none"> Immediate recognition of actuarial gains / (losses) 	\$2,658
	<ul style="list-style-type: none"> Amortization of original transitional obligation 	(\$339)
Total IAS 19 Impact		(\$183)
IFRS 2 – Share-based payments	<ul style="list-style-type: none"> Measurement of stock options with tandem stock appreciation rights 	\$130
Total Impact Before Income taxes		(\$53)
Net After-tax Impact on Shareholders’ Equity at January 1, 2010		(\$39)

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

Employee Benefits

With respect to the Company’s defined benefit liabilities, under Canadian GAAP, past service costs relating to amendments to a defined benefit plan are deferred and amortized over the service life of active employees. Under IFRS, past service costs are recognized as an expense on a straight-line basis until the benefits are vested. To the extent that the benefits are already vested upon introduction of amendments to a defined benefit plan, the past service costs are expensed immediately. Upon transition to IFRS, previously deferred past service costs related to the

Company's defined benefit pension and benefit liabilities are fully recognized as an adjustment to opening retained earnings resulting in a \$2.5 million reduction of retained earnings at January 1, 2010 under IFRS.

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

Share-based Compensation

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

Insurance Contracts

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

IFRS Developments

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

IFRS 9 – Financial Instruments was issued in November 2009 superceding IAS 39, with mandatory adoption on January 1, 2013. This new standard will impact the Company's financial statements significantly because the standard will require all financial instruments to be accounted for either at amortized cost or at fair value, with fair value changes recorded in the statement of income. The available-for sale-category, which permits entities to account for changes in fair value of financial instruments in OCI, and where the vast majority of the Company's financial instruments are currently recorded, will cease to exist. Prior to the mandatory adoption of IFRS 9 on January 1, 2013, IFRS 4 permits the existing measurement of insurance contracts under Canadian GAAP to continue until the new standard is issued.

On July 30, 2010, the IASB issued an Exposure Draft ("ED") on Phase II of IFRS 4, which is intended to result in a single, consistent recognition and measurement standard for insurance contracts internationally. The ED continues to apply

the same definition for insurance contracts as set out in the existing standard. At the same time, it modifies the scope to require the accounting for financial guarantee contracts as insurance contracts under IFRS 4.

The ED does not include a proposed transition date. Further, the IASB may defer the mandatory adoption of IFRS 9 – Financial Instruments – Recognition and Measurement for insurers to coincide with the adoption of phase II of IFRS 4. The most significant changes to IFRS 4 pertain to the recognition and measurement of insurance contracts. The IASB is proposing that an insurer measure its insurance liabilities using a model based on fulfillment cash flows. The insurance liability is to be comprised of: i) the unbiased, probability-weighted average of future cash flows expected to arise as the insurer fulfils its obligation under an insurance contract discounted to present value and ii) a risk adjustment to reflect the uncertainty about the amount and timing of the future cash flows. Both the cash flows and the risk margin are to be 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 expense and incremental deferred 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 based on the passage of time or the timing of expected claims. Incremental deferred policy acquisition costs may be included in the determination of fulfillment cash flows. All other acquisition costs are expensed as incurred.

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

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

IFRS Impact on Business Processes, IT Systems and Internal Controls

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

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

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

IFRS Impact on Financial Reporting and Disclosure Controls & Procedures

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

IFRS Impact on Regulatory Capital, Debt Covenants and Executive Compensation

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

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

Update on IFRS Conversion Progress

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

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

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

Risk Management

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

Mortgage Portfolio Risk Management

The Company's mortgage portfolio risk management involves actively managing its borrower credit quality, product and geographic exposures. The Company carefully monitors portfolio concentrations by borrower credit quality, product and geography against pre-determined risk tolerances, taking into account the conditions of the housing market and economy in each region of Canada. The Company's underwriting policies and guidelines are reviewed and updated regularly to manage the Company's exposures and to address emerging trends in the housing market and economic environment. For example, in view of economic conditions in the early part of 2009, the Company took a number of actions focusing on its new insurance written to reduce the overall risk profile of its mortgage portfolio such as more stringent requirements on borrowers' total debt service ratios, credit scores and loan-to-value ratios in economically sensitive areas.

In addition to these internal actions, the Company supports the Government of Canada's decisions from 2008 to 2011 to introduce restrictions on insured mortgages. In 2008, the government eliminated insurance products for mortgages with loan-to-values of greater than 95%, interest-only mortgages and amortization periods greater than 35 years. On April 19, 2010, the Government of Canada implemented additional changes to the rules for government guaranteed mortgages which (i) require that all borrowers seeking mortgages of a term less than five years or seeking a variable rate mortgage must qualify for the five-year fixed rate mortgage posted by the Bank of Canada, (ii) lower the maximum amount borrowers can withdraw in refinancing their mortgages to 90 %, from 95 %, of the value of their homes, and (iii) require a minimum 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. The Company supported the implementation of these additional rules and views them as prudent steps taken to protect and maintain the health and stability of the housing market. On January 17, 2011, the Government of Canada announced additional changes to the rules for government guaranteed mortgages which (i) reduce the maximum amortization period to 30 years from 35 years for high loan-to-value mortgages effective March 18, 2011, (ii) lower the maximum amount borrowers can withdraw in refinancing their mortgages to 85 %, from 90 %, of the value of their homes, effective March 18, 2011, and (iii) eliminate mortgage insurance on mortgages that do not have scheduled principal and interest payments (e.g. lines of credit), effective April 18, 2011. These rules will be formalized in an amendment to the Government Guarantee Agreement between the Government of Canada and the Insurance Subsidiary. The Company supports the implementation of these additional rules and views them as prudent steps taken to protect and maintain the health and stability of the housing market.

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

Transactions with Related Parties

Following the closing of the Company's IPO on July 7, 2009, the Company and the Insurance Subsidiary entered into a Transition Services Agreement ("TSA") with Genworth Financial, Inc., the Company's ultimate parent company. The agreement prescribes that these companies will provide certain services to one another, with most services being terminated if Genworth Financial, Inc. ceases to beneficially own more than 50% of the common shares of the Company. The services rendered by Genworth Financial, Inc. and affiliated companies consist of information technology, finance, human resources, legal and compliance and other specified services. The services rendered by the Company and the Insurance Subsidiary relate mainly to financial reporting and tax compliance support services. These transactions are in the normal course of business. Accordingly, they are measured at fair value. Balances owing for service transactions are non-interest bearing and are settled on a quarterly basis. The Company incurred net related party charges of \$6 million for the year ended December 31, 2010.

Special Note Regarding Forward-Looking Statements

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

The forward-looking statements contained herein are based on certain factors and assumptions, certain of which appear proximate to the applicable forward-looking statements contained herein, including the economic assumptions described in the "Outlook" section of this MD&A. Inherent in the forward-looking statements are known and unknown risks, uncertainties and other factors beyond the Company's ability to control or predict, that may cause

the actual results, performance or achievements of the Company, or developments in the Company's business or in its industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Actual results or developments may differ materially from those contemplated by the forward-looking statements.

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

This is not an exhaustive list of the factors that may affect any of the Company's forward-looking statements. Some of these and other factors are discussed in more detail in the Company's annual information form dated March 22, 2010 ("AIF"). Investors and others should carefully consider these and other factors and not place undue reliance on the forward-looking statements. Further information regarding these and other risk factors is included in the Company's public filings with provincial and territorial securities regulatory authorities and can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) website at www.sedar.com, including the AIF. The forward-looking statements contained in this MD&A represent the Company's views only as of the date hereof. Forward-looking statements contained in this MD&A are based on management's current plans, estimates, projections, beliefs and opinions and the assumptions related to these plans, estimates, projections, beliefs and opinions may change, and are presented for the purpose of assisting the Company's securityholders in understanding management's current views regarding those future outcomes and may not be appropriate for other purposes. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company does not undertake to update any forward-looking statements, except to the extent required by applicable securities laws.

Non-GAAP Financial Measures

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

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

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

Notes:

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

	For the quarter ended December 31,			
	2010		2009	
	Basic	Diluted	Basic	Diluted
<i>(in dollars)</i>				
Earnings per share	\$ 0.80	\$ 0.80	\$ 0.75	\$ 0.74
Adjustment to earnings per share:				
Gains (Losses) on investments, net of taxes	-	(0.01)	(0.02)	(0.02)
Operating earnings per share	\$ 0.80	\$ 0.79	\$ 0.73	\$ 0.72

	For the year ended December 31,			
	2010		2009	
	Basic	Diluted	Basic	Diluted
<i>(in dollars)</i>				
Earnings per share	\$ 3.09	\$ 3.06	\$ 3.31 ¹	\$ 3.30 ¹
Adjustment to earnings per share:				
Gains (Losses) on investments, net of taxes	(0.05)	(0.05)	(0.07)	(0.07)
Operating earnings per share	\$ 3.04	\$ 3.01	\$ 3.24 ¹	\$ 3.23 ¹

Notes:

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