Genworth MI Canada Inc.

Management's Discussion and Analysis

For the second quarter ended June 30, 2011

July 28, 2011

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

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

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations as approved by the Company's Board of Directors (the "Board") is prepared for the three-months and six-months ended June 30, 2011 and 2010.

Effective January 1, 2010, the Company has adopted International Financial Reporting Standards ("IFRSs"). The unaudited condensed consolidated financial statements of the Company were prepared in accordance with IAS 34-Interim Financial Reporting. This MD&A should be read in conjunction with these financial statements.

Interpretation

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

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

Forward-looking statements

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

Non-IFRSs financial measures

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

Overall performance

Business background

Genworth Canada is the leading private-sector residential mortgage insurer in Canada and has been providing mortgage insurance in Canada since 1995. The Company has built a broad underwriting and distribution platform across the country that provides customer-focused products and support services to the vast majority of Canada's residential mortgage lenders and originators. 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 main competitor.

Seasonality

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

Outlook

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

The Company believes that the housing market has normalized with housing supply and demand in most regions of Canada having returned to a balanced state. The Bank of Canada's gross domestic product estimate remains relatively stable at 2.9% for 2011 due to a healthy labour market and relatively low interest rates.

The unemployment rate in Canada decreased to 7.4% at the end of June 2011 from 7.7% at the end of March 2011, with employment growing by 108,000 jobs during the second quarter of 2011. The Company believes that in the second half 2011, the national unemployment rate will likely remain at current levels, leading to improvements in the Company's overall mortgage delinquency rates.

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

Canadian Economic Indicators	June '11	2011 Forecast
National unemployment rate	7.40%	7.40%[1]
5-year Government of Canada bond yield	2.33%[1]	2.67%[2]
Change in national average home price	4.4%[3]	1.5%[4]

Source:
[1] Bloomberg July 20, 2011 for second quarter 2011 -5-year Government of Canada bond yield and July 13, 2011 forecasted unemployment rate (fourth quarter 2011)
[2] Management estimate based on interpolation of Bloomberg consensus estimate of 2-year and 10-year Government of Canada bond yields as of July 13, 2011
[3] Teranet – National Bank National Composite House Price Index™ – July 27, 2011
[4] Management Estimate

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

While the Company's earned premiums have benefited from amortization of previous large books of business over the past several quarters, it is expected that the benefit will decrease in the coming quarters as the large 2007 and 2008

books mature past their peak earnings period and the earned premiums from the smaller 2009 and 2010 books are recognized. Unearned premiums are $1.8 billion at June 30, 2011.

The Company anticipates that in 2011, losses on claims and the associated loss ratio should continue to benefit from a stabilizing housing market, the declining unemployment rate and the execution of the Company's loss mitigation strategies. Overall, the Company expects that its loss ratios for 2011 should remain in the mid-30s.

The Company continues to actively manage its approximately $5 billion investment portfolio. This portfolio is comprised primarily of highly rated fixed income securities. The Company's asset mix includes a small allocation to preferred shares and dividend-paying common shares. The Company expects to benefit from the higher pre-tax equivalent yields offered by these securities. With a relatively short portfolio duration of 3.9 years and $263 million of maturities occurring during the second half of 2011 and $458 million in 2012, the investment portfolio is well positioned to benefit from the anticipated rising interest rate environment in 2011 and 2012.

The Company continues to proactively manage its capital to ensure capital efficiency and flexibility. The Company plans to maintain its capital strength and operate above the Insurance Subsidiary's internal target and intends to maintain a strong capital position to provide the flexibility necessary to support its in-force insurance, fund growth opportunities, maintain strong credit ratings and to optimize returns to shareholders.

As part of its capital plan, the Company completed a $160 million common share repurchase in June 2011. The repurchase, funded from the holding Company's cash reserves, resulted in a 5.87% reduction in the number of common shares outstanding. At the end of the second quarter and subsequent to this transaction, the Insurance's Subsidiary's Minimum Capital Test ("MCT") ratio was 158%, or 13 points higher than its internal target of 145%. The execution of the capital plan reflects the Company's confidence in the economic fundamentals in Canada, solid financial results and its ability to support growth. The Company plans to maintain a capital buffer and operate at a level above the internal target.

With a strong financial position including $1.8 billion unearned premiums and $2.5 billion of shareholders' equity, the Company is well positioned as the leading private mortgage insurer through its significant scale, execution of customer-focused sales and service strategies, proactive risk management of its insurance portfolio and prudent investment management.

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

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

The key provisions of the PRMHIA are as follows:

- The Company can only insure risk in respect of eligible mortgage loans and other risks as permitted by regulations.
- The government can establish by regulation various criteria for approved mortgage insurers. This includes, but is not limited to, the fee that the insurer will pay for the guarantee, the reinsurance activities that can be

[1] *Protection of Residential Mortgage or Hypothetecary Insurance Act, S.C. 2011, c.15,s.20.*

conducted, business activities beyond insuring eligible mortgages, and information made available to the public.

- The Company's existing Government Guarantee Agreement will terminate when the PRMHIA becomes effective. All risks covered by the Government Guarantee Agreement will continue to be covered under the PRMHIA.
- Upon termination of the Government Guarantee Agreement, the government guarantee fund will no longer exist. All investments and money held in the guarantee fund will revert to the Company. At present, the government guarantee fund (net of the related deferred tax impact) is deducted from capital available for MCT purposes.
- The Minister of Finance may require the Company to maintain capital above that required to be maintained under the *Insurance Companies Act (the "ICA").*

While the Company does not anticipate any significant changes to its current or future business prospects, a full assessment of the impact on the Company's business cannot be completed until the regulations referenced in the legislation are finalized.

Results of operations

This is the second quarter that the Company reports its unaudited financial results in accordance with IFRSs. Certain accounting and measurement methods previously applied under Canadian Generally Accepted Accounting Principles ("GAAP") were amended to comply with IFRSs. The transition to IFRSs is not expected to increase or decrease the volatility of financial results relative to Canadian GAAP. The Company is monitoring developments in standards, notably IFRS 4 – Insurance Contracts ("IFRS 4"), that are expected to change subsequent to the transition date and may introduce volatility to financial results in the future. A detailed discussion of the impact of the transition from Canadian GAAP to IFRSs can be found in the "Changes in Accounting Policies" section of this MD&A.

The following table sets forth certain financial information for the three and six months ended June 30, 2011 and 2010.

	For the quarter ended June 30		For the six months ended June 30	
(in millions, unless otherwise specified)	**2011 IFRSs**	2010 IFRSs	**2011 IFRSs**	2010 IFRSs
Income statement data				
Net premiums written	**$ 149**	$ 157	**$ 250**	$ 252
Net premiums earned	**151**	154	**307**	309
Losses on claims and expenses:				
Losses on claims	**50**	49	**109**	109
Expenses	**25**	24	**51**	50
Total losses on claims and expenses	**75**	73	**160**	158
Net underwriting income	**77**	80	**147**	151
Investment income	**45**	41	**91**	90
Interest expense	**(6)**	-	**(11)**	-
Income before income taxes	**116**	121	**227**	241
Net income	**83**	85	**163**	169
Net operating income[1]	**$ 81**	$ 86	**$ 159**	$ 167
Key ratios and other items				
Insurance in-force	**255,217**	234,196	**255,217**	234,196
New insurance written	**7,715**	7,181	**13,144**	13,302
Loss ratio	**33%**	32%	**35%**	35%
Expense ratio	**16%**	16%	**17%**	16%
Combined ratio	**49%**	48%	**52%**	51%
Operating return on equity[1]	**13%**	13%	**13%**	13%
Minimum capital test (MCT) ratio	**158%**	154%	**158%**	154%
Delinquency ratio	**0.25%**	0.26%	**0.25%**	0.26%
Severity on claims paid	**33%**	25%	**32%**	26%
Earnings per common share (basic)	**$0.79**	$0.73	**$1.56**	$1.45
Earnings per common share (diluted)	**$0.79**	$0.72	**$1.55**	$1.43
Operating earnings per common share (basic)[1]	**$0.78**	$0.73	**$1.52**	$1.43
Operating earnings per common share (diluted)[1]	**$0.77**	$0.72	**$1.52**	$1.42
Weighted average number of shares outstanding				
Basic	**104,728,056**	117,100,000	**104,760,015**	117,100,000
Diluted	**105,095,909**	118,219,662	**105,126,735**	118,158,448

Notes: Amounts may not total due to rounding.
[1]This is a financial measure not calculated based on IFRSs. See the "Non-IFRSs financial measures" section at the end of this MD&A for additional information.

The following tables set forth the impact of transition to IFRSs on net income and net operating income for the three and six months ended June 30, 2010. A detailed discussion of the impact of the transition from Canadian GAAP to IFRSs can be found in the "Changes in Accounting Policies" section of this MD&A.

(in thousands)	For the quarter ended June 30, 2010	For the six months ended June 30, 2010
Canadian GAAP net income	**85,349**	**169,441**
Employee future benefits – prior service costs	61	122
Employee future benefits – net actuarial gains or losses	4	8
Share based compensation	(512)	(247)
Tax impact of above changes	137	35
Total impact of transition to IFRSs	**(310)**	**(82)**
IFRSs net income	**85,039**	**169,359**

(in thousands)	For the quarter ended June 30, 2010	For the six months ended June 30, 2010
Canadian GAAP net operating income	**85,921**	**167,382**
Total impact of transition to IFRSs	(310)	(82)
IFRSs net operating income	**85,611**	**167,300**

Second quarter highlights

- Compared to the second quarter of 2010, net income decreased by 2% to $83 million and net operating income decreased by 6% to $81 million. The decrease in both net income and in net operating income was attributable primarily to interest expense related to the debentures issued in the second and fourth quarters of 2010.
- Compared to the second quarter of 2010, net premiums written decreased 5%, to $149 million, as improved market penetration, as estimated by the Company, was offset by a smaller residential housing market.
- Compared to the second quarter of 2010, losses on claims marginally increased by 2% to $50 million.
- The MCT ratio was 158%, which is an increase of 4 points over the prior year's period, primarily due to the increase in retained earnings from the Company's continued profitability.
- The transition to IFRSs did not have a material impact on the Company's financial results or key ratios.

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

(in millions, unless otherwise specified)	For the quarter ended June 30, 2011 IFRSs	2010 IFRSs[2]	Increase (decrease) and percentage change Q2'11 vs. Q2'10	
Net premiums written	$ 149	$ 157	$ (8)	(5)%
Net premiums earned	$ 151	$ 154	$ (3)	(1)%
Losses on claims and expenses:				
Losses on claims	50	49	1	2%
Expenses	25	24	1	4%
Total losses on claims and expenses	75	73	2	3%
Net underwriting income	77	80	(3)	(4)%
Investment income:				
Interest and dividend income, net of investment expenses	43	42	1	2%
Net gains on investments[1]	2	(1)	3	NM
Guarantee fund earnings	-	-	-	-
Total investment income	45	41	4	10%
Interest expense	(6)	-	(6)	-
Income before income taxes	116	121	(5)	(4)%
Provision for income taxes	33	36	(3)	(8)%
Net income	83	85	(2)	(2)%
Adjustment to net income:				
Net gains on investments, net of taxes	(2)	1	(3)	NM
Net operating income	$ 81	$ 86	$ (5)	(6)%
Effective tax rate	29%	30%	-	(1) pts
Operating return on equity	13%	13%	-	-

Notes: Amounts may not total due to rounding.
The Company defines "NM" as not meaningful for increases or decreases greater than 100%.
[1]Includes net realized gains on sale of available-for-sale investments and change in unrealized losses on fair value through profit or loss (FVTPL) investments.
[2]A detailed discussion of the impact of transition from Canadian GAAP to IFRSs can be found in the "Changes in Accounting Policies" section of this MD&A.

Second quarter 2011 compared to second quarter 2010

New insurance written on high loan-to-value mortgages decreased by $0.7 billion, or 10%, to $6.2 billion in the second quarter of 2011 as compared to the prior year's period primarily due to lower new insurance written on refinance transactions which decreased by $0.5 billion, or approximately 25%, to $1.5 billion. In addition, new insurance written on purchase transactions of high loan-to-value mortgages decreased by $0.2 billion, or 4%, to $4.7 billion. The Company believes that improved market penetration was offset by a smaller residential housing market, as purchase transactions for high loan-to-value mortgages moderated as compared to the prior year's period. Housing and mortgage demand was pulled forward into the first quarter as a result of the recent government guarantee product changes which reduced the maximum amortization from 35 to 30 years and reduced the maximum loan-to-value on refinance transactions from 90 to 85%.

Net premiums written decreased by $8 million, or 5%, to $149 million in the second quarter of 2011 as compared to the prior year's period. Improved market penetration was offset by lower new insurance written for high loan-to-value mortgages resulting from a smaller residential housing market this quarter as compared to the prior year's period. Offsetting this decrease, premiums from low loan-to-value mortgages increased $4 million as compared to the prior year's period.

Net premiums earned decreased by $3 million, or 1%, to $151 million in the second quarter of 2011 as compared to the prior year's period as the large 2007 and 2008 books contributed less to premiums earned. Net premiums earned included $8 million of additional premiums earned resulting from the quarterly update to the premium recognition curve as compared to $11 million in the prior year's period.

Losses on claims marginally increased by $1 million or 2% to $50 million, as compared to the prior year's period. While the number of new delinquencies decreased by approximately 6% as compared to the prior year's period, there was a higher mix of new delinquencies in Alberta with a higher average reserve per delinquency, relative to the rest of Canada, offset by a lower average reserve per delinquency in the rest of Canada. During the second quarter of 2011, as part of its loss mitigation efforts, the Company approved 1,025 workouts as compared to 1,062 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 contributed to overall lower losses on claims. The Company continued to execute its strategy to accelerate and facilitate the conveyance of real estate properties to the Company in selected circumstances. This strategy allows for better control of the marketing process, reduction in carrying costs during the sale process, and potential realization of a higher property sales price with the cumulative impact being lower losses.

Expenses marginally increased by $1 million or 4% to $25 million, as compared to the prior year's period, as lower net deferrable policy acquisition costs, offset lower operating expenses.

Total investment income, including guarantee fund earnings and net investment gains, increased by $4 million, or 10%, to $45 million in the second quarter of 2011 as compared to the prior year's period. Interest and dividend income, net of investment expenses, from the general portfolio increased by $1 million, to $43 million as a $2 million increase in dividend income was partially offset by a $1 million decrease in interest income as compared to the prior year's period. The pre-tax equivalent book yield, excluding debt proceeds received in December 2010, remained flat at 4.3% in the second quarter of 2011 compared to the prior year's period. Guarantee fund earnings were negligible and remained flat as compared to the prior year's period. Net investments gains were $2 million in the second quarter of 2011, which was mainly attributable to repositioning in equity investments, as compared to net investment losses of $1 million in the prior year's period.

Interest expense in the second quarter of 2011 was $6 million, and was related to the $275 million of debentures issued on June 29, 2010, which bear interest at a fixed annual rate of 5.68%, and the $150 million of debentures issued on December 16, 2010, which bear interest at a fixed annual rate of 4.59%.

Income taxes for the second quarter include $2 million of additional tax expense related to an adjustment in the tax rate used to calculate deferred taxes related to the government guarantee fund. The government guarantee fund will be eliminated when the PRMHIA comes into force.

Net income decreased by $2 million, or 2%, to $83 million and net operating income decreased by $5 million, or 6%, to $81 million in the second quarter of 2011, as compared to the prior year's period. The decrease in both net income and in net operating income was attributable primarily to interest expense related to the debentures issued in 2010.

Year to date highlights

- Compared to the six months ended June 30, 2010, net income decreased by 4% to $163 million and net operating income decreased by 5% to $159 million. The decrease in both net income and in net operating income was attributable primarily to interest expense related to the debentures issued in the second and fourth quarters of 2010.
- Compared to the six months ended June 30, 2010, net premiums written decreased 2% to $250 million, due to improved market penetration, as estimated by the Company, offset by a smaller residential housing market.
- Compared to the six months ended June 30, 2011 losses on claims remained relatively flat. The number of new delinquencies remained flat and there was a higher frequency of new delinquencies primarily in Alberta, which has a higher average reserve per delinquency relative to the rest of Canada offset by a lower average reserve per delinquency in the rest of Canada.

- The MCT ratio was 158%, which is an increase of 4 points over the prior year's period, primarily due to the increase in retained earnings from the Company's continued profitability.
- The transition to IFRSs did not have a material impact on the Company's financial results or key ratios.

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

	For the six months ended June 30, 2011		Increase (decrease) and percentage change	
(in millions, unless otherwise specified)	**2011 IFRSs**	**2010 IFRSs[2]**	YTD 2011 vs. YTD 2010	
Net premiums written	**$ 250**	$ 252	$ (2)	(1)%
Net premiums earned	**$ 307**	$ 309	$ (2)	(1)%
Losses on claims and expenses:				
Losses on claims	**109**	109	-	-
Expenses	**51**	50	1	2%
Total losses on claims and expenses	**160**	158	2	1%
Net underwriting income	**147**	151	(4)	(3)%
Investment income:				
Interest and dividend income, net of investment expenses	**85**	84	1	1%
Net gains on investments[1]	**5**	3	2	67%
Guarantee fund earnings	**2**	3	(1)	(33)%
Total investment income	**91**	90	1	1%
Interest expense	**(11)**	-	(11)	-
Income before income taxes	**227**	241	(14)	(6)%
Provision for income taxes	**64**	71	(7)	(10)%
Net income	**163**	169	(6)	(4)%
Adjustment to net income:				
Net gains on investments, net of taxes	**(4)**	(2)	(2)	NM
Net operating income	**$ 159**	$ 167	$ (8)	(5)%
Effective tax rate	**28%**	30%	-	(2) pts
Operating return on equity	**13%**	13%	-	-

Notes: Amounts may not total due to rounding.
The Company defines "NM" as not meaningful for increases or decreases greater than 100%.
[1]Includes net realized gains on sale of available-for-sale investments and change in unrealized losses on fair value through profit or loss (FVTPL) investments.
[2]A detailed discussion of the impact of transition from Canadian GAAP to IFRSs can be found in the "Changes in Accounting Policies" section of this MD&A.

Year to date 2011 compared to year to date 2010

New insurance written on high loan-to-value mortgages decreased by $0.5 billion, or 5%, to $11 billion in the six months ended June 30, 2011 compared to the prior year's period primarily due to lower new insurance written on refinance transactions which decreased by $0.4 billion or approximately 12% to $3 billion. In addition, new insurance written on purchase transactions of high loan-to-value mortgages marginally decreased by $0.1 billion or 1% to $8 billion. The Company believes that improved market penetration was offset by a smaller residential housing market, as purchase transactions for high loan-to-value mortgages moderated as compared to the prior year's period. Housing and mortgage demand was pulled forward into the first quarter as a result of the recent government guarantee product changes which reduced the maximum amortization from 35 to 30 years and reduced the maximum loan-to-value on refinance transactions from 90 to 85%.

Net premiums written decreased by $2 million, or 1%, to $250 million in the six months ended June 30, 2011 as compared to the prior year's period. Improved market penetration and a higher proportion of purchase transactions versus refinance transaction were offset by a smaller residential housing market, for high loan-to-value transactions, as estimated by the Company for a net decrease of $5 million on the Company's high loan-to-value business as compared to the prior year's period. Offsetting this decrease, the Company's low loan-to-value business was a net increase of $3 million as compared to the prior year's period.

Net premiums earned decreased by $2 million, or 1%, to $307 million in the six months ended June 30, 2011 as compared to the prior year's period as the large 2007 and 2008 books contributed less to premiums earned. Net premiums earned included $21 million of additional premiums earned resulting from the quarterly update to the premium recognition curve as compared to $24 million in the prior year's period.

Losses on claims remained flat at $109 million in the six months ended June 30, 2011 as compared to the prior year's period. While the number of new delinquencies remained flat as compared to the prior year's period, there was a higher mix of new delinquencies in Alberta with a higher average reserve per delinquency relative to the rest of Canada there was a higher mix of new delinquencies in Alberta with a higher average reserve per delinquency, relative to the rest of Canada offset by a lower average reserve per delinquency in the rest of Canada. During the six months ended June 2011, the Company approved 2,278 workouts under its loss mitigation programs as compared to 2,484 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 contributed to overall losses on claims.

Expenses marginally increased by $1 million to $51 million, or 2%, in the six months ended June 30, 2011, as compared to the prior year's period, primarily the result of lower net deferred policy acquisition costs.

Total investment income, including government guarantee fund earnings and net investment gains, increased by $1 million, or 1%, to $91 million in the six month ending June 30, 2011 as compared to the prior year's period. Interest and dividend income from the general portfolio increased by $1 million, or 1%, to $85 million as compared to the prior year's period. An increase of $4 million in dividend income was offset by a decrease of $3 million in interest income as compared to the prior year's period. The pre-tax equivalent book yield, excluding debt proceeds received in December 2010, increased to 4.3% as compared to 4.2% in the prior year's period which was mainly attributable to higher dividend yielding common equities. Government guarantee fund earnings were down by $1 million as compared to the prior year's period, primarily attributable to realized gains on sale of the fund's investments recorded in the prior year's period. The Company recorded a $2 million increase in net investment gains as compared to the prior year's period, which was mainly attributable to repositioning in equity investments.

Interest expense in the six months ended June 30, 2011 was $11 million, and was related to the $275 million of debentures issued on June 29, 2010, which bear interest at a fixed annual rate of 5.68%, and the $150 million of debentures issued on December 16, 2010, which bear interest at a fixed annual rate of 4.59%.

Income taxes for the second quarter include $2 million of additional tax expense related to an adjustment in the tax rate used to calculate deferred taxes related to the government guarantee fund. The government guarantee fund will be eliminated when the PRMHIA comes into force.

Net income decreased by $6 million, or 4%, to $163 million and net operating income decreased by $8 million, or 5%, to $159 million in the six months ended June 30, 2011, as compared to the prior year's period. The decrease in both net income and in net operating income was attributable primarily to interest expense related to the debentures issued in 2010.

Loss and expense ratios

The following table sets forth selected ratios for the three and six months ended June 30, 2011 and 2010:

	For the quarter ended June 30		Increase/ (decrease)	For the six months ended June 30		Increase/ (decrease)
	2011	2010	Q2'11 vs. Q2'10	**2011**	2010	YTD 2011 vs. YTD 2010
Loss ratio	**33%**	32%	1 pt	**35%**	35%	-
Expense ratio	**16%**	16%	-	**17%**	16%	1 pt
Combined ratio	**49%**	48%	1 pt	**52%**	51%	1 pt

Note: Amounts may not total due to rounding.

Second quarter 2011 compared to second quarter 2010

The loss ratio increased 1 point to 33% for the quarter ended June 30, 2011, as compared to the prior year's period. Losses on claims increased marginally by $1 million while earned premium decreased by $2 million.

The expense ratio remained flat at 16% for the quarter ended June 30, 2011, as compared to the prior year's period.

Six months ended June 30, 2011 compared to six months ended June 30, 2010

The loss ratio remained flat for the six months ended June 30, 2011, as compared to the prior year's period. Losses on claims remained flat. While the number of new delinquencies remained flat as compared to the prior year's period there was a higher mix of new delinquencies in Alberta with a higher average reserve per delinquency relative to the rest of Canada offset by a lower average reserve per delinquency in the rest of Canada.

The expense ratio increased 1 point to 17% for the six months ended June 30, 2011, as compared to the prior year's period. The increase was attributable to $1 million additional expenses from lower net deferred policy acquisition costs, and to $2 million lower net premiums earned for the six months ended June 30, 2011.

Statement of financial position highlights and selected financial data:

(in millions, unless otherwise specified)	As at June 30, 2011 IFRSs	As at December 31, 2010 IFRSs[3]	Increase (decrease) and percentage change 2011 vs. 2010	
Investments:				
General portfolio	$ 4,291	$ 4,490	$ (199)	(4)%
Government guarantee fund	675	646	29	4%
Other assets	325	262	63	(24)%
Total assets	5,291	5,398	(107)	(2)%
Unearned premium reserves	1,846	1,902	(56)	(3)%
Loss reserves	173	207	(34)	(16)%
Long-term debt	422	422	-	-
Other liabilities	302	279	23	8%
Total liabilities	2,743	2,810	(67)	(2)%
Shareholders equity excluding AOCI	$ 2,413	$ 2,465	$ (52)	(2)%
Accumulated other comprehensive income ("AOCI")	136	124	12	10%
Shareholders' equity	2,549	2,589	$ (40)	(2)%
Total liabilities and shareholders' equity	5,291	5,398	(107)	(2)%
Select ratios				
MCT ratio	158%	156%	-	2 pts
Book value per common share				
Book value per common share including AOCI (basic)	$ 25.84	$ 24.70	$ 1.14	5%
Book value per common share excluding AOCI (basic)	$ 24.46	$ 23.52	$ 0.94	4%
Number of common shares outstanding (basic)[1]	98,641,835	104,789,394	(6,147,559)	(6)%
Book value per common share including AOCI (diluted)	$ 25.59	$ 24.44	$ 1.15	5%
Book value per common share excluding AOCI (diluted)	$ 24.22	$ 23.27	$ 0.95	4%
Number of common shares outstanding (diluted)[1]	99,603,469	105,907,205	(6,303,736)	(6)%
Dividends paid per common share[2]	$0.26	$0.26	-	-

Notes: Amounts may not total due to rounding.
The Company defines "NM" as not meaningful for increases or decreases greater than 100%.
[1]The difference between basic and diluted number of shares outstanding is caused by the grant of employee stock options ("Options"), Restricted Share Units ("RSUs") and Directors' Deferred Share Units ("DSUs"). As at June 30, 2011, the number of potentially dilutive Options, RSUs and DSUs was 802,500, 145,557 and 13,577, respectively, and as at December 31, 2010 the number of Options, RSUs and DSUs was 984,200, 123,780 and 9,831, respectively.
[2]Dividends paid per common share reflects payment for the quarters ended June 30, 2011 and December 31, 2010.
[3] Certain accounting and measurement methods previously applied under Canadian GAAP were amended to comply with IFRSs. The comparative figures for 2010 have been restated to reflect these adjustments. A detailed discussion of the impact of transition from Canadian GAAP to IFRSs can be found in the "Changes in Accounting Policies" section of this MD&A.

Financial instruments and other instruments

Portfolio of invested assets

As of June 30, 2011, the Company had total cash, cash equivalents and invested assets of $4.3 billion in the general portfolio and $675 million in the government guarantee fund established under the Government Guarantee Agreement. Unrealized gains on Available for Sale ("AFS") securities were $166 million in the general portfolio and $35 million[2] 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, 2011**			**As at December 31, 2010**	
(in millions, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains**	Fair value	%
General portfolio					
AFS					
Asset backed	**$ 206**	**5%**	**$ 8**	$ 252	6%
Corporate fixed income					
Financial	**1,222**	**29%**	**66**	1,231	27%
Energy	**318**	**7%**	**13**	302	7%
Infrastructure	**246**	**6%**	**13**	252	6%
All other sectors	**372**	**9%**	**12**	309	7%
Total corporate fixed income	**2,158**	**50%**	**103**	2,095	47%
Federal fixed income	**831**	**19%**	**21**	951	21%
Provincial fixed income	**741**	**17%**	**24**	607	13%
Total government fixed income	**1,572**	**36%**	**45**	1,558	34%
Preferred shares					
Financials	**58**	**2%**	**-**	67	1%
Industrial	**1**	**0%**	**-**	1	0%
Energy	**10**	**0%**	**-**	9	0%
Total preferred shares	**69**	**2%**	**-**	77	2%
Common shares					
Energy	**50**	**1%**	**4**	45	1%
Financials	**25**	**0%**	**2**	19	0%
Communication	**28**	**1%**	**2**	22	0%
All other sectors	**37**	**1%**	**2**	32	1%
Total common shares	**140**	**3%**	**10**	118	3%
Other invested assets – FVTPL[1]	**-**	**0%**	**-**	38	1%
Total invested assets	**4,145**	**97%**	**166**	4,138	92%
Cash and cash equivalents	**146**	**3%**	**-**	351	8%
Total invested assets and cash – general portfolio	**$ 4,291**	**100%**	**$ 166**	$ 4,490	100%

Notes: Amounts may not total due to rounding.
[2]The $35 million unrealized gain is gross of the $7 million of market value related primarily to exit fees.

Asset Class	As at June 30, 2011			As at December 31, 2010	
(in millions, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains**	Fair value	%
Government guarantee fund					
Federal fixed income – AFS	**$ 826**	**100%**	**$ 35**[1]	$ 779	99%
Cash and cash equivalents	**$ 3**	**0%**	**-**	11	1%
Total invested assets and cash – guarantee fund	**$ 829**	**100%**	**$ 35**	$ 790	100%
Accrued income and contributions	**20**		**-**	18	
Accrued exit fees and due to others	**(174)**			(162)	
Net guarantee fund assets	**$675**		**$35**	$646	
Total invested assets and cash	**$ 4,966**		**$ 194**	$5,135	

Notes: Amounts may not total due to rounding.
[1]The $35 million unrealized gain is gross of the $7 million of market value related primarily to exit fees.

Credit rating – general portfolio (excluding common shares)	As at June 30, 2011			As at December 31, 2010	
(in millions, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains**	Fair value	%
Cash and cash equivalents	**$ 146**	**4%**	**$ -**	$ 351	8%
AAA	**1,221**	**29%**	**34**	1,337	30%
AA	**1,517**	**37%**	**70**	1,427	33%
A	**1,130**	**27%**	**50**	1,134	26%
BBB	**137**	**3%**	**2**	122	3%
Below BBB	**-**	**-**	**-**	-	-
Total invested assets (excluding common shares)	**$ 4,151**	**100%**	**$ 156**	$4,371	100%

Notes: Amounts may not total due to rounding.

General portfolio

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

To diversify management styles and to broaden credit resources, the Company has split these assets between two external Canadian investment managers. The Company works with these managers to optimize the performance of the portfolios within the stated investment objectives outlined in its investment policy. The policy takes into account the current and expected condition of capital markets, the historical return profiles of various asset classes and the variability of those returns over time, the availability of assets, diversification needs and benefits, regulatory capital required to support the various asset types, security ratings and other material variables likely to effect the overall performance of the Company's investment portfolio. Compliance with the investment policy is monitored by the Company and reviewed at least quarterly with the Company's management-level investment committee and the Risk, Capital and Investment Committee of the Board.

Cash and cash equivalents

Cash and cash equivalents consist primarily of cash in bank accounts and government treasury bills with maturities within 90 days of the statement of financial position date. The Company determines its target cash holdings based on near-term liquidity needs, market conditions and perceived favourable future investment opportunities. The Company's cash holdings decreased from $351 million as of December 31, 2010 to $146 million as of June 30, 2011, or 58%. The decrease is attributed mainly to the $160 million substantial issuer bid that was completed on June 30th, 2011 and dividend payments made during the year.

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

Federal and provincial government 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, 2011, 19% of the portfolio was invested in federal securities, down from 21% at the end of 2010. Provincial holdings were 17% of the portfolio, up from 13% at the end of 2010.

Corporate fixed income securities

Allocations to corporate fixed income securities are determined based on their relative value to federal government fixed income securities and adjusted for the carrying charge for the increased capital holdings required under regulations set by OSFI. As of June 30, 2011, approximately 50% of the investment portfolio was held in corporate fixed income securities, up 3% from 47% as at the end of 2010. Securities rated below A were $137 million, or 3%, of invested assets, as of June 30, 2011. The investment policy limits the percentage of the portfolio that can be invested in any single issuer or group of related issuers.

Financial sector exposure represents 29% of the general portfolio, or approximately 57% of the corporate fixed income securities, as financial institutions are the predominant issuers of fixed income securities in the Canadian marketplace. The Company continuously monitors and repositions its exposure to the financial services sector.

Asset-backed securities

The Company has invested approximately 5% of the general portfolio in a combination of consumer finance securitizations and commercial mortgage backed securities to provide yield enhancement. As of June 30, 2011, all of these securities were rated AAA.

Other invested assets

The Company has invested directly in a European investment fund to diversify its holdings, without associated exposure to foreign currency fluctuations. During the quarter ended June 30, 2011, the Company sold this investment and realized a $10 million loss on disposition. The $10 million loss on disposition did not impact the company's income for the period. This investment was classified as Fair Value through profit and loss ("FVTPL") in the Company's financial statements and changes in its market value were recognized in income in each reporting period since the initial recognition of the investment.

Common shares

The Company had $140 million invested in high dividend-yield common shares as of June 30, 2011, representing 3% of the general portfolio. Approximately one third of the common shares purchased were issued by the Canadian energy sector; the remaining balance was invested primarily in the financial and communications sectors.

Preferred shares

The Company had $69 million invested in preferred shares as of June 30, 2011, representing 2% of the general portfolio. Approximately 84% of the preferred shares were issued by Canadian financial institutions. The Company's investment guidelines require that preferred shares be rated P-1 or P-2 at the time of purchase.

Government guarantee fund assets

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

Summary of quarterly results

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

		IFRSs[1]						
(in millions, unless otherwise specified)	**Q2'11**	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09[2]	Q3'09[2]
Net premiums written	**149**	101	134	166	157	94	110	104
Net premiums earned	**151**	155	156	155	154	156	155	154
Losses on claims	**50**	59	50	47	49	59	60	64
Net underwriting income	**77**	71	78	83	80	71	70	66
Investment income, including net gains[3]	**45**	46	44	49	41	49	46	49
Net income	**83**	80	85	94	85	84	87	79
Adjustment to net income:								
Losses (gains) on investments, net of taxes	**(2)**	(2)	(1)	(3)	1	(3)	(2)	(4)
Net operating income	**81**	78	84	91	86	82	85	75
Selected ratios:								
Loss ratio	**33%**	38%	32%	30%	32%	38%	39%	42%
Expense ratio	**16%**	17%	18%	17%	16%	16%	16%	15%
Combined ratio	**49%**	55%	50%	47%	48%	55%	55%	57%
Earnings per common share (basic)	**$0.79**	$0.77	$0.81	0.83	$0.73	$0.72	$0.75	$0.67
Earnings per common share (diluted)	**$0.79**	$0.76	$0.80	$0.83	$0.72	$0.71	$0.74	$0.67
Operating earnings per common share (basic)	**$0.78**	$0.75	$0.81	$0.81	$0.73	$0.70	$0.73	$0.64
Operating earnings per common share (diluted)	**$0.77**	$0.74	$0.80	$0.80	$0.72	$0.69	$0.72	$0.63
Operating return on equity	**13%**	13%	14%	14%	13%	13%	14%	12%

Notes: Amounts may not total due to rounding

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

[2]Financial information published in 2009 has not been restated to IFRSs and is presented in accordance with Canadian GAAP.

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

Liquidity

The purpose of liquidity management is to ensure there is sufficient cash to meet all of the Company's financial commitments and obligations as they fall due. The Company believes it has the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill its cash requirements during the current financial year and to satisfy regulatory capital requirements. The Company has five primary sources of funds, consisting of premiums written from operations, investment income, cash and short-term investments, investment maturities or sales, and proceeds from the issuance of debt and equity. In addition, 36% or $1,572 million of the Company's investment portfolio is comprised of federal and provincial government securities for which there is a highly liquid market. Funds are used primarily for operating expenses, claims payments, interest expense, as well as dividends and distributions to shareholders.

As of June 30, 2011, the Company carried 3%, or $146 million, of its invested assets as cash and cash equivalents in order to maintain financial flexibility.

Debt outstanding

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

These debentures, along with issuance costs are recorded as "Debt outstanding" and will be amortized over the term of the debentures using the effective interest method.

Debt outstanding *(in millions, unless otherwise specified)*	Payments Dues by Period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long Term Debt	425	-	-	150	275

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

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

1. A negative pledge under which the Company will not assume or create any security interest (other than permitted encumbrances) unless the debentures are secured equally and ratably with (or prior to) such obligation.
2. The Company will not, nor will it permit any of its subsidiaries, to amalgamate, consolidate or merge with or into any other person or liquidate, wind-up of dissolve itself unless (a) the Company, or one of its wholly owned subsidiaries is the continuing or successor company or (b) if the successor company is not a wholly owned subsidiary, then at the time of, and after giving effect to, such transaction, no event of default, and no event which, after notice or lapse of time, or both, would become an event of default, shall have happened and be continuing under the trust indenture, in each case subject to certain exceptions and limitations set forth in the trust indenture.
3. The Company will not request that the rating agencies withdraw their ratings of the debentures.

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

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

Share Repurchase

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

Investments

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

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

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

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 cost of the investment at the trade date and reported as net investment gains (losses) in the income statement.

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

Capital expenditures

The Company's capital expenditures primarily relate to technology investments aimed at improving operational efficiency and effectiveness for sales, underwriting, risk management and loss mitigation. For the three months ended June 30, 2011, the Company invested approximately $1 million for risk management and underwriting technologies. The Company expects that future capital expenditures will continue to be focused on underwriting and risk management technology improvements. The Company expects that capital expenditures in 2011 will be in the $3 million to $5 million range.

Regulatory capital management

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

Capital above the amount required to meet the Insurance Subsidiary's MCT ratio targets could be used to support organic growth of the business and, if distributed to Genworth Canada, to repurchase shares, to declare and pay

dividends or other distributions, for acquisitions, or for such other uses as permitted by law and that may be approved by the Board.

The MCT ratio of the Insurance Subsidiary at the end of June 30, 2011 was 158%, representing a 3-point sequential increase over the first quarter, primarily resulting from the increase in second quarter net income.

On May 10th, 2011, OSFI released a revised draft guideline reflecting proposed changes to the Minimum Capital Test ("MCT") originally outlined in the December 2010 *Discussion Paper on OSFI's Proposed Changes to the Minimum Capital Test*. The proposed changes include refining the asset risk factors applied to balance sheet assets and adding new capital charges for interest rate risk and foreign exchange risk. Interest rate risk is the risk of economic loss resulting from changes in interest rates related to interest rate -sensitive assets and liabilities. Foreign exchange risk is the risk of loss resulting from fluctuations in currency exchange rates. The Company, insurance industry association and other interested parties have commented on the proposed guidelines and the Company expects that some of these changes proposed by such parties with be incorporated into the final guideline. The estimated impact of these changes, as drafted, could have a negative impact on the MCT ratio of between 5-7 points. The ultimate impact of these changes may increase in decrease subject to future regulatory developments. OSFI has advised it is working towards finalizing the 2012 MCT guideline during the fall of 2011. The Company expects that it will continue to exceed its internal MCT ratio target of 145% when the new guidelines take effect in 2012.

Restrictions on dividends and capital transactions

The Company's Insurance Subsidiary is subject to certain restrictions with respect to dividend and capital transactions. The 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 S&P and the DBRS. Although the Insurance Subsidiary is not required to have ratings to conduct its business, ratings are helpful to maintain confidence in an insurer and in the marketing of its products. The Insurance Subsidiary is rated AA- (Very Strong), with a positive outlook, by S&P and AA (Superior), with a stable outlook, by DBRS. The ratings from S&P were affirmed in June 2011.

The Company has a counterparty credit rating and debenture ratings from S&P of A-, with a positive outlook, and an issuer rating from DBRS of AA (Low). The rating from S&P is a function of the financial strength rating on its Insurance Subsidiary and its structural subordination to the policyholders of its Insurance Subsidiary. S&P has applied its standard notching criteria of three notches between an operating company and a holding company, the Insurance Subsidiary and the Company, respectively. The rating from DBRS is a function of the structural subordination of the parent's financial obligations relative to those of the regulated operating subsidiary. DBRS applied a one-notch differential between the Insurance Subsidiary and the Company.

Share-based compensation

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

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

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

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

Critical accounting estimates and judgments

The preparation of consolidated financial statements in accordance with IFRSs requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods covered by the financial statements. The principal financial statement components subject to measurement uncertainty are outlined below as accounting estimates and judgments. Actual results may differ from the estimates used and such differences may be material.

Accounting estimates

Premiums earned

Mortgage insurance premiums are deferred and then taken into underwriting revenue as premiums earned over the life of the related policies. Based on historical experience, the majority of losses on claims generally occur within two to five years of policy origination. In order to match premiums earned to losses on claims, the majority of premiums written are recognized as premiums earned within five years of policy origination using a factor-based premium recognition curve. In order to construct 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. The formulas under which premiums are earned are adjusted quarterly in accordance with such estimates and were last updated in June 2011, resulting in a $8 million increase in premiums earned during the second quarter of 2011 and $21 million for the six months ended June 30, 2011 as compared to $11 million increase in premiums earned during the second quarter of 2010 and $24 million for the six months ended June 30, 2010. The Company will continue to assess its loss experience on a quarterly basis and make adjustments as appropriate to the premium recognition curve.

Deferred policy acquisition costs

Policy acquisition costs are premium taxes, appraisal costs and other expenses incurred directly in the acquisition of new mortgage 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 are recognized when the first scheduled mortgage payment is missed by the 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.

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 financial reporting 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 and prevailing economic conditions including levels of unemployment and housing market conditions and trends.

Loss reserves represent payments that will be made in the future and therefore these expected future cash flows are discounted to reflect the time value of money. The Company's external appointed actuary determines a discount rate based on the book yield of the Company's general investment portfolio.

Canadian actuaries are required to assign explicit margins for adverse deviation for assumptions in asset defaults, reinvestment risk and claims development to a Company's loss reserves. The Company's external appointed actuary selects a margin for the Company based on his 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 records a supplemental provision for adverse deviation based on the margin determined 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. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially from the best estimates made. These risks vary in proportion to length of the estimation period and the volatility of each component comprising the liability.

Utilization of tax losses

As at June 30, 2011, the Company has recognized $4 million of tax losses. Management considers it probable that future taxable profits will be available against which these tax losses can be utilized.

Share-based compensation

The fair value of Options is measured using the Black-Scholes valuation model. Measurement inputs are common 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 that the Company has limited common share-price history. The weighted average expected life of the instrument is estimated based on historical experience of affiliated companies. 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.

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 using the projected unit credit method based on the Company's assumptions on the discount rate, rate of compensation increase, retirement age, mortality and the trend in the health care cost rate. The discount rate is determined by the Company with reference to AA credit-rated bonds that have maturity dates approximating the Company's obligation terms at period end and are denominated in the same currency as the benefit obligations. Other assumptions are determined with reference to long-term expectations.

Accounting judgments

Share-based compensation

Grants of share-based compensation provide employees and directors of the Company the choice between receiving cash or common shares of the Company on the dates that the units granted vest. For purposes of recording share-based compensation, the Company expects that employees and directors will select cash compensation. Accordingly, share-based compensation is recorded as a cash-settled liability in the Company's consolidated statement of financial position. The share-based compensation is reclassified from liability to equity if the outcome differs from initial expectation.

Other-than temporary impairments on AFS financial assets

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 charge in the period in which it is determined that an investment has experienced significant and prolonged losses and is not expect to recover to its cost.

Changes in Accounting Policies

International Financial Reporting Standards

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

IFRSs transition

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

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

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

First-time Adoption of IFRSs

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

Mandatory exception

Estimates

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

Elective exemption

Business combinations

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

IFRSs impact

The following tables set forth the impact of transition to IFRSs on the Company's income statement for the three months ended June 30, 2010, six months ended June 30, 2010 and the twelve months ended December 31, 2010.

	For the quarter ended June 30, 2010			For the six months ended June 30, 2010			For the year ended December 31, 2010		
(in thousands of dollar, unless otherwise specified)	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 written	$ 157,455	-	157,455	$ 251,666	-	$ 251,666	$ 551,603	-	$ 551,612
Net premiums earned	153,516	-	153,516	309,251	-	309,251	620,834	-	620,834
Underwriting revenues	153,565	-	153,565	309,319	-	309,319	620,929	-	620,929
Losses on claims and expenses:									
Losses on claims	49,496	-	49,496	108,793	-	108,793	206,410	-	206,410
Expenses	23,480	447[2]	23,927	49,400	117[2]	49,517	103,823	(958)[2]	102,865
Total losses on claims and expenses	72,976	447	73,423	158,193	117	158,310	310,233	(958)	309,275
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)	(8,322)	-	(8,322)
Income before income taxes	121,321	(447)	120,874	240,666	(117)	240,549	485,493	958	486,451
Provision for income taxes	35,972	(137)	35,835	71,225	(35)	71,190	136,767	1,702	138,469
Net income	85,349	(310)	85,039	169,441	(82)	169,359	348,726	(744)	347,982
Net operating income[1]	85,921	(310)	85,611	167,382	(82)	167,300	343,441	(744)	342,697
Operating return on equity	13%		13%	13%	-	13%	14%	-	14%
Operating earnings per common share (diluted)	$0.73		$0.72	$1.42	-	$1.42	$3.01	-	$3.01

Notes: Amounts may not total due to rounding.

[1] This is a financial measure not calculated based on IFRSs. See the "Non-IFRSs financial measures" section in the MD&A for additional information.

[2] The effect of transition to IFRSs on total expenses in the second quarter of 2010 is an increase of $447 thousand and is comprised of a decrease to employee future benefits related to prior service costs of $61 thousand, a decrease to employee future benefits related to net actuarial gains or losses of $4 thousand and a increase to share based compensation of $512 thousand. The effect of transition to IFRSs on total expenses in the six months ended June 30, 2010 is an increase of $117 thousand and is comprised of a decrease to employee future benefits related to prior service costs of $122 thousand, a decrease to employee future benefits related to net actuarial gains or losses of $8 thousand and a increase to share-based compensation of $247 thousand. The full year effect of transition to IFRSs on total expenses in 2010 is a decrease of $958 thousand and is comprised of a decrease to employee future benefits related to prior service costs of $245 thousand, a decrease to employee future benefits related to net actuarial gains or losses of $15 thousand and a decrease to share based compensation of $698 thousand.

The following table sets forth the impact of transition to IFRSs on the Company's statements of financial position as at January 1, June 30 and December 31, 2010.

	December 31, 2010			June 30, 2010			January 1, 2010		
(in thousands of dollars)	Canadian GAAP	Effect of transition to IFRSs	IFRSs	Canadian GAAP	Effect of transition to IFRSs	IFRSs	Canadian GAAP	Effect of transition to IFRSs	IFRSs
Investments:									
General portfolio	$4,489,536	-	$4,489,536	$4,618,870	-	$4,618,870	$4,409,814	-	$4,409,814
Government guarantee fund	645,733	-	645,733	614,504	-	614,504	576,417	-	576,417
Other assets	262,932	-	262,932	270,169	-	270,169	223,695	-	223,695
Total assets	5,398,201	-	5,398,201	5,503,543	-	5,503,543	5,209,926	-	5,209,926
Unearned premium reserves	1,902,164	-	1,902,164	1,913,812	-	1,913,812	1,971,396	-	1,971,396
Loss reserves	206,611	-	206,611	228,021	-	228,021	236,181	-	236,181
Long-term debt	421,566	-	421,566	-	-	-	-	-	-
Deferred tax liability	215,428	(147)	215,281	212,858	(49)	212,809	203,218	(14)	203,204
Other liabilities	63,207	705	63,912	91,134	170	91,304	155,904	53	155,957
Total liabilities	2,808,976	558	2,809,534	2,718,095	121	2,718,216	2,566,699	39	2,566,738
Shareholders' equity	2,589,225	(558)	2,588,667	2,785,448	(121)	2,664,099	2,643,227	(39)	2,643,188
AOCI	124,369	-	124,369	121,228	-	121,228	96,924	-	96,924
Shareholders equity excluding AOCI	2,464,856	(558)	2,464,298	2,664,220	(121)	2,664,099	2,546,303	(39)	2,546,264
Total liabilities and shareholders' equity	5,398,201	-	5,398,201	5,503,543	-	5,503,543	5,209,926	-	5,209,926

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

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

(thousands of dollars)	Q1'10	Q2'10	Q3'10	Q4'10	FY'10
Canadian GAAP net operating income	**81,461**	**85,921**	**92,116**	**83,950**	**343,441**
Total Impact of transition to IFRSs	228	(310)	(1,158)	496	(744)
IFRSs net operating income	**81,689**	**85,611**	**90,958**	**84,446**	**342,697**

IFRSs impact on expenses:

Mandatory accounting policy changes

Employee future benefits

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

Share-based compensation

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

Elected accounting policy changes

Employee future benefits

Under Canadian GAAP, the Company deferred net actuarial gains or losses relating to its defined benefit plans within a 10% corridor of the defined benefit obligations. While IFRSs permit this approach and other systematic and unbiased methods that provide for faster recognition of net actuarial gains or losses, it also permits the recognition of net actuarial gains or losses directly in OCI without subsequent reclassification of the net gains or losses to income. The Company has elected to recognize net actuarial gains or losses in OCI and report them in retained earnings.

IFRS impact on tax

Under Canadian GAAP, previously unrecognized tax benefits for the year ended December 31, 2009 relating to financing costs incurred in connection with the Company's IPO were recognized in consolidated net income when the benefits met recognition criteria in the year ended December 31, 2010. These tax benefits would have been recognized directly in share capital if they met recognition criteria at the time of the IPO. IFRSs require backward tracing of tax expenses or benefits. Accordingly, the Company reclassified the benefits from income to share capital in the period in which the benefits met recognition criteria, which was in the interim period ended September 30, 2010. With the exception of this adjustment and the tax effecting of other IFRS adjustments, no other material differences have been identified in the recognition and measurement of taxes under IFRSs.

IFRS development

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

Investments

IFRS 9 – Financial Instruments ("IFRS 9") was issued in November 2009 superseding IAS 39, with an original adoption date of January 1, 2013. In July 2011, the International Accounting Standards Board ("IASB") voted to have the implementation date moved from January 1, 2013 to January 1, 2015. This new standard will impact the Company's financial statements significantly because the standard will require all financial instruments to be accounted for either at amortized cost or at fair value, with fair value changes recorded in income. The AFS category, which permits entities to account for changes in fair value of financial instruments in OCI, and where the vast majority of the Company's financial instruments are currently recorded, will cease to exist. The IASB has stated that it would consider opening IFRS 9 for reconsideration.

Insurance contracts

On July 30, 2010, the IASB issued an Exposure Draft ("ED") on Phase II of IFRS 4, which is intended to result in a single, consistent recognition and measurement standard for insurance contracts internationally. The ED continues to apply the same definition for insurance contracts as set out in the existing standard. At the same time, it modifies the scope to require the accounting for financial guarantee contracts as insurance contracts under IFRS 4.

The ED does not include a proposed transition date. The IASB may align the mandatory adoption of IFRS 9 for insurers to coincide with the adoption of Phase II of IFRS 4.

The most significant changes to IFRS 4 pertain to the recognition and measurement of insurance contracts. The IASB is proposing that an insurer measure its insurance liabilities using a model based on fulfillment cash flows. The insurance liability is to be comprised of: (i) the unbiased, probability-weighted average of future cash flows expected to arise as the insurer fulfils its obligation under an insurance contract discounted to present value; and (ii) a risk adjustment to reflect the uncertainty about the amount and timing of the future cash flows. Both the cash flows and the risk margin are to be re-measured each reporting period. In addition to the fulfillment cash flows, the ED requires that the measurement of an insurance contract include a residual margin. The residual margin represents a calibration that eliminates positive differences between expected premiums and expected claims, handling expenses and incremental policy acquisition costs at the inception of the insurance contract. The residual margin is not re-measured, but is released over the insurance contract coverage period. Policy acquisition costs directly attributable to the acquisition of insurance contracts may be included in the determination of fulfillment cash flows. All other acquisition costs are expensed as incurred.

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

longer released into income over the insurance contract coverage period based on the expected loss emergence pattern. The ED's proposals regarding transition are expected to be re-deliberated by the IASB.

The ED is in its preliminary stages and is subject to change. Comments on the ED were submitted to the IASB by November 30, 2010. Based on commentary received from stakeholders, the IASB has agreed to re-deliberate the proposed accounting for insurance contracts and has targeted to complete its review and issue a final standard in the first half of 2012.

Risk management

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

Mortgage portfolio risk management

The Company's mortgage portfolio risk management involves actively managing its borrower credit quality, product and geographic exposures. The Company carefully monitors portfolio concentrations by borrower credit quality, product and geography against 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 has supported the government of Canada's decisions from 2008 to 2011 to introduce restrictions on insured mortgages. In 2008, the government eliminated insurance products for mortgages with loan-to-values of greater than 95%, interest-only mortgages and amortization periods greater than 35 years.

On April 19, 2010, the government of Canada implemented additional changes to the rules for government-guaranteed mortgages which (i) required that all borrowers seeking mortgages of a term less than five years or seeking a variable rate mortgage must qualify for the five-year fixed rate mortgage posted by the Bank of Canada, (ii) lowered the maximum amount borrowers can withdraw in refinancing their mortgages to 90%, from 95%, of the value of their homes, and (iii) required a minimum down payment of 20% on non-owner-occupied properties purchased for speculation. These rules were formalized in an amendment to the Government Guarantee Agreement between the Government of Canada and the Insurance Subsidiary.

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

The Company supports the implementation of these changes and views them as prudent steps taken to protect and maintain the health and stability of the housing market.

The Company's extensive historical database and innovative information technology systems are important tools in its approach to risk management. The Company utilizes components of its proprietary high loan-to-value mortgage performance database to build and improve its mortgage scoring model. The Company's mortgage scoring model employs a number of evaluation criteria to assign a score to each insured mortgage loan and predict the likelihood of a future claim. These evaluation criteria include borrower credit score, loan type and amount, total debt service ratio, property type and loan-to-value. 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 majority shareholder. The agreement prescribes that these companies will provide certain services to one another, with most services being terminated if Genworth Financial, Inc. ceases to beneficially own more than 50% of the common shares of the Company. The services rendered by Genworth Financial, Inc. and affiliated companies consist of information technology, finance, human resources, legal 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 and are measured at the transaction value. Balances owing for service transactions are non-interest bearing and are settled on a quarterly basis. The Company incurred net related party charges of $1 million for the three months ended June 30, 2011 and $3 million for the six months ended June 30, 2011.

Special note regarding forward-looking statements

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

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

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

management team; potential legal, tax and regulatory investigations and actions; the failure of the Company's computer systems; and potential conflicts of interest between the Company and its majority shareholder, Genworth Financial, Inc.

This is not an exhaustive list of the factors that may affect any of the Company's forward-looking statements. Some of these and other factors are discussed in more detail in the Company's annual information form ("AIF") dated March 18, 2011. Investors and others should carefully consider these and other factors and not place undue reliance on the forward-looking statements. Further information regarding these and other risk factors is included in the Company's public filings with provincial and territorial securities regulatory authorities and can be found on the SEDAR website at www.sedar.com, including the AIF. The forward-looking statements contained in this MD&A represent the Company's views only as of the date hereof. Forward-looking statements contained in this MD&A are based on management's current plans, estimates, projections, beliefs and opinions and the assumptions related to these plans, estimates, projections, beliefs and opinions may change: therefore they are presented for the purpose of assisting the Company's security holders in understanding management's current views regarding those future outcomes and may not be appropriate for other purposes. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company does not undertake to update any forward-looking statements, except to the extent required by applicable securities laws.

Non-IFRSs financial measures

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

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

	For the quarter ended June 30		For the six months ended June 30	
(in millions, unless otherwise specified)	**2011 IFRSs**	2010 IFRSs[1]	**2011 IFRSs**	2010 IFRSs[1]
Net income	**$ 83**	$ 85	**$ 163**	$ 169
Adjustment to net income:				
Net gains on investments, net of taxes	**(2)**	1	**(4)**	(2)
Net operating income	**$ 81**	$ 86	**$ 159**	$ 167

	For the quarter ended June 30			
	2011 IFRSs		2010 IFRSs[1]	
	Basic	**Diluted**	Basic	Diluted
Earnings per common share	**$ 0.79**	**$ 0.79**	$ 0.73	$ 0.72
Adjustment to earnings per common share:				
Net gains on investments, net of taxes	**(0.01)**	**(0.02)**	-	-
Operating earnings per common share	**$ 0.78**	**$ 0.77**	$ 0.73	$ 0.72

	For the quarter ended June 30			
	2011 IFRSs		2010 IFRSs[1]	
	Basic	**Diluted**	Basic	Diluted

	For the six months ended June 30			
	2011 IFRSs		2010 IFRSs[1]	
	Basic	**Diluted**	Basic	Diluted
Earnings per common share	**$ 1.56**	**$ 1.55**	$ 1.45	$ 1.43
Adjustment to earnings per common share:				
Net gains on investments, net of taxes	**(0.04)**	**(0.03)**	(0.02)	(0.01)
Operating earnings per common share	**$ 1.52**	**$ 1.52**	$ 1.43	$ 1.42

Notes: Amounts may not add due to rounding

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