Genworth MI Canada Inc.

**MANAGEMENT'S DISCUSSION & ANALYSIS**

**For the Quarter ended June 30, 2010**

**July 29, 2010**

**Formation of the Company**

Genworth MI Canada Inc. ("Genworth Canada" or 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 ("Holdings I") and the issued and outstanding common shares of Genworth Canada Holdings II Limited ("Holdings II") 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 Holdings I and Holdings II.

The full three and six months results and prior period comparative results for the Company reflect the consolidation of the Company and its subsidiaries Holdings I and Holdings II, including the subsidiary of Holdings I, Genworth Financial Mortgage Insurance Company Canada (the "Insurance Subsidiary").

**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 six months ended June 30, 2010 and 2009. 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 MD&A to "Genworth Canada" or the "Company" refer to Genworth MI Canada Inc. and its subsidiaries and, to the extent that references in this MD&A are made to matters undertaken by a predecessor in interest to Genworth Canada or its subsidiaries, include such predecessor in interest.

**Forward-Looking Statements**

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

**Non-GAAP Financial Measures**

To supplement its financial statements, the Company uses select non-GAAP financial measures. Non-GAAP measures used by the Company to analyze performance include underwriting ratios such as loss ratio, expense ratio and combined ratio as well as other performance measures such as operating income and return on operating income. The Company believes that these non-GAAP financial measures provide meaningful supplemental information regarding its performance and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making. Non-GAAP measures do not have standardized meanings and are unlikely to be comparable to any similar measures presented by other companies. See "Non-GAAP Financial Measures" for a 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 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, levels of mortgage delinquencies and changes in the regulatory environment.

The Company experienced strong growth in premiums written in the second quarter 2010 as homebuyers took advantage of relatively low mortgage interest rates to purchase homes before an anticipated rise in interest rates, the implementation of tighter mortgage insurance criteria, which took effect on April 19th, and the implementation of the Harmonized Sales Tax in Ontario and British Columbia on July 1st. The Company expects that housing demand will moderate in the second half 2010 and that home price appreciation will slow or moderately decline. In summary, the Company believes the strong premiums in the second quarter of 2010 were the result of a pull-forward of demand from the second half of 2010 and does not expect premiums in the third and fourth quarters of the year to reach the level achieved in the second quarter.

The labour markets continued to improve in the second quarter of 2010 with unemployment falling to 7.9%, declining below 8% for the first time since January 2009. The Company believes that the unemployment rate should remain below 8% for the remainder of 2010, which should lead to further improvements in overall mortgage delinquency rates. The improving employment trend should more than offset the adverse impact of a slowing housing market on the Company's claim severity. Accordingly, the Company expects that its loss ratios for the remainder of 2010 should remain within, or below, the Company's target loss ratio range of 35 – 40%.

The Company plans to continue to proactively and prudently manage its approximately $5 billion investment portfolio by diversifying its investment mix. The investment portfolio is positioned for a rising interest rating environment.

As a component of its capital plan, the Company completed a $275 million public offering of 5.68% senior unsecured debentures due June 15, 2020 (the "Debentures") on June 29, 2010. The Company used the proceeds from the Debentures to fund transactions among the Company and its Canadian wholly owned subsidiaries. The Company expects to use any proceeds received from such transactions (a) for general corporate and investment purposes, and (b) to repurchase common shares from its shareholders. On July 19, 2010, the Company made an offer (the "Offer") to repurchase up to $325 million of its common shares validly tendered to the Offer. The Offer expires on August 24, 2010, unless extended, varied or withdrawn. In addition to the funds received from its transactions with its subsidiaries, the Company will fund $50 million of the funds required under the Offer from dividends to be paid by the Insurance Subsidiary. The execution of the capital plan reflects the Company's confidence in the economic fundamentals in Canada, solid financial results over the past twelve months and forecasted capital needs to support the Company's growth.

In summary, Genworth MI Canada Inc. continues to move forward with a strong financial position, including a $1.9 billion unearned premium reserve. The Company is well positioned to remain the leading private mortgage insurer in the current environment due to its significant scale, execution of growth strategies through customer-focused sales and service and prudent investment strategy. The Company will continue to focus on the optimization of returns for all investors.

**Results of Operations**

The following table sets forth certain financial information for the three and six months ended June 30, 2010 and 2009.

| *(in millions, unless otherwise specified)* | For the quarter ended June 30, 2010 | For the quarter ended June 30, 2009 | For the six months ended June 30, 2010 | For the six months ended June 30, 2009 |
|---|---|---|---|---|
| Income Statement Data | | | | |
| Net premiums written | $ 157 | $ 82 | $ 252 | $ 146 |
| Underwriting revenues: | | | | |
| Net premiums earned | 154 | 154 | 309 | 301 |
| Impact of change in first quarter premium recognition curve | - | - | | 100[2] |
| Underwriting revenues | 154 | 154 | 309 | 401 |
| Losses on claims and expenses: | | | | |
| Losses on claims | 49 | 71 | 109 | 131 |
| Sales, underwriting and administrative expenses | 24 | 24 | 49 | 49 |
| Total losses on claims and expenses | 73 | 95 | 158 | 181 |
| Net underwriting income | 81 | 59 | 151 | 220 |
| Investment income | 41 | 51 | 90 | 94 |
| Income before income taxes | 121 | 109 | 241 | 313 |
| Net income | 85 | 75 | 169 | 213[2] |
| Net operating income[1] | $ 86 | $ 70 | $ 167 | $ 211[2] |
| Key Ratios and Other Items | | | | |
| Insurance in force | 234,196 | 216,742 | 234,196 | 216,742 |
| New insurance written | 7,181 | 4,198 | 13,132 | 7,649 |
| Loss ratio | 32% | 46% | 35% | 33%[2] |
| Expense ratio | 15% | 15% | 16% | 12%[2] |
| Combined ratio | 47% | 62% | 51% | 45%[2] |
| Operating return on equity[1] | 13% | 12% | 13% | 19%[2] |
| MCT ratio | 154% | 140% | 154% | 140% |
| Delinquency ratio | 0.26% | 0.30% | 0.26% | 0.30% |
| Severity | 25% | 26% | 26% | 27% |
| Earnings per Common Share (basic) | $0.73 | $0.67 | $1.45 | $1.90[2] |
| Earnings per Common Share (diluted) | $0.72 | $0.67 | $1.43 | $1.90[2] |
| Operating earnings per Common Share (basic)[1] | $0.73 | $0.63 | $1.43 | $1.88[2] |
| Operating earnings per Common Share (diluted)[1] | $0.73 | $0.63 | $1.42 | $1.88[2] |
| Weighted average number of shares outstanding | | | | |
| Basic | 117,100,000 | 111,999,999 | 117,100,000 | 111,999,999 |
| Diluted | 118,219,662 | 111,999,999 | 118,158,448 | 111,999,999 |

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 six months ended June 30, 2009 would have been: net premiums earned $301, net income $149, net operating income $147, loss ratio 44%, expense ratio 14%, combined ratio 58%, operating return on equity 14% and earnings per share (basic) $1.33, earnings per share (diluted) $1.33, operating earnings per share (basic) $1.31, operating earnings per share (diluted) $1.31.

***Second Quarter Highlights***

- Compared to the second quarter of 2009, net income and net operating income increased 14%, or $11 million, and 22%, or $16 million, respectively. This was the result of lower losses, offset by lower investment income.
- Compared to the second quarter of 2009, net premiums written increased 93%, or $76 million, due to both a larger mortgage insurance market, as estimated by the Company, resulting from improved economic conditions and a pull-forward of demand from the second half of 2010, along with a higher average premium rate resulting from a higher proportion of purchase transactions, as compared to refinance transactions, in the Company's net premiums written.
- The minimum capital test ratio was 154%, which is an increase of 14 points over the prior year's period due primarily to the increase in retained earnings from the Company's continued profitability.

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

| | For the quarter ended June 30, | | Increase (decrease) and percentage change | |
|---|---|---|---|---|
| *(in millions, unless otherwise specified)* | 2010 | 2009 | Q2'10 vs. Q2'09 | |
| Net premiums written | $ 157 | $ 82 | $ 76 | 93% |
| Underwriting revenues: | | | | |
| Net premiums earned | $ 154 | $ 154 | $ 0 | 0% |
| Fees and other income | - | - | - | - |
| Underwriting revenues | 154 | 154 | $ 0 | 0% |
| Losses on claims and expenses: | | | | |
| Losses on claims | 49 | 71 | (22) | (30)% |
| Sales, underwriting and administrative | 24 | 24 | - | -% |
| Total losses on claims and expenses | 73 | 95 | (22) | (23)% |
| Net underwriting income | 81 | 59 | 22 | 37% |
| Investment income: | | | | |
| Interest and dividend income, net of investment expenses | 42 | 43 | (1) | (4)% |
| Gain (loss) on investments[1] | (1) | 7 | (8) | NM |
| Guarantee fund earnings | - | 1 | (1) | NM |
| Total investment income | 41 | 51 | (10) | (20)% |
| Interest expense | - | (1) | 1 | NM |
| Income before income taxes | 121 | 109 | 12 | 11% |
| Provision for income taxes | 36 | 34 | 2 | 5% |
| Net income | 85 | 75 | 11 | 14% |
| Adjustment to net income: | | | | |
| Loss (gain) on investments, net of taxes | 1 | (5) | 6 | NM |
| Net operating income | $ 86 | $ 70 | $ 16 | 22% |
| Effective tax rate | 30% | 31% | - | (1) pts |
| Operating return on equity | 13% | 12% | - | 1 pts |

Notes: Amounts may not total due to rounding.
The Company defines "NM" as not meaningful for increases or decreases greater than 100%.
(1) Includes realized gain (loss) on sale of Available for Sale and change in unrealized gain (loss) on Held For Trading investments.

***Second Quarter 2010 compared to Second Quarter 2009***

High loan-to-value new insurance written increased by $2.8 billion, or 68%, to $6.9 billion in the second quarter of 2010 as compared to the prior year's period. This increase was driven mainly by a larger mortgage insurance market, as estimated by the Company, resulting from more favorable economic conditions and a strong housing market.

Net premiums written increased by $76 million, or 93%, to $157 million in the second quarter of 2010 as compared to the prior year's period. A larger mortgage insurance market, as estimated by the Company, accounted for approximately $56 million of the increase, including $1 million of higher low-loan-to-value net premiums written. The remaining $20 million of the increase resulted from a higher average premium rate associated with a higher proportion of purchase transactions, as compared to refinance transactions.

Net premiums earned remained flat at $154 million in the second quarter of 2010 as compared to the prior year's period. Net premiums earned include $11 million resulting from the quarterly update to the premium recognition curve in the second quarter of 2010, compared to $12 million resulting from the quarterly update in the second quarter of 2009. The seasoning of the Company's 2007 and 2008 books of business offset the $1 million decrease in the impact of the quarterly update to the premium recognition curve.

Losses on claims decreased by $22 million, or 30%, to $49 million in the second quarter of 2010 as compared to the prior year's period. The decrease in losses on claims is a result of improved economic conditions and continued loss mitigation activities. Compared to the prior year's period, the number of new reported delinquencies dropped by approximately 20%. This decrease was partially offset by a 9% increase in the average reserve per delinquent loan to $70,600, partly due to higher insured mortgage balances associated with the Company's 2007 and 2008 books of business and a higher proportion of delinquent mortgages in Alberta. During the second quarter of 2010, the Company approved 1,062 workouts under its loss mitigation programs as compared to 1,226 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 remained flat at $24 million in the second quarter of 2010 as compared to the prior year's period. An increase in public company costs of $1 million was offset by $1 million of a reduction in overhead expenses that occurred in the second quarter of 2009.

Total investment income, including guarantee fund earnings and net gains and losses, decreased by $10 million, or 20%, to $41 million in the second quarter of 2010 as compared to the prior year's period. Interest and dividend income from the general portfolio decreased by $1 million, or 4%, to $42 million. Of this $1 million decrease, $3 million was attributable to a bond call in the current period, which was partially offset by $2 million of additional income attributable to a higher book yield. In the current period, the book yield was 4.3%, compared to 4.2% in the prior year's period. Guarantee fund earnings decreased by $1 million during the second quarter of 2010, as compared to the prior year's period primarily due to higher exit fees from an increase in gross premiums written. The Company recorded an $8 million decrease on gains and losses from investments attributable to the $7 million net unrealized loss position on Held For Trading ("HFT") investments and a $1 million decrease in realized gains on Available for Sale ("AFS") securities as compared to the prior year's period.

The Company's effective tax rate decreased by 1 point to 30% in the second quarter ended June 2010 as compared to the prior year's period. The decrease is the result of a lower combined Canadian federal and provincial income tax rate.

Net income increased by $11 million, or 14%, to $85 million and net operating income increased by $16 million, or 22% to $86 million in the second quarter of 2010. The increase in both net income and in net operating income was attributable primarily to lower losses on claims.

***Year to Date Highlights***

- Compared to the six months ended June 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 both increased 14%, or $20 million. The increase in both net income and in net operating income resulted primarily from lower losses and a lower current tax rate, offset by lower investment income.
- Compared to the six months ended June 2009, net premiums written increased 72%, or $106 million, due to a larger mortgage insurance market, as estimated by the Company, resulting from improved economic conditions, the strong housing market, as well as, a higher average premium rate associated with a higher proportion of purchase transactions relative to refinance transactions.
- The minimum capital test ratio was 154%, which is an increase of 14 points over the prior year's period due to the increase in retained earnings from the Company's continued profitability.

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

| | Year to date ended June 30, | | Increase (decrease) and percentage change | |
|---|---|---|---|---|
| *(in millions, unless otherwise specified)* | 2010 | 2009 | YTD 2010 vs. YTD 2009 | |
| Net premiums written | $ 252 | $ 146 | $ 106 | 72% |
| Underwriting revenues: | | | | |
| Net premiums earned | $ 309 | $ 301 | $ 9 | 3% |
| Impact of initial change in premium recognition curve on net premiums earned | | 100 | (100) | NM |
| Fees and other income | - | - | - | - |
| Underwriting revenues | 309 | 401[2] | (92) | (23)% |
| Losses on claims and expenses: | | | | |
| Losses on claims | 109 | 131 | (23) | (17)% |
| Sales, underwriting and administrative | 49 | 49 | - | - |
| Total losses on claims and expenses | 158 | 181 | (23) | (13)% |
| Net underwriting income | 151 | 220 | (69) | (31)% |
| Investment income: | | | | |
| Interest and dividend income, net of investment expenses | 84 | 89 | (5) | (6)% |
| Gain (loss) on investments[1] | 3 | 3 | 0 | 11% |
| Guarantee fund earnings | 3 | 3 | 0 | 13% |
| Total investment income | 90 | 94 | (5) | (5)% |
| Interest expense | - | (1) | 1 | NM |
| Income before income taxes | 241 | 313 | (72) | (23)% |
| Provision for income taxes | 71 | 100 | (29) | (29)% |
| Net income | 169 | 213[2] | (43) | (20)% |
| Adjustment to net income: | | | | |
| Loss (gain) on investments, net of taxes | (2) | (2) | - | 15% |
| Net operating income | $ 167 | $ 211[2] | $ (44) | (21)% |
| Effective tax rate | 30% | 32% | - | (2) pts |
| Operating return on equity | 13% | 19%[2] | - | (6) pts |

Notes: Amounts may not total due to rounding.
The Company defines "NM" as not meaningful for increases or decreases greater than 100%.
(1) Includes realized gain (loss) on sale of AFS and change in unrealized gain (loss) on HFT investments.
(2) Excluding the impact of the change to the premium recognition curve in the first quarter of 2009, financial measures for the six months ended June 30, 2009 would have been underwriting revenue $301, net income $149, net operating income $147, and operating return on equity 14%.

***Year to Date 2010 compared to Year to Date 2009***

High loan-to-value new insurance written increased by $4.0 billion, or 56%, to $11.1 billion in the six months ended June 30, 2010 as compared to the prior year's period. This increase was driven mainly by a larger mortgage insurance market, as estimated by the Company, resulting from more favorable economic conditions and a strong housing market.

Net premiums written increased by $106 million, or 72%, to $252 million in the six months ended June 30, 2010 as compared to the prior year's period. A larger mortgage insurance market, as estimated by the Company, accounted for $87 million, including higher low loan-to-value net premiums written of $6 million. The remaining $19 million increase resulted from a higher average premium rate associated with a higher proportion of purchase transactions relative to refinance transactions

Excluding the $100 million impact of the change in the premium recognition curve, net premiums earned increased by $9 million, or 3%, to $309 million in the six months ended June 30, 2010 as compared to the prior year's period. The increase consisted of $12 million additional earned premium resulting from the quarterly update to the premium recognition curve in the second quarter of 2010 to reflect the most recent loss development experience. A further $3 million of the increase resulted from seasoning of the Company's 2007 and 2008 books of business. These increases were offset by a $6 million decrease related to the termination of insurance in-force from lower policy cancellations.

Losses on claims decreased by $23 million, or 17%, to $109 million in the six months ended June 30, 2010 as compared to the prior year's period. The decrease in losses on claims is a result of improved economic conditions and continued loss mitigation activity. Compared to the prior year's period, the number of new reported delinquencies dropped by approximately 14% and this was offset by an increase in the average reserve per delinquent loan of 9% to $70,600, partly due to higher insured mortgage balances associated with the Company's 2007 and 2008 books of business and a higher proportion of delinquent mortgages in Alberta. During the six months ended June 2010, the Company approved 2,484 workouts under its loss mitigation programs as compared to 1,900 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 were flat in the six months ended June 30, 2010 at $49 million as compared to the prior year's period. Higher public company costs, higher operating costs and higher amortization of deferred acquisition costs offset approximately $6 million related to the additional 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 $5 million, or 5%, to $90 million in the six months ended June 30, 2010 as compared to the prior year's period. Interest and dividend income from the general portfolio decreased by $5 million, or 6%, to $84 million in the six months ended June 2010. Of the $5 million decrease, $3 million was attributable to a bond call in the current period and a further $2 million was attributable to a lower book yield. In the current period, the book yield was 4.2% compared to 4.3% in the prior period. The average invested assets balance, excluding unrealized gains and losses, remained relatively flat over the prior year's period. Guarantee fund earnings were flat during the six months ended June 2010, as compared to the prior year's period. A $3 million increase in guarantee fund earnings attributable to a higher invested asset balance, a higher book yield and realized gains in the first quarter of 2010 was offset by higher exit fees from an increase in gross written premiums.

The Company's effective tax rate decreased by 2 points to 30% in the six months ended June 30, 2010 as compared to the prior year's period. The decrease is the result of a lower combined Canadian federal and provincial income tax rate.

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 $20 million, or 14%, to $169 million and net operating income increased by $20 million, or 14%, to $167 million in the six months ended June 30, 2010. The increase in both net income and in net operating income was attributable primarily to lower losses and a lower current tax rate offset by lower investment income.

**Loss and Expense Ratios**

The following table sets forth selected ratios for the three and six months ended June 30, 2010 and 2009:

| | For the quarters ended June 30, | | For the six months ended June 30, | | Increase (decrease) | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009[1] | Q2'10 vs. Q2'09 | YTD'10 vs. YTD'09 |
| Loss ratio…….. | 32% | 46% | 35% | 33% | (14) pts | 2 pts |
| Expense ratio…… | 15% | 15% | 16% | 12% | - pts | 4 pts |
| Combined ratio…. | 47% | 62% | 51% | 45% | (15) pts | 6 pts |

Note: Amounts may not total due to rounding.
(1) Excluding the impact of changes to the premiums recognition curve, the loss ratio, expense ratio and combined ratio at June 30, 2009 would have been 44%, 14% and 58%, respectively.

***Second quarter 2010 compared to second quarter 2009***

The loss ratio decreased 14 points to 32% for the quarter ended June 30, 2010. This decrease is attributable to lower severity resulting from a strong housing market and fewer new reported delinquencies, resulting primarily from a declining unemployment rate.

The expense ratio remained flat at 15% for the quarter ended June 30, 2010.

***Six months ended June 30, 2010 compared to six months ended June 30, 2009***

The loss ratio increased 2 points to 35% for the six months ended June 30, 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 44% as a result of lower severity and fewer new delinquencies resulting from a strong housing market and a declining unemployment rate.

The expense ratio increased 4 points to 16% for the six months ended June 30, 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 14% due to higher public company costs, operating costs and the amortization of deferred acquisition costs.

**Balance Sheet Highlights and Select Financial Data**

| (in millions, unless otherwise specified) | As at June 30, 2010 | As at Dec 31, 2009 | Increase (decrease) and percentage change 2010 vs. 2009 | |
|---|---|---|---|---|
| Investments: | | | | |
| General portfolio | $4,619 | $4,410 | $208 | 5% |
| Government guarantee fund | 615 | 576 | 38 | 7% |
| Total assets | 5,504 | 5,210 | 294 | 6% |
| Unearned premium reserves | 1,914 | 1,971 | (58) | (3)% |
| Loss reserves | 228 | 236 | (8) | (3)% |
| Total liabilities | 2,718 | 2,567 | 151 | 6% |
| Shareholders' equity | 2,785 | 2,643 | 142 | 5% |
| Accumulated Other Comprehensive Income | 121 | 97 | 24 | 25% |
| Shareholders equity excluding AOCI | $2,664 | $2,546 | $118 | 5% |
| **Select Ratios** | | | | |
| MCT Ratio | 154% | 149% | - | 5 pt |
| **Book value per share** | | | | |
| Book value per share including AOCI (basic) | $23.79 | $22.57 | $1.22 | 5% |
| Book value per share excluding AOCI (basic) | $22.75 | $21.74 | $1.01 | 5% |
| Book value per share including AOCI (diluted) | $23.56 | $22.40 | $1.16 | 5% |
| Book value per share excluding AOCI (diluted) | $22.53 | $21.58 | $0.95 | 4% |

Notes: Amounts may not total due to rounding. The Company defines "NM" as not meaningful for increases or decreases greater than 100%.

## Financial Instruments and Other Instruments

### *Portfolio of Invested Assets*

As of June 30, 2010, the Company had total cash, cash equivalents and invested assets of $4.6 billion in the general portfolio, including net proceeds of $272 million from the completion of the debenture offering on June 29, 2010 and $615 million in the government guarantee fund established under the Government Guarantee Agreement. Unrealized gains on AFS securities were $147 million in the general portfolio and $35 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 June 30, 2010** | | | **As at Dec 31, 2009** | |
|---|---|---|---|---|---|
| ***(in millions, unless otherwise specified)*** | **Fair Value** | **%** | **Unrealized Gains/Losses** | **Fair Value** | **%** |
| General portfolio | | | | | |
| Asset backed…….... | $ 257 | 6% | $ 8 | $ 254 | 6% |
| Corporate fixed income[1] | | | | | |
| Financial…….. | 1,401 | 30% | 59 | 1,420 | 32% |
| Energy…….. | 278 | 6% | 12 | 230 | 5% |
| Infrastructure……. | 236 | 5% | 10 | 206 | 5% |
| All other sectors……..……. | 206 | 4% | 10 | 175 | 4% |
| Total corporate fixed income……..….. | 2,122 | 46% | 91 | 2,033 | 46% |
| Federal fixed income……..... | 916 | 20% | 23 | 1,073 | 24% |
| Provincial fixed income……..……... | 694 | 15% | 26 | 638 | 14% |
| Preferred Shares | 59 | 1% | - | - | 0% |
| Other invested assets – HFT[2]…….. | 36 | 1% | - | 34 | 1% |
| Total invested assets……..... | 4,083 | 88% | 147 | 4,032 | 91% |
| Cash and cash equivalents…… | 535 | 12% | - | 378 | 9% |
| Total invested assets and cash – general portfolio | $ 4,619 | 100% | $ 147 | $4,410 | 100% |
| Government guarantee fund | | | | | |
| Federal fixed income……... | $ 744 | 100% | $ 35[3] | $ 698 | 100% |
| Cash and cash equivalents……..... | - | 0% | - | 1 | 0% |
| Total invested assets and cash – guarantee fund | $ 744 | 100% | $ 35 | $ 699 | 100% |
| Accrued income and contributions……..……. | 21 | | | 15 | |
| Accrued exit fees and due to others…..…… | (150) | | | (137) | |
| Net Guarantee Fund assets……..…. | $615 | | | $576 | |
| Total invested assets and cash ……...….. | $ 5,233 | | $ 182 | $4,986 | |

| **Credit Rating – General Portfolio** | **As at June 30, 2010** | | | **As at Dec 31, 2009** | |
|---|---|---|---|---|---|
| ***(in millions, unless otherwise specified)*** | **Fair Value** | **%** | **Unrealized Gains/Losses** | **Fair value** | **%** |
| Cash and Cash equivalents…….. | $ 535 | 12% | $ - | $ 378 | 9% |
| AAA……. | 1,336 | 29% | 38 | 1,614 | 37% |
| AA…… | 1,508 | 33% | 66 | 1,344 | 30% |
| A…… | 1,177 | 25% | 42 | 1,018 | 23% |
| BBB…….. | 63[2] | 1% | 1 | 56 | 1% |
| Below BBB…….. | 0 | - | - | - | - |
| Total invested assets and cash…….…… | $ 4,619 | 100% | $ 147 | $4,410 | 100% |

Notes: Amounts may not total due to rounding.
(1) The portfolio classifications and holding were realigned to be consistent with the portfolio benchmark.
(2) HFT investments in the general portfolio are recorded at fair value with realized gains and losses and changes in fair value recorded in investment income. Unrealized losses at June 30, 2010 were $14 million.
(3) The $35 million unrealized gain is gross of the $7 million of market value related primarily to 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, and mortgage loans on commercial real estate. The Company also holds other invested assets, which at various times include short-term investments, preferred shares and HFT investments. 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 which have been approved by the Board.

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 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 increased to $535 million or an increase of 42% as of June 30, 2010 from $378 million as of December 31, 2009. On June 29, 2010, the Company completed an offering of $275 million of Debentures and realized net proceeds of $272 million, which have been invested in short-term securities.

During the second quarter of 2010, the Company invested a net amount of $151 million in securities, consisting of $29 million in preferred shares and the remaining balance in corporate bonds, government bonds and short term securities. Excluding the net proceeds from the Debentures, the portfolio duration has increased to 3.4 years from 3.3 years in the prior year's period.

*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 June 30, 2010, 20% of the portfolio was invested in federal securities, down from 24% at the end of 2009. Provincial holdings were 15% of the portfolio, up 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 Office of the Superintendant of Financial Institutions ("OSFI"). As of June 30, 2010, approximately 46% of the investment portfolio was held in corporate fixed income securities, the same level as at the end of 2009. Securities rated below A were $63 million, or 1% of invested assets, as of June 30, 2010. 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 30% 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 June 30, 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, with no exposure to foreign currency fluctuations associated with this investment. As of June 30, 2010, this investment had a fair value of $36 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.

*Preferred Shares*

The Company had $59 million invested in preferred shares as of June 30, 2010, representing 1% of the general portfolio. Approximately 89% 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 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)* | Q2'10 | Q1'10 | Q4'09 | Q3'09 | Q2'09[3] | Q1'09[3] | Q4'08[3] | Q3'08[3] |
|---|---|---|---|---|---|---|---|---|
| Net premiums written…… | 157 | 94 | 110 | 104 | 82 | 64 | 152 | 222 |
| Underwriting revenues: | | | | | | | | |
| Net premiums earned……. | 154 | 156 | 155 | 154 | 153 | 147[2] | 138 | 133 |
| Impact of initial change in premiums recognition curve on net premiums earned……. | - | - | - | - | - | 100[2] | - | - |
| Underwriting revenue…… | 154 | 156 | 155 | 154 | 153 | 247 | 138 | 133 |
| Losses on claims……..... | 49 | 59 | 60 | 64 | 71 | 60 | 58 | 36 |
| Net underwriting income (loss) …….. | 81 | 71 | 70 | 66 | 59 | 161 | 53 | 79 |
| Investment income, including gains (losses)[1]…… | 41 | 49 | 46 | 49 | 51 | 43 | 44 | 46 |
| Net income…….. | 85 | 84 | 87 | 79 | 75 | 138[2] | 74 | 85 |
| Adjustment to net income: | | | | | | | | |
| Losses (gains) on investments, net of taxes…… | 1 | (3) | (2) | (4) | (5) | 3 | 1 | - |
| Net operating income…….. | 86 | 81 | 85 | 75 | 70 | 141[2] | 75 | 85 |
| Selected Ratios: | | | | | | | | |
| Loss ratio…….. | 32% | 38% | 39% | 42% | 46% | 24%[2] | 42% | 27% |
| Expense ratio……..... | 15% | 17% | 16% | 15% | 15% | 10%[2] | 19% | 14% |
| Combined ratio…..…… | 47% | 55% | 55% | 57% | 62% | 35%[2] | 61% | 41% |
| Operating earnings per common share (diluted)……. | $0.73 | $0.69 | $0.72 | $0.63 | $0.63 | $1.26[2] | $0.67 | $0.76 |
| Operating return on equity…. | 13% | 13% | 14% | 12% | 12% | 26%[2] | 15% | 17% |

Notes: Amounts may not total due to rounding
(1) Includes realized gain (loss) on sale of AFS and change in unrealized gain (loss) on HFT investments.
(2) Excluding the impact of change to the premium recognition curve in the first quarter 2009, financial measures for the quarter ended March 31, 2009 would have been net premiums earned $147, net income $74, net operating income $77, loss ratio 41%, expense ratio 13%, combined ratio 54%, operating return on equity 14% and operating earnings per share (diluted) $0.69.
(3) The prior period's comparative results for the Company reflect the consolidation of the Company and its subsidiaries Holdings I and Holdings II, including the Insurance Subsidiary. Prior to the third quarter of 2009, the Company's management discussion and analysis, as available on SEDAR, only reflected Holdings I's results. The primary difference is the elimination of interest paid from the Insurance Subsidiary to Holdings II.

**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.

Throughout 2008 and into early 2009, the Company had 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. As of June 30, 2010, the Company's cash and cash equivalent balance increased to $535 million, or 12% of cash and investment assets, primarily due to the $272 million in net proceeds from the completion of the offering of the Debentures.

**Debt Outstanding**

On June 29, 2010, the Company completed an offering of $275 million principal amount of Debentures. The Debentures bear interest at a fixed annual rate of 5.68% until maturity on June 15, 2020, payable semi-annually commencing on December 15, 2010. The Debentures were issued under a trust indenture dated June 29, 2010 as supplemented by a first series supplement dated June, 29, 2010 (the "First Series Supplement"). The Debentures may be redeemed at the option of the Company, in whole or in part at any time, at a redemption price equal to the greater of (i) the Canada Yield Price (as defined in the First Series Supplement) and (ii) par.

**Capital Expenditures**

The Company's capital expenditures primarily relate to technology investments aimed at improving operational efficiency and effectiveness for sales, underwriting, risk management and loss mitigation. For the three and six months ended June 30, 2010, the Company invested $1 million and $2 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 the entirety of 2010 will be in the $3 to $5 million range.

**Regulatory Capital Management**

The Insurance Subsidiary is regulated by 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 the Insurance Subsidiary, 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 an internal MCT ratio target range of 132% to 135% and an operating MCT ratio target of 135% in the normal course. As part of the implementation of its capital plan, including the commencement of the Offer, the Company 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, or for such other uses as permitted by applicable laws and that may be approved by the Board.

The MCT ratio of the Insurance Subsidiary at the end of June 30, 2010 was 154%, representing a 4-point sequential increase over the first quarter, primarily resulting from capital provided by the second quarter net income, offset by dividends paid. The Company expects to fund $50 million of the aggregate purchase price under the Offer from dividends to be paid by the Insurance Subsidiary. If paid, these dividends would reduce the Insurance Subsidiary's MCT ratio by 4 points.

**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 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 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.

**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.

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 statements 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 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 match premiums earned to losses on claims. The formulae under which premiums are earned are adjusted quarterly in accordance with such estimates and were last updated in June 2010, resulting in a $11 million increase in premiums earned during the second quarter of 2010 and a $24 million increase for the six months ended June 30, 2010. The cumulative impact of the initial update of the premiums recognition curve for the three months and six months ended June 30, 2009 was $12 million and $112 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 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.

*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.

*Debt*

The Debentures were issued for gross proceeds of $274.9 million at a price of $99.95 per $100 principal amount, before issuance costs of $2.6 million. The 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.

## Changes in Accounting Policies

*International Financial Reporting Standards ("IFRS")*

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

The Company has developed a comprehensive IFRS conversion plan being carried out by our IFRS conversion project team. The project is lead 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 provides semi-annual status updates to OSFI.

To date, the Company has made steady progress towards IFRS conversion and is on track for a January 1, 2011 implementation. The conversion plan consists of four key phases, each with clearly defined milestones as outlined below:

| Phase | Milestones | Status |
|---|---|---|
| **Planning** | 1. Define project scope<br>2. Appoint project team and assign project leader<br>3. Train project team and key accounting staff | Complete |
| **Assessment** | 1. Research applicable IFRS standards and identify differences from Canadian GAAP<br>2. Assess impact of conversion on key business processes, systems and internal controls:<br>a) Business systems (Underwriting, Claims Management, Investments)<br>b) Financial reporting systems<br>c) Internal controls<br>d) Capital management<br>e) Financial Planning<br>f) Incentive compensation<br>3. Make accounting policy choices where applicable<br>4. Quantify impact of differences between IFRS and Canadian GAAP on opening shareholders equity at transition date of January 1, 2010 | Complete |
| **Implementation** | 1. Modify financial reporting systems<br>2. Prepare January 1, 2010 opening balance sheet under IFRS<br>3. Develop IFRS financial statement presentation and prepare IFRS financial reporting disclosure templates | In progress |
| **Monitoring of IFRS Developments** | 1. Monitor standards enacted subsequent to the mandatory IFRS conversion date | Ongoing |

As indicated in the plan, as at June 30, 2010, the Company has completed its comprehensive evaluation of IFRS, which included documenting the differences between current Canadian GAAP and IFRS for each of the applicable IFRS standards including:

- IFRS 4 - Insurance Contracts;
- IAS 39 – Investments – Recognition and Measurement, IAS 32 – Investments-Presentation, and IFRS 7 Investments – Disclosure;
- IAS 12 - Income Taxes; and
- IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

The mandatory exceptions and elective exemptions prescribed by IFRS 1 – First Time Adoption of International Financial Reporting Standards have been considered for all standards evaluated.

*IFRS Impact on Shareholders' Equity As At January 1, 2011*

Based on the Company's evaluation, the identified differences between IFRS and Canadian GAAP and their impact on the Company's opening shareholders' equity have been quantified. The net after-tax IFRS impact on opening shareholders' equity as at January 1, 2010 is not significant.

The impact is summarized in the following table:

| **Standard** | **Description of Change** | **Increase / (decrease) to Shareholders' Equity ($000's)** |
|---|---|---|
| IAS 19-Employee Benefits | Immediate recognition of past service costs | ($2,502) |
| IAS 19 | Immediate recognition of actuarial gains / (losses) | $2,658 |
| IAS 19 | Amortization of original transitional obligation | ($339) |
| **Total IAS 19 Impact** | | **($183)** |
| **IFRS 2 – Share-based payments** | **Measurement of stock options with tandem stock appreciation rights** | **$130** |
| **Total Impact Before Income taxes** | | **($53)** |
| **Net After-tax Impact on Shareholders' Equity at Jan.1, 2011** | | **($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 its defined 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 Other Comprehensive Income without subsequent reclassification of the gains or losses from Other Comprehensive Income to income. Under IFRS, the Company will recognize actuarial gains and losses directly in shareholders' equity resulting in a $2.7 million increase in opening Accumulated Other Comprehensive Income ("AOCI") as at January 1, 2010.

*Share-based Compensation*

Under Canadian GAAP, the company currently measures the cost associated with its stock options with tandem Stock Appreciation Rights ("SARs") at the amount by which the quoted market value of the shares exceeds the exercise price. IFRS requires stock options to be measured using an option pricing model with a revaluation to current assumptions at the end of each reporting period. Under IFRS, the Company will use Black Scholes option pricing model to value its stock options with tandem SARs resulting in a $0.1 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 irrevocably elect 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 reporting entites. Until such time, IFRS 4 is similar to Canadian GAAP in all material respects with the exception of the requirement for additional note disclosure. Therefore, the Company will 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 – Recognition and Measurement was issued in November 2009 replacing IAS 39, with mandatory adoption on January 1, 2013. This new standard will significantly impact the Company's financial statements because the standard will require all financial instruments to be accounted for either at amortized cost or at fair value, with fair value changes recorded in the statement of income. The available for sale category, which permits entities to account for changes in fair value of financial instruments in other comprehensive income, and where the vast majority of the Company's financial instruments are currently recorded, will cease to exist. Prior to the mandatory adoption of IFRS 9 on January 1, 2013, there are no significant differences between IFRS and Canadian GAAP relevant to the Company's invested assets.

*IFRS Impact on Business Processes, IT Systems and Internal Controls*

Given that IFRS 4 for insurance contracts is similar to current Canadian GAAP, IFRS does not impact business processes and IT systems related to the 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 will be working with its appointed actuary to develop financial reporting processes necessary to complete these disclosures during the second half of 2010.

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 changeover to IFRS is not expected to have a material impact on the Insurance Subsidiary MCT ratio. Also, the Company has not identified any financial covenants based on GAAP measures in respect to its material contracts and expects minimal impact.

*IFRS Impact on Financial Reporting and Disclosure Controls & Procedures*

During the second half of 2010, the Company will be preparing IFRS disclosure templates as part of the process of converting Canadian GAAP disclosures to IFRS compliant disclosures. This process will include 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 Management Discussion & Analysis.

The Company regularly reviews progress on its IFRS conversion with the Audit Committee of the Board including a review of significant accounting policy changes and their estimated impact on the financial statements. In summary, the Company's IFRS conversion project is on schedule and the Company expects to file its first quarter financial statements under IFRS and Management Discussion & Analysis within the required timeframe.

**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 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 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. On April 19, 2010, the Canadian government 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 per cent, from 95 per cent, of the value of their homes, and (iii) require a minimum down payment of 20 per cent 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 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. 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**

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 $3 million for the six months ended June 30, 2010. Prior to the existence of the TSA, the Company was party to an agreement dated August 1, 2006 with Genworth Mortgage Insurance Corporation, a subsidiary of Genworth Financial, Inc., for data processing and administrative services. The transactions incurred under this agreement were in the normal course of business and were measured at fair value. Balances owing for service transactions were non-interest bearing and were settled on a quarterly basis. The Company incurred related party charges of $4 million for the six months ended June 30, 2009.

**Special Note Regarding Forward-Looking Statements**

Certain statements made in this MD&A contain forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). When used in this MD&A, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions, as they relate to Genworth Canada, are intended to identify forward-looking statements. Specific forward-looking 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 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 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 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 June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|
| ***(in millions, unless otherwise specified)*** | **2010** | **2009** | **2010** | **2009** |
| Net income[1] | $ 85 | $ 75 | $ 169 | $ 213 |
| Adjustment to net income: | | | | |
| Gains (Losses) on investments, net of taxes | 1 | (5) | (2) | (2) |
| Net operating income[1] | $ 86 | $ 70 | $ 167 | $ 211 |

Notes:
(1) Excluding impact of changes to the premium recognition curve, net income and net operating income for the six months ended June 30, 2009 would have been $149 million and $147 million respectively.

| | For the quarter ended June 30, | | | |
|---|---|---|---|---|
| ***(in dollars)*** | **2010** | | **2009** | |
| | Basic | Diluted | Basic | Diluted |
| Earnings per share | $ 0.73 | $ 0.72 | $ 0.67 | $ 0.67 |
| Adjustment to earnings per share: | | | | |
| Gains (Losses) on investments, net of taxes | 0.00 | 0.01 | (0.04) | (0.04) |
| Operating earnings per share | $ 0.73 | $ 0.73 | $ 0.63 | $ 0.63 |

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| ***(in dollars)*** | **2010** | | **2009** | |
| | Basic | Diluted | Basic | Diluted |
| Earnings per share | $ 1.45 | $ 1.43 | $ 1.90[1] | $ 1.90[1] |
| Adjustment to earnings per share: | | | | |
| Gains (Losses) on investments, net of taxes | (0.02) | (0.01) | (0.02) | (0.02) |
| Operating earnings per share | $ 1.43 | $1.42 | $ 1.88[1] | $ 1.88[1] |

Notes:
(1) Excluding impact of changes to the premium recognition curve in the first quarter 2009, financial measures for the six months ended June 30, 2009 would have been earnings per share (basic) $1.33, earnings per share (diluted) $1.33, operating earnings per share (basic) $1.31, and operating earnings per share (diluted) $1.31