Q&A

with **Craig Sweeney**
Senior Vice President, Chief Risk Officer

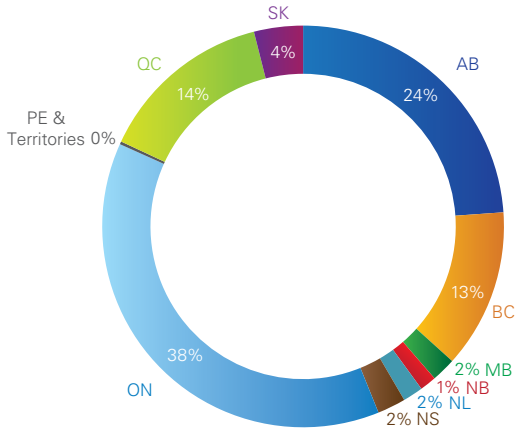
Q: Can you describe the Company's risk philosophy and culture?

A: Given the nature of this insurance business, we are inherently exposed to various types of risks. A culture of strong risk management is important for preserving franchise value and enhances the Company's business performance over the long term. When such a culture is combined with a robust risk framework, it effectively supports appropriate risk awareness and behaviours, as well as sound risk-based decision making.

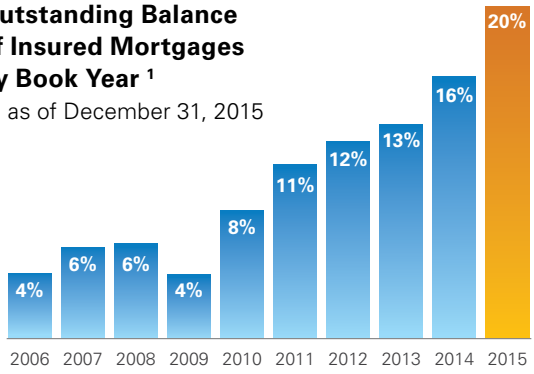
A key component of our risk culture is our risk-governance framework. The governance framework is designed to ensure that the Board and the leadership team have effective oversight of the risks faced by the Company, involving clearly defined and articulated roles, responsibilities and interrelationships. To support the risk-governance framework, we have implemented a "three lines of defence" risk model that drives ownership and accountability for risk management across the organization. The first line of defence is provided by the operational leaders and is responsible for the identification, assessment, and mitigation and reporting of risk against approved policies. The second line of defence is provided by risk management and compliance functions, and is responsible for establishing risk-management practices and for providing risk guidance. Our third line of defence is provided by internal audit and is responsible for providing independent assurance to the leadership team and the Board.

Also supporting our risk culture is our strategic planning process and risk-appetite development. Recommended by the leadership team and approved by the Board, the Company's risk-appetite framework provides a clear understanding of the ultimate level of risk the Company is willing to undertake in pursuit of its strategic objectives. Our risk appetite is communicated broadly

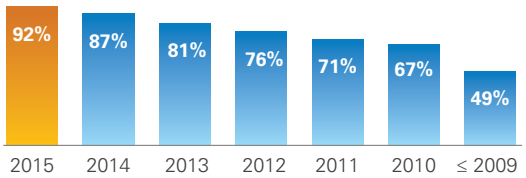
Geographical Dispersion [1]
% as of December 31, 2015



Outstanding Balance of Insured Mortgages by Book Year [1]
% as of December 31, 2015



Effective Loan-to-Value (LTV) [1, 2]



1. Data based on transactional outstanding balance of insured mortgages, as reported by lenders surveyed, which represents the vast majority of insurance in force.
2. Overall estimated effective loan-to-value is calculated by weighting the book year estimated effective loan-to-value percentages.

> We employ a risk-management framework that has enabled us to build a portfolio that can perform well through a variety of economic conditions and can withstand regional economic pressures that occur from time to time.

throughout the organization, and compliance is monitored frequently. Action is taken when results do not align with the established limits.

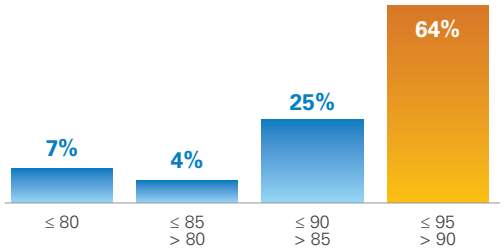
Q: How do you establish and implement risk guidelines that sustain a strong and healthy insurance portfolio?

A: One of Genworth's main strengths is its high-quality and well-diversified mortgage insurance portfolio. We employ a risk-management framework that has enabled us to build a portfolio that can perform well through a variety of economic conditions and can withstand regional economic pressures that occur from time to time.

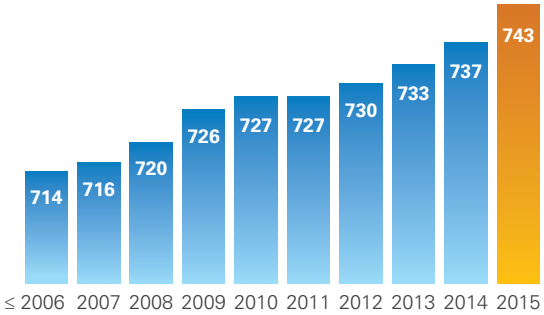
Identifying and assessing key performance risks make up a core component of our risk-management framework. Through in-depth monitoring of the macroeconomic environment and a deep understanding of key housing market trends and regional risk factors, we're able to respond to emerging risks early in their development. For example, in response to lower oil prices, we reduced our new insurance written exposure in Alberta in 2015 to 22 per cent, down from 27 per cent the previous year.

We manage the quality of new business through our disciplined approach to underwriting and robust quality assurance program. By focusing on loan quality, we saw our average credit score increase to 743 in 2015, up 6 points from the previous year and 27 points since 2007. As part of our disciplined approach, we also look to avoid unnecessary exposure or risk concentration, and we target a portfolio that is well-diversified by region, product, book year and loan-to-value. Our experience shows that a well-diversified portfolio is a key attribute through challenging economic cycles and in diverse market conditions.

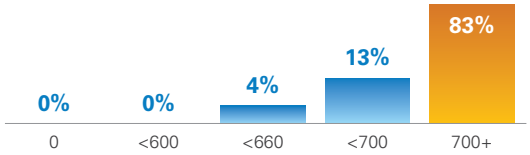
Loan-to-Value of New Insurance Written in 2015 [1]



Average Credit Score on New Insurance Written [1]



Credit Score Dispersion on New Insurance Written in 2015 [1]



2015 Avg Credit Score 743

1. Data based on transactional new insurance written.