Condensed Consolidated Interim Financial Statements
(in Canadian dollars)

GENWORTH MI CANADA INC.

Three months and six months ended
June 30, 2011 and 2010
(Unaudited)

GENWORTH MI CANADA INC.

Condensed Consolidated Interim Statement of Financial Position
(In thousands of Canadian dollars)
(Unaudited)

	June 30, 2011[1]	December 31, 2010[1][2]	January 1, 2010[1][2]
Assets			
Cash and cash equivalents (note 6)	$ 146,260	$ 351,136	$ 377,512
Short-term investments (note 6)	–	6,988	253,527
Accrued investment income and other receivables	88,470	32,270	28,869
Bonds and debentures:			
Fair value through profit or loss ("FVTPL") (note 6)	–	38,290	34,485
Available-for-sale ("AFS") (note 6)	3,599,133	3,629,494	3,420,567
Bonds and debentures under securities lending program: AFS (note 6)	336,494	268,442	323,300
Equity investments: AFS (note 6)	209,520	195,186	423
Total invested assets, accrued investment income and other receivables	4,379,877	4,521,806	4,438,683
Income taxes recoverable	11,543	7,505	–
Subrogation recoverable	41,615	40,393	13,646
Government guarantee fund (note 7)	674,869	645,733	576,417
Prepaid assets	2,582	2,019	3,017
Property and equipment	2,235	2,836	3,844
Intangible assets	12,900	14,119	16,307
Deferred policy acquisition costs (note 5(d))	154,596	152,618	146,840
Goodwill	11,172	11,172	11,172
Total assets	$ 5,291,389	$ 5,398,201	$ 5,209,926

[1] Refer to note 15 for presentation of assets and liabilities expected to be recovered or settled in 12 months or less.
[2] Refer to note 16 for effects of adopting IFRS.

GENWORTH MI CANADA INC.

Condensed Consolidated Interim Statement of Financial Position
(In thousands of Canadian dollars)
(Unaudited)

	June 30, 2011[1]	December 31, 2010[1] [2]	January 1, 2010[1] [2]
Liabilities and Shareholders' Equity			
Liabilities:			
Accounts payable and accrued liabilities	$ 59,781	$ 45,872	$ 27,811
Due to parent and companies under common control (note 9)	1,174	260	775
Income taxes payable	–	–	116,230
Loss reserves (note 5(c))	173,389	206,611	236,181
Share-based compensation liabilities (note 11)	4,993	5,412	1,668
Long-term debt (note 13)	421,754	421,566	–
Unearned premium reserves (note 5(b))	1,845,628	1,902,164	1,971,396
Accrued net benefit liabilities under employee benefit plans (note 10)	13,231	12,368	9,473
Net deferred tax liabilities (note 8)	222,706	215,281	203,204
Total liabilities	2,742,656	2,809,534	2,566,738
Shareholders' equity:			
Share capital (note 14)	1,462,398	1,553,463	1,734,376
Retained earnings	950,432	910,835	811,888
Accumulated other comprehensive income	135,903	124,369	96,924
Total shareholders' equity	2,548,733	2,588,667	2,643,188
Total liabilities and shareholders' equity	$ 5,291,389	$ 5,398,201	$ 5,209,926

[1] Refer to note 15 for presentation of assets and liabilities expected to be recovered or settled in 12 months or less.
[2] Refer to note 16 for effects of adopting IFRS.

See accompanying notes to condensed consolidated interim financial statements.

On behalf of the Board:

"Brian Hurley" Director

"Brian Kelly" Director

GENWORTH MI CANADA INC.

Condensed Consolidated Interim Income Statement
(In thousands of Canadian dollars)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010[1]	2011	2010[1]
Gross premiums written	$ 152,298	$ 160,619	$ 255,780	$ 258,293
Net premiums written (note 5(b))	$ 149,442	$ 157,455	$ 249,997	$ 251,666
Net premiums earned (note 5(b))	$ 151,484	$ 153,516	$ 306,533	$ 309,251
Fees and other income	36	49	432	68
Underwriting revenue	151,520	153,565	306,965	309,319
Losses on claims (note 5(c))	49,764	49,496	108,580	108,793
Expenses:				
Premium taxes and underwriting fees	10,532	10,972	18,092	18,170
Employee compensation	9,433	8,333	18,147	17,501
Office expenses	5,113	5,316	10,209	10,212
Professional fees	1,088	1,979	2,902	3,294
Promotional expenses and travel	1,512	1,646	3,323	2,864
Other	7	249	302	969
Total expenses	27,685	28,495	52,975	53,010
Change in deferred policy acquisition costs (note 5(d))	(2,696)	(4,568)	(1,978)	(3,493)
	24,989	23,927	50,997	49,517
Net underwriting income	76,767	80,142	147,388	151,009
Investment income:				
Interest	41,336	42,189	82,410	85,331
Dividends	2,207	398	4,331	484
Net realized gains on sale of investments	2,109	599	3,115	1,810
Change in unrealized loss on FVTPL investments	-	(1,416)	1,878	1,132
Equity in earnings of government guarantee fund (note 7)	228	78	1,524	2,978
General investment expenses	(1,054)	(1,073)	(2,127)	(2,152)
	44,826	40,775	91,131	89,583
Interest expense (note 13)	5,705	43	11,347	43
Income before income taxes	115,888	120,874	227,172	240,549
Income taxes (note 8):				
Current	28,567	30,122	56,484	62,827
Deferred	4,482	5,713	7,618	8,363
	33,049	35,835	64,102	71,190
Net income for the period	$ 82,839	$ 85,039	$ 163,070	$ 169,359
Earnings per share (note 12):				
Basic	$ 0.79	$ 0.73	$ 1.56	$ 1.45
Diluted	0.79	0.72	1.55	1.43

[1] Refer to note 16 for effects of adopting IFRS.

See accompanying notes to condensed consolidated interim financial statements.

GENWORTH MI CANADA INC.

Condensed Consolidated Interim Statement of Comprehensive Income
(In thousands of Canadian dollars)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,		Year ended December 31,
	2011	2010	2011	2010	2010
Accumulated other comprehensive income					
Accumulated other comprehensive income, beginning of period (a)	$ 103,908	$ 96,227	$ 124,369	$ 96,924	$ 96,924
Net change in fair value of AFS financial assets (b)	27,333	24,166	9,031	25,044	37,916
Gains (losses) on AFS financial assets realized and reclassified to consolidated interim income statement (c)	4,662	835	2,503	(740)	(10,471)
Defined benefit plan actuarial losses (d)	–	–	–	–	(1,195)
Reclassification of defined benefit plan actuarial losses to retained earnings (d)	–	–	–	–	1,195
Accumulated other comprehensive income, end of period (e)	$ 135,903	$ 121,228	$ 135,903	$ 121,228	$ 124,369

Comprehensive income

	Three months ended June 30,		Six months ended June 30,	
	2011	2010[(1)]	2011	2010[(1)]
Net income for the period	$ 82,839	$ 85,039	$ 163,070	$ 169,359
Other comprehensive income for the period (f)	31,995	25,001	11,534	24,304
Total comprehensive income for the period	$ 114,834	$ 110,040	$ 174,604	$ 193,663

(a) Net of income taxes of $45,642 as of the beginning of the quarter ended June 30, 2011 ($53,374 for year-to-date) and $43,396 as of the beginning of the quarter ended June 30, 2010 ($43,484 for year-to-date).

(b) Net of income taxes of $10,476 for the quarter ended June 30, 2011 ($3,560 for year-to-date) and $10,340 for the quarter ended June 30, 2010 ($10,451 for year-to-date). Net of income taxes of $13,663 for the year ended December 31, 2010.

(c) Net of income taxes of $1,802 for the quarter ended June 30, 2011 ($986 for year-to-date) and $110 for the quarter ended June 30, 2010 (($309) for year-to-date). Net of income taxes of ($3,773) for the year ended December 31, 2010.

(d) Net of income taxes of $415 as at December 31, 2010.

(e) Net of income taxes of $57,920 as at June 30, 2011 (June 30, 2010 - $53,626; December 31, 2010 - $53,374).

(f) Net of income taxes of $12,278 for the quarter ended June 30, 2011 ($4,546 for year-to-date) and $10,230 for the quarter ended June 30, 2010 ($10,142 for year-to-date).

See accompanying notes to condensed consolidated interim financial statements.

GENWORTH MI CANADA INC.

Condensed Consolidated Interim Statement of Changes in Equity
(In thousands of Canadian dollars)
(Unaudited)

	Share capital	Retained earnings	Accumulated other comprehensive income	Total equity
Balance at January 1, 2011	$ 1,553,463	$ 910,835	$ 124,369	$ 2,588,667
Comprehensive income:				
Net income for the period	–	163,070	–	163,070
Other comprehensive income for the period	–	–	11,534	11,534
Transactions recognized directly in equity:				
Dividends on ordinary common shares	–	(54,492)	–	(54,492)
Issuance of common shares	168	–	–	168
Repurchase of common shares (note 14)	(91,233)	(68,981)	–	(160,214)
Balance at June 30, 2011	$ 1,462,398	$ 950,432	$ 135,903	$ 2,548,733

	Share capital	Retained earnings	Accumulated other comprehensive income	Total equity
Balance at January 1, 2010[(1)]	$ 1,734,376	$ 811,888	$ 96,924	$ 2,643,188
Comprehensive income:				
Net income for the period	–	169,359	–	169,359
Other comprehensive income for the period	–	–	24,304	24,304
Transactions recognized directly in equity:				
Dividends on ordinary common shares	–	(51,524)	–	(51,524)
Balance at June 30, 2010[(1)]	$ 1,734,376	$ 929,723	$ 121,228	$ 2,785,327

[(1)]Refer to note 16 for effects of adopting IFRS.

See accompanying notes to condensed consolidated interim financial statements.

GENWORTH MI CANADA INC.

Condensed Consolidated Interim Statement of Cash Flows
(In thousands of Canadian dollars)
(Unaudited)

	Six months ended June 30, 2011	2010[1]
Cash provided by (used in):		
Operating activities:		
Net income for the period	$ 163,070	$ 169,359
Items not involving cash:		
Amortization of premiums on investments	6,048	6,349
Amortization of intangible assets	2,375	1,919
Depreciation of property and equipment	601	772
Amortization of deferred policy acquisition costs	24,853	23,603
Income taxes	64,102	71,200
Net realized gains on sale of investments	(3,115)	(1,810)
Change in unrealized loss on FVTPL investments	(1,878)	(1,132)
Interest expense	11,347	43
Equity in earnings of government guarantee fund	(1,524)	(2,978)
Issuance of common shares on vesting of RSU	168	–
	266,047	267,325
Change in non-cash balances related to operations:		
Government guarantee fund	(26,857)	(27,275)
Accrued investment income and other receivables	(149,367)	(109,713)
Prepaid assets	(563)	325
Subrogation recoverable	(1,222)	(11,023)
Deferred policy acquisition costs	(26,831)	(27,096)
Accounts payable and accrued liabilities	13,875	50,952
Due to parent company and companies under common control	914	(775)
Loss reserves	(33,222)	(8,160)
Share-based compensation liabilities	(419)	744
Unearned premium reserves	(56,536)	(57,584)
Accrued net benefit liabilities under employee benefit plans	863	613
	(13,318)	78,333
Cash generated from operating activities:		
Interest paid on long-term debt	(11,224)	–
Interest received from bonds and debentures	88,836	92,892
Income taxes paid	(65,253)	(204,460)
Dividends received from equity investments	4,331	484
Net cash generated from (used in) operating activities	3,372	(32,751)
Investing activities:		
Purchase of bonds and debentures	(599,224)	(555,877)
Proceeds from sale of bonds and debentures	606,424	332,918
Proceeds from sale of short-term investments	6,988	253,527
Purchase of equity investments	(42,115)	(58,802)
Proceeds from sale of equity investments	35,474	278
Purchase of intangible assets	(1,089)	(1,688)
Purchase of property and equipment	–	(448)
Net cash generated from (used in) investing activities	6,458	(30,092)
Financing activities:		
Net proceeds from long-term debt issuance	–	272,270
Dividends paid	(54,492)	(51,524)
Repurchase of common shares	(160,214)	–
Net cash generated from (used in) financing activities	(214,706)	220,746
Increase (decrease) in cash and cash equivalents	(204,876)	157,903
Cash and cash equivalents, beginning of period	351,136	377,512
Cash and cash equivalents, end of period	$ 146,260	$ 535,415

[1] No significant presentation differences have been made to the statement of cash flows upon transition to IFRS. Refer to note 16 for effects of adopting IFRS.

See accompanying notes to condensed consolidated interim financial statements.

1. Reporting entity:

Genworth MI Canada Inc. (the "Company") was incorporated under the Canada Business Corporations Act on May 25, 2009 and is domiciled in Canada. Its shares are publicly traded on the Toronto Stock Exchange under the symbol ("MIC"). The Company's majority shareholder is Brookfield Life Assurance Company Limited ("Brookfield"). Brookfield's ultimate parent company is Genworth Financial Inc., a public company listed on the New York Stock Exchange. The Company's registered office is located at Suite 300, 2060 Winston Park Drive, Oakville, Ontario, L6H 5R7, Canada.

The indirect subsidiary of the Company, Genworth Financial Mortgage Insurance Company Canada (the "Insurance Subsidiary"), is engaged in mortgage insurance in Canada and is regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI"), as well as financial services regulators in each province.

2. Statement of compliance:

(a) Statement of compliance:

These condensed consolidated interim financial statements were prepared in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB").

These financial statements were prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting. Accordingly, the financial statements contain selected explanatory notes to the financial statements and do not include all the disclosures required by IFRSs. Full disclosures will be included in the Company's annual financial statements. The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies the Company expects to adopt in its first annual financial statements prepared in accordance with IFRSs. These accounting policies are based on the IFRSs that the Company expects to be applicable at the time. The policies set out below were consistently applied to all the periods presented.

2. Statement of compliance (continued):

The Company's condensed consolidated interim financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Canadian GAAP differs in some areas from IFRSs. In preparing these condensed consolidated interim financial statements, management has amended certain accounting and measurement methods previously applied in the Canadian GAAP financial statements to comply with IFRSs. The comparative figures for 2010 were restated to reflect these adjustments. Certain information and note disclosures which are considered material to the understanding of the Company's condensed consolidated interim financial statements and which are normally included in annual financial statements are provided in these interim financial statements along with reconciliations and descriptions of the effect of transition from Canadian GAAP to IFRSs on equity, income and comprehensive income. The effect of transition to IFRSs is disclosed in note 16.

These condensed consolidated interim financial statements were approved by the Board of Directors on July 27, 2011.

(b) Basis of measurement:

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

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

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

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

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

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

2. Statement of compliance (continued):

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimate uncertainties are expected to be the same as those to be applied in the first annual IFRS financial statements. See note 4 for a description of the significant judgements and estimates made by the Company.

(e) Seasonality:

The mortgage insurance business is seasonal in nature. While net premiums earned, investment income and 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 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. All revenue and expenses are recognized when they occur in accordance with the accounting policies set out below. No revenue or expenses are anticipated or deferred for interim reporting purposes if anticipation or deferral would not be appropriate at the end of the Company's financial year.

3. Significant accounting policies:

The Company's complete accounting policies have been disclosed in the financial statements for the interim period ended March 31, 2011.

4. Significant judgements and estimates:

(a) Judgements:

Significant judgements made in applying accounting policies are as follows:

Other-than temporary impairments on AFS financial assets:

As of each balance sheet date, the Company evaluates AFS financial assets in an unrealized loss position for other-than-temporary impairment.

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

For equity investments, the Company recognizes an impairment loss in the period in which it is determined that an investment has experienced significant and prolonged losses and is not expected to recover to its cost.

4. Significant judgements and estimates (continued):

(b) Estimates:

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

(i) Premiums earned:

Mortgage insurance premiums are deferred and then taken into underwriting revenues over the terms of the related policies. The rates or formulae under which premiums are earned relate to the loss emergence pattern in each year of coverage. In order to match premiums earned to losses on claims, premiums written are recognized as premiums earned using a factor-based premium recognition curve. In constructing the premium recognition curve, the Company applies actuarial forecasting techniques to historical loss data to determine expected loss development and the related loss emergence pattern. The actuarial forecasting techniques incorporate economic assumptions that impact future losses and loss development including unemployment rates, interest rates and expected changes in house prices. The premium recognition curve is updated on a quarterly basis to reflect the most current available historical loss data and economic assumptions. See note 5(b) for disclosure of the impact of the current and comparative periods' premium recognition curve updates.

(ii) Losses:

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

4. Significant judgements and estimates (continued):

For the purpose of quantifying case reserves, the Company analyzes each reported delinquent loan on a case-by-case basis and establishes a case reserve based on the expected loss, if any. The ultimate expected claim amount is influenced significantly by housing market conditions and changes in property values. Accordingly, case reserves include a provision for potential decline in property values.

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 using estimates of expected claim occurrence rates and average claim amounts based on the most current available historical loss data.

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

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

The process for the establishment of loss reserves relies on the judgment and opinions of a number of individuals, on historical precedent and trends, on prevailing legal and economic trends and on expectations as to future developments. This process involves risks that actual results will deviate, perhaps substantially, from the best estimates made. These risks vary in proportion to the length of the estimation period and the volatility of each component comprising the liability.

4. Significant judgements and estimates (continued):

(iii) Deferred policy acquisition costs:

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

(iv) Utilization of tax losses:

As at June 30, 2011, the Company has recognized $4,299 of tax losses (December 31, 2010 - $2,336). Management considers it probable that future taxable profits will be available against which these tax losses can be utilized.

(v) Share-based compensation:

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

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

4. Significant judgements and estimates (continued):

(vi) Employee future benefits:

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

5. Insurance contracts:

(a) Insurance risk:

The Company is exposed to insurance risk arising from underwriting of mortgage insurance contracts. Mortgage insurance contracts transfer risk to the Company by indemnifying lending institutions against credit losses arising from borrower mortgage default. These risks impact the amount, timing and certainty of cash flows arising from insurance contracts. The Company's insurance risk is comprised of pricing risk, underwriting risk, claims management risk, loss reserving risk, and portfolio concentration risk. Each of these risks are described separately below.

(i) Pricing risk:

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations.

(ii) Underwriting risk:

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

5. Insurance contracts (continued):

(iii) Claims management risk:

The Company's agreement with lenders requires a claim to be filed when the lender has suffered a loss under an insured mortgage policy. Claims management risk is the risk that loss mitigation efforts will be unsuccessful, resulting in larger than anticipated losses to the Company.

(iv) Loss reserving risk:

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

(v) Portfolio concentration risk:

A national or regional economic downturn may increase the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect home values, which increases the Company's losses. Portfolio concentration risk is the risk that losses increase disproportionately where portfolio diversification is inadequate.

There have been no significant changes in the risks to which the Company is exposed since issuance of the last audited financial statements for the year ended December 31, 2010.

5. Insurance contracts (continued):

(b) Insurance premiums and unearned premium reserves:

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

	Six months ended June 30,		Year ended December 31,
	2011	2010	2010
Unearned premium reserves, beginning of period	$ 1,902,164	$ 1,971,396	$ 1,971,396
Net premiums written during the period	249,997	251,667	551,602
Net premium earned during the period	(306,533)	(309,251)	(620,834)
Unearned premium reserves, end of period	$ 1,845,628	$ 1,913,812	$ 1,902,164

Gross premiums written of $255,780 for the six months ended June 30, 2011 (six months ended June 30, 2010 - $258,293) are recorded net of risk premiums related to the Government of Canada Agreement of $5,783 (June 30, 2010 - $6,627) in accordance with the requirement described in note 7.

The company performs actuarial studies of its multi-year loss experience on a quarterly basis, which have indicated an acceleration of premium recognition. The impact of the experience update for the three months ended and six months ended June 30, 2011 was an increase of earned premiums of $8,370 and $20,645 respectively.

The cumulative impact of the initial update of the premium recognition curve for the three months and six months ended June 30, 2010 was $10,856 and $23,675 respectively.

(c) Losses on claims and loss reserves:

The carrying value of loss reserves reflects the present value of expected claims costs and expenses and provisions for adverse deviation and is considered to be an indicator of fair value. There is no ready market for the trading of loss reserves and the value agreed between parties in an arm's length transaction may be materially different.

5. Insurance contracts (continued):

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

	Six months ended June 30,		Year ended December 31,
	2011	2010	2010
Loss reserves, beginning of period	$ 206,611	$ 236,181	$ 236,181
Net claims paid during the period	(141,840)	(116,130)	(233,210)
Net losses on claims incurred during the period, excluding discounting and change in PFAD	108,996	108,165	204,325
Discounting and change in PFAD during the period	(378)	(195)	(685)
Loss reserves, end of period	$ 173,389	$ 228,021	$ 206,611

Losses on claims incurred for the three months and six months ended June 30, 2011 and 2010 are summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Claims paid during the period	$ 76,503	$ 53,897	$ 141,840	$ 116,130
Change in case reserves and IBNR during the period	(26,739)	(4,262)	(32,882)	(7,142)
Discounting and change in PFAD during the period	–	(139)	(378)	(195)
Net losses on claims incurred during the period	$ 49,764	$ 49,496	$ 108,580	$ 108,793

5. Insurance contracts (continued):

(d) Deferred policy acquisition costs:

Changes in deferred policy acquisition costs recorded in the condensed consolidated statement of financial position for the six months ended June 30, 2011 and 2010 and their impact on gross expenses are as follows:

	Six months ended June 30,		Year ended December 31,
	2011	2010	2010
Deferred policy acquisition costs, beginning of period	$ 152,618	$ 146,840	$ 146,840
Policy acquisition costs deferred during the period	26,831	27,096	51,303
Amortization recognized during the period	(24,853)	(23,603)	(45,525)
Deferred policy acquisition costs, end of period	$ 154,596	$ 150,333	$ 152,618

The Company's quarterly actuarial studies of multi-year loss experience have resulted in acceleration of premium recognition. Amortization of deferred policy acquisition costs is accelerated in proportion to the additional premiums recognized. The experience update for the three months ended and six months ended June 30, 2011 resulted in additional amortization of deferred policy acquisition costs of $568 and $1,468 respectively. ($767 for the three months ended and $1,657 for the six months ended June 30, 2010).

6. Investments:

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

	June 30, 2011				December 31, 2010			
	Fair value	Amortized cost	Unrealized gain (loss)	% total fair value	Fair value	Amortized cost	Unrealized gain (loss)	% total fair value
Cash and cash equivalents:								
Government treasury bills	$ 132,790	$ 132,790	$ –	3.1	$ 339,093	$ 339,093	$ –	7.6
Cash	13,470	13,470	–	0.3	12,043	12,043	–	0.2
	146,260	146,260	–	3.4	351,136	351,136	–	7.8
FVTPL investments:								
Corporate bonds and debentures:								
Financial	–	–	–	–	38,290	50,000	(11,710)	0.9
AFS investments:								
Government bonds and debentures and short-term investments:								
Canadian federal	830,831	810,084	20,747	19.3	950,846	931,875	18,971	21.2
Canadian provincial	741,541	717,014	24,527	17.3	606,978	581,687	25,291	13.5
	1,572,372	1,527,098	45,274	36.6	1,557,824	1,513,562	44,262	34.7
Corporate bonds and debentures and short-term investments:								
Financial	1,221,177	1,155,403	65,774	28.5	1,231,336	1,170,706	60,630	27.5
Energy	318,096	305,508	12,588	7.4	301,623	288,719	12,904	6.7
Infrastructure	245,506	232,840	12,666	5.7	252,292	239,966	12,326	5.6
All other sectors	372,905	360,872	12,033	8.7	309,415	299,527	9,888	6.9
	2,157,684	2,054,623	103,061	50.3	2,094,666	1,998,918	95,748	46.7
Asset backed bonds and debentures and short-term investments	205,571	197,719	7,852	4.8	252,434	245,187	7,247	5.6
Total AFS bonds and debentures	3,935,627	3,779,440	156,187	91.7	3,904,924	3,757,667	147,257	87.0
Preferred shares:								
Financial	58,291	58,577	(286)	1.4	67,009	66,717	292	1.5
Industrial	1,399	1,407	(8)	–	1,412	1,406	6	–
Energy	9,702	9,699	3	0.2	8,718	8,630	88	0.2
	69,392	69,683	(291)	1.6	77,139	76,753	386	1.7
Common shares:								
Energy	49,662	45,501	4,161	1.1	45,222	42,601	2,621	1.0
Financial	24,784	22,683	2,101	0.6	18,840	18,185	655	0.4
Communications	28,452	26,667	1,785	0.7	22,074	22,468	(394)	0.5
All other sectors	37,230	35,144	2,086	0.9	31,911	31,464	447	0.7
	140,128	129,995	10,133	3.3	118,047	114,718	3,329	2.6
Total AFS equities	209,520	199,678	9,842	4.9	195,186	191,471	3,715	4.3
Total investments	$ 4,291,407	$ 4,125,378	$ 166,029	100.0	$ 4,489,536	$ 4,350,274	$ 139,262	100.0

6. Investments (continued):

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

	June 30, 2011		December 31, 2010	
Terms to maturity	Fair value	Yield %	Fair value	Yield %
Bonds and debentures and short-term investments issued or guaranteed by the Canadian federal government:				
1 year or less	$ 31,388	4.1	$ 208,244	4.6
1 - 3 years	426,160	4.2	236,155	4.8
3 - 5 years	580,479	2.8	740,893	3.1
5 - 10 years	456,214	4.6	267,808	4.9
Over 10 years	78,131	3.4	104,724	4.6
	1,572,372	3.8	1,557,824	4.0
Corporate bonds and debentures and short-term investments:				
1 year or less	179,468	5.6	266,288	5.2
1 - 3 years	613,561	5.1	573,712	5.0
3 - 5 years	588,810	4.6	558,120	4.8
5 - 10 years	515,026	5.0	521,871	5.1
Over 10 years	466,390	5.5	465,399	5.5
	2,363,255	5.1	2,385,390	5.1
	$ 3,935,627	4.5	$ 3,943,214	4.6

Securities lending:

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

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

6. Investments (continued):

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

As at June 30, 2011, the Company had loaned AFS bonds and debentures with a fair value of approximately of $336,494 (December 31, 2010 - $268,442; January 1, 2010 - $323,300) and has accepted eligible securities as collateral with a fair value of approximately $356,976 (December 31, 2010 - $283,424; January 1, 2010 - $341,756).

7. Government guarantee fund and Government of Canada Guarantee Agreement:

The government guarantee fund reflects the Company's proportionate interest in the assets held in the government guarantee fund established under the Government of Canada Guarantee Agreement ("the Agreement"), including accrued income and net of applicable exit fees. The fair value of the government guarantee fund as at June 30, 2011 is $ 674,869 (December 31, 2010 - $645,733; January 1, 2010 - $576,417).

The Company records the results of income from the fund of $6,499 (June 30, 2010 - $5,984) less exit fees of $6,271 (June 30, 2010 - $5,906) for a net amount of $228 (June 30, 2010 - $78) in equity in earnings of government guarantee fund for the three months ended June 30.

The Company records the results of income from the fund of $12,987 (June 30, 2010 -$13,831) less exit fees of $11,463 (June 30, 2010 - $10,853) for a net amount of $1,524 (June 30, 2010 - $2,978) in equity in earnings of government guarantee fund for the six months ended June 30.

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

	June 30, 2011	December 31, 2010
Invested assets at fair value (a)	$ 829,358	$ 789,869
Accrued contribution and accrued income (b)	19,974	18,201
Accrued exit fee and MICC liability (c)	(174,463)	(162,337)
	$ 674,869	$ 645,733

7. Government guarantee fund and Government of Canada Guarantee Agreement (continued):

(a) Investments held under the Government Guarantee Agreement including government bonds and bonds unconditionally guaranteed by the Government of Canada, short-term investments and cash; plus

(b) The Company's accrued contributions of 10.5% of premiums written on insured mortgages for the six months ended June 30, 2011 and accrued interest on invested assets; less

(c) The cumulative exit fee applicable to the fair value of the Company's proportionate interest in investments held under the Agreement and accrued contributions, and the Company's liability for the net proportionate interest in the government guarantee fund of its predecessor, the Mortgage Insurance Company of Canada ("MICC").

Risk premium:

The Agreement provides that the Company is obligated to pay a risk premium to the Government of Canada equal to a specified percentage of the estimated net exposure of the Canadian Government under the Guarantee. The Company calculates risk premium in accordance with the formula prescribed in the Agreement and accrues the balance in the condensed consolidated statement of financial position. The risk premium recorded in the consolidated interim income statement for the three months and six months ended June 30, 2011 are $2,856 and $5,783 respectively (June 30, 2010 - $3,164 and $6,627 respectively). The risk premium payable recorded in the consolidated statement of financial position at June 30, 2011 is $2,856 (December 31, 2010 - $3,192).

On June 26, 2011, the Canadian Parliament passed an Act to implement certain provisions of the 2011 federal budget. The Act prescribes that the Government guarantee agreement will be terminated and assets held in trust under the Government guarantee will be returned to the Company. Contributions of assets to the Government guarantee fund and the income on such assets have resulted in a tax deferral to the Company. Upon the eventual withdrawal of assets from the Government guarantee fund, the value of the assets withdrawn will increase taxable income. The date of implementation of the Act has not been specified at this time, pending issuance of regulations referenced in the Act.

8. Income taxes:

The provision for income taxes is comprised of the following:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Current tax:				
Current income taxes	$ 28,567	$ 30,122	$ 56,484	$ 62,827
Deferred tax:				
Origination and reversal of temporary differences	4,482	5,713	7,618	8,363
Change in income tax rates	–	–	–	–
	4,482	5,713	7,618	8,363
Total income tax expense	$ 33,049	$ 35,835	$ 64,102	$ 71,190

Income taxes charged (credited) to OCI are comprised of the following:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Tax related to the general investment portfolio	$ 10,878	$ 8,027	$ 4,739	$ 8,900
Tax related to the government guarantee fund	1,400	2,203	(193)	1,242
Total income taxes charged to OCI	$ 12,278	$ 10,230	$ 4,546	$ 10,142
The impact of tax on OCI is as follows:				
Other comprehensive loss for the period	$ 44,273	$ 35,231	$ 16,080	$ 34,446
Tax charge	12,278	10,230	4,546	10,142
Net OCI	$ 31,995	$ 25,001	$ 11,534	$ 24,304

8. Income taxes (continued):

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Income before income taxes	$ 115,888	$ 120,874	$ 227,172	$ 240,549
Combined basic Canadian federal and provincial income tax rate	28%	30%	28%	30%
Income tax expense based on statutory tax rate	$ 32,449	$ 36,262	$ 63,608	$ 72,165
Increase (decrease) in income tax resulting from:				
Non-deductible expenses	(314)	(206)	(251)	417
Effect of increase (decrease) in tax rates on deferred income taxes[(1)]	914	(221)	745	(1,392)
Income tax expense	$ 33,049	$ 35,835	$ 64,102	$ 71,190

[(1)] The passage of legislation by Canadian Parliament on June 26, 2011 will result in the termination of the Government of Canada Guarantee Agreement and the return of the Government Guarantee fund to the Company, as described in note 7. Consequently, the deferred tax liability related to the Government Guarantee Fund is expected to reverse into current income taxes earlier than previously estimated. As a result, the deferred tax liability related to the Government Guarantee Fund increased by $1,614 to reflect the tax rates expected to apply when the Guarantee fund is returned, and income tax expense in the three months and six months ended June 30, 2011 increased by $1,547.

The change in income tax rate from 30% in the three months and six months period ended June 30, 2010 to 28% in the three months and six months ended June 30, 2011 resulted from a legislated decrease in the Canadian federal income tax rate and legislated decreases in income tax rates of certain provinces.

8. Income taxes (continued):

Net deferred tax liabilities are comprised of the following:

	June 30, 2011	December 31, 2010
Deferred tax assets:		
Employee benefits	$ 5,001	$ 3,485
Loss reserves	2,232	2,671
Tax losses available for carryforward	4,299	2,336
Financing costs	724	893
	12,256	9,385
Deferred tax liabilities:		
Investments including unrealized gains on government guarantee fund AFS investments	(11,554)	(13,052)
Government guarantee fund reserve	(168,239)	(159,481)
Policy reserves	(51,455)	(49,547)
Property and equipment and intangible assets	(3,714)	(2,586)
	(234,962)	(224,666)
Net deferred tax liabilities	$ (222,706)	$ (215,281)

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

	June 30, 2011	June 30, 2010	December 31, 2010
Balance, beginning of period	$ 215,281	$ 203,204	$ 203,204
Expense for the period	7,618	8,363	12,273
Other comprehensive income for the period	(193)	1,242	(196)
Balance, end of period	$ 222,706	$ 212,809	$ 215,281

8. Income taxes (continued):

The consolidated income statement expense (recovery) for each deferred tax component is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Employee benefits including post-employment benefits and share-based compensation	$ (1,377)	$ (1,140)	$ (1,516)	$ (893)
Loss reserves	345	267	439	106
Tax losses available for carryforward	(2,347)	–	(4,299)	–
Tax losses used in the current year	–	–	2,200	–
Financing costs	195	–	169	–
Investments including unrealized gains on government guarantee fund AFS investments	(517)	327	(1,169)	(207)
Government guarantee fund	5,758	4,568	8,758	7,962
Policy reserves	1,775	1,346	1,908	1,109
Property and equipment and intangible assets	650	345	1,128	286
Total deferred tax expense	$ 4,482	$ 5,713	$ 7,618	$ 8,363

Management reviews the valuation of deferred income tax assets on an ongoing basis to determine if a valuation allowance is necessary. The Company expects to fully utilize the benefits available from existing deferred income tax assets. No valuation allowance is required for the interim period ended June 30, 2011 (December 31, 2010 - nil).

9. Related party balances and transactions:

Following the closing of the Company's IPO on July 7, 2009, the Company and its Insurance Subsidiary entered into a Transition Services Agreement ("TSA") with Genworth Financial Inc., the Company's ultimate majority shareholder. The agreement prescribes that these companies will provide certain services to one another, with most services being terminated within twelve months if Genworth Financial Inc. ceases to beneficially own more than 50% of the common shares of the Company. The services rendered by Genworth Financial Inc. and affiliated companies consist of information technology, finance, human resources, legal and compliance, 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 transaction value. Balances owing for service transactions are non-interest bearing and are settled on a quarterly basis. The Company incurred net related party charges of $1,361 and $2,877 for the three months ended and six months ended June 30, 2011 respectively (June 30, 2010 - $1,669 and $3,233 respectively). The balance owed for related party services at June 30, 2011 is $1,174 (December 31, 2010 - $260) and is reported in due to parent and companies under common control in the condensed consolidated statement of financial position.

10. Accrued net benefit liabilities under employee benefit plans:

(a) Defined contribution pension plan benefits:

The Company's eligible employees participate in a registered defined contribution pension plan. The plan provides pension benefits to employees of the Company with two years of service with the exception of Quebec employees, who are entitled to pension benefits after one year of service. The Company is responsible for contributing a predetermined amount to a participant's retirement savings, based on a percentage of that employee's salary.

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

10. Accrued net benefit liabilities under employee benefit plans (continued):

(b) Defined benefit pension and other employee post employment benefit plans:

The Company maintains two types of defined benefit liabilities: defined benefit pension liabilities for a Supplemental Retirement Plan ("SERP") and other non-pension post-employment benefits.

The SERP is a supplemental plan that provides pension benefits in excess of the amounts payable under the Company's registered defined contribution plan. The other non-pension post-employment benefits provide medical and life insurance coverage upon retirement.

The benefit liabilities represent the amount of pension and other employee post employment benefits that employees and retirees have earned as at period end. The Company's actuaries perform valuations of the benefit liabilities for pension and other employee post employment benefits as at December 31 of each year. The most recent actuarial valuation was performed as at December 31, 2010. This valuation was based on pension and other employee post employment benefit membership data updated to January 1, 2009. The next membership data update will occur as at January 1, 2012.

The SERP and other post-employment benefit plan are unfunded. Pension and benefit payments related to these plans are paid directly by the Company. The benefit liabilities in respect of the plans are recorded in the Company's condensed consolidated statements of financial position as follows:

	SERP		Other post-employment benefits	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Accrued benefit liability	$ 6,790	$ 6,422	$ 6,441	$ 5,946

10. Accrued net benefit liabilities under employee benefit plans (continued):

Pension and other post-employment future benefits are recognized in the condensed consolidated interim income statement and are determined as follows:

	SERP		Other post-employment benefits	
	Six months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Defined benefit expense:				
Benefits earned by employees	$ 197	$ 202	$ 307	$ 220
Interest cost on accrued benefit liability	195	206	188	154
Defined benefit expense for the period	$ 392	$ 408	$ 495	$ 374
Defined contribution expense for the period	$ 1,480	$ 1,315	$ –	$ –
Total pension and other employee future benefit expenses recognized in the consolidated interim income statement for the period	$ 1,872	$ 1,723	$ 495	$ 374

Actuarial valuations of post-employment benefit plans are performed on an annual basis. Therefore, actuarial gains or losses are not recognized during interim periods. At December 31, 2010, the actuarial loss recognized in OCI for the SERP was $390 and the actuarial loss recognized in OCI for other post-employment benefits was $1,220.

10. Accrued net benefit liabilities under employee benefit plans (continued):

Changes in the estimated financial positions of the pension benefit plans and other employee future benefit plans are as follows:

	SERP		Other post-employment benefits	
	Six months ended June 30, 2011	Year ended December 31, 2010	Six months ended June 30, 2011	Year ended December 31, 2010
Defined benefit liability, beginning of period	$ 6,422	$ 5,495	$ 5,946	$ 3,978
Benefits earned by employees during the period	197	402	307	440
Interest on accrued liability incurred during the period	195	412	188	308
Benefits paid to pensioners and employees during the period	(24)	(277)	–	–
Actuarial losses incurred	–	390	–	1,220
Defined benefit liability, end of period	$ 6,790	$ 6,422	$ 66,441	$ 5,946

11. Share-based compensation:

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

Options are granted to employees with an exercise price equal to the Company share price at the date of grant. The Options vest over a period of three years (50% on each of the second and third anniversaries of the grant date or equally over three years). Options expire ten years from the date of grant and provide employees with the choice of settlement in either cash or shares of the Company. The range of exercise prices for the six months ended June 30, 2011 is $19.00 to $27.12 (June 30, 2010 - $19.00 to $27.12).

11. Share-based compensation (continued):

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

PSUs are RSUs with performance conditions attached. The performance conditions are based on the Company's earnings per share, net income, contribution margin, underwriting income and investment income. A multiplier of up to 150% may be applied to the number of shares awarded upon PSU vesting if performance conditions are exceeded by a specified amount.

DSUs entitle eligible members of the Company's Board of Directors to receive an amount equal to the fair value of the Company's shares as compensation for director services rendered for the period. The DSUs vest immediately on the date of grant and must be redeemed no later than December 15 of the calendar year commencing immediately after the Director's termination date. The DSUs provide directors with the choice of settlement in either cash or shares of the Company. The Board of Directors may elect to pay dividend equivalents on DSUs.

11. Share-based compensation (continued):

The Company has reserved 3,000,000 common shares of its issued and outstanding shares for issuance under these long-term incentive plans.

The following tables summarize information about these share-based compensation plans:

2011	Number of Options	Weighted average exercise price	Weighted average fair value at June 30, 2011	Number of RSUs	Weighted average fair value at June 30, 2011	Number of DSUs	Weighted average fair value at June 30, 2011	Number of PSUs	Weighted average fair value at June 30, 2011
Outstanding, January 1, 2011	984,200	$ 20.70	$ 3,217	123,780	$ 3,143	9,831	$ 250	18,496	$ 470
Granted	194,500	26.80	190	35,900	912	3,536	90	18,000	457
Dividends equivalents granted	–	–	–	2,637	67	210	5	543	14
Exercised	–	–	–	(14,218)[(1)]	(361)	–	–	–	–
Forfeited	–	–	–	(2,542)	(65)	–	–	–	–
Outstanding, June 30, 2011	1,178,700	$ 21.71	$ 3,407	145,557	$ 3,696	13,577	$ 345	37,039	$ 941
Exercisable, June 30, 2011	63,897	$ 26.97	$ 61	141	$ 4	13,577	$ 345	–	$ –
Weighted average remaining contractual life (years)	8.4	–	–	1.6	–	–	–	2.1	–

[(1)] On February 18, 2011, a total of 14,218 RSUs were exercised, of which 7,931 were settled in cash and 6,287 were settled in shares of the Company.

11. Share-based compensation (continued):

2010	Number of Options	Weighted average exercise price	Weighted average fair value at June 30, 2010	Number of RSUs	Weighted average fair value at June 30, 2010	Number of DSUs	Weighted average fair value at June 30, 2010	Number of PSUs	Weighted average fair value at June 30, 2010
Outstanding, January 1, 2010	810,000	$ 19.16	$ 3,452	84,406	$ 1,960	3,257	$ 75	–	$ –
Granted	181,700	27.12	323	42,450	986	3,271	76	18,000	418
Dividends equivalents granted	–	–		1,787	41	70	2	160	4
Exercised	–	–		–	–	–	–	–	–
Expired	–	–		–	–	–	–	–	–
Forfeited	2,500	19.00	11	2,627	61	–	–	–	–
Outstanding, June 30, 2010	989,200	$ 20.62	$ 3,764	126,016	$ 2,926	6,598	$ 153	18,160	$ 422
Exercisable, end of period	–	$ –	$ –	–	$ –	6,598	$ 153	–	$ –
Weighted average remaining contractual life (years)	9.1	–	–	2.2	–	–	–	2.6	–

11. Share-based compensation (continued):

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

No Options have been exercised during the six months ended June 30, 2011 and June 30, 2010.

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

	June 30 2011	June 30 2010
Share price at reporting date	$ 25.39	$ 23.22
Exercise price	$ 21.71	$ 20.62
Expected volatility	11.59%	18.09%
Option life (years)	6.0	6.0
Expected dividend yield	4.10%	3.83%
Risk-free interest rate	1.97%	2.71%

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Expense arising from:				
Options	$ (166)	$ (226)	$ (525)	$ 235
RSUs	264	167	528	437
DSUs	85	3	115	47
PSUs	66	8	56	25
Total recognized as share-based compensation expense	$ 249	$ (48)	$ 174	$ 744

	June 30, 2011	December 31, 2010
Total carrying amount of liabilities for cash-settled arrangements	$ 4,993	$ 5,412
Total intrinsic value of liability for vested benefits	$ 349	$ 282

12. Earnings per share:

Basic and diluted earnings per share have been calculated using the weighted average and diluted weighted average number of shares outstanding during the six months ended June 30, 2011 of 104,760,015 (2010 - 117,100,000) and 105,126,736 (2010 - 118,158,448), respectively. The difference between basic and diluted earnings per share is caused by the grant of employee stock options, RSUs and DSUs.

The effect is computed below:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Basic earnings per share:				
Net income for the period	$ 82,839	$ 85,039	$ 163,070	$ 169,359
Weighted average common shares outstanding, beginning of period	104,795,681	117,100,000	104,789,394	117,100,000
Effect of share-based compensation exercised during the period	–	–	4,620	–
Effect of repurchase of common shares during the period	(67,625)	–	(33,999)	–
Weighted average common shares outstanding, for the period	104,728,056	117,100,000	104,760,015	117,100,000
Basic net earnings per common share for the period	$ 0.79	$ 0.73	$ 1.56	$ 1.45
Diluted earnings per share:				
Basic weighted average common shares outstanding during the period	104,728,056	117,100,000	104,760,015	117,100,000
Effect of share-based compensation	367,853	1,119,662	366,721	1,058,448
Diluted weighted average common shares outstanding, for the period	105,095,909	118,219,662	105,126,736	118,158,448
Diluted net earnings per common share for the period	$ 0.79	$ 0.72	$ 1.55	$ 1.43

13. Long term debt:

On June 29, 2010, the Company completed an offering of $275,000 principal amount of senior unsecured debentures ("Series 1"). The Series 1 debentures were issued for gross proceeds of $274,862 or a price of $99.95, before approximate issuance costs of $2,413. The issuance costs of $2,413 and the discount of $138 are amortized over the term of the debentures using the effective interest method.

On December 16, 2010, the Company completed an additional offering of $150,000 principal amount of senior unsecured debentures ("Series 2"). The Series 2 debentures were issued at par, before approximate issuance costs of $986. The issuance costs of $986 are amortized over the term of the debentures using the effective interest method.

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

	Series 1	Series 2
Date issued	June 29, 2010	December 16, 2010
Maturity date	June 15, 2020	December 15, 2015
Principal amount outstanding	$275,000	$150,000
Fixed annual rate	5.68%	4.59%
Semi-annual interest payment due each year on:	June 15 December 15	June 15 December 15

The Company's long-term debt balances are as follows:

	June 30, 2011		
	Series 1	Series 2	Total
Carrying value (unamortized cost)	$ 272,644	$ 149,110	$ 421,754
Fair value	283,049	153,639	436,688

	December 31, 2010		
	Series 1	Series 2	Total
Carrying value (unamortized cost)	$ 272,545	$ 149,021	$ 421,566
Fair value	278,451	150,806	429,257

The Company incurred interest expense of $11,347 for the six months ended June 30, 2011 (June 30, 2010 - $43), with an accrued interest payable of $922 at June 30, 2011 (December 31, 2010 - $987).

14. Share Capital

On May 9, 2011, the Company made an offer ("the Offer") to repurchase up to $160 million of its common shares validly tendered to the Offer. On June 30, 2011, in accordance with the terms of the Offer, the Company repurchased 6,153,846 common shares at a price of $26.00 per common share, representing 5.87% of the public float, for an aggregate of approximately $160 million in cash. Genworth Financial Inc., through its wholly owned subsidiary Brookfield participated in the Offer by making a proportional tender and continues to hold approximately 57.5% of the Company.

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

Following the completion of the repurchase transaction, the share capital of the Company was as follows:

	June 30, 2011	December 31, 2010
Authorized:		
Unlimited common shares		
1 special share		
Issued and outstanding:		
98,641,835 common shares (December 31, 2010 - 104,789,394)	$ 1,462,398	$ 1,553,463
1 special share (December 31, 2010 - 1)	–	–
	$ 1,462,398	$ 1,553,463

15. Current assets and liabilities:

The following table presents assets and liabilities the Company expects to recover to settle in 12 months or less at June 30, 2011, December 31, 2010 and January 1, 2010:

	June 30, 2011	December 31, 2010	January 1, 2010
Assets:			
Cash and cash equivalents	$ 146,260	$ 351,136	$ 377,512
Short-term investments	–	6,988	253,527
Accrued investment income and other receivables	88,470	32,270	28,869
Bonds and debentures: AFS	210,856	467,544	291,569
Income taxes recoverable	11,543	7,505	–
Subrogation recoverable	41,615	40,393	13,646
Prepaid assets	2,582	2,019	3,017
Total assets	501,326	907,855	968,140
Liabilities:			
Accounts payable and accrued liabilities	59,781	45,872	27,811
Due to parent and companies under common control	1,174	260	775
Income taxes payable	–	–	116,230
Total liabilities	60,955	46,132	144,816
Net current assets	$ 440,371	$ 861,723	$ 823,324

16. Transition to IFRSs:

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

The Company's condensed consolidated financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRSs.

(a) Elected exemptions from full retrospective application:

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

(b) Mandatory exception to retrospective application:

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

(c) Recognition and measurement of insurance contracts:

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

16. Transition to IFRSs (continued):

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

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

16. Transition to IFRSs (continued):

Reconciliation of consolidated statement of financial position:

		As at January 1, 2010			As at June 30, 2010			As at December 31, 2010		
	Note	Canadian GAAP	Effect of transition to IFRSs	IFRSs	Canadian GAAP	Effect of transition to IFRSs	IFRSs	Canadian GAAP	Effect of transition to IFRSs	IFRSs
Assets:										
Cash and cash equivalents		$ 377,512	$ –	$ 377,512	$ 535,415	$ –	$ 535,145	$ 351,136	$ –	$ 351,136
Short-term investments		253,527	–	253,527	–	–	–	6,988	–	6,988
Accrued investment income and other receivables		28,869	–	28,869	45,206	–	45,206	32,270	–	32,270
Bonds and debentures: FVTPL		34,485	–	34,485	35,616	–	35,616	38,290	–	38,290
Bonds and debentures: AFS		3,420,567	–	3,420,567	3,767,144	–	3,767,144	3,629,494	–	3,629,494
Bonds and debentures under securities lending program: AFS		323,300	–	323,300	221,735	–	221,735	268,442	–	268,442
Equity investments		423	–	423	58,960	–	58,960	195,186	–	195,186
Income taxes recoverable		–	–	–	16,501	–	16,501	7,505	–	7,505
Subrogation recoverable		13,646	–	13,646	24,669	–	24,669	40,393	–	40,393
Government guarantee fund		576,417	–	576,417	614,504	–	614,504	645,733	–	645,733
Prepaid assets		3,017	–	3,017	2,692	–	2,692	2,019	–	2,019
Property and equipment		3,844	–	3,844	3,520	–	3,520	2,836	–	2,836
Intangible assets		16,307	–	16,307	16,076	–	16,076	14,119	–	14,119
Deferred policy acquisition costs		146,840	–	146,840	150,333	–	150,333	152,618	–	152,618
Goodwill		11,172	–	11,172	11,172	–	11,172	11,172	–	11,172
		$ 5,209,926	$ –	$ 5,209,926	$ 5,503,543	$ –	$ 5,503,543	$ 5,398,201	$ –	$ 5,398,201

16. Transition to IFRSs (continued):

		As at January 1, 2010			As at June 30, 2010			As at December 31, 2010		
	Note	Canadian GAAP	Effect of transition to IFRSs	IFRSs	Canadian GAAP	Effect of transition to IFRSs	IFRSs	Canadian GAAP	Effect of transition to IFRSs	IFRSs
Liabilities:										
Accounts payable and accrued liabilities		$ 27,811	$ –	$ 27,811	$ 78,806	$ –	$ 78,806	$ 45,872	$ –	$ 45,872
Due to parent and companies under common control		775	–	775	–	–	–	260	–	260
Income taxes payable		116,230	–	116,230	–	–	–	–	–	–
Loss reserves		236,181	–	236,181	228,021	–	228,021	206,611	–	206,611
Share-based compensation liabilities		1,798	(130)	1,668	2,295	117	2,412	6,240	(828)	5,412
Long-term debt		–	–	–	272,270	–	272,270	421,566	–	421,566
Unearned premium reserves		1,971,396	–	1,971,396	1,913,812	–	1,913,812	1,902,164	–	1,902,164
Accrued net liabilities under employee benefit plans	a,b	9,290	183	9,473	10,033	53	10,086	10,835	1,533	12,368
Net deferred tax liabilities	e	203,218	(14)	203,204	212,858	(49)	212,809	215,428	(147)	215,281
		2,566,699	39	2,566,738	2,718,095	121	2,718,216	2,808,976	558	2,809,534
Shareholders' equity:										
Share capital	e	1,734,376	–	1,734,376	1,734,376	–	1,734,376	1,552,043	1,420	1,553,463
Retained earnings	f	811,927	(39)	811,888	929,844	(121)	929,723	912,813	(1,978)	910,835
Current period changes		–	–	–	–	(82)	–	–	(1,939)	–
Prior period restatements		–	(39)	–	–	(39)	–	–	(39)	–
Accumulated other comprehensive income		96,924	–	96,924	121,228	–	121,228	124,369	–	124,369
		2,643,227	(39)	2,643,188	2,785,448	(121)	2,785,327	2,589,225	(558)	2,588,667
		$ 5,209,926	$ –	$ 5,209,926	$ 5,503,543	$ –	$ 5,503,543	$ 5,398,201	$ –	$ 5,398,201

16. Transition to IFRSs (continued):

		Three months ended June 30, 2010			Six months ended June 30, 2010			Year ended December 31, 2010		
	Note	Canadian GAAP	Effect of transition to IFRSs	IFRSs	Canadian GAAP	Effect of transition to IFRSs	IFRSs	Canadian GAAP	Effect of transition to IFRSs	IFRSs
Net premiums earned		$ 153,516	$ –	$ 153,516	$ 309,251	$ –	$ 309,251	$ 620,834	$ –	$ 620,834
Fees and other income		49	–	49	68	–	68	95	–	95
Underwriting revenue		153,565	–	153,565	309,319	–	309,319	620,929	–	620,929
Losses on claims		49,496	–	49,496	108,793	–	108,793	206,410	–	206,410
Expenses:										
Premium taxes and underwriting fees		10,972	–	10,972	18,170	–	18,170	37,149	–	37,149
Employee compensation	a,b,c	7,886	447	8,333	17,384	117	17,501	37,151	(958)	36,193
Office expenses		5,316	–	5,316	10,212	–	10,212	20,554	–	20,554
Professional fees		1,979	–	1,979	3,294	–	3,294	7,252	–	7,252
Promotional expenses and travel		1,646	–	1,646	2,864	–	2,864	5,428	–	5,428
Other		249	–	249	969	–	969	2,067	–	2,067
		28,048	447	28,495	52,893	117	53,010	109,601	(958)	108,643
Change in deferred policy acquisition costs		(4,568)	–	(4,568)	(3,493)	–	(3,493)	(5,778)	–	(5,778)
		23,480	447	23,927	49,400	117	49,517	103,823	(958)	102,865
Net underwriting income		80,589	(447)	80,142	151,126	(117)	151,009	310,696	958	311,654
Investment income		40,775	–	40,775	89,583	–	89,583	183,119	–	183,119
Interest expense		43	–	43	43	–	43	(8,322)	–	(8,322)
Income before income taxes		121,321	(447)	120,874	240,666	(117)	240,549	485,493	958	486,451
Income taxes	d,e	35,972	(137)	35,835	71,225	(35)	71,190	136,767	1,702	138,469
Net income for the period		$ 85,349	$ (310)	$ 85,039	$ 169,441	$ (82)	$ 169,359	$ 348,726	$ (744)	$ 347,982

16. Transition to IFRSs (continued):

Reconciliation of consolidated net income and comprehensive income:

		Three months ended June 30, 2010			Six months ended June 30, 2010			Year ended December 31, 2010		
	Note	Canadian GAAP	Effect of transition to IFRSs	IFRSs	Canadian GAAP	Effect of transition to IFRSs	IFRSs	Canadian GAAP	Effect of transition to IFRSs	IFRSs
Other comprehensive income:										
Net change in fair value of AFS financial assets		$ 24,166	$ –	$ 24,166	$ 25,044	$ –	$ 25,044	$ 37,916	$ –	$ 37,916
Gains (losses) on AFS financial assets realized		835	–	835	(740)	–	(740)	(10,471)	–	(10,471)
Defined benefit plan actuarial losses		–	–	–	–	–	–	–	(1,195)	(1,195)
Total other comprehensive income for the period		25,001	–	25,001	24,304	–	24,304	27,445	(1,195)	26,250
Total comprehensive income for the period		$ 110,350	$ (310)	$ 110,040	$ 193,745	$ (82)	$ 193,663	$ 376,171	$ (1,939)	$ 374,232
Earnings per share:										
Basic		$ 0.73	$ –	$ 0.73	$ 1.45	$ –	$ 1.45	$ 3.09	$ (0.01)	$ 3.08
Diluted		0.72	–	0.72	1.43	–	1.43	3.06	(0.01)	3.05

16. Transition to IFRSs (continued):

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

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

(f) Notes to the reconciliations:

(a) Prior service costs relating to pension benefits:

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

The impact arising from the change is summarized as follows:

	As at January 1, 2010	Three months ended June 30, 2010	Six months ended June 30, 2010	Year ended December 31, 2010
Consolidated income statement:				
Employee compensation	$ –	$ 61	$ 122	$ 245
Adjustment before income taxes	–	61	122	245
Consolidated statement of financial position:				
Accrued net benefit liabilities under employee benefit plans	(2,502)	(2,380)	(2,380)	(2,257)
Relaxed tax effect	651	619	619	588
Adjustment to retained earnings	$ (1,851)	$ (1,761)	$ (1,761)	$ (1,669)

16. Transition to IFRSs (continued):

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

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

The impact arising from the change is summarized as follows:

	As at January 1, 2010	Three months ended June 30, 2010	Six months ended June 30, 2010	Year ended December 31, 2010
Consolidated income statement:				
Employee compensation	$ –	$ 4	$ 8	$ 15
Adjustment before income taxes	–	4	8	15
Consolidated statement of financial position:				
Accrued net benefit liabilities under employee benefit plans	2,319	2,327	2,327	724
Relaxed tax effect	(603)	(605)	(605)	(192)[(1)]
Adjustment to retained earnings	$ 1,716	$ 1,722	$ 1,722	$ 532

[(1)] Total impact to retained earnings reflects $2,319 opening adjustment to retained earnings at January 1, 2010 (net of tax of $603), $15 adjustment to income for the year ended December 31, 2010 (net of tax of $4) and ($1,610) adjustment to OCI at December 31, 2010 (net of tax of ($415)).

16. Transition to IFRSs (continued):

(c) Share-based compensation:

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

The impact arising from the change is summarized as follows:

	As at January 1, 2010	Three months ended June 30, 2010	Six months ended June 30, 2010	Year ended December 31, 2010
Consolidated income statement:				
Employee compensation	$ –	$ (512)	$ (247)	$ 698
Adjustment before income taxes	–	(512)	(247)	698
Consolidated statement of financial position:				
Accrued net benefit liabilities under employee benefit plans	130	(117)	(117)	828
Relaxed tax effect	(34)	35	35	(249)
Adjustment to retained earnings	$ 96	$ (82)	$ (82)	$ 579

(d) Income taxes:

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

16. Transition to IFRSs (continued):

The impact arising from the change is summarized as follows:

	As at January 1, 2010	Three months ended June 30, 2010	Six months ended June 30, 2010	Year ended December 31, 2010
Consolidated income statement:				
Deferred tax expense	$ –	$ –	$ –	$ 1,420
Consolidated statement of financial position:				
Share capital	–	–	–	(1,420)
Adjustment to retained earnings	$ –	$ –	$ –	$ (1,420)

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

	Note	Three months ended June 30, 2010	Six months ended June 30, 2010	Year ended December 31, 2010
Consolidated income statement:				
Impact from pension and other post-employment benefits	a,b	$ (17)	$ (34)	$ (67)
Impact from share-based compensation	c	154	69	(215)
Impact from adjustments of prior period financing costs	d	–	–	(1,420)
Adjustment to taxes		$ 137	$ 35	$ (1,702)

16. Transition to IFRSs (continued):

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

	Note	As at January 1, 2010	Three months ended June 30, 2010	Six months ended June 30, 2010	Year ended December 31, 2010
Pension and other post-employment benefits	a,b	$ (183)	$ (53)	$ (53)	$ (1,533)
Share-based compensation	c	130	(117)	(117)	828
Taxes	a,b,c,d	14	49	49	(1,273)[(1)]
Adjustment to retained earnings		$ (39)	$ (121)	$ (121)	$ (1,978)

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

17. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.