


**REVIEW OF PERFORMANCE**

**For the Fourth Quarter and Year ended December 31, 2009**

**January 28, 2010**

**Formation of the Company**

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

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

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

**Review of Performance**

The following Review of Performance of the financial condition and results of operations approved by the Company's board of directors (the "Board") is prepared for the three and the twelve months ended December 31, 2009 and 2008. The discussion should be read in conjunction with the unaudited 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 Review of Performance to "Genworth Canada" or the "Company" refer to Genworth MI Canada Inc. and its subsidiaries and, to the extent that references in this Review of Performance are made to matters undertaken by a predecessor in interest to Genworth Canada or its subsidiaries, include such predecessor in interest.

**Forward-Looking Statements**

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

**Non-GAAP Financial Measures**

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

## Overall Performance

### *Business Background*

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

### *Seasonality*

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

### *Outlook*

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

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

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

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

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

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

**Results of Operations**

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

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

Notes: Amounts may not total due to rounding.
[1] This is a financial measure not calculated based on Canadian generally accepted accounting principles (GAAP). See the "Non-GAAP Measures" section at the end of this review of performance for additional information.
[2] Excluding the impact of change to the premium recognition curve in the first quarter 2009, net premiums earned, net income, net operating income, loss ratio, expense ratio, combined ratio, operating return on equity and operating earnings per share for the year ended December 31, 2009 would have been $610, $315, $307, 42%,15,% 57%, 13%, and $2.67 respectively.

***Fourth Quarter Highlights***

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

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

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

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

(1) Includes realized gain (loss) on sale of Available for Sale ("AFS") and unrealized gain (loss) on Held For Trading ("HFT") investments.
(2) Includes $8 million favourable tax revaluation

***Fourth Quarter 2009 compared to Fourth Quarter 2008***

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

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

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

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

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

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

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

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

Notes: Amounts may not total due to rounding.

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

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

***Highlights for the Year ended December 31, 2009***

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

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

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

Notes: Amounts may not total due to rounding.
The Company defines "NM" as not meaningful for increases or decreases greater than 200%.
(1) Includes realized gain (loss) on sale of AFS and unrealized gain (loss) on HFT investments.
(2) Excluding the impact of change to the premium recognition curve in the first quarter 2009, net premiums earned, net income, net operating income, and operating return on equity for the year ended December 31, 2009 would have been $610, $315, $307 and 13%, respectively.

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

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

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

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

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

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

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

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

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

Notes: Amounts may not total due to rounding.

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

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

**Loss and expense ratios**

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

Note: Amounts may not total due to rounding.
(1) Excluding the impact of changes to the premiums earned recognition pattern in the first quarter, the Loss Ratio, Expense Ratio and Combined Ratio at December 31, 2009 would have been 42%, 15% and 57%, respectively.

***Fourth quarter 2009 compared to fourth quarter 2008***

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

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

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

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

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

***Balance Sheet Highlights and Select Financial Data***

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

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

## Financial Instruments and Other Instruments

### *Portfolio of Invested Assets*

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

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

| **Asset Class** | **As at Dec 31, 2009** | | | **As at Dec 31, 2008** | |
|---|---|---|---|---|---|
| ***(in millions, unless otherwise specified)*** | **Fair Value** | **%** | **Unrealized Gains/Losses** | **Fair Value** | **%** |
| General portfolio | | | | | |
| Asset backed…….... | $ 254 | 6% | $ 2 | $ 254 | 6% |
| Corporate fixed income [2] | | | | | |
| Financial…….. | 1,420 | 32% | 50 | 1,357 | 33% |
| Energy…….. | 230 | 5% | 10 | 204 | 5% |
| Infrastructure……. | 206 | 5% | 7 | 157 | 4% |
| All other sectors…….……. | 175 | 4% | 9 | 270 | 7% |
| Total Corporate fixed income……..….. | 2,033 | 46% | 76 | 1,988 | 48% |
| Federal fixed income……..... | 1073 | 24% | 20 | 650 | 16% |
| Provincial fixed income…….……... | 638 | 14% | 23 | 645 | 15% |
| Preferred Shares | 0 | 0% | 0 | | |
| Other invested assets – HFT[1]…….. | 34 | 1% | - | 26 | 1% |
| Total invested assets……..... | 4,032 | 91% | 120 | 3,562 | 86% |
| Cash and cash equivalents…… | 378 | 9% | - | 592 | 14% |
| Total invested assets and cash – general portfolio | $ 4,410 | 100% | $ 120 | $ 4,154 | 100% |
| Government guarantee fund | | | | | |
| Federal fixed income…….... | $ 698 | 100% | $ 25[3] | $ 551 | 85% |
| Cash and cash equivalents……..... | 1 | 0% | - | 99 | 15% |
| Total invested assets and cash – guarantee fund | $ 699 | 100% | $ 25 | $ 650 | 100% |
| Less: | | | | | |
| Accrued income and contributions……..……. | 15 | | | 19 | |
| Accrued exit fees and due to others…..…… | (137) | | | (124) | |
| Net Guarantee Fund assets……...…. | $576 | | | $545 | |
| Total invested assets and cash ……...….. | $ 4,986 | | $ 145 | $ 4,699 | |

| **Credit Rating – General Portfolio** | **As at Dec 31, 2009** | | | **As at Dec 31, 2008** | |
|---|---|---|---|---|---|
| ***(in millions, unless otherwise specified)*** | **Fair Value** | **%** | **Unrealized Gains/Losses** | **Fair value** | **%** |
| Cash and Cash equivalents…….. | $ 378 | 9% | $ - | $ 591 | 14% |
| AAA……. | 1,614 | 37% | 29 | 1,324 | 32% |
| AA…… | 1,344 | 30% | 59 | 1,131 | 27% |
| A…… | 1018 | 23% | 32 | 852 | 21% |
| BBB…….. | 56 | 1% | - | 248 | 6% |
| Below BBB…….. | 0 | - | - | 7 | - |
| Total invested assets and cash……..…… | $ 4,410 | 100% | $ 120 | $ 4,153 | 100% |

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

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

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

*General Portfolio*

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

In order to diversify management styles and to broaden credit resources, the Company has split these assets between two external Canadian investment managers. The Company works with these managers to optimize the performance of the portfolios within the stated investment objectives outlined in its investment policy. The policy takes into account the current and expected condition of capital markets, the historic return profiles of various asset classes and the variability of those returns over time, the availability of assets, diversification needs and benefits, regulatory capital required to support the various asset types, security ratings and other material variables likely to 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, commercial paper and term deposits with maturities within 90 days of the balance sheet date. The Company determines its target cash holdings based on near-term liquidity needs, market conditions and perceived favourable future investment opportunities. The Company decreased its cash holdings to $378 million or 9% at December 31, 2009 from $592 million or 14% the end of 2008 and 11% at the end of September 30, 2009.

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

*Federal and Provincial Fixed Income Securities*

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

*Corporate Fixed Income Securities*

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

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

*Asset Backed Securities*

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

*Other Invested Assets*

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

*Government Guarantee Fund Assets*

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

**Summary of Quarterly Results**

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

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

Notes:
Amounts may not total due to rounding
(1) Includes realized gain (loss) on sale of AFS and unrealized gain (loss) on HFT investments.
(2) Excluding the impact of changes to the premium recognition curve, the Loss Ratio, Expense Ratio and Combined Ratio for the quarter ended March 31, 2009 would have been 41%, 13% and 54%, respectively.
(3) Excluding the impact of changes to the premium recognition curve, net income and net operating income for the quarter ended March 31, 2009 would have been $74 million and $77 million, respectively
(4) The prior period comparative results for the Company reflect the consolidation of the Company and its subsidiaries Genworth Canada Holdings I Limited and Genworth Canada Holdings II Limited, including the subsidiary of Genworth Canada Holdings I Limited, Genworth Financial Mortgage Insurance Company Canada. Prior to the Third Quarter, the Company's management discussion and analysis, as available on SEDAR only reflected Genworth Canada Holdings I Limited results. The primary difference is the elimination of interest paid from Genworth Financial Mortgage Insurance Company Canada to Genworth Canada Holdings II Limited

**Liquidity**

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

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

**Capital Expenditures**

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

**Regulatory Capital Management**

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

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

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

**Restrictions on Dividends and Capital Transactions**

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

**Financial Strength Ratings**

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

**Critical Accounting Estimates**

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

*Investments*

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

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

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

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

*Premiums Earned and Deferred Policy Acquisition Costs*

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

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

*Loss Reserves*

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

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

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

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

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

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

*Pension and Other Post-Employment Benefits*

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

**Changes in Accounting Policies Including Initial Adoption**

*Share-based Compensation*

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

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

**Future Changes in Accounting Policies**

*International Financial Reporting Standards ("IFRS")*

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

*Transition to International Financial Reporting Standards ("IFRS")*

The Company, starting January 1, 2011, is required to adopt IFRS. The 2011 financial statements will include full comparative information for the relevant 2010 periods prepared in accordance with IFRS.

*IFRS Transition Progress*

In anticipation of the mandatory conversion to IFRS, the Company has prepared a detailed conversion plan and has established an IFRS conversion team. The Company's plan is comprised of a planning phase, an initial implementation phase, and a secondary implementation phase that addresses specific standards that have not been finalized in time for the mandatory conversion date of January 1, 2011. The conversion team is currently working on the implementation phase, which involves calculating opening retained earnings, adjusted to IFRS, as at January 1, 2010.

Throughout the course of 2010, the Company intends to prepare IFRS financial statements in parallel to GAAP financial statements, monitor developments in standards that are expected to change, and accumulate information for the additional disclosures that are required upon the adoption of IFRS. In addition to providing regular updates to its Board and Audit Committee, the Company's insurance subsidiary also provides semi-annual progress updates to OSFI. The Company's progress towards IFRS transition is currently on track based on its conversion plan.

*IFRS Transition Impact*

The Company's assessment of current IFRS indicates that no significant impact would be had on the Company's statement of income or balance sheet. The most notable changes arise in "accrued benefit liability" under employee post employment benefits.

The most significant changes will occur after the mandatory conversion date of January 1, 2011, when changes to IFRS for insurance contracts take effect. These are currently expected to be in place in 2013 or later. Until such time, the Company will continue using its current practice for measuring and recording insurance liabilities.

The IFRS exposure draft issued in July of 2009 proposes replacing current IFRS relating to financial instruments with a new standard, with mandatory adoption in 2012. This new standard is expected to have a significant impact on the Company's financial statements, most notably because such 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.

**Risk Management**

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

*Mortgage Portfolio Risk Management*

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

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

**Transactions with Related Parties**

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

**Special Note regarding Forward-Looking statements**

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

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

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

- the continued availability of the Canadian government's guarantee of private mortgage insurance on terms satisfactory to the Company;
- the Company's expectations regarding its revenues, expenses and operations;
- the Company's plans to implement its strategy and operate its business;

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

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

**Non-GAAP Financial Measures**

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

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

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

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