GENWORTH MI CANADA INC.

ANNUAL INFORMATION FORM
For the year ended December 31, 2017

March 19, 2018

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NOTICE TO INVESTORS

Interpretation

Unless the context otherwise requires, in this annual information form ("**AIF**"), all references to "**Genworth Canada**" refer to Genworth MI Canada Inc. and all references to the "**Company**" refer to Genworth MI Canada Inc. and its subsidiaries. To the extent references in this AIF are made to matters undertaken by a predecessor in interest to Genworth Canada or its subsidiaries, include such predecessor in interest. Unless the context otherwise requires, all references in this AIF to subsidiaries of Genworth Canada include Genworth Financial Mortgage Insurance Company Canada ("**Genworth Mortgage Insurance Canada**") and MIC Insurance Company Canada ("**MIC ICC**"). Unless the context otherwise requires, all references in this AIF to "**Genworth Financial**" refer to Genworth Financial, Inc. and its subsidiaries.

The Company presents its Consolidated Financial Statements (as defined below) in Canadian dollars. In this AIF, references to "$", "CDN$", "dollars" or "Canadian dollars" are to Canadian dollars and references to "US$" are to United States dollars. Amounts are stated in Canadian dollars unless otherwise indicated. Except as otherwise noted, the information in this AIF is given as of March 19, 2018.

Caution Regarding Forward-Looking Information and Statements

Certain statements made in this AIF contain forward-looking information within the meaning of applicable securities laws ("**forward-looking statements**"). When used in this AIF, 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 effect of the Canadian government guarantee legislative framework; the impact of guideline changes by OSFI (as defined below) and legislation introduced in connection with the Protection of Residential Mortgage or Hypothecary Insurance Act ("**PRMHIA**"); a policy option that would require mortgage lenders to manage a portion of loan losses on insured mortgages that default; the effect of changes to the mortgage insurance rules, including the government guarantee mortgage eligibility rules, the availability of portfolio mortgage insurance, Ontario's Fair Housing Plan and British Columbia's land transfer tax on foreign buyers, the Company's beliefs as to housing demand and home price appreciation; unemployment rates; the Company's future operating and financial results; the operating range for the Company's expense ratio; sales expectations regarding premiums written; capital expenditure plans, Dividend Policy (as defined below) 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. 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: the continued availability of the Canadian government's guarantee of private sector mortgage insurance on terms

satisfactory to the Company; the Company's expectations regarding its revenues, expenses and operations; the Company's plans to implement its strategy and operate its business; the Company's expectations regarding the compensation of directors and officers; the Company's anticipated cash needs and its estimates regarding its capital expenditures, capital requirements, reserves and its needs for additional financing; the Company's plans for and timing of expansion of service and products; the Company's ability to accurately assess and manage risks associated with the policies that are written; the Company's ability to accurately manage market, interest and credit risks; the Company's ability to maintain ratings, and the impact on the Company's hedging program, which may be affected by the ratings of its majority shareholder, Genworth Financial; interest rate fluctuations and fluctuations in the value of the Company's debt instruments and Common Shares; a decrease in the volume of high loan-to-value mortgage originations; the cyclical nature of the mortgage insurance industry; changes in government regulations and laws mandating mortgage insurance; the acceptance by the Company's lenders of new technologies and products; the Company's ability to attract lenders and develop and maintain lender relationships; the Company's competitive position and its expectations regarding competition from other providers of mortgage insurance in Canada; anticipated trends and challenges in the Company's business and the markets in which it operates; changes in the global or Canadian economies; a decline in the Company's regulatory capital or an increase in its regulatory capital requirements; 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; the occurrence of a data loss or breach, including business, strategic, financial, employee, customer or personal information, potential conflicts of interest between the Company and its majority shareholder, Genworth Financial; the potential ramifications of the closing (or the failure to close) of the Genworth Financial and China Oceanwide transaction pursuant to which China Oceanwide has agreed to acquire all of the outstanding shares of Genworth Financial through a merger; and the occurrence of a default by Genworth Financial under its secured credit facility, pursuant to which Genworth Financial has pledged certain of the Common Shares it holds.

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 herein under the heading "*Risk Factors*". 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 System for Electronic Document Analysis and Retrieval ("**SEDAR**") website at www.sedar.com. The forward-looking statements contained in this AIF represent the Company's views only as of the date hereof. Forward-looking statements contained in this AIF are based on management's current plans, estimates, projections, beliefs and opinions and the assumptions related to these plans, estimates, projections, beliefs and opinions may change, and are presented for the purpose of assisting the Company's securityholders 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.

IFRS and Non-IFRS Measures

The Company's Consolidated Financial Statements included in this AIF have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). To supplement the Company's consolidated interim financial statements, which are prepared in accordance with IFRS, the Company uses non-IFRS financial measures to analyze performance. The Company's key performance indicators and certain other information included in this AIF include non-IFRS financial measures. Such non-IFRS financial measures used by the Company to analyze performance include net operating income, operating earnings per Common Share (basic) and operating earnings per Common Share (diluted). Other non-

IFRS financial measures used by the Company to analyze performance for which no comparable IFRS measure is available include insurance in-force, new insurance written, loss ratio, expense ratio, combined ratio, delinquency ratio, operating return on equity and MCT ratio. The Company believes that these non-IFRS 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-IFRS financial measures do not have standardized meanings and are unlikely to be comparable to any similar measures presented by other companies. Please see the "Non-IFRS financial measures" section of the MD&A (as defined below) of the Company for a reconciliation of such non-IFRS financial measures to their most closely applicable IFRS financial measures.

Documents Incorporated by Reference

The following documents are incorporated by reference in and form part of this AIF:

(i) the Company's Management's Discussion and Analysis ("**MD&A**") for the year ended December 31, 2017, and

(ii) the Company's Consolidated Financial Statements and accompanying notes ("**Consolidated Financial Statements**") as at and for the years ended December 31, 2017 and 2016.

These documents have been filed with securities regulators in Canada and may be accessed on SEDAR at www.sedar.com.

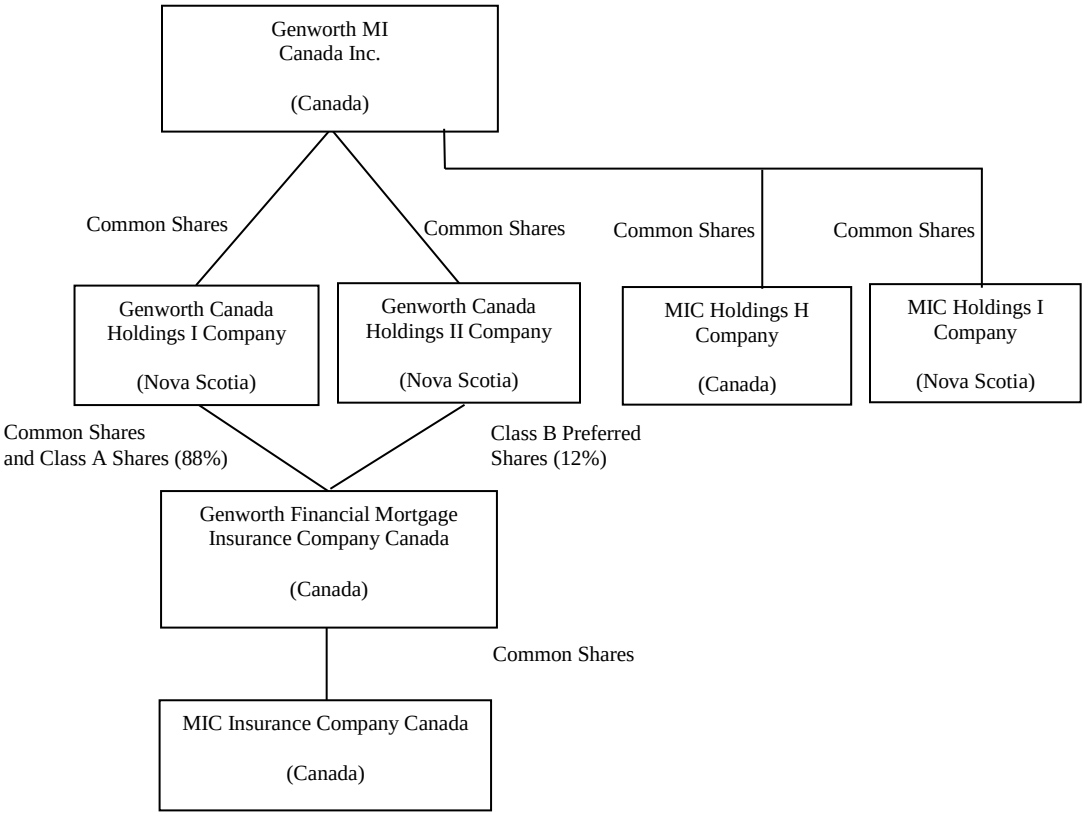
CORPORATE STRUCTURE

Name, Address and Incorporation

Genworth Canada was incorporated as a corporation under the *Canada Business Corporations Act* pursuant to a Certificate of Incorporation dated May 25, 2009. From 1995 to 2004, the Company's business was operated by Genworth Financial (when it operated as a wholly owned subsidiary of the General Electric Company ("**General Electric**")). In 2004, General Electric completed an initial public offering of Genworth Financial, Genworth Canada's current majority shareholder. Pursuant to a reorganization on July 6, 2009 (the "**Reorganization**"), Genworth Canada acquired Genworth Canada Holdings I Company ("**Holdings I**") and Genworth Canada Holdings II Company ("**Holdings II**"), which control Genworth Mortgage Insurance Canada. On November 15, 2012 Genworth Mortgage Insurance Canada acquired MIC ICC. MIC Holdings H Company and MIC Holdings I Company are holding companies that will be utilized for intercorporate purposes. The principal business office and registered office of the Company is located at 2060 Winston Park Drive, Suite 300, Oakville, Ontario L6H 5R7.

Inter-corporate Relationships

The following chart illustrates the Company's corporate structure, together with the jurisdiction of incorporation or continuance of each of Genworth Canada's material subsidiaries. Each such subsidiary is wholly owned and 100% controlled by Genworth Canada, unless otherwise indicated in the chart below.



GENERAL DEVELOPMENT OF THE BUSINESS

Introduction

The Company is the largest private sector residential mortgage insurer in Canada and has been providing mortgage default 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 majority of Canada's residential mortgage lenders and originators. Today, the Company underwrites mortgage insurance for residential properties in all provinces and territories of Canada and has the leading market share among private sector mortgage insurers. Canada Mortgage and Housing Corporation ("**CMHC**"), a crown corporation, is the Company's major competitor. As of December 31, 2017, Genworth Canada had $6.9 billion in total assets and $4.0 billion in shareholders' equity. For the full year ended December 31, 2017, the Company had net operating income of $467 million and an operating return on equity of approximately 13%. The Company employs approximately 270 people across Canada.

Three Year History

As at December 31 of each year-end set out below, the Company achieved the following financial results:

	2015	**2016**	**2017**
Total premiums written	$809 million	$760 million	$663 million
Net Income	$398 million	$417 million	$528 million
Net operating income	$375 million	$388 million	$467 million
Operating return on equity	12%	11%	13%
Losses on claims	$122 million	$139 million	$69 million
Fully diluted earnings per Common Share	$4.22	$4.54	$5.76
Fully diluted operating earnings per Common Share	$4.05	$4.23	$5.09
Loss Ratio	21%	22%	10%

<u>2015</u>

During the year ended December 31, 2015, Genworth Canada commenced a normal course issuer bid (the "**2015 NCIB**") that allowed for the purchase for cancellation of up to a maximum of 4,658,577 of its Common Shares (representing approximately 5% of its then outstanding Common Shares). During the year ended December 31, 2015, Genworth Canada completed the purchase and cancellation of 1,454,196 Common Shares under the 2015 NCIB, representing approximately 2% of its then outstanding Common Shares, for an aggregate amount of approximately $50 million. Genworth Canada's majority shareholder, Genworth Financial, participated and maintained its proportionate percentage ownership interest in Genworth Canada throughout the course of the 2015 NCIB. The 2015 NCIB expired on May 4, 2016.

In June 2015, Genworth Mortgage Insurance Canada increased its mortgage insurance premium rates on mortgages with less than a 10 percent down payment by approximately 15%. The new pricing was a reflection of higher regulatory capital requirements imposed on the business.

On June 3, 2015, the Government of Canada published regulations that prohibit the substitution of mortgages in insured portfolios after May 15, 2015 and limit the time period that a mortgage insurer can commit to insure mortgages to no more than one year. The Company believes that the regulations contributed to a long term decrease in demand for portfolio mortgage insurance.

On June 6, 2015, the Government of Canada published draft regulations to implement the prohibition to generally limit portfolio mortgage insurance to only those mortgages that will be used in CMHC securitization programs and to prohibit the use of government guaranteed insured mortgages in private securitizations. See "*– 2016"* for details on the implementation of these regulations during 2016.

In September 2015, Standard & Poor's ("**S&P**") affirmed Genworth Mortgage Insurance Canada's A+ rating with a stable outlook and Genworth Canada's BBB+ rating with a stable outlook. In March 2017 DBRS Limited ("**DBRS**") confirmed Genworth Mortgage Insurance Canada's AA rating and Genworth Canada's issuer rating and senior unsecured debentures rating of AA (Low), with a stable outlook.

On December 11, 2015, CMHC announced a price increase to the guarantee fees they charge issuers as well as annual limits for the new guarantees for both the National Housing Act Mortgage Backed Securities ("**NHA MBS**") and Canada Mortgage Bonds ("**CMBs**") effective July 1, 2016.

In the fourth quarter of 2015, Genworth Canada increased its quarterly dividend from $0.39 per Common Share to $0.42 per Common Share.

At the end of 2015, Genworth Mortgage Insurance Canada had an MCT ratio of approximately 234%, or 49 percentage points higher than its board of directors-approved internal target MCT ratio of 185% and 14 percentage points higher than its holding target of 220%. This MCT holding target was put in place pending the development by OSFI of a new regulatory test for mortgage insurers. See "*Regulatory Overview – Regulatory Changes*" for further details on the changes to capital requirements introduced in 2016.

<u>2016</u>

On February 15, 2016, changes came into effect in respect of eligibility rules for new government-backed insured mortgages which required that the minimum down payment for new insured mortgages increase from 5% to 10% for the portion of the house price above $500,000. The Company believes that the impact on its business was modest as most borrowers impacted by the new rules may have been able to increase their down payment or purchase a lower priced home.

The 2015 NCIB expired on May 4, 2016. During 2016, Genworth Canada commenced a normal course issuer bid ("**2016 NCIB**") that allowed for the purchase for cancellation of up to a maximum of 4,589,958 of its Common Shares (representing approximately 5% of its then outstanding Common Shares). Genworth Canada did not purchase any shares under either the 2015 NCIB or the 2016 NCIB during 2016. The 2016 NCIB expired on May 4, 2017.

In June 2016, OSFI released the final version of its E-21 "*Operational Risk Management*" *g*uideline (the "**E-21 Guideline**"). The E-21 Guideline sets out OSFI's expectations for the management of operational risk and is generally consistent with the Company's risk management framework.

Effective July 1, 2016, the use of portfolio mortgage insurance was limited to use in CMHC's securitization programs and prohibited on mortgages used in private securitizations after a phase-in period for existing private securitizations. See "*Description of the Business – Overview of the Company's Mortgage Insurance Business – Portfolio Insurance*" for further details on restrictions on the insurance of low-ratio mortgages for securitization purposes.

On August 18, 2016, S&P affirmed Genworth Mortgage Insurance Canada's A+ rating with a stable outlook and Genworth Canada's BBB+ rating with a stable outlook. On May 17, 2016, DBRS confirmed Genworth Mortgage Insurance Canada's AA financial strength rating with a stable trend. DBRS downgraded Genworth Canada's issuer rating and senior unsecured debentures rating one notch to A (high) with a stable trend citing concern over the risk that, in a stressed mortgage market situation, OSFI could place restrictions on dividend payments from Genworth Mortgage Insurance Canada.

In October 2016, the Minister of Finance (the "**Minister**") introduced a number of changes in the Canadian housing finance system, including applying a mortgage rate stress test to all insured mortgages; changes to low-ratio mortgage insurance eligibility requirements; and launching a public consultation on a policy option that would require mortgage lenders to manage a portion of loan losses on insured mortgages that default, known as "lender risk sharing". See "*Regulatory Overview – Regulatory Changes*" for further details on such changes.

On October 21, 2016, Genworth Financial, Inc., Genworth Canada's majority shareholder, entered into a definitive agreement with China Oceanwide Holdings Group Co., Ltd., a limited liability company incorporated in the People's Republic of China ("**China Oceanwide**"), under which China Oceanwide agreed to acquire all of the outstanding shares of Genworth Financial through a merger involving Asia Pacific Global Capital Co. Ltd., one of China Oceanwide's investment platforms (the "**Oceanwide Transaction**"). Upon completion of the transaction, Genworth Financial, Inc. will be a standalone subsidiary of China Oceanwide. See "*– 2017*" for further details on the Oceanwide Transaction.

In the fourth quarter of 2016, Genworth Canada increased its quarterly dividend by 5% from $0.42 per Common Share to $0.44 per Common Share.

On December 15, 2016, the maximum outstanding insured exposure for all private sector insured mortgages permitted by PRMHIA was increased to $350 billion from the previous maximum of $300 billion.

At the end of 2016, Genworth Mortgage Insurance Canada had an MCT ratio of approximately 245%, 25 percentage points above the holding target. The Company maintained capital flexibility through $180 million in liquid investments and entered into a $100 million undrawn credit facility (which in 2017 was terminated and replaced with a $200 million syndicated credit facility).

<u>2017</u>

On January 1, 2017, OSFI's capital advisory titled "*Capital Requirements for Federally Regulated Mortgage Insurers*" came into effect. This advisory provides a new standard framework for determining the capital requirements for residential mortgage insurance companies. The new framework is more risk sensitive and incorporates additional risk attributes, including credit score, remaining amortization and outstanding loan balance. Under the new capital framework, the minimum MCT under PRMHIA was reduced to 150% and the Company's internal holding target of 220% was recalibrated to 157%. The Company was compliant with the new framework upon its implementation on January 1, 2017. See "*Regulatory Overview – Regulatory Changes*" for further details on such changes. OSFI

continues to review its regulatory capital framework and it is expected that it will be updated effective January 1, 2019.

On January 17, 2017, the Company announced an increase to its transactional mortgage insurance premium rates for homebuyers effective March 17, 2017. The new pricing is a reflection of higher regulatory capital requirements that came into effect on January 1, 2017 and supports the long-term safety and sustainability of the Canadian housing finance system. See "*Description of the Business – Regulatory Changes – Overview of the Company's Mortgage Insurance Business – Transactional Insurance – Price Increase*" for further details on such changes.

At a special meeting held on March 7, 2017, Genworth Financial's stockholders voted on and approved a proposal to adopt the Oceanwide Transaction. The transaction remains subject to closing conditions, including the receipt of required regulatory approvals in the U.S., China and other international jurisdictions. Requisite regulatory approvals include that of the Committee on Foreign Investment in the United States ("**CFIUS**"). On November 29, 2017, Genworth Financial and the applicable parties agreed to waive until April 1, 2018, their right to terminate the Oceanwide Transaction in accordance with the terms of the applicable agreement. This was the second waiver and agreement extension, which extended the previous deadline of November 30, 2017, and allows additional time for regulatory reviews of the transaction.

On April 20, 2017, the Ontario government released its "*Ontario's Fair Housing Plan*" which includes strategies addressing housing demand including the introduction of a non-resident speculation tax; consumer protection for renters and buyers; rent control measures; expediting new housing supply; and actions to increase information sharing between governments and external stakeholders. See "*Regulatory Overview – Regulatory Changes*" for further details on such changes.

The 2016 NCIB expired on May 4, 2017. During 2017, Genworth Canada commenced a normal course issuer bid ("**2017 NCIB**") that allowed for the purchase for cancellation of up to a maximum of 4,597,385 of its Common Shares (representing approximately 5% of its then outstanding Common Shares). Purchases of Common Shares under the 2017 NCIB were free to commence on or after May 5, 2017 and will conclude on the earlier of May 4, 2018 and the date on which Genworth Canada has purchased the maximum number of Common Shares under the 2017 NCIB. During 2017, Genworth Canada purchased 1,114,260 of its Common Shares for cancellation, for an aggregate purchase price of $40 million. Genworth Canada's majority shareholder, Genworth Financial, participated and maintained its proportionate percentage ownership interest in Genworth Canada throughout the course of the share purchase transactions and maintained its proportionate percentage ownership interest in Genworth Canada.

On July 14, 2017, OSFI released for public consultation revised versions of Guideline E-19: Own Risk and Solvency Assessment ("**ORSA**") and the ORSA Key Metrics Report which provides a summary of the results of the insurer's ORSA process for determining own capital needs and internal targets, per OSFI's expectations outlined in Guideline E-19. The comment period for the draft ended on August 17, 2017. The Company does not foresee any material impact from the revised versions that went into effect on January 1, 2018.

On July 21, 2017, DBRS confirmed Genworth Mortgage Insurance Canada's AA financial strength rating and Genworth Canada's issuer rating and senior unsecured debentures rating of A (high) with stable trends. On August 15, 2017, S&P affirmed Genworth Mortgage Insurance Canada's A+ rating with a stable outlook and Genworth Canada's BBB+ rating with a stable outlook. See "*Description of Capital Structure – Ratings*" for further details on the financial strength ratings applicable to Genworth Canada and Genworth Mortgage Insurance Canada.

On September 29, 2017, Genworth Canada entered into a $200 million senior unsecured revolving syndicated credit facility, which matures on September 29, 2022. Any borrowings under the syndicated credit facility will either be discounted at a rate per annum equal to either a one, two, three or six month (as selected by Genworth Canada from time to time) banker's acceptance discount rate or will bear interest at a variable rate based on a spread over the agent bank's prime rate. Genworth Canada also pays a standby fee based on the unused amount of the commitment which is recorded in interest expense in the consolidated statements of income. The syndicated credit facility includes customary representations, warranties, covenants, terms and conditions for transactions of this type. This syndicated credit facility replaced an existing $100 million previous unsecured revolving credit facility, which was cancelled on September 29, 2017. As at the date of this document, there was no amount outstanding under the credit facility and all of the covenants were met.

On October 17, 2017, OSFI released the final version of Guideline B-20 "*Residential Mortgage Underwriting Practices and Procedures*" (the "**B-20 Guideline**") which sets out OSFI's expectations for prudent residential mortgage underwriting by Federally Regulated Financial Institutions ("**FRFI**"). The B-20 Guideline is applicable to all FRFIs that are engaged in residential mortgage underwriting and/or the acquisition of residential mortgage loan assets in Canada and came into effect January 1, 2018. See "*Regulatory Overview – Regulatory Changes*" for further details on such changes.

In the fourth quarter of 2017, Genworth Canada increased its quarterly dividend by 7% from $0.44 per Common Share to $0.47 per Common Share.

At the end of 2017, Genworth Mortgage Insurance Canada had an MCT ratio of approximately 172%, 15 percentage points above the Company's holding target of 157% and 22 percentage points higher than the OSFI's supervisory and PRMHIA target of 150%. The Company maintained capital flexibility through $156 million in short-term liquid investments and its undrawn $200 million senior unsecured revolving syndicated credit facility.

Due to the delay in the timing of the closing of the Oceanwide Transaction, Genworth Financial deemed it prudent to pursue a syndicated term loan. On March 7, 2018, Genworth Financial successfully closed a $450 million syndicated senior secured term loan (the "**Genworth Financial Term Loan**"). The proceeds of the Genworth Financial Term Loan will be used, together with cash on hand, to repay existing indebtedness of Genworth Financial. The security package for the Genworth Financial Term Loan includes a pledge of the Common Shares, held by Genworth Financial International Holdings, LLC ("**GFIH**"), a wholly owned subsidiary of Genworth Financial. As at the date of this document, GFIH owns approximately 41% of the total issued and outstanding Common Shares. See "*Material Contracts*" for details of the intercompany agreements that may be impacted by such pledge of the Common Shares.

Acquisitions, Disposals, Reorganizations and Other Developments

No significant acquisitions, disposals, reorganizations or other developments were completed by the Company during the year ended December 31, 2017. During such period Genworth Canada did not file a Form 51-102F4 – *Business Acquisition Reports* in respect of any transactions.

DESCRIPTION OF THE BUSINESS

General

Information about the Company's business and its operations is included in the MD&A which is incorporated by reference in this AIF and should be read in conjunction with the Company's Consolidated Financial Statements. These documents are available on SEDAR at www.sedar.com.

Employees, Facilities and Organizational Structure

The Company's head office is located on leased premises in Oakville, Ontario. The Company's head office and primary business functions, including Finance, Legal, Risk Management, Loss Mitigation, Information Technology, Underwriting and Human Resources are based in Oakville, where the Company employs approximately 203 people. The Company also has a regional office in Montreal, Quebec, which employs approximately 15 people, including the Company's French language team. The Company also employs approximately 53 regional sales, risk and underwriting employees located across Canada operating out of personal residences.

Overview of the Canadian Mortgage Insurance Industry

Canada's housing finance system is one of the most efficient and stable in the world. Mortgage lending practices and regulation in Canada have led to a high degree of loan accessibility for consumers, competitive mortgage rates, and requirements and incentives for lenders to maintain solid underwriting disciplines. This has resulted in high levels of homeownership and a relatively stable housing market in Canada.

The success of Canada's housing finance system is made possible, in part, by government policies that rely on mortgage insurance to promote sustainable homeownership. The important role of mortgage insurance in Canada's housing finance system is evidenced by the requirement that all financial institutions that are federally regulated by OSFI must purchase mortgage insurance in respect of a residential mortgage loan whenever the amount of the loan exceeds 80% of the value of the collateral property at the time of loan origination. Moreover, the federal government provides an explicit guarantee of the benefits payable to approved mortgage lenders under eligible private sector mortgage insurance policies, less 10% of the original principal amount of an insured loan, in the event that the private sector mortgage insurer is unable to meet its obligations to the beneficiaries of its policies upon bankruptcy or insolvency. In accordance with regulatory capital requirements, lenders are permitted to hold reduced capital for credit risks on eligible mortgages insured under the guarantee by approved and regulated private sector mortgage insurers, including Genworth Mortgage Insurance Canada. The federal government helps to maintain sound underwriting standards in the market by establishing, in conjunction with mortgage insurance providers, the types of mortgage products that are eligible for coverage under the guarantee. The total Canadian residential mortgage and multi-family mortgage insurance industry total premiums written were reported to be approximately $2.7 billion in 2016 and $1.8 billion for the nine months ended September 30, 2017.

As a result of the regulatory requirements noted above, the majority of mortgages in Canada that are originated with a loan-to-value ratio of greater than 80% are insured by a mortgage insurer. Currently, lenders may also obtain mortgage insurance for mortgages with loan-to-value ratios of 80% or less, for a number of reasons, including: to obtain credit enhancement for the securitization market that exists for Canadian mortgages (which typically requires that a mortgage loan be insured to become eligible for securitization); to obtain capital relief from regulatory capital requirements for lenders (which is available in respect of insured mortgages); and to mitigate risks associated with certain mortgage loans.

Under a mortgage insurance policy, the mortgage lender is insured against risk of loss for the entire unpaid loan balance, plus interest, customary selling costs and expenses related to the sale of the underlying property upon default by the borrower. Lenders pay the insurance premiums for mortgage insurance to a mortgage insurer in full on an upfront, single premium basis, but are reimbursed by the borrower in the case of transactional insurance. For transactional insurance, the cost is typically passed on to the borrower by adding the mortgage insurance premium to the principal amount of the mortgage and amortizing the amount within the borrower's monthly mortgage payments. Insurers record premiums received as unearned premium reserves, invest those premiums and recognize them as revenue over time pursuant to a premium recognition curve in accordance with the historical pattern of loss emergence, as derived from actuarial analyses of historical and forecasted loss development as reviewed or prepared by the Company's chief actuary. This provides insurers with a significant future stream of earned premium revenues based on insurance written in prior periods. The premium recognition curve is reviewed on a quarterly basis based on the most current available historical loss data and economic assumptions and is updated as required.

The mandatory requirement for mortgage insurance, coupled with sound capital regulation of lending institutions as well as private sector mortgage insurers, has fostered a stable housing market in Canada supported by prudent and sustainable lending practices that help moderate the impact of economic and housing market cycles. The mortgage insurance business is seasonal. Premiums written vary each quarter, while premiums earned, investment income, underwriting and administrative expenses tend to be relatively more stable from quarter to quarter. The variations in premiums written 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, changes in employment levels 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 and decrease during the spring and summer months.

Pursuant to PRMHIA and the NHA, the Minister has the authority to regulate and limit product availability within the mortgage insurance market (i.e.: see the changes described in the section titled "*Regulatory Overview – Regulatory Changes*").

Competition

The Company's primary mortgage insurance competitor is CMHC, a Canadian Crown Corporation, which is subject to OSFI oversight. Other competitors have entered or attempted to enter the Canadian market from time to time. The Company competes with CMHC primarily based upon the Company's reputation for high quality customer service, efficient decision-making on insurance applications and strong underwriting expertise. The Company's ability to write new business is also impacted by the limits set out in legislation on the total amount of insurance that may be written by private insurers and by CMHC.

The Company's only private sector mortgage insurance competitor is Canada Guaranty Mortgage Insurance Company ("**Canada Guaranty**"). Canada Guaranty has an ownership group that includes the Ontario Teachers' Pension Plan. Canada Guaranty originally entered the Canadian private sector mortgage insurance market in 2006.

PRMHIA

PRMHIA came into effect on January 1, 2013. The stated purposes of PRMHIA are: (i) 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 (ii) to mitigate the risks arising from the provision of that protection. While PRMHIA does not change the level of government guarantee provided on private sector insured mortgages, the legislation formalizes existing mortgage insurance arrangements with private sector mortgage insurers. The Government Guarantee Agreement was terminated on the date that PRMHIA became effective.

Under the capital guidelines now applicable to federally-regulated financial institutions, residential mortgage loans insured by CMHC continue to receive a zero percent risk-weighting, which means that the lending institution is not required to hold capital in respect of the loan for the purposes of its risk-weighted capital requirements. As a result of the 90% Guarantee and corresponding changes made to the capital guidelines that permitted lenders to obtain the same capital treatment for loans insured by Genworth Mortgage Insurance Canada to the extent of the 90% Guarantee, the risk weight for a mortgage insured by the Company is approximately reduced to no more than 3.5% and in many cases can be significantly lower.

On December 15, 2016, the maximum outstanding insured exposure for all private sector insured mortgages permitted by PRMHIA was increased to $350 billion from the previous maximum of $300 billion. The Company estimated (based on information reported to it from its lenders) that as of December 31, 2017, it had approximately $218 billion in outstanding principal amount of mortgages that counted toward the cap set out in PRMHIA and the outstanding insured mortgage balances for all private sector insured mortgages was $284 billion. In the past, as outstanding principal mortgage amounts have approached the legislative cap, the federal government has increased the cap to ensure that the private sector can continue to compete with CMHC, however there is no guarantee that such historical patterns will continue.

($B)	**31-Dec-17**	**31-Dec-16**	**31-Dec-15**
Genworth			
Opening Outstanding Balance of Insured Mortgages	223	193	169
Transactional NIW[(1)]	18	21	25
Portfolio NIW	13	42	26
Decrease of Insured Mortgages [(2)]	(37)	(33)	(27)
Ending Outstanding Balance of Insured Mortgages	**218**	**223**	**193**
Other Private MIs [(3)]	**66**	**61**	**41**
Total Private MIs	**284**	**284**	**234**

(1) "NIW" means new insurance written
(2) Includes primarily the pay down and expiration of the insured mortgages net of portfolio insurance substitutions.
(3) Source: Other Private MI Portfolio Metric Report Q4'17

Regulatory Changes

Industry changes are described below in the section titled "*Regulatory Overview – Regulatory Changes*".

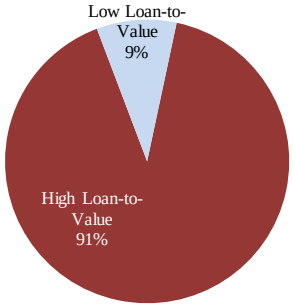
Overview of the Company's Mortgage Insurance Business

The Company offers both transactional and portfolio insurance. The chart on the left below demonstrates that for the 12-month period ended December 31, 2017, transactional insurance represented 91% of the Company's total premiums written and portfolio insurance represented 9% of its total premiums written.

The chart on the right below demonstrates that, as of December 31, 2017, the Company estimated the total outstanding balance of insured mortgages to be approximately $218 billion. Transactional insured mortgages represented 54% of the Company's aggregate insured mortgages outstanding and portfolio insured mortgages represented 46%.

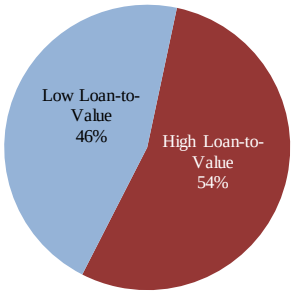
The difference in the distribution in the two charts below is a result of premium rates on portfolio insurance being significantly lower than those on transactional insurance, due to the lower risk profile associated with such loans.

2017 Gross Premiums Written by Product Type



Total: $663 million

Outstanding Balance by Product Type (as at December 31, 2017)



Total: $218 billion

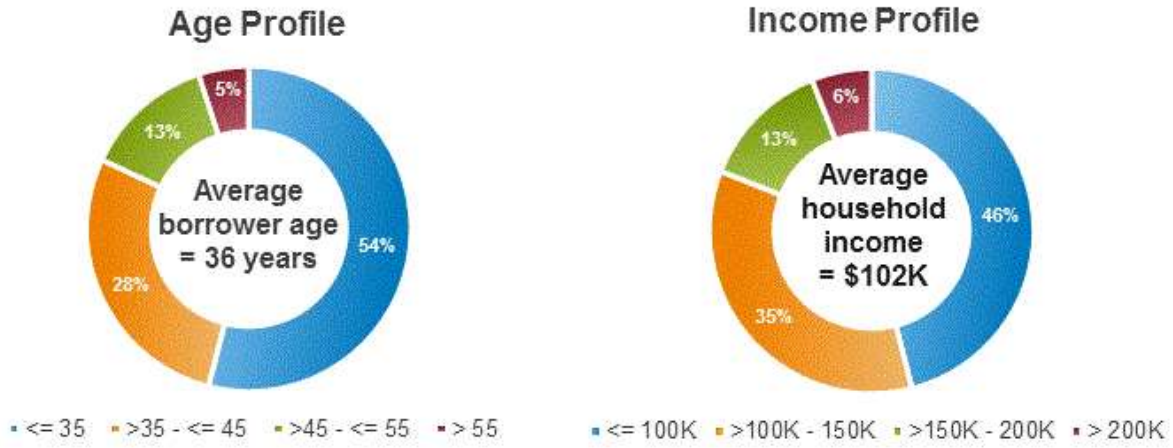
Transactional Insurance

Lenders are required to purchase mortgage insurance in respect of a residential mortgage loan whenever the loan-to-value exceeds 80%. In some instances, lenders decide to insure mortgages that have a loan-to-value below 80% on an individual basis. The Company's mortgage insurance covers default risk on mortgage loans secured by residential properties to protect lenders from losses on claims resulting from default on any type of residential mortgage loan instrument that the Company has approved.

By offering mortgages insurance in the above scenarios, the Company plays a significant role in increasing access to homeownership for Canadian residents. Homebuyers who can only afford to make a smaller down payment can, through the benefits provided by mortgage insurers such as the Company, obtain mortgages at rates comparable to buyers with more substantial down payments.

Transactional Insurance – Served Market

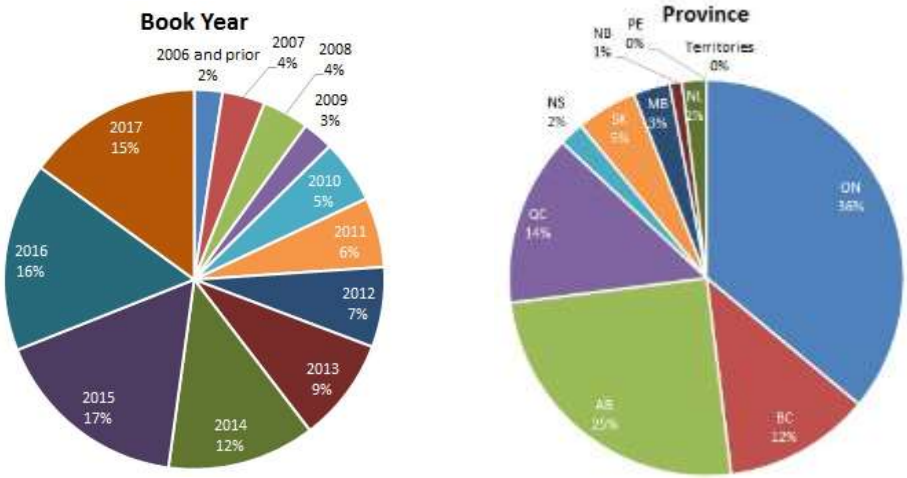
The Company's served market for transactional insurance consists primarily of first time homebuyers. Currently, the Company's borrowers, at origination, have an average age of 36 years, average household income of $102,000 and typically spend an average of $327,000 on their first home making a down payment of approximately 8% of the purchase price. Most (70%) are dual-income households, the majority (68%) purchased a detached house and 70% choose 5-year (or greater) fixed rate mortgage.

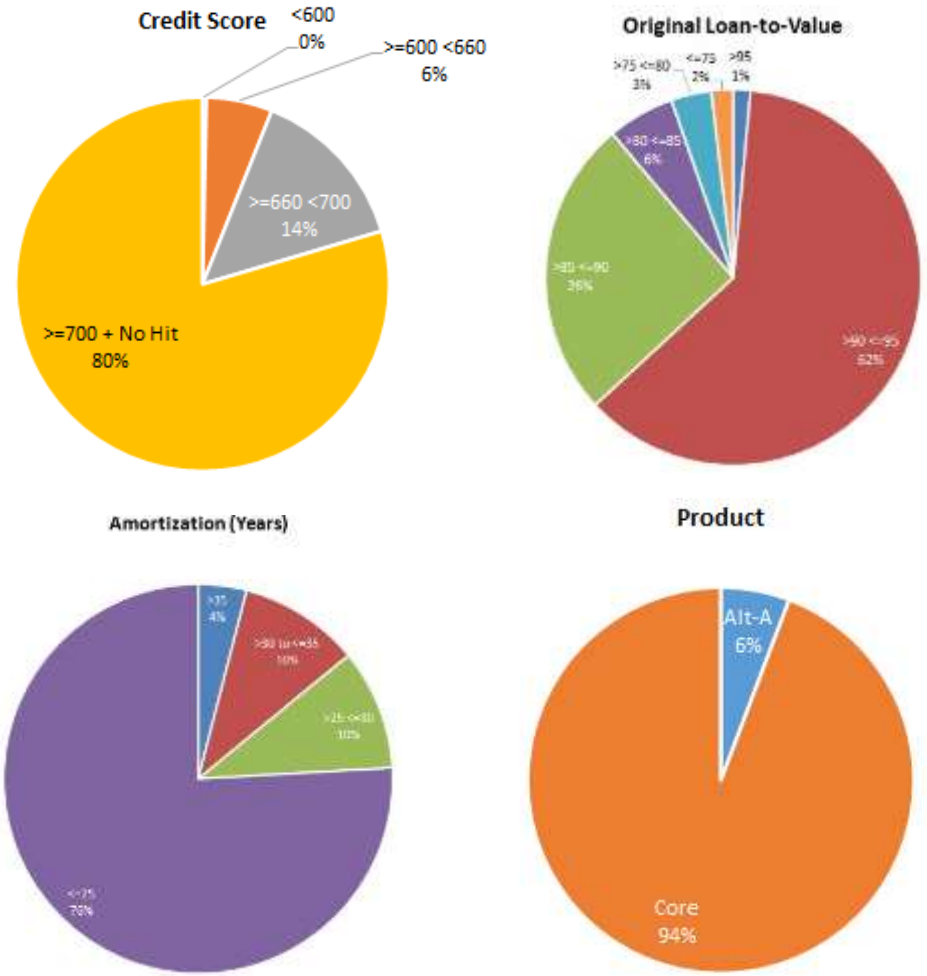


Data as at December 2017; Company sources
Percentages may not add to 100% due to rounding

The Company's transactional insurance portfolio can be segmented by various classifications. The following charts display the segmentation of the Company's estimated outstanding insured balances, as of December 31, 2017.

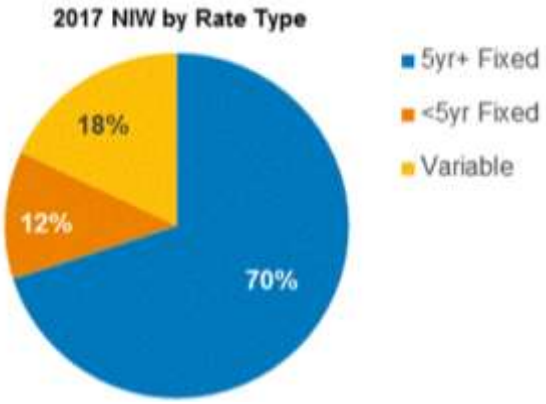
Total transactional outstanding balance of insured mortgages as at December 31, 2017: $118 billion





Percentages may not add to 100% due to rounding
(1) "**Credit Score**" means the average credit score of all borrowers on a mortgage insurance application. Average credit scores are calculated by averaging valid scores obtained from both Equifax and TransUnion for all borrowers

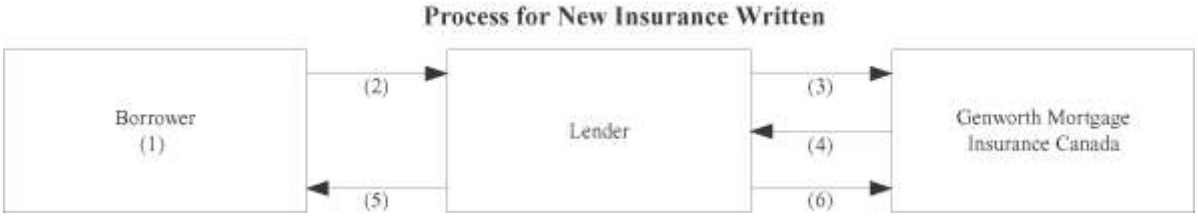
The Company's transactional new insurance written tends to be predominantly five year fixed rate mortgages or terms of longer duration. The graph below sets out a breakdown of the transactional new insurance written for 2017 between variable rate mortgages, less than five-year fixed rate mortgages and greater than five-year fixed rate mortgages. The Company believes that regulatory changes made in 2016 and 2017 by the Government of Canada (see "*Regulatory Overview – Regulatory Changes*") have resulted in a decline in the transactional market size and transactional new insurance written in 2017.



Pursuant to the rules governing government guaranteed mortgages (more fully described in "*Description of the Business – PRMHIA*" and "*Regulatory Overview – Regulatory Changes*"), all insured homebuyers must qualify for mortgage insurance at an interest rate that is the greater of their contract mortgage rate or benchmark rate (five-year conventional mortgage rate) published weekly by the Bank of Canada.

Transactional Insurance – Purchase Process

The process by which lenders purchase transactional insurance from the Company is summarized in the following diagram.



(1) Borrower buys home

(2) Borrower requests mortgage from Lender

(5) Lender advances mortgage funds

(3) Lender submits insurance application electronically to Genworth Mortgage Insurance Canada

(4) Genworth Mortgage Insurance Canada reviews and approves applications if the Company's underwriting standards are met

(6) Lender submits premium to Genworth Mortgage Insurance Canada

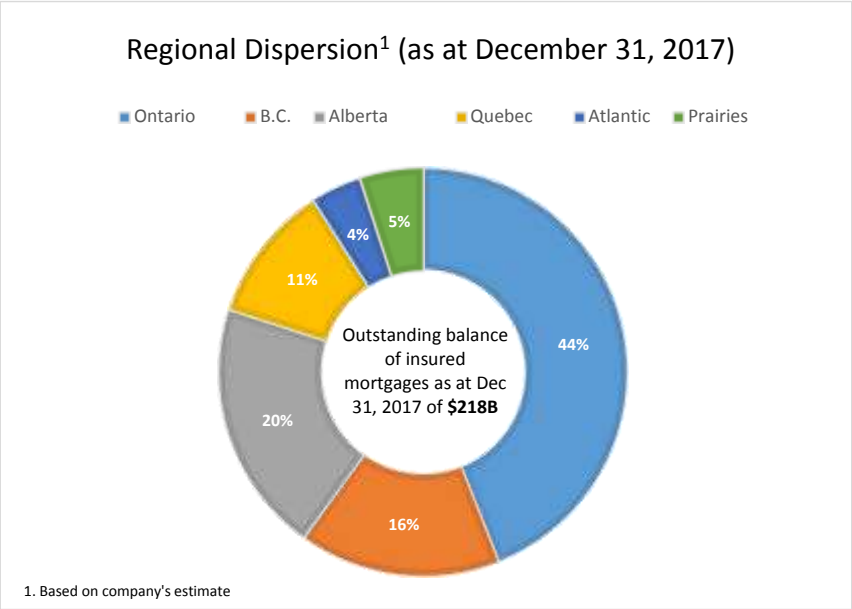
The Company reviews its insurance in-force constantly to assess the nature and risks of its portfolio. The dollar amount of its insurance in-force does not take into account the value of the collateral underlying each mortgage. Upon a borrower default, the value of the collateral serves to reduce the Company's loss exposure.

To the extent that home prices appreciate over time and/or the principal amount of the loan is paid down, the effective loan-to-value of the Company's insurance written in a given year decreases. The table below illustrates the original loan-to-value and estimated effective loan-to-value of the Company's total outstanding balance of insured mortgages by book and portfolio insurance (in the aggregate). As depicted below, the estimated effective loan-to-value ratio of the Company's insured mortgages was approximately 49% as of December 31, 2017.

Aggregate Outstanding Loan-to-Value and Effective Loan-to-Value by Book of Business (Transactional and Portfolio Insurance)

	Outstanding Principal Amount of Mortgages		Effective Loan-to-Value	Original Loan-to-Value
	$ billions	% of total		
Portfolio Only	100	46%	39%	61%
Transactional by Book Year				
2009 and Prior	15	7%	37%	91%
2010	6	3%	53%	91%
2011	7	3%	57%	91%
2012	8	4%	62%	91%
2013	10	5%	65%	91%
2014	15	7%	71%	92%
2015	20	9%	75%	92%
2016	19	9%	81%	92%
2017	18	8%	91%	92%
	218	100%	49%	77%

The chart below displays the regional dispersion of the Company's outstanding balance of aggregate transactional and portfolio insured mortgages, as of December 31, 2017. 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. The Company carefully monitors the geographic distribution of its insurance portfolio against pre-determined risk tolerances, taking into account the conditions of the housing market and economy in each region of Canada. For example, the Company monitors the effects of fluctuating oil prices in the province of Alberta, which represents approximately 20% of the Company's aggregate insurance (including both portfolio and transactional) based on outstanding insured balances as of December 31, 2017.



The Government of Canada has introduced various regulations impacting the housing and mortgage insurance market during 2016 and 2017. See "*General Development of the Business – Three Year History*" and "*Regulatory Overview – Regulatory Changes*" for further details on the implementation and impact of these changes.

Transactional Insurance – Price Increase

The Company reviews its underwriting, pricing and risk selection strategies on an annual basis to ensure that its products remain competitive and consistent with its marketing and profitability objectives. The Company's pricing approach takes into consideration long-term historical loss experience on loans with similar loan-to-value ratios, terms and types of mortgages, borrower credit histories and capital required to support the product.

On January 17, 2017, the Company announced it would increase its transactional mortgage insurance premium rates for homebuyers effective March 17, 2017. The new pricing is a reflection of the higher regulatory capital requirements that came into effect on January 1, 2017 and supports the long-term safety and sustainability of the Canadian housing finance system.

The new premium rates on transactional new insurance written for standard owner-occupied purchase applications submitted on or after March 17, 2017 are as follows:

Transactional New Insurance Written Loan-to-Value Ratio	**Standard Premium (Prior to March 17, 2017)**	**Standard Premium (Effective March 17, 2017)**
Up to and including 65%	0.60%	0.60%
Up to and including 75%	0.75%	1.70%
Up to and including 80%	1.25%	2.40%
Up to and including 85%	1.80%	2.80%
Up to and including 90%	2.40%	3.10%
Up to and including 95%	3.60%	4.00%
90.01% to 95% (Non-Traditional Payment Program)	3.85%	4.50%

The average transactional premium rate for 2017 of 331 basis points was 13% higher than the prior year, with this increase contributing approximately $70 million of additional premiums written as compared to the prior year. The average transactional premium rate in 2018 is expected to be 345 to 350 basis points with a full year price increase of approximately 18% to 20% as compared to 2016. Since the price increase in 2017 was in effect for only a part of the year, comparison to the 2016 price levels is more meaningful. The Company believes the new premium rates adequately reflect the increased capital requirements that came into effect on January 1, 2017 and allow the Company to earn the targeted operating return of equity of 13% on new transactional business over an economic cycle, however, OSFI continues to review its regulatory capital framework and it is expected that it will be updated effective January 1, 2019. The Company does not at this time know what the outcome of this update to the capital model will be, or how the current pricing will align with any possible changes to the capital requirements. See the MD&A for the Company's 2018 objectives and expectations for the transactional insurance market.

Portfolio Insurance

The Company also provides portfolio insurance to lenders with loan-to-value ratios of 80% or less. These policies are beneficial to lenders as they provide the ability to manage capital and funding requirements and mitigate risk. The Company views portfolio insurance as an extension of its relationship with existing transactional customers. Therefore, the Company carefully manages the level of its portfolio insurance relative to its overall insurance in-force.

Lenders choose to acquire portfolio insurance to achieve maximum funding flexibility, as it enables them to access lower-cost funds through securitization programs, such as the CMHC-sponsored NHA Mortgage-Backed Securities ("**MBS**") program, which requires that a mortgage be insured in order to be eligible for the program. Participation in the MBS program also enables lenders to access the Canada Mortgage Bonds ("**CMB**") program. Because the benefits payable under the Company's mortgage insurance policies are subject to the 90% Guarantee, lenders that purchase insurance for a mortgage can reduce their risk-weighted regulatory capital charges for credit risks on mortgages insured by the Company.

The Government of Canada has introduced regulations to generally limit the insurance of low loan-to-value mortgages to only those mortgages that will be used in CMHC securitization programs. CMHC also implemented a price increase to its NHA MBS guarantee fees in 2016. CMHC guarantees the timely payment of interest and principal for NHA MBS and CMBs, enabling approved financial institutions to pool eligible mortgages and transform them into marketable securities that can be sold to investors. The guarantee fees are in addition to the mortgage insurance premium for insured mortgages. CMHC noted "the revised fee structure is intended to encourage the development of private market funding alternatives by narrowing the funding cost difference between government sponsored and private market funding sources and the higher guarantee fees for issuances beyond the threshold is designed to discourage excessive use of NHA MBS for liquidity or funding purposes." This price increase followed a separate price increase effective April 1, 2015. The Company believes this contributed to the impact on lender demand for portfolio mortgage insurance as most of the mortgages that are portfolio-insured by the Company are pooled and securitized through the NHA MBS program. See "*Regulatory Overview – Regulatory Changes*" for further details on the implementation of these changes.

The Company's new portfolio insurance written varies from period to period based on a number of factors including: the amount of portfolio insurance lenders seek to insure; the competitiveness of the Company's pricing, underwriting guidelines and credit enhancement for portfolio insurance loans; and the Company's risk appetite for such mortgage insurance.

Demand for portfolio insurance fluctuates based on the specific needs of each lender. New insurance written from portfolio insurance was $13.4 billion in 2017, compared to $41.9 billion in the prior year, primarily due to a $20 billion portfolio insurance transaction with a large bank included in the prior year. The Company also believes that lower demand for portfolio insurance in 2017 was partially the result of the introduction of the purpose test rules on July 1, 2016, the prohibition of portfolio insurance on refinance transactions originated by lenders after November 30, 2016, and a substantial increase in portfolio insurance premium rates on mortgage applications received after December 31, 2016 in response to higher regulatory capital requirements. Due to the above described regulatory changes, the Company expects portfolio new insurance written to continue to be lower in 2018 compared to 2017, particularly due to reduced demand as a result of the significant increase in premium rates in response to the new capital framework that took effect on January 1, 2017.

Portfolio Insurance – Price increase

In addition to the premium rate increase implemented for transactional mortgage insurance, the Company has increased its premium rates for portfolio insurance as a result of the higher regulatory capital requirements that came into effect on January 1, 2017. There was a one-time increase in portfolio insurance volumes in the first quarter of 2017, as the Company closed several large transactions on portfolio insurance applications received in the fourth quarter of 2016. The portfolio insurance volumes declined significantly for the remainder of 2017 and the average premium rate increased from 36 basis points in the first quarter of 2017 to 81 basis points in the fourth quarter of 2017.

Distribution and Marketing

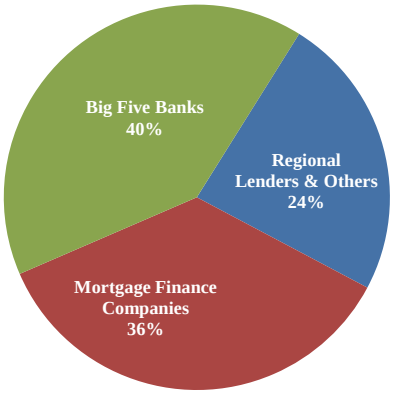
The Company works with lenders, mortgage brokers and real estate agents across Canada to make homeownership more affordable for first-time homebuyers. Mortgage insurance customers consist of originators of residential mortgage loans, such as banks, mortgage finance companies, credit unions and other lenders. These lenders typically determine which mortgage insurer they will use for the placement of mortgage insurance written on loans originated by them. Historically, according to Statistics Canada, the five largest Canadian chartered banks (the "**Big Five Banks**") have been the largest mortgage originators in Canada and provide the majority of financing for residential mortgages.

Canadian mortgage lenders, and the Company's distribution model, can be divided into the following segments:

- the Big Five Banks;
- mortgage finance companies; and
- regional lenders and other originators (such as credit unions).

The following chart displays the approximate segmentation of business of the Company's new insurance written for transactional insurance that each of the mortgage lender segments represented for the year ended December 31, 2017.

Genworth Canada's 2017 Transactional New Insurance Written



Total: $18.2 billion

By segmenting its customer base, the Company believes it is able to provide superior customer experience through sales and underwriting support and technology solutions designed to meet the specific needs of lenders. The Company seeks to enhance customer satisfaction by achieving and sharing process efficiencies through risk management, automation and customized services that help lenders reduce costs, improve efficiencies, as well as originate and fund better quality loans. The Company has developed sophisticated technological tools that enhance performance by automating key processes and reducing response times and process variations. See "– *Insurance Risk – Underwriting*".

Based on customer input, the Company has developed customized distribution and marketing approaches for each of the mortgage insurance industry segments it serves to align its resources with its customers' key stakeholders as set out below.

Big Five Banks – The priority in this lender segment is to focus on the specific needs of each Big Five Bank. The Big Five Banks typically operate according to one of two models when allocating business to mortgage insurers: (i) centralized allocation; and (ii) decentralized, or "field", allocation. The emphasis is on maintaining a strong institutional relationship and providing on-going support by meeting each bank's service level requirements for risk, sales, training, service and product enhancement. By maintaining frequent communication, the Company stays attuned to the changing needs of the market and those of its customers. The Company endeavours to have an in-depth understanding of each bank's strategy and align the Company's capabilities to assist the lender to meet its objectives. The Company provides broad services to each lending institution as a whole, as well as delivering customized solutions and training where necessary on a more local level.

Mortgage finance companies – As it does with the Big Five Banks, the Company strives to deliver customized solutions and training to its mortgage finance company customers. In addition, the Company provides these lenders with tools and access to its risk management and underwriting infrastructure to enable them to improve their processes. In general, there is an increased focus in this lender segment on training the lenders' underwriting and sales functions, communicating industry best practices, enhancing third party relationships with brokers and providing risk guidance and support.

Regional lenders and other originators – The Company emphasizes the development of strong relationships with regional lenders and other originators. These relationships are characterized by

frequent contact and the provision of training, market updates and intelligence, and information about industry best practices. Credit unions, in particular, are highly customer-focused, as they are owned by their members. The Company works collaboratively with lenders to add value for their borrowing customers.

Servicing of Customers

Dedicated Business Development Leaders and Underwriting Teams – The Company has appointed experienced business development leaders to work as customer relationship managers and customer advocates to ensure each lender's needs are understood and incorporated within the Company as they relate to risk, marketing, program launches, securitization and technology. These leaders are responsible for the development and execution of sales and marketing strategies aimed at growing lender volumes as well as providing a focal point for open communication with lenders. In addition, underwriting and mortgage information specialist teams are assigned geographically to provide lenders with the benefit of consistency of service and decision-making and alignment with regional variances and the lender's policies and guidelines.

Regular Portfolio and Risk Management Reviews with Lenders – The Company conducts regular insured mortgage portfolio reviews with a majority of lenders, during which it shares detailed information on a lender's portfolio quality across geographic, product and distribution channels. These reviews also include detailed loan performance metrics such as delinquency and loss severity rates. During such reviews, the Company shares insights on historical performance and risk management initiatives, the current housing market environment and emerging trends in both new mortgage originations as well as loan performance metrics.

Regional Field Support and Customized Training – The Company provides local sales support through five regional sales teams (British Columbia and the Yukon, the Prairie Provinces and the other Territories, Ontario, Quebec and the Atlantic Provinces). The Company's field sales team is comprised of five regional vice presidents who are responsible for all regional sales activities, including relationship management, education and customer training. The Company places considerable value on customer and consumer education programs and allocates significant resources to them. For example, the Company's interactive training programs are recognized for their delivery of high-quality modules on technical product information and tailored workshops and seminars. Each program is designed to help customers enhance their industry knowledge and business development skills.

The Company also hosts a variety of educational events across the country which are designed to provide lenders, mortgage brokers and realtors with information on the latest trends and developments impacting the industry and Canadian housing finance system.

In addition to its national underwriting centre in Oakville, Ontario and its regional office in Montreal, Quebec, the Company also provides local underwriting support in the Prairies, Pacific and Atlantic regions. Regional underwriters work closely with their local sales team, adding another dimension of knowledge and expertise to their customer interactions.

The Company monitors customer satisfaction and adapts its distribution and marketing approaches to meet changing customer demands. The Company conducts independently administered surveys to capture customer feedback and stratifies results regionally and by origination channel. The Company consistently ranks well above the competition on overall satisfaction ratings in these surveys. The Company believes that its historic growth in its business has been a direct result of its focus on customer experience and satisfaction.

Homebuyer Programs and Education – Although lenders are the beneficiaries of mortgage insurance policies, borrowers have benefited from the Company's enhanced service standards. The Company has been able to differentiate itself in the Canadian mortgage insurance marketplace through customer-focused support services such as the Homeowner Assistance Program, which is designed to help homeowners who are experiencing temporary financial difficulties that prevent them from making mortgage payments when due. For further details on the Homeowner Assistance Program, see "*– Insurance Risk – Loss Mitigation and Loan Modification Initiatives*" below. In addition, for more than a decade, the Company has designated a week in May as Homeownership Education Week during which the Company hosts a series of topical webinars designed to educate mortgage industry professionals.

The Company also provides a variety of educational resources for prospective homebuyers. These include a dedicated consumer website (www.homeownership.ca) with an extensive database of articles and videos about the homebuying process, its bi-annual HomeOwnership Digest, and its online HomeOpeners newsletter which homebuyers can subscribe to that delivers information relevant to their stage in the homebuying process. The Company also informs and engages with consumers through social media, with regular tips and discussions on topics related to responsible homeownership.

The Company distinguishes itself by exploiting the capabilities of its teams and highlighting their operating, quality assurance, pricing, administrative and service competencies. The following value-added services allow the Company to maintain its strong relationships across the industry.

Risk Management

Risk management is a critical part of the Company's business. The Company's Enterprise Risk Management Framework comprises the totality of the frameworks, systems, processes, policies, and people for identifying, assessing, mitigating and monitoring risks. The key elements of the Enterprise Risk Management Framework are illustrated in the diagram below.

Enterprise Risk Management Framework

Governance framework

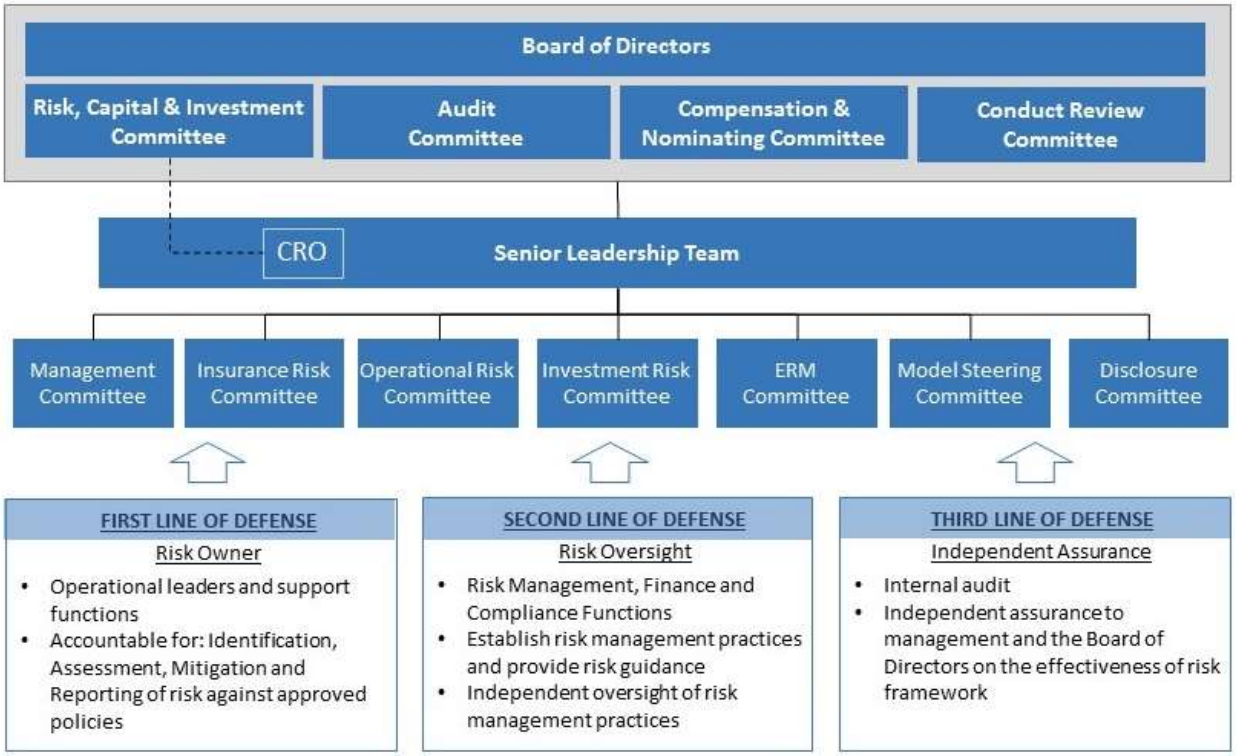
Genworth Canada's governance framework is designed to ensure the board of directors of Genworth Canada (the "**Board**") and management have effective oversight of the risks faced by the Company with clearly defined and articulated roles and responsibilities and inter-relationships. The governance framework is comprised of three core elements:

I. Board oversight of risk and risk management practices;
II. Management's oversight of risks; and
III. The "three lines of defense" operating model.

The Board is responsible for reviewing and approving the Company's Risk Appetite and ensuring that it remains consistent with the Company's short and long-term strategy, business and capital plans. The Board carries out its risk management mandate primarily through its committees, with its Risk, Capital and Investment Committee having responsibility for oversight of insurance, investment, and operational risks.

The Company's management is responsible for risk management under the oversight of the Board and fulfills its responsibility through several risk committees, as noted in the chart below. The Chief Risk Officer, who oversees the Risk Management Group, reports to the CEO but has direct access via in-camera sessions with the Risk, Capital and Investment Committee of the Board.

The Board and the board of directors of Genworth Mortgage Insurance Canada use a "three lines of defense" approach to risk management, which serves to allocate accountability and responsibility for risk management within the various business functions, as are outlined in the chart below.



Note: "CRO" means Chief Risk Officer. "ERM" means Enterprise Risk Management.

Risk Appetite Framework

Risk appetite is the maximum amount of risk that the Company is willing to accept in the pursuit of its business objectives. The objective in managing risk is to protect the Company from unacceptable loss or an undesirable outcome with respect to earnings volatility, capital adequacy, liquidity or reputation, while supporting the Company's overall business strategy.

The purpose of the risk appetite framework is to provide a framework for management and the Board for understanding the ultimate level of risk the Company is willing to undertake in pursuit of its strategic objectives with due regard to its commitments and regulatory parameters. It articulates the desired balance between risk objectives, meeting customer needs and profitability objectives, and is a major communication tool that enables the Board to cascade key messages throughout the organization. It establishes a common understanding around the acceptable level of variability in financial performance and answers the question of how much risk the Company is willing to take under expected and extreme scenarios.

Where possible the Company has set risk limits and tolerances that guide the business and ensure that risk taking activities are within its risk appetite. The Company's risk tolerances and limits will be assessed for appropriateness at least annually and on a more frequent basis if there is a major change to the economic or business environment. The Company communicates risk tolerances and limits across the organization through its policies, limit structures, operating procedures and risk reporting.

Where possible, the Company's risk appetite is subject to stress and scenario testing and can be expressed as the tolerance with respect to acceptable variances for earnings, liquidity and capital to deviate from their target levels under a variety of different scenarios.

Risk principles

The Company employs the following methods of managing risk that originate from the business objectives of the Company:

- Ensure the expected outcomes of risk taking activities are consistent with the Company's strategies and risk appetite;
- Ensure there is an appropriate balance between risk, return, capital, and liquidity in order to meet policyholder obligations and maximize shareholder value throughout economic cycles;
- Ensure business decisions are based on an understanding of risk;
- Ensure a deep understanding of risk drivers as they relate to the Company's key objectives;
- Employ a "three lines of defense" risk governance model, which ensures that a responsibility for risk management is shared across the business;
- Proactively address emerging risks as they arise; and
- Ensure strict adherence to legal, compliance and regulatory requirements.

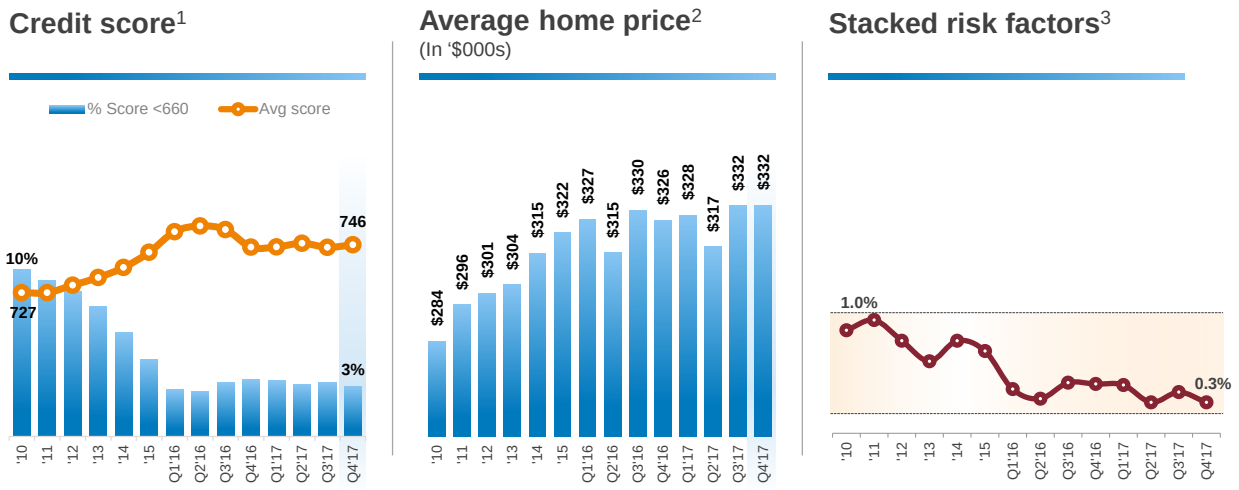
The Company's enterprise risk management framework and internal control procedures are designed to reduce the level of volatility in its financial results. The Company's enterprise risk management framework is linked to its business strategy and decision-making framework. One of the

key tools is the ORSA framework. The key elements and considerations of ORSA include: the comprehensive identification and assessment of risks and the adequacy of the Company's risk management; the assessment of the Company's current and likely future capital needs and solvency positions in light of its risk assessments; the distinguishing of Board oversight and management responsibility for such processes; detailing related monitoring and reporting requirements; and detailing the Company's internal controls and objective review process and procedures for such risk assessments. The Company's ORSA is forward looking and is completed in conjunction with the Company's business and strategic planning.

Insurance risk

The Company's mortgage insurance 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 graphs below show the trend in the credit quality (calculated using a straight average of all valid scores received in respect of each mortgage application), underlying home prices and stacked risk factors for transactional insurance provided by the Company. In 2017, the Company has continued to focus on insuring borrowers with a strong financial profile as demonstrated by the high average credit score and relatively stable gross debt service ratios and which demonstrates the financial discipline of such homebuyers. For transactional insurance provided by the Company, the average credit score has increased by 30 points since 2007, the median home price has increased by approximately 10% since 2011 and the average gross debt service ratio has remained stable and well below the industry maximum of 39%. The below chart sets out certain characteristics of the Company's transactional insured mortgage portfolio.

Transactional Insured Mortgages Characteristics



(1) Company sources for transactional new insurance written. Average score for all borrowers.
(2) Company sources for transactional new insurance written, Purchase only.
(3) Stacked risk factors: Purchase only; 90%+ LTV and <= 660 credit score, and >40 TDSR.

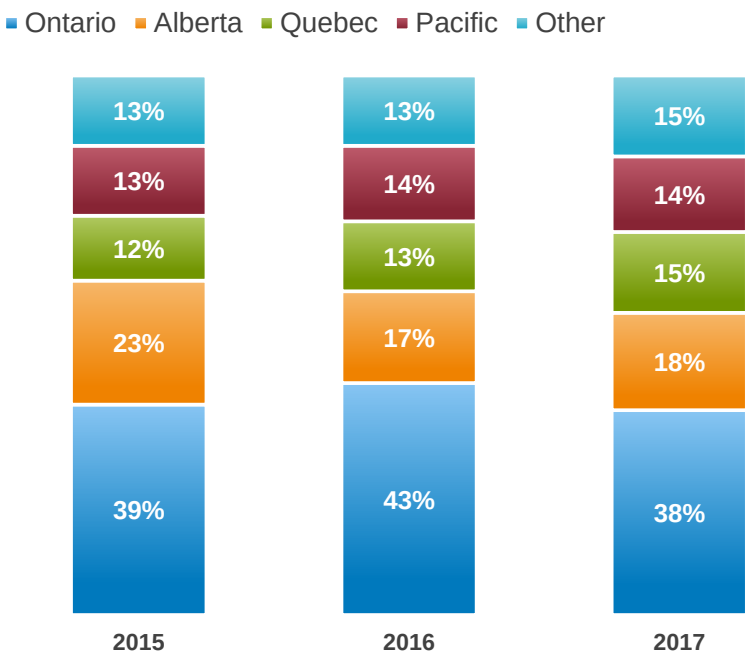
As a result of government regulatory changes and consequential underwriting changes implemented by the Company, the Company has decreased its exposure to higher risk products. See "*Industry Overview – Industry Performance*" for examples of such changes.

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 the Company's transactional insurance mortgages, the average home price is typically lower than the overall market average. The chart below illustrates this.

Greater City Area	NIW	Average Home Price			Average Income	Average Gross Debt Servicing	Average Credit Score
2017	Genworth	Genworth	Market	% Variance	Genworth	Genworth	Genworth
Vancouver	6%	$468K	$1,022K	-54%	$112K	28%	748
Calgary	5%	$407K	$463K	-12%	$115K	26%	748
Edmonton	5%	$359K	$378K	-5%	$107K	25%	747
Toronto	14%	$522K	$806K	-35%	$123K	29%	749
Montreal	8%	$298K	$365K	-18%	$94K	25%	755
Canada		$327K	$506K	-35%	$102K	24%	746

The Company continuously monitors economic conditions and takes underwriting actions to manage its exposure to the various regions based on prevailing conditions. The below chart illustrates changes to the Company regional new insurance written dispersion over the last three years.

Regional Transactional NIW Dispersion[1]

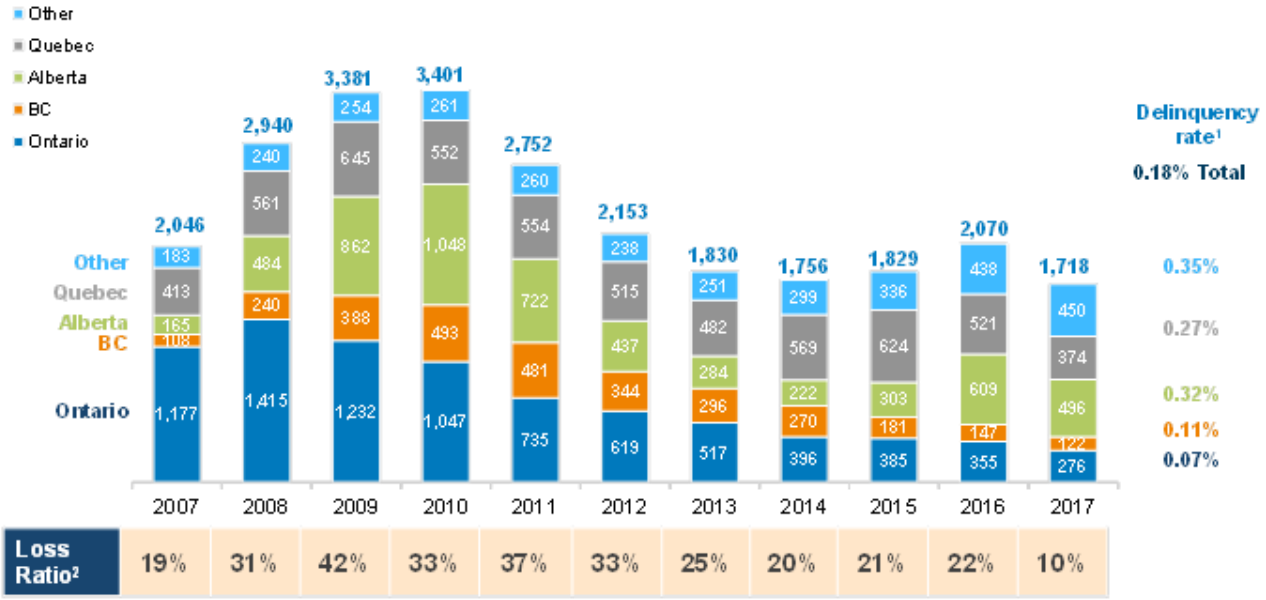


(1) Pacific includes British Columbia and the Territories

The Company's extensive historical database and innovative information technology systems are important tools in its approach to risk management. The Company utilizes its proprietary transactional insurance performance database to build and improve its mortgage scoring model. This mortgage scoring model employs a number of evaluation criteria to assign a score to each insured mortgage loan which is an indicator of the likelihood of a future claim. This evaluation criteria includes borrower credit score, loan type and amount, total debt service ratio, property type and loan-to-value. The Company believes these factors, as well as other considerations, significantly enhance the ability of the mortgage scoring model to predict the likelihood of a borrower default, as compared to reliance solely on borrower credit score. The Company also utilizes internally developed stochastic modelling to estimate projected losses on claims and to measure the severity of loss and delinquency rate sensitivity to both changes in the economic environment as well as individual loan or borrower attributes.

The Company's mortgage portfolio risk management function is organized into three primary groups: portfolio analysis, underwriting policies and guidelines, and risk technology and actuarial modeling. 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 insurance risk committee on a monthly basis. The Company closely monitors the delinquency performance as a key indicator of insurance portfolio performance. The chart below shows the declining trend of delinquencies over the past six years which have resulted primarily from declining unemployment rates and generally stable or improving housing market conditions in Canada. Low delinquencies in 2017 from most provinces were a direct result of record low unemployment rates, stabilizing oil prices and a stronger than expected housing market.

Number of Reported Delinquencies



Company sources

(1) Based on outsanding insured mortgages as at December 30, 2017

(2) Loss ratio in 2009 excludes the impact of the change to the premium recognition curve in the first quarter of 2009

Quality Assurance

The Company also employs a quality assurance team to ensure that policies and guidelines established by the Company's mortgage portfolio risk management function are adhered to both internally within the Company and by lenders submitting applications to the Company. The quality assurance team conducts daily reviews of a random sample of loans adjudicated by the Company's underwriters. Similarly, external lender audits are conducted on a routine basis, using a statistically relevant sample of approved loans. In addition, the quality assurance team also reviews the Company's loss reserving and mitigation functions to ensure compliance with relevant Company policies and accounting standards. Audit results of all three areas are reviewed by management on a monthly basis.

Through the Company's risk management system it takes active steps to identify and prevent fraud. This includes collaborating with industry participants to promote best practices within the mortgage industry and to identify emerging trends; performing quality assurance audits on lender institutions and maintaining a proprietary database of properties or persons known to have been involved in fraud or misrepresentation.

Underwriting

The Company's underwriting function is responsible for: (i) evaluating applications for transactional insurance and a subset of portfolio insurance submitted to the Company by lenders; (ii) ensuring that the Company's underwriting policies and guidelines approved by the risk management function are consistently followed; (iii) assessing the market value of a property collateralizing a mortgage; and (iv) assisting lenders in the underwriting process.

The underwriting function consists of two primary groups: an underwriting group; and a call centre. The underwriting group is responsible for underwriting applications, while the Company's property appraisal group manages the requisition and follow-up of appraisals. The call centre serves as the main customer service group, handling lender calls regarding application status and product or general questions.

The Company's underwriting group is divided into three regional specific teams. Each team is led by a senior manager. The region-dedicated nature of these teams facilitates a deep understanding of the processes and systems applicable to each particular province, thus enabling the underwriters to provide superior customer service as they assist lenders with mortgage insurance applications. The teams provide full coverage across Canada, and do so in both official languages.

Authority levels for underwriting decisions are assigned by the Operations Management team and monitored by the Company's risk management function. Underwriters are given authority to approve mortgage insurance applications based on their experience and proficiency level. The authority levels govern the escalation of applications within the Company's underwriting group. As applications are escalated the authority level to adjudicate the application are increased. The Company provides training on a regular basis to facilitate ongoing learning and improvements in underwriting proficiency.

In general, the Company evaluates portfolio insurance loans submitted to the Company by lenders for mortgage insurance on a portfolio basis in addition to on a loan-by-loan basis. Lenders underwrite portfolio insurance loans individually at the time of origination. The Company evaluates the attributes and mix of portfolio insurance loans in lender portfolios including loan-to-value, credit scores, geographic dispersion, loan type, loan purpose and loan amortization period. In addition, the Company audits a sample of loans from each portfolio to assess the underwriting procedures applied by the lender in originating the portfolio insurance loans. The Company's new insurance written for portfolio insurance mortgages varies from period to period based on a number of factors including: the amount of portfolio insurance mortgages lenders seek to insure; the competitiveness of the Company's pricing, underwriting guidelines and credit enhancement for portfolio insurance loans; competitive dynamics within the marketplace between the Company and its competitors; and the Company's risk appetite for such mortgage insurance.

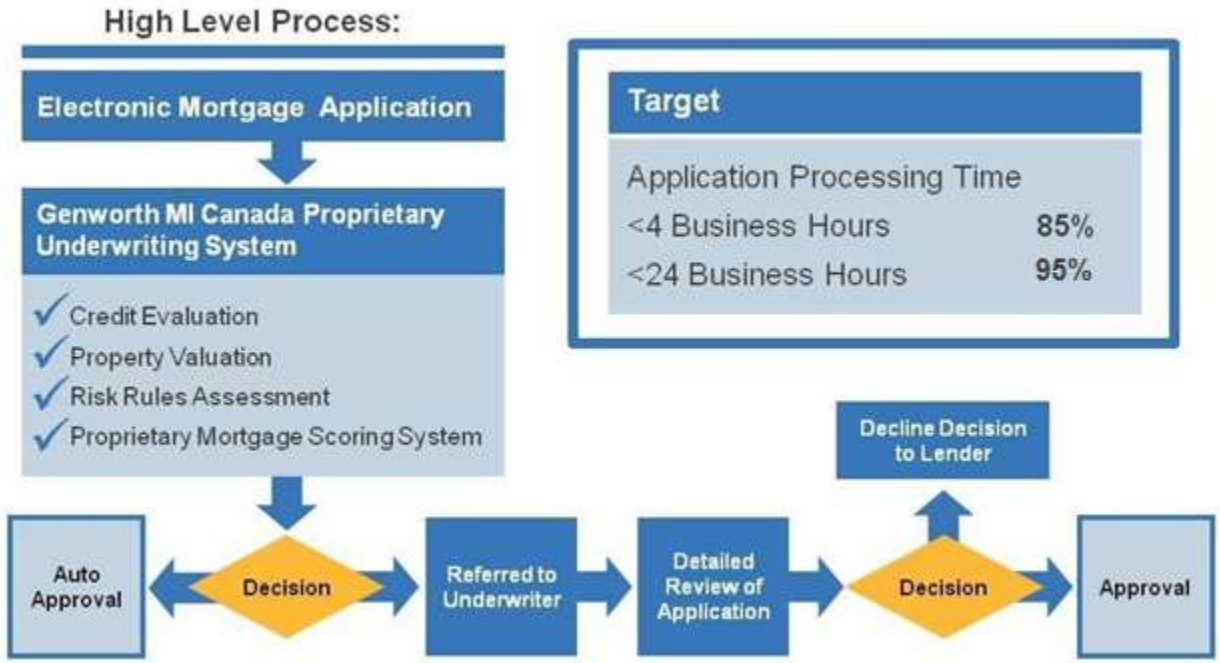
Automation of Underwriting and the Risk Selection Process

The Company uses its proprietary electronic underwriting system and mortgage scoring model to process mortgage insurance applications submitted by lenders. Insurance applications are submitted electronically through direct links from the lenders' own underwriting systems or web-enabled services. The Company's proprietary system captures details relevant to the application, including, but not limited to, loan amount, property address, purchase price, borrower income and employment. The system calculates the premium due based on the loan-to-value and product type using the Company's pre-established premium rates. The system collects additional data from third party suppliers, including credit scores and estimated property values when available. It then evaluates the application against a set of risk rules and guidelines, which include fraud and compliance screens, and generates an automated response of either "Approved" or "Referred to Underwriter". These rules and guidelines are recalibrated as required to align the electronic underwriting process with changes made under the Company's risk management framework. In addition, the Company endeavours to continuously improve and add third party risk processes that assist in operational efficiencies or improve the quality of risk management decisions. The Company has continued to improve its electronic underwriting systems and endeavours to improve its efficiency and accuracy on a regular basis.

Applications that fail one or more aspects of credit evaluation, property valuation, risk rules assessment or the Company's proprietary mortgage scoring model are referred to an underwriter for further evaluation. The underwriters assess the reasons for failure, as well as for potential fraud indicators and make additional inquiries and obtain additional information as appropriate in order to reach a final decision on the application. In addition, applications may be escalated within the Company's underwriting group based on the nature of the application and the authority levels of individual underwriters assigned to such applications. As applications are escalated the authority level to adjudicate the application are increased. The Company conducts periodic audits of both its own underwriting files and the lender loan files to assess compliance with the Company's and the lender's underwriting and documentation guidelines and accuracy of loan application data.

The Company's underwriting and electronic decision-making process and overall target processing time are summarized in the following diagram.

Underwriting and Electronic Decision-Making Process



The Company's risk management and underwriting process enables it to assess mortgage applications quickly, while reviewing high loan-to-value mortgage applications on a loan-by-loan basis, taking into account a broad range of factors and ensuring that the underwriting guidelines established by the Company are adhered to. The increased ability of the Company's proprietary mortgage scoring model to predict the likelihood of a borrower default, as compared to a borrower credit score approach only, assists it in deciding which mortgage insurance risks to accept.

Product Pricing and Management

The Company has established a product development and customization process that specifies a series of required analyses, reviews and approvals for any new or altered product, including risk management, finance, legal, marketing and sales department reviews. For each proposed or altered product, this process includes a review of the market opportunity and competitive landscape, major pricing assumptions and methodologies, capital requirements, return expectations, underwriting criteria, business risks and potential mitigating factors. Before the Company introduces a new product or a product modification, it establishes a monitoring program with specific performance targets, including delinquency ratios and loss ratios, which the Company monitors frequently to identify any deviations from expected performance so that it can take corrective action when necessary.

When pricing a new or customized product, the Company starts by building an expectation of frequency and severity of loss based on the specific features and characteristics of such product. The frequency and severity expectations may be developed from existing experience on very similar products, or by applying adjustments to existing performance data to account for specific risk factors related to the product's features and characteristics. The derived frequency and severity factors are modeled together

with expected premium rates to yield the expected operating return on equity, which is evaluated against the Company's benchmark for operating return on equity on such product.

Product performance and pricing reviews take place on an annual basis and include an analysis of the major drivers of profitability, underwriting performance and variations from expected results, including an in-depth experience analysis of the product's major risk factors. The major drivers of profitability are loss ratio, expense ratio, investment portfolio yield and capital requirements. Other areas of focus include the regulatory and competitive environments and other emerging factors that may affect product performance.

The Company initiates special reviews when a product fails to meet the performance targets that the Company established during that product's introductory review process. If a product does not meet the Company's performance criteria, the Company considers adjustments in pricing, design and marketing, or ultimately discontinuing sales of that product. In addition, the Company also reviews the performance of lender accounts and existing products on an annual basis to assess whether the Company's business with lenders is achieving anticipated volume, mix and performance levels and to identify trends requiring changes to underwriting guidelines and product or business mix. The Company reviews its underwriting, pricing and risk selection strategies on a regular basis to ensure that its products remain competitive and consistent with its marketing and profitability objectives.

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. The Company's premium rates vary based on long-term historical loss experience on loans with similar loan-to-value ratios, terms and types of mortgages, borrower credit histories and capital required to support the product.

On January 17, 2017 Genworth Mortgage Insurance Canada announced an increase in its mortgage insurance premium rates. See "*Description of the Business – Overview of the Company's Mortgage Insurance Business – Transactional Insurance Purchase Process – Transactional Insurance – Price Increase*" for details on this increase to the premium rates.

Loss Reserves and Unearned Premium Reserves

The Company establishes loss reserves to provide for the expected ultimate net cost of settling claims, including adjustments to expenses related to defaults by borrowers (both reported and unreported) that have occurred on or before the reporting date. Loss reserves do not represent an exact calculation of liability. Rather, loss reserves are the Company's estimates of what the Company expects to be the ultimate cost of resolution and administration of claims for notices of delinquencies reported to the Company by lenders. The Company continually refines its loss reserve estimates in an ongoing process as claims are adjusted and settled. Establishing an appropriate level of loss reserves is an inherently uncertain process, as it requires estimates and assumptions about future events. The following are some of the factors that may have a substantial impact on the Company's ultimate losses on claims and the adequacy of its loss reserves: (i) the amounts of claim payments; (ii) the expenses that the Company incurs in resolving claims; (iii) legislative and judicial developments; (iv) changes in economic conditions, including inflation and changes in home prices; and (v) the level of undiscovered insurance fraud. See the MD&A for further details on the establishment of loss reserves.

Unearned premiums reserves or "UPR" is that portion of premiums written that has not yet been recognized as revenue. Unearned premium reserves are recognized as revenue over the policy life in accordance with the expected pattern of loss emergence as derived from actuarial analysis of historical loss development. Unearned premium reserves are intended to cover the ultimate cost of settling claims arising from delinquencies that occur after the reporting date. The Company's appointed actuary performs

a liability adequacy test on the Company's unearned premium reserves to ensure the unearned premiums reserve is sufficient to pay for future claims and expenses that may arise from unexpired insurance contracts.

Claims Management

The Company actively monitors and manages its claims internally through its claims management personnel in order to provide efficient, high-quality customer service and to mitigate potential losses on claims. Losses on claims represent the difference between the amounts claimed by the lender and the amounts recovered or estimated to be recoverable from the sale of property securing the insured mortgage loan. Case reserves are established by the Company when it considers it probable that defaults by borrowers will result in claims.

The Company's policies require the insured lender to file a claim when the equivalent of 90 days' worth of default has accumulated on an insured mortgage. The claim amount is subject to the Company's review, appraisal and possible adjustment. With few exceptions, the policies exclude coverage for physical damage beyond normal wear and tear, whether caused by fire, earthquake or other hazard. In addition, the policies provide that the Company has the right to rescind coverage and refuse to pay a claim if it is determined that the insured or its agents made a misstatement or omission of a fact in the insurance application that was material to the Company's acceptance of risk. The insured lender is covered under the mortgage insurance policy for the entire unpaid loan balance, plus interest, customary selling costs and expenses related to the sale of the underlying property upon default by the borrower. An illustration of the calculation of an insurance claim is as follows.

Mortgage Insurance Claim Illustration

Purchase Value	$ 310,000
Original Loan	$ 294,500
Premium Amount[1]	10,602
Insured Amount	305,102
Unpaid Balance (at time of default)	295,000
Accrued Loan Interest	15,000
Foreclosure Fees	16,000
Gross Claim (A)	326,000
Property Value	265,000
Real Estate Fees and Taxes	(16,000)
Net Proceeds (B)	$ 249,000
Net Claim Amount to Company (A-B)	$ 77,000
Severity Ratio	25%

(1) Based on current Premiums.

The party insured by a residential mortgage policy issued by the Company is the lending institution. When the borrower is in arrears, the insured lender is obligated to diligently pursue efforts to require the borrower to remedy such arrears. Lenders report delinquent loans to the Company on a monthly basis. The typical delinquency management process is illustrated in the following diagram.

Delinquency Management Process

- **Home Ownership Assistance Program**
  - Prior to and during the Assessment phase the Home Ownership Assistance Program is utilized to help homeowners who are experiencing temporary financial difficulties that may prevent them from making timely payments on their mortgage
- **Assessment**
  - Following a missed mortgage payment lender commences "soft" collections to bring mortgage current
- **Enforcement**
  - Law firm engaged for legal enforcement
- **Sale**
  - Property listed for sale and sold
- **Recoveries**
  - Recoveries from borrowers and third parties

Loss Mitigation and Loan Modification Initiatives

The Company has had its primary loss mitigation program, the Homeowner Assistance Program, or similar such workout programs, in place for approximately two decades. The Homeowner Assistance Program is designed to help homeowners who are experiencing temporary financial difficulties that may prevent them from making timely payments on their mortgage. This program enables lenders to work with the Company to establish alternative arrangements, referred to as "workouts," that may help borrowers remain in their home during times of temporary economic hardship, such as loss of employment or reduced income, marital breakdown or unexpected illness or disability.

Requests for assistance under the Homeowner Assistance Program may originate directly from borrowers, or indirectly from lenders on behalf of the borrowers. Such requests typically relate to borrowers who have not yet become delinquent but are experiencing difficulty with making mortgage payments. The Company reviews every new reported delinquency to determine if an opportunity exists to assist the borrower through the Homeowner Assistance Program. If such an opportunity is identified, the Company contacts the lender and initiates the process, including making contact directly with the borrower.

The Company has a dedicated team of Homeowner Assistance Program specialists who are trained in identifying the best workout solutions for lenders and their customers. In addition to the dedicated team, a number of other employees are focused on identifying potential workout opportunities,

including loss mitigation officers, sales and customer service personnel and underwriting teams. The Company considers a number of options that may be employed to assist a homeowner when faced with temporary hardships:

- capitalizing arrears;
- deferring payments;
- arranging a partial repayment plan;
- increasing the amortization period; or
- completing a shortfall sale.

Most of the Company's lender customers participate in the Homeowner Assistance Program. Although the Homeowner Assistance Program or similar workout programs have been in existence since 1995, the volume of workouts is a product of economic conditions and the number of claims the Company is receiving. During 2015, 2016 and 2017, the Company completed approximately 4,996, 5,461 and 3,996 workouts under its Homeowner Assistance Program, respectively; resulting in a workout penetration rate of 57%, 57% and 54% respectively. The lower number of workouts and workout penetration in 2017 is a product of more favourable economic conditions in 2017. The Company believes the Homeowner Assistance Program benefits: (i) borrowers, by enabling them to remain in their homes; (ii) lenders, by allowing them to maintain strong relationships with their customers; and (iii) the Company, by avoiding or mitigating losses on claims under its policies.

The Company's loss mitigation function is comprised of personnel that focus on specific lenders. This allows loss mitigation personnel to become familiar with the lenders' processes and systems, enabling them to assist lenders for which they are responsible with the claim submission, update and review process. Lenders report delinquent loans to the Company on a monthly basis. The delinquent loan details, including outstanding balance, current interest rate, amount in arrears and estimated property value, are entered into the Company's default management system by a claims administrator. The default management system references the Company's in-force database to populate other pertinent details such as original insured amount, purchase price, property address and borrower details. The system uses the various inputs to calculate the estimated loss, representing the total claim less the net recoverable amount from the property. This estimation informs management's best estimate of losses for the calculation of reserves.

Typically, over the course of several months of a delinquency, loss mitigation personnel will communicate with the lender on various issues, including property maintenance, legal costs, progress on listing the property for sale and ultimately offers to purchase the property. As part of its loss mitigation actions and in the ordinary course of business, the Company in some instances takes ownership of certain residential properties which have gone into default before they are subsequently sold by the Company (the "**Real Estate Owned Program**" or "**REO Program**").

With continued focus and attention on the Real Estate Owned Program, in 2017 the Company experienced continued benefits of this program, with an average utilization rate 71% of all claims paid going through the Real Estate Owned Program.

The Company has continued its initiative to accelerate and facilitate the conveyance of real estate to the Company, in order to reduce losses. Under the initiative, once a property has been vacated, the lender's claim is paid in full by the Company and the Company then takes over the marketing and sale of

the property. In each instance, following discussions with the lenders, it is at the Company's discretion if it wishes to take advantage of this process. Benefits for the Company of this program include: (i) control of the marketing process; (ii) reducing accruing interest costs; (iii) reducing property management fees by generally shortening the time that such properties are on the market; (iv) reducing real estate agent commissions; and (v) the potential realization of a higher sale price. The benefits to the lenders include: (i) faster claim payments; (ii) productivity improvements; and (iii) reduced administration costs.

Large claims and early-term delinquencies (where the borrower has made 12 or fewer payments) are reviewed by a special investigations team to determine if any misrepresentation occurred during the underwriting of the insurance application. In the event of a misrepresentation, the Company pursues recovery of such losses on claims.

Discussions with lenders are tracked in the Company's default management system to facilitate review by management personnel from the loss mitigation team. Loss mitigation officers have authority to approve claims up to a maximum dollar amount, based on their level of experience and seniority. Claims in excess of a person's authority level are referred to more senior officers, and in some cases, to the Company's senior management.

Where a claim has been paid, the Company generally seeks to obtain a legally enforceable judgement against the borrower(s) for the amount of the loss. Such recourse against the borrower(s) is available in all provinces and territories in Canada, except in Alberta (in the case of mortgages with a loan-to-value equal to or less than 80%) and Saskatchewan. A judgement allows the Company to pursue recovery from the borrower(s) through a number of means, beyond just the sale of the property, including lump sum settlements, garnishing of wages and monthly payment arrangements. In such cases, the registration of a judgement typically expires seven years after it is obtained; however, the Company can seek the renewal of the registration prior to its expiry. The Company employs its own staff and a number of third party professionals to pursue recovery on the judgements obtained and has built a history of successful collection activities over the past three years. As a result, the Company believes that it can now reasonably estimate the expected recovery rate of approximately 3% of net claims paid and the longer term goal for the Company is 5% of net claims paid.

Property and Casualty Insurance Coverage

In addition to the risk mitigants set out above, the Company has in place director and officer liability insurance, errors and omissions insurance and cybersecurity insurance to reduce the Company's exposure to such risks.

Operations and Technology

Service and Support

The Company has a dedicated team of service and support personnel. The Company uses advanced proprietary technology to provide underwriting services and manage losses. The Company has introduced technologically advanced services to lenders over the past several years. Current technology enables the Company to accept applications through digital submission and to issue digital insurance approvals across Canada. Through the Company's secure digital portal, lenders can receive information about their loans in the Company's database, as well as provide updated information, access payment histories and file claims. Since 2006, the Company has received virtually all of its mortgage insurance applications electronically.

Technology Capabilities and Process Improvement

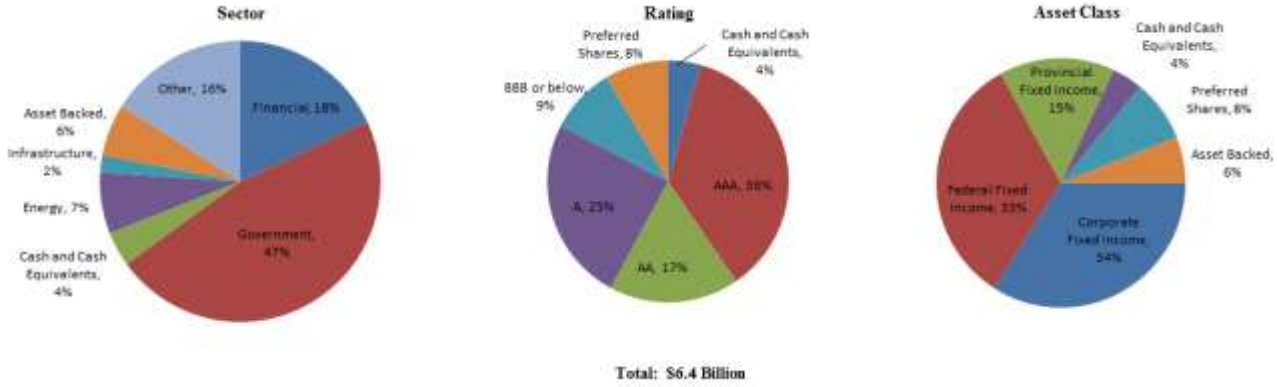
The Company continuously updates its technology and proprietary software. It considers its own needs and those of its lenders in determining priorities for investment in technology. The Company's technology team is experienced in large-scale project delivery, including insurance administration systems and the development of digital servicing capabilities. The Company manages technology costs by standardizing its technology infrastructure, consolidating application systems and managing project execution risks. The Company believes its proprietary underwriting system has increased its underwriting efficiency and enabled the Company to be more responsive to lenders' needs.

The Company continuously monitors and attempts to enhance its operating efficiency and competitive advantages by using a variety of process tools designed to address all aspects of process management, as well as increase its decision-making process using advanced data decisioning tools. These tools enable the Company to increase its operational effectiveness, improve its process performance and build new processes.

Investment Management

The Company has a conservatively managed, high quality investment portfolio. As of December 31, 2017, the Company had a market value of total cash, cash equivalents and invested assets of $6.4 billion in its investment portfolio. Unrealized gains were approximately $109 million in the investment portfolio. As at December 31, 2017, the Company's interest rate swap hedging program has an outstanding notional value of $3.5 billion with a mark to market gain of $92 million. The Company manages its assets to meet liquidity, credit quality, diversification and yield requirements by investing primarily in fixed income securities, including federal (inclusive of NHA, MBS), provincial, investment grade corporate bonds, asset backed securities, preferred and common shares.

The following charts set forth a breakdown of the Company's investment portfolio based on market value as of December 31, 2017, by sector, rating and asset class.



Organization

During 2017, the Company primarily relied on five external asset managers for its portfolio management and credit research functions related to its investment portfolio. A significant amount of the Company's investment assets are managed by the external managers, with the remainder of its investment assets managed internally.

On a quarterly basis, under the direction of the Company's management-level investment committee, the Company reviews the investment portfolio's performance against selected benchmarks, compliance against the Board approved limits (including investment portfolio composition and duration) and asset mix, and to ensure the suitability of the investment portfolio in light of the current and potential future macroeconomic environment and the Company's liability profile with respect to its insurance portfolio. In addition, the Risk, Capital and Investment Committee of the Board meets quarterly to review the Company's investments to monitor adherence to the approved investing policies, standards, procedures and guidelines.

Investment philosophy and strategies

The Company's primary investment objective is to meet its obligations to its policyholders while increasing value to the Company's shareholders by investing in a diversified, high-quality portfolio, comprised of income-producing securities and other assets. The Company's investment strategy focuses primarily on:

- selecting investments based on fundamental, research-driven strategies;
- emphasizing fixed income, low-volatility investments while actively pursuing strategies to enhance yield through limited exposure to common and/or preferred shares with attractive dividend yields;
- regularly evaluating, and where possible optimizing, the Company's asset class mix;
- maintaining sufficient liquidity to meet unexpected financial obligations;
- mitigating interest rate risk through proactive management of asset duration and the use of interest rate swaps;
- continuously monitoring investment quality and regulatory capital requirements;
- limiting exposure to investments correlated to the residential mortgage market; and
- diversifying exposure outside of Canada to further provide non-correlated assets to Canadian business risk.

The Company is exposed to the following primary sources of investment risk:

- credit risk, relating to the uncertainty associated with the continued ability of a given issuer to make timely payments of principal and interest and changes in the market value of its fixed income securities and preferred shares;
- interest rate risk, relating to the market price of its fixed income securities and preferred shares and cash flow variability associated with changes in market interest rates;

- equity market risk, relating to the uncertainty associated with the risk of gain or loss due to the changes in the prices and the volatility of individual equity instruments and equity indices;

- liquidity risk, relating to the risk of having insufficient cash resources to meet financial commitments and policy obligations as they fall due without raising funds at unfavourable rates or selling assets on a forced basis;

- emerging markets risk, relating to international investment grade bond holdings including greater market volatility, political risks, disclosure, governance, divergent economic cycles, higher transaction and custody costs, and taxation by foreign governments;

- counterparty risk, relating to the risk that a counterparty will not pay as obligated on a bond, derivative contract or other trade or transaction;

- currency risk, relating to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates; and

- derivative mark to market risk, relating to fluctuations in the market value of the derivative portfolio.

The Company, working with its external asset managers and advisors, manages credit risk by analyzing issuers, transaction structures and any associated collateral. On an ongoing basis, the Company monitors credit risk, the probability of credit default and the estimated loss in the event of such a default, which provides the Company with early notification of worsening credits. The Company also manages credit risk through country, industry, sector and issuer diversification and prudent asset allocation practices. To mitigate credit risk related to derivative counterparties, the Company has adopted a derivative policy whereby, upon signing the derivative contract, the counterparty is required to have a minimum credit rating of A- and all counterparty derivatives transactions are mark to market daily, with corresponding collateralization postings as specified within the derivative contract.

The Company primarily mitigates interest rate risk through proactive management of the duration of its investment portfolio, and the use of interest rate swaps in order to reduce the volatility in unrealized gains and losses in its investment portfolio in both rising and falling interest rate environments. The Company currently does not hold any common share equities, however when it does acquire common share equities it attempts to mitigate equity market risk by targeting dividend paying stocks with volatility generally equal to or less than market volatility, limiting exposure to individual sectors and issuers, and maintaining a relatively low aggregate exposure cap for common share equities expressed as a percentage of the total assets under management. To mitigate liquidity risk the Company holds a portion of investment assets in liquid securities and maintains a relatively short portfolio duration in order to match fixed income maturities with expected cash flows in modestly adverse economic scenarios.

The Company has also adopted a derivatives policy which allows the Company to use derivatives for hedging purposes only. The Company primarily uses derivative contracts to mitigate investment risk related to foreign exchange, interest rate risk and equity compensation risk. The hedging of these market risks assist the Company in the implementation of its capital management policies. See the Consolidated Financial Statements for greater detail on the amount of foreign-denominated financial assets and the derivative financial instruments used to reduce currency risk and interest rate risk.

Performance

The Company continually evaluates its investment portfolio and measures performance against a range of benchmarks. The Company's overall fixed income benchmark represents the universe of Canadian bonds, weighted among government bonds, corporate bonds and short term investments, customized based on the Company's composition of assets and duration. The Company's benchmark for Canadian preferred equities is the S&P/TSX preferred share index. The total return performance of the Company's investment portfolio for the period ended December 31, 2017 is summarized in the chart below.

Annualized Total Return Investment Portfolio Performance[1]

Market Value of Assets as of December 31, 2017 ($ million)	1 Year	3 Year	5 Year
$6,449	3.20%	2.80%	3.40%

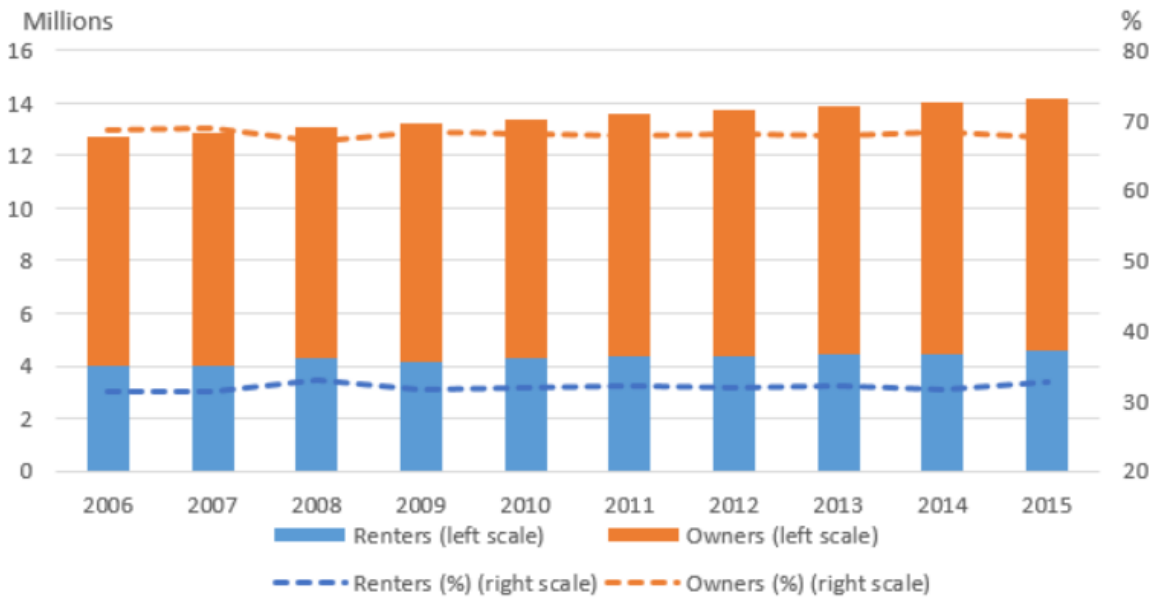
(1) Inclusive of interest rate hedging.

INDUSTRY OVERVIEW

Canada's housing finance system is one of the most efficient and stable in the world. Mortgage lending practices and regulation in Canada have led to a high degree of loan accessibility for consumers, competitive mortgage rates, and requirements and incentives for lenders to maintain solid underwriting disciplines. This has resulted in high levels of homeownership and a relatively stable housing market in Canada.

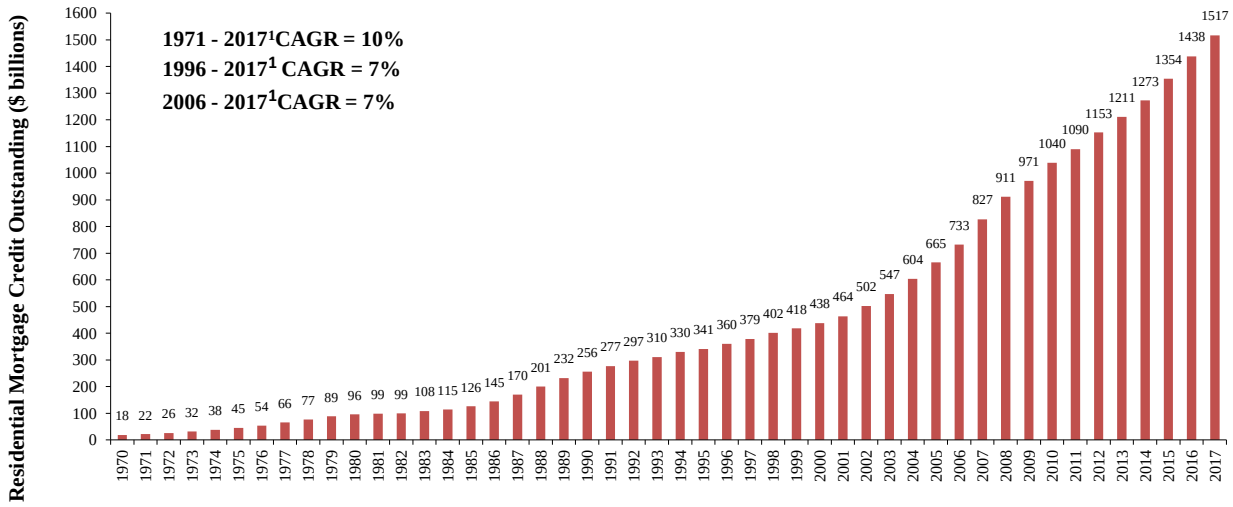
The success of Canada's housing finance system is made possible, in part, by government policies that rely on mortgage insurance to promote sustainable homeownership. The important role of mortgage insurance in Canada's housing finance system is evidenced by the requirement that all financial institutions that make residential mortgage loans and that are federally regulated by OSFI must purchase mortgage insurance in respect of a residential mortgage loan whenever the loan-to-value exceeds 80%. Moreover, the federal government provides an explicit guarantee of the benefits payable to approved mortgage lenders under eligible private sector mortgage insurance policies, less 10% of the original principal amount of an insured loan, in the event that the private sector mortgage insurer is unable to meet its obligations to the beneficiaries of its policies upon bankruptcy or insolvency. In accordance with regulatory capital requirements, lenders are permitted to hold reduced capital for credit risks on eligible mortgages insured under the guarantee by approved and regulated private sector mortgage insurers, including Genworth Mortgage Insurance Canada. The federal government helps to maintain sound underwriting standards in the market by establishing, in conjunction with mortgage insurance providers, the types of mortgage products that are eligible for coverage under the guarantee. The total Canadian residential mortgage and multi-family mortgage insurance industry total premiums written were reported to be approximately $2.7 billion for the full year in 2016 and $1.8 billion at the nine months ended September 30, 2017.

In its 2015 Canadian Income Survey, Statistics Canada found that 68% of Canadian households owned their own dwelling in 2015. From 2006 to 2015, the homeownership rate in Canada was stable as depicted in the chart below.



Source: Statistics Canada (Canadian Income Survey) 2012 -2015; Survey of Labour and Income Dynamics 2006 – 2011, CMHC Chart

In addition, from 1995 to 2017, mortgage loans outstanding grew at a CAGR of 7%. The following chart depicts the increase in the amount of residential mortgage credit outstanding in Canada since 1970.



Source: Bank of Canada

Several factors contribute to the stable nature of Canada's residential mortgage insurance environment:

- ***Lenders' Recourse*** – Lenders in all provinces and territories in Canada have the ability to attach personal assets and garnish wages in the event of any mortgage deficiency after the sale of a property, except Saskatchewan and in Alberta, in the case of mortgages with a loan-to-value equal to or less than 80%.

- ***Prepayment Restrictions*** – In Canada, mortgages tend to have a prepayment fee for prepayments in excess of specified limits (typically 10% to 20% a year). This allows lenders to recover some of the costs and lost interest associated with early repayment and discourages borrowers from aggressively refinancing on a more frequent basis.

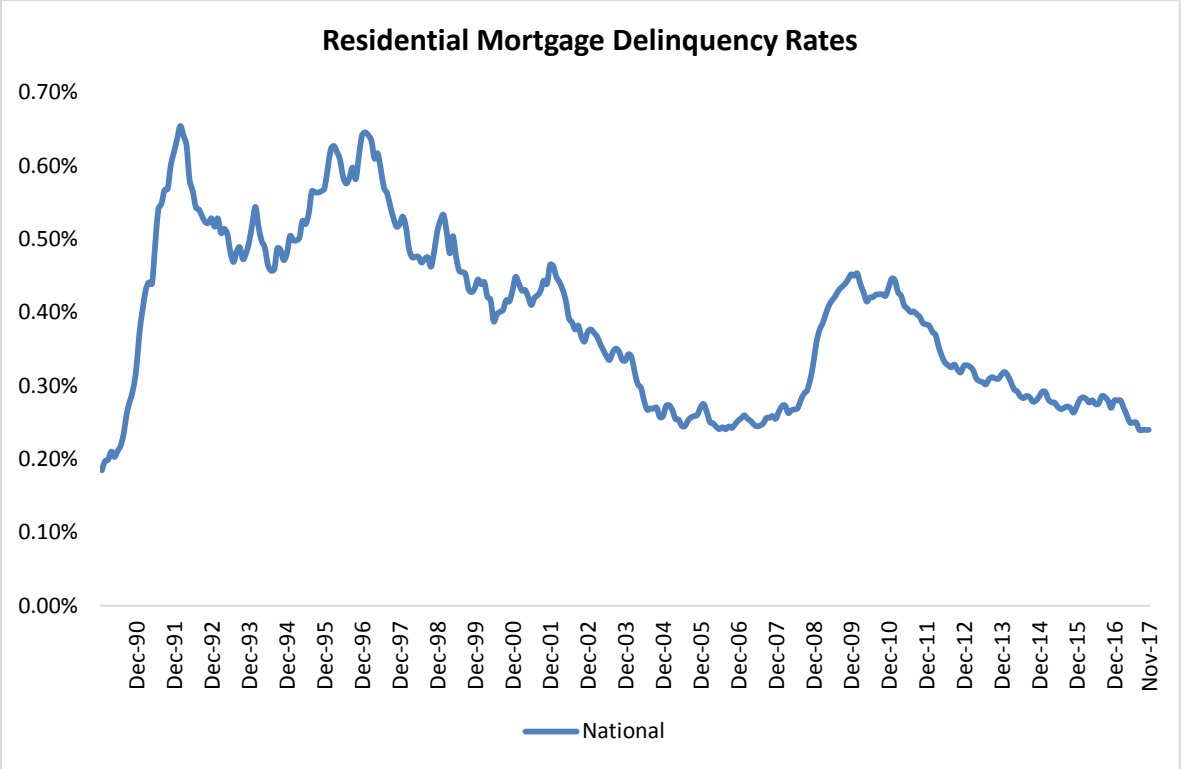
- ***Lack of Interest Deductibility*** – Interest payments arising from mortgages in Canada are generally not tax deductible. As a result, there is generally no tax incentive to have a large mortgage outstanding. Canadian residents tend to pay down mortgages quickly and build equity in their homes, lowering the probability of default.

- ***Large Proportion of Chartered Bank Origination*** – Historically, according to Statistics Canada, the largest mortgage originators in Canada have been the Big Five Banks. The major Canadian banks keep a large percentage of mortgages they originate on their balance sheets and therefore tend to employ a more cautious underwriting philosophy in comparison to other origination channels.

- ***Canadian Government Oversight*** – The Canadian government provides oversight and liquidity to the mortgage market through various measures including the regulation of lenders, its operation of the Canadian Mortgage Bond program and its control of the rules for government-backed insured mortgages.

- ***Limited Subprime Market*** – Canadian FRFI lenders have limited their exposure to the higher risk subprime market, low documentation and other mortgage products. Residential mortgages in Canada are mostly conventional (i.e. less than 80% loan-to-value), and there is a very small market for subprime loans.

There are a number of factors and differences in practices, including some of the items noted above, that may account for the variance in rates of delinquency performance of mortgages in certain other markets relative to those for Canadian mortgages. The following chart illustrates the overall historical levels of delinquency in residential mortgage loans outstanding in Canada from 1990 to 2017.



Source: Canadian Bankers Association ("**CBA**"), as at November 2017
Note: Delinquencies reflect mortgage arrears of three or more months as of the end of each quarter.
(1) Data to November 2017. December 2017 data not yet available.

	Total Insured Loan Delinquency Rate	
	Q4'16	**Q3'17**
CMHC	0.32%	0.30%
Genworth Canada	0.21%	0.18%
Other Mortgage Insurer	0.12%	0.12%
CBA	0.28%	0.24%

A key performance measure of the Canadian mortgage insurance industry is the loss ratio. The Company's average loss ratio for the period of 1995 to 2017 was 24% (inclusive of the impact of the earnings curve adjustment in the first quarter of 2009). The loss ratio for the year ended 2017 was 10%, which was significantly lower than the historical average.

The Canadian government's housing finance policy is aimed at promoting financial stability, access to financing, competition and efficiency. Private sector mortgage insurers, such as the Company, provide incremental private capital and financial strength to the Canadian housing market. The Company believes that there are a number of additional benefits related to the presence of private sector mortgage insurance providers in Canada, including:

- reduced Canadian taxpayer exposure through maintaining strong claim paying ability for tail events;
- increased competition in the mortgage lending market between large and small lenders through the transfer of mortgage default risk to a mortgage insurer;
- increased competition and efficiency in the overall mortgage insurance market;
- increased services/features for mortgage insurance customers; and
- increased diligence and review of loan quality standards through an additional review of mortgage loan applications by a mortgage insurer and ongoing quality assurance audits.

Mortgage insurance is purchased by lenders for a variety of reasons. In Canada, federally regulated lenders are required to purchase mortgage insurance whenever the loan-to-value ratio for a mortgage exceeds 80%. In addition to purchasing insurance for such high loan-to-value mortgages, lenders also purchase mortgage insurance for their other mortgage loans to achieve maximum funding flexibility by enabling them to access low-cost funds through securitization programs, such as the CMHC-sponsored NHA MBS program. Participation in this program also enables lenders to access the CMB program. Mortgage insurance also provides federally regulated lenders with immediate capital relief from applicable regulatory capital requirements. See *"Description of the Business – Overview of the Company's Mortgage Insurance Business – Portfolio Insurance*" for details on restrictions on the insurance of low-ratio mortgages for securitization purposes.

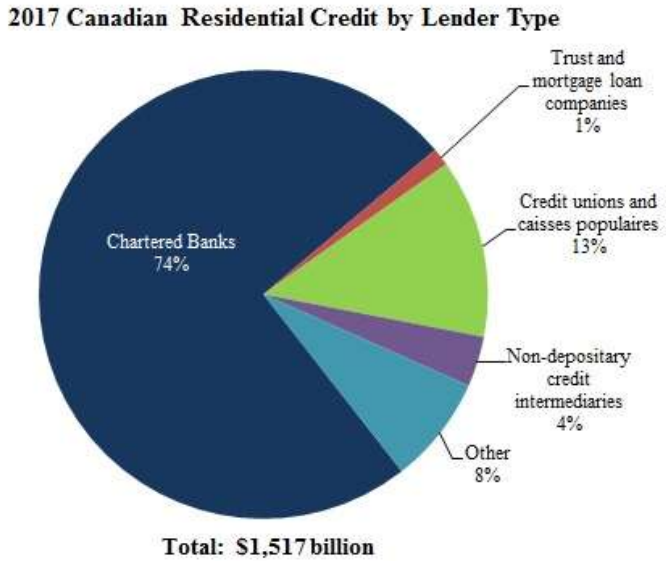
Mortgage insurance is available for home purchases and is generally transferable between lenders. Mortgage insurance remains in force for the entire amortization period of an insured mortgage loan and, in the event of default, it provides lenders with insurance coverage for 100% of the mortgage loan amount, customary selling costs and interest. The dollar amount of the Company's insurance in-force does not take into account the value of the collateral underlying each mortgage. Upon a borrower default, the value of the collateral serves to reduce the Company's loss exposure.

The Canadian market convention is that mortgage insurance premiums are paid in full on an upfront, non-refundable, single premium basis by the lender at the time that the mortgage is advanced. The cost is typically then passed on to the borrower by adding the mortgage insurance premiums to the principal amount of the mortgage, blending and amortizing the amount within the monthly mortgage payments. There is no requirement for a mortgage loan customer to re-apply or pay for mortgage insurance on a mortgage renewal.

Customers and Distribution

Although the cost of transactional insurance is generally borne by the borrower, the insurance is purchased by the mortgage lender. Consequently, mortgage insurers endeavour to forge strong relationships with lenders. As at December 31, 2017, chartered banks had originated approximately 74% of the $1,517 billion of Canadian residential mortgage loans outstanding, making them the largest and most important customers to Canadian mortgage insurance participants. The following chart displays

Canadian residential mortgage loans outstanding as at December 31, 2017 by type of mortgage lending institution.



Source: Bank of Canada

Industry Performance

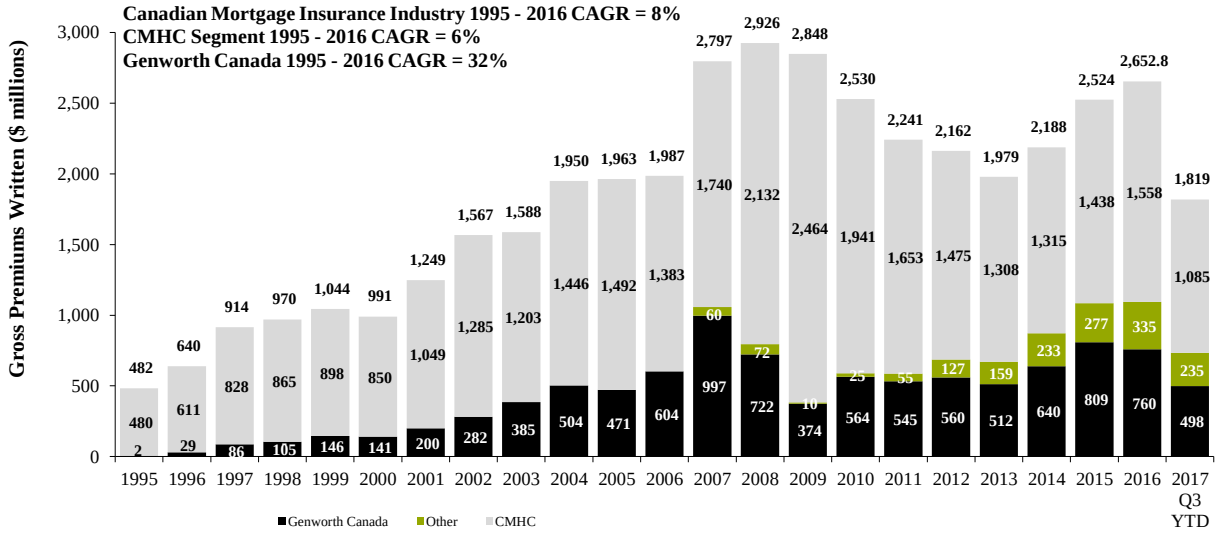
In a given year, the size of the Canadian mortgage insurance market is primarily driven by the number and dollar value of transactional insurance mortgages. Premiums written by mortgage insurers are used to pay claims and operating costs and to provide a return to investors. In Canada, unlike certain other international markets, mortgage insurance premiums are paid in full on an upfront, non-refundable, single premium basis at the initiation of a mortgage insurance policy. Since premiums are paid in full at the outset of the policy, there is a time lag between the receipt of premiums and the payment of claims. This allows insurers to invest premiums written and earn an investment return until claims and operating costs are paid. The below chart sets out total transactional and portfolio premiums written for the industry.

	Total Transactional and Portfolio Premiums Written[1]			
	2016		**Q3'17 YTD**	
CMHC	$	1,257	$	813
Transactional	$	1,166	$	768
Portfolio	$	91	$	45
Genworth	$	760	$	498
Transactional	$	619	$	445
Portfolio	$	140	$	53
Total industry	**$**	**2,352**	**$**	**1,546**
Transactional[2]	$	2,064	$	1,423
Portfolio[2]	$	288	$	123

[1] In millions of dollars

[2] Industry transactional and portfolio premiums includes management's estimated allocation of other industry player.

The chart below displays the general growth of the Canadian mortgage insurance industry since 1995, measured by total premiums written and segmented by industry participant. The mortgage insurance industry overall has exhibited strong, long-term growth characteristics, generating a CAGR of 8% from 1995 to 2016. However, the decline in total premiums written in 2017 from those in 2016 is primarily due to a smaller transactional and portfolio insurance markets. See *"Description of the Business – Overview of the Company's Mortgage Insurance Business – Transactional Insurance*" and "*Description of the Business – Overview of the Company's Mortgage Insurance Business – Portfolio Insurance"* for details on the factors that have impacted the market size of each market, respectively. The total premiums written figures published by CMHC include both total premiums written on multi-family mortgage insurance such as apartment buildings and long-term care facilities, a market in which the Company has not historically participated, as well as residential mortgage insurance on buildings with 4 units or less, a market in which the Company does participate. In addition, the CMHC figures include application and underwriting fees that are primarily from its multi-family mortgage loans, while the Company figures do not. As a result, as depicted in the chart below, the Company estimates that it had a 27% share of the total Canadian residential mortgage and multi-family mortgage insurance market as at September 30, 2017.



Source: CMHC, OSFI

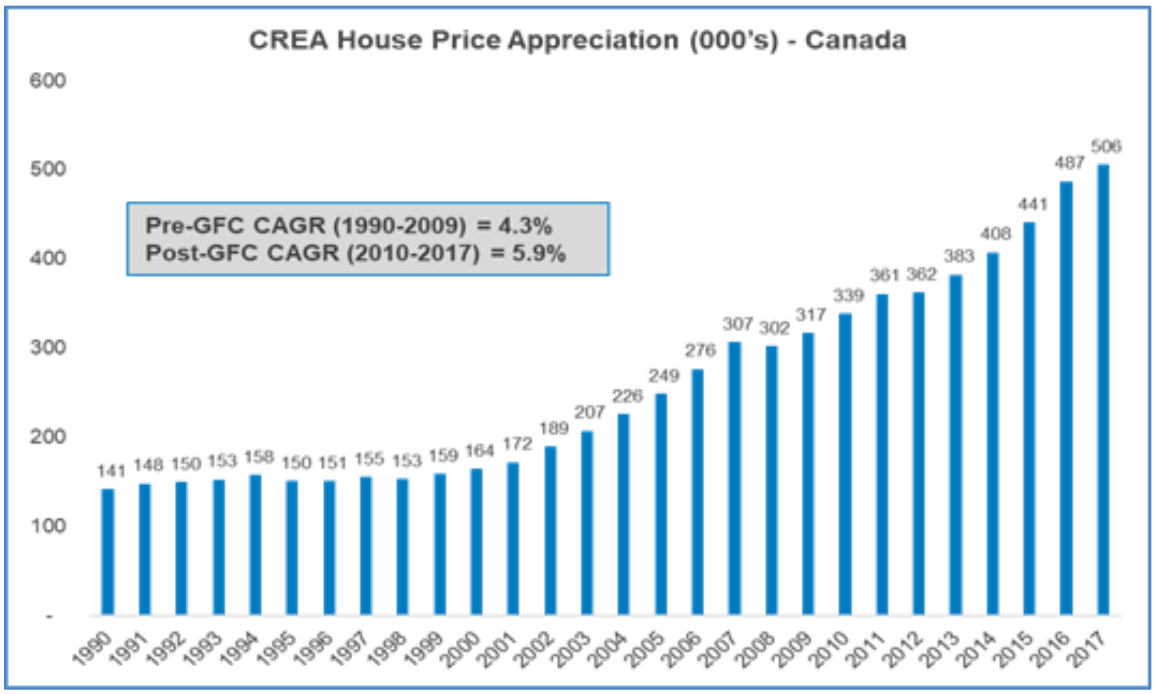
The rate of growth of the Canadian mortgage insurance industry is highly dependent on the prevailing state of the Canadian economy, housing market and government policy. Sales activity in the Canadian housing market influences mortgage origination, which in turn affects the volume of premiums written. In addition, rising housing prices reduce loan-to-value on in-force mortgages insured and thereby reduce the likelihood of a shortfall and claims payout in the event of a mortgage borrower default. See "*Regulatory Overview – Regulatory Changes*" for details on regulatory changes implemented from 2008 to 2017. These product changes have resulted in a smaller transactional insurance mortgage origination market, and smaller penetration into the high priced markets due to affordability pressure. These changes have also resulted in an improved risk profile for more recent books of transactional insurance. The results of these changes are highlighted in the chart below, including improvements in average credit scores and stable GDSRs of the Company's books of transactional insurance.

	'07		Current Requirements
Maximum amortization	40 years	→	25 years
LTV[1] limit for new mortgages	100%	→	95%
LTV limit for mortgage refinancing	95%	→	N/A
LTV limit for investment properties	90% 1-4 units	→	80% 2-4 units
Debt-service 'stress test' for all insured mortgages	No mandated max	→	GDS[2] capped at 39% & TDS[2] at 44% based on 5 year Bank of Canada rate
Purchase price max for all LTVs	No max	→	$1 mil.

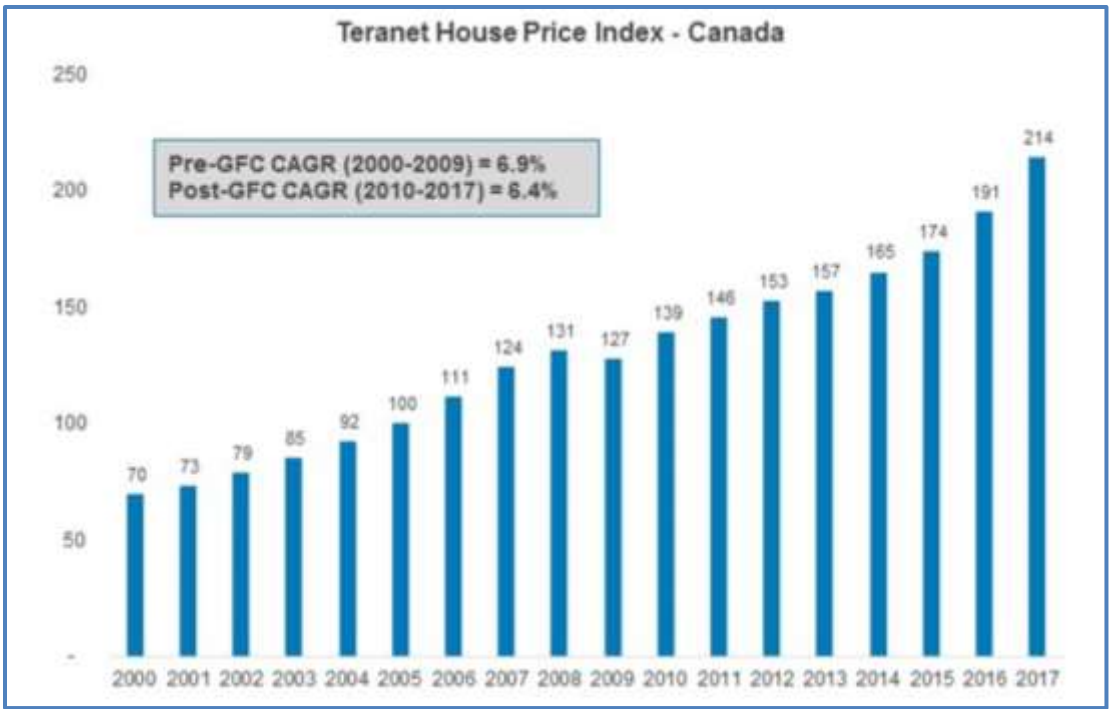
	'07 / '08		2017
% > 25 year amortizations	61%	→	0%
% > 95% LTV	14%		
% of > 80% LTV refinance mortgages	23%		
% of > 80% LTV for investment properties	1%		
Average GDS	23%	→	24%
Average credit score	717	→	746

Company Sources
(1) Loan-to-Value
(2) GDSR represents Gross Debt to Service Ratio and TDSR represents Total Debt to Service Ratio, calculated at the 5 year Bank of Canada rate

The Canadian housing market has experienced strong growth. The Teranet House Price Index and the Canadian Real Estate Association ("**CREA**") charts below illustrate the Canadian home price appreciation leading up to and following the Global Financial Crisis ("**GFC**") that took place from September 1, 2008 to August 31, 2009. From 1990 to 2009, Canadian housing prices (as per CREA) appreciated 4.3% annually and experienced one-year declines in only three of those years. From 2010 to 2017, Canadian housing prices appreciated by 5.9% annually.

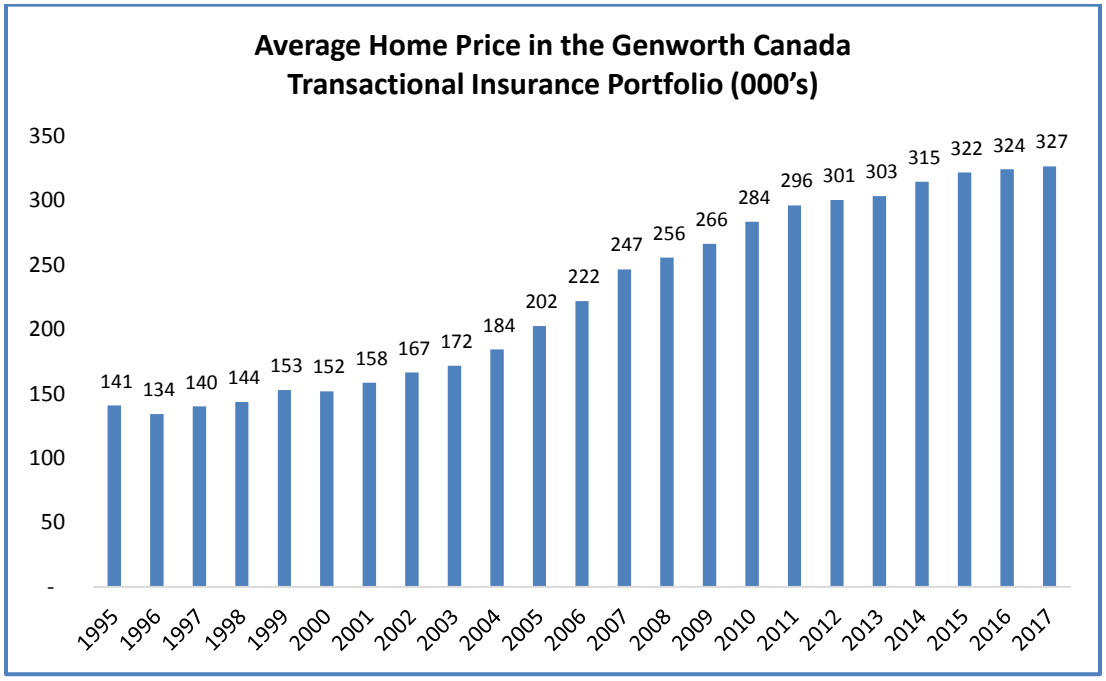


Source: CREA



Source: Teranet

The below chart illustrates an increase in the average home price of pre-GFC of 4.7% and post-GFC of 2.0% for the homes in the Company's insured portfolio. The Company believes that its target market first-time homebuyers buy modestly-priced, middle market homes and that the changes in the average home prices they purchase aligns more directly with changes in average income during this time. Should income not keep pace with appreciation (as reflected in the Teranet and CREA national averages) it may result in changes to the location and characteristics of the homes purchased by first-time homebuyers, and as a result, the composition of the Company's insured portfolio.



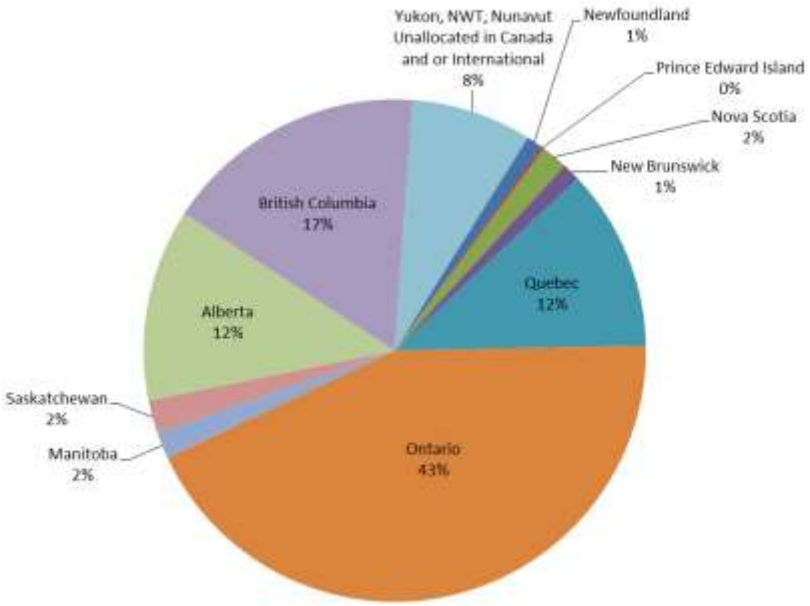
Source: Company estimates

Canada's mortgage insurance industry has benefited from a historically conservative mortgage lending environment. Most Canadian homeowners who have mortgages on their homes have considerable amounts of equity in their homes. According to the Mortgage Professionals Canada Report published in November 2017 based on an online survey of over 2,000 Canadians and other data sources, approximately 91% of the homeowners in Canada have 25% or more equity in their homes.

In addition, the terms and conditions of the majority of Canadian mortgages have led to a relatively consistent and stable operating environment for mortgage insurance companies. For example, approximately 72% of Canadian mortgages are fixed-rate (generally for up to five years), meaning that these borrowers are less susceptible to sharp increases in interest rates, which can lead to higher default rates. In addition, the survey highlights, approximately 81% of Canadian mortgages have amortization periods of 25 years or less and during the 2014 to 2017 purchase period one-third of mortgage holders have taken at least one action (increased payment, lump sum payment, increased frequency of payments) to shorten their amortization period. This has tended to lead to a gradual acceleration of the repayment of mortgage debt, implying reduced risk over time for Canadian mortgage lenders and Canadian mortgage insurers.

The following chart displays the dollar value distribution of the Canadian mortgage market for chartered banks by geography as of December 2017. In general, the Company's regional distribution of insured mortgages is relatively consistent with that of the Canadian chartered banks.

2017 Chartered Bank Regional Residential Mortgage Distribution



Source: Statistics Canada data published by The Bank of Canada in the Monthly Bank of Canada Banking and Financial Statistics Report as at December 2017 and reported in January 2018.

REGULATORY OVERVIEW

Genworth Mortgage Insurance Canada is federally incorporated under the *Insurance Companies Act* (Canada) (the "**ICA**") and is licensed under insurance legislation in each of the Canadian provinces and territories in which it conducts business.

The ICA is administered by, and Genworth Mortgage Insurance Canada is regulated by, OSFI. The Superintendent of Financial Institutions (Canada) (the "**Superintendent**") is responsible to the Minister for the supervision of federal insurance companies and other federal financial institutions. OSFI's regulatory powers also apply to Canada Guaranty and OSFI has supervisory powers over CMHC, including the monitoring of CMHC's commercial activities to ensure that they are being carried on in a safe and sound manner with due regard to its exposure to loss.

OSFI is responsible for PRMHIA compliance and the Superintendent must periodically examine the business and financial condition of Genworth Mortgage Insurance Canada for the purpose of determining whether it is in sound financial condition, and must report to the Minister. The Superintendent has a broad range of remedial powers and, for example, where the Superintendent is concerned about an unsafe course of conduct or an unsound practice in conducting the business of a federal insurance company, he or she may direct such company to refrain from a course of action or to perform acts necessary to remedy the situation. The Superintendent may, in certain circumstances, take control of the assets of a company or take control of a company.

The ICA and provincial and territorial insurance legislation requires insurers to file annual and other reports on its financial condition, and establishes requirements governing margins for insurance liabilities and the safekeeping of assets and other matters. The ICA generally prohibits transactions among related parties other than specifically permitted types of transactions. Permitted transactions include, without limitation, buying and providing services from and to related parties and reinsurance transactions with related parties. Generally, permitted transactions must be on terms and conditions that are at least as favourable to the insurer as market terms and conditions. Genworth Canada and Genworth Financial, and their respective subsidiaries, are related parties of Genworth Mortgage Insurance Canada under the ICA.

Capital Requirements

Under the ICA and PRMHIA, insurance companies must maintain adequate capital, and must comply with any OSFI guidelines requiring capital. The Superintendent has issued guidelines (the "**Guidelines**") establishing a Minimum Capital Test, or MCT, for certain insurance companies. Under the Guidelines, companies are required to maintain a minimum amount of capital calculated by reference to, and varying with, the risk characteristics of each category of on- and off-balance sheet assets held by the company, its policy liabilities, unearned premium reserves and additional policy provisions. This MCT calculation typically requires the application of quantitative factors to balance sheet assets as well as to certain off-balance sheet items and to policy liabilities based on a number of prescribed risk components to determine an amount of required capital. The factor for mortgage insurance policy liabilities is unique, and, in particular, is distinct from the approach to determining the capital required for other types of insurance policies.

On January 1, 2017, the capital advisory titled "*Capital Requirements for Federally Regulated Mortgage Insurers*" came into effect, replacing OSFI's advisory, "*Interim Capital Requirements for Mortgage Insurance Companies*", which had been in place since January 2015. This advisory sets out the new framework for determining the capital requirements for residential mortgage insurance companies. See "*Regulatory Overview – Regulatory Changes*" for details on the capital requirements and the

resulting actions taken by the Company. OSFI continues to review its regulatory capital framework and it is expected that it will be updated effective January 1, 2019.

The Company regularly reviews its capital levels in conjunction with reviewing stress testing results and has set its current internal target MCT ratio at 157%.

The ICA and PRMHIA provide the Minister and Superintendent with various remedies including directing companies to increase their capital or assets or to provide additional liquidity, requiring that they enter into prudential agreements, suspending or removing directors or senior officers, and taking control of companies or the assets of companies, if seen to be necessary, to protect the interests of policyholders or creditors.

Dynamic Capital Adequacy Testing

The Standards of Practice of the Canadian Institute of Actuaries and OSFI require that the appointed actuary review annually the capital adequacy of federally regulated insurance companies by conducting dynamic capital adequacy testing ("**DCAT**") which examines the effect of various plausible adverse scenarios on the insurer's forecasted capital adequacy. This is the primary tool used by the Company's appointed actuary for the investigation of the Company's financial condition.

The purpose of the DCAT is to identify plausible threats to satisfactory financial condition, actions which lessen the likelihood of those threats and actions which would mitigate a threat if it materialized. The DCAT is defensive in that it addresses threats to financial condition rather than the exploitation of opportunity. According to the Standards of Practice, an insurer's financial condition is satisfactory if throughout the forecast period it is able to meet all of its future obligations under the base scenario and all plausible adverse scenarios, and if under the base scenario it meets the minimum regulatory capital requirement. The base scenario is a realistic set of assumptions used to forecast an insurer's financial position over the forecast period. Normally, the base scenario is consistent with the insurer's business plan. A plausible adverse scenario is a scenario of adverse, but plausible, assumptions about matters to which the insurer's financial condition is sensitive. Plausible adverse scenarios vary among insurers and may vary over time for a particular insurer.

For federally regulated insurance companies, the appointed actuary would consider threats to capital adequacy under plausible adverse scenarios that include, but are not limited to changes in unemployment levels, interest rates and housing prices. The appointed actuary reports the DCAT results annually to the board of directors and files a copy of its report with OSFI.

Underwriting Guidelines

On June 30, 2015, OSFI's Guideline B-21 "*Residential Mortgage Insurance Underwriting Practices and Procedures*" (the "**B-21 Guideline**") came into effect. In the B-21 Guideline, OSFI set out principles that promote and support sound residential mortgage insurance underwriting. These principles focus on three main themes: (i) governance, development of business objectives and strategy, and oversight; (ii) interaction with lenders as part of the underwriting process; and (iii) internal underwriting operations and risk management. The B-21 Guideline also enhances disclosure requirements, which will support greater transparency, clarity and public confidence in mortgage insurers' residential mortgage insurance underwriting practices. The Company is currently compliant with this guideline. The Company expects that corresponding changes to B-21 Guideline may be made in 2018 to reflect the changes made to the B-20 Guideline. See "*Regulatory Overview – Regulatory Changes*" for details on changes to the B-20 Guideline.

Investment Powers

Under the ICA, the directors of federally regulated insurance companies must establish prudent investment and lending policies, standards and procedures, and must maintain a prudent portfolio of investments and loans, subject to overall portfolio limits on the amounts it may invest in certain classes of investments, such as corporate bonds, real property and equities. See "*Description of the Business – Investment Management*" for details on the Company's investment policies and philosophies.

The ICA provides companies with broad powers to invest in securities, but limits the acquisition of control or substantial investments in other entities. A federal insurance company will have a substantial investment in an entity if it or entities that it controls have direct or indirect beneficial ownership of voting shares carrying more than 10% of the voting rights attached to all outstanding voting shares of a body corporate, voting or non-voting shares representing more than 25% of the shareholders' equity of a body corporate, or more than 25% of the ownership interests in an unincorporated entity.

Certain substantial investments are impermissible and certain others require regulatory approval, or must be controlled, or both. The Superintendent has the authority to make a divestment order if an insurance company contravenes the investment restrictions.

Restrictions on Dividends and Capital Transactions

The 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 the Superintendent 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 the Superintendent. Finally, the Superintendent has broad authority to take actions that could restrict the insurance company.

Constraints on the Transfer of Shares or Assets

The ICA contains certain restrictions on the purchase or other acquisition, issue, transfer and voting of any shares of an insurance company. In general, no person is permitted to acquire shares of an insurance company, or to acquire control of an entity that holds such an interest, if the acquisition would cause the person to have a "significant interest" in any class of shares of the company or acquire control, including control in fact, of the company, unless the prior written approval of the Minister is obtained. A person has a significant interest in a class of shares of a federal insurance company where the aggregate of any shares of that class beneficially owned by that person, or an entity controlled by that person and by any person acting jointly or in concert with that person, exceeds 10% of all outstanding shares of that class. Genworth Canada and each entity that controls Genworth Canada control Genworth Mortgage Insurance Canada and MIC ICC. Accordingly, an approval would be required under the ICA for a person to acquire more than 50% of the voting securities of, or control in fact over, Genworth Canada or any other entity that controls Genworth Canada. In addition, a federal insurance company is not permitted to record any transfer or issue of shares to a person if the transfer or issue would cause the person to have or increase a significant interest in the company unless regulatory approval has been obtained.

If a person contravenes any of these ownership restrictions, the person may not exercise any voting rights attached to the shares of the insurance company owned by the person or any entity controlled by the person. Moreover, the Minister may, by order, direct that person to dispose of all or any portion of those shares.

Under the ICA, the approval of the Minister is required for a federal insurance company to transfer all or substantially all of its assets to another person, or to reinsure on an assumption reinsurance basis any of its policies. Superintendent approval is generally required by an insurance company to acquire assets from, or transfer assets to, a person if the total value of the assets and all other assets acquired from or transferred to the person by the company and its subsidiaries in the 12 months preceding the transfer is greater than 10% of the total value of the assets of the company.

Provincial Regulation

Insurance companies conducting business in Canada are subject to provincial and territorial regulation and supervision in each of the provinces and territories of Canada in which they conduct business. Provincial insurance regulation deals primarily with the sale, marketing and content of insurance products, including licensing and supervision of insurance distributors. To date, the provincial and territorial insurance regulators have not required the Company to use licensed individuals to sell its products. As demonstrated by changes introduced by the British Columbia and Ontario governments from 2016 to present, provincial governments can also introduce measures to affect supply, demand, affordability or other characteristics of the housing market (see "*Regulatory Overview – Regulatory Changes*" for details on the changes introduced in these markets).

Federal Market Conduct Regulation of Mortgage Lenders

Federally-regulated financial institutions are subject to consumer protection-oriented regulation in the making of mortgage loans generally and in purchasing mortgage insurance for those loans, particularly where the cost of the mortgage insurance is passed on to the borrower. As such, these regulations can affect the Company's business. Pursuant to federal legislation, such mortgage lenders are prohibited from charging customers amounts for mortgage insurance that exceeds the lender's actual costs, and have disclosure obligations in respect of the actual mortgage insurance costs.

Privacy of Personal Information

Federal and provincial laws and regulations require financial institutions to protect the security and confidentiality of personal information and to notify customers about their privacy policies and practices relating to their collection, use and disclosure of personal information and their policies relating to protecting the security and confidentiality of that information. Federally, the *Personal Information Protection and Electronic Documents Act* governs the collection, use and disclosure of personal information by organizations in the private sector. It sets out specific obligations with respect to accountability and identifying purposes, consent, collection, use, disclosure, retention, accuracy, safeguards, individual access and compliance. The federal and provincial privacy regulators have powers of investigation and intervention, and provisions of Canadian law regarding civil liability also are applicable to the Company in the event of unlawful processing of personal information which is prejudicial to the persons concerned.

Financial Consumer Agency of Canada

Under the *Financial Consumer Agency of Canada Act* ("**FCAC Act**"), the Financial Consumer Agency of Canada (the "**FCAC**") enforces consumer-related provisions in federal statutes that govern financial institutions. "Consumer provisions" include ICA provisions dealing with customer confidentiality, complaint-handling procedures and cost of borrowing disclosure.

The Commissioner of the FCAC (the "**Commissioner**") has the duty to supervise federal insurance companies to determine whether they are in compliance with the consumer provisions that apply to them. The Commissioner has the power to issue notices of violation and to compel the disclosure of personal information necessary to ensure compliance. In addition, the Commissioner may carry on any activity in furtherance of consumer awareness of financial institution obligations under consumer provisions. The Commissioner must report to the Minister on all matters connected with the administration of the FCAC Act and the consumer provisions of the federal financial institutions statutes, including the ICA.

Regulatory Changes

Since 2008, there have been several changes implemented to the rules governing the insurance of residential mortgages (particularly with respect to mortgages with a loan-to-value greater than 80%) and the sale of residential real estate. The most material of these changes are as follows:

2008 – The maximum loan-to-value for purchase transactions reduced from 100% to 95%, the maximum amortization period was decreased from 40 years to 35 years and the maximum loan-to-value for interest only mortgages was reduced to 80%.

2010 – The maximum loan-to-value for refinances was reduced from 95% to 90%, the maximum loan-to-value for non-owner occupied properties was reduced from 90% to 80% and all high ratio borrowers were subject to a rate stress test whereby the borrowers seeking mortgages of a term less than five years or seeking a variable rate mortgage were required to be qualified using the greater of the five-year fixed rate mortgage posted by the Bank of Canada and the contract rate.

2011 – The maximum amortization period was reduced from 35 years to 30 years, the maximum loan-to-value for refinances was reduced from 90% to 85%, and insurance on home equity lines of credit was eliminated.

2012 – The maximum amortization period was reduced from 30 years to 25 years, the maximum loan-to-value for refinances was reduced from 85% to 80%, the maximum gross debt service and total debt service ratios was capped at 39% and 44%, respectively, and the maximum home purchase price, which can be insured by mortgage insurance, was capped at $1 million.

2015 – The Minister announced a change to the eligibility rules for new government-backed insured mortgages on properties priced above $500,000. Effective February 15, 2016, the minimum down payment for new insured mortgages was increased from 5% to 10% for the portion of the house price above $500,000.

2016 – 2016 was an active year with respect to regulatory changes in Canadian housing and residential mortgage insurance market. Some of the more material changes included:

(i) ***Changes to the mortgage insurance rules***

On October 3, 2016, the Minister of Finance announced a number of changes in the Canadian housing finance system. Key changes to the mortgage insurance rules include:

(a) ***Applying a Mortgage Rate Stress Test to All Insured Mortgages***

Effective October 17, 2016, all insured homebuyers (as opposed to just high loan-to-value insured mortgage borrowers) must qualify for mortgage insurance at an interest rate that is the greater of their contract mortgage rate or the Bank of Canada's conventional five-year fixed posted rate. To qualify for mortgage insurance, borrower debt-servicing ratios cannot exceed the maximum allowable levels of 39% and 44%, for gross debt service ratio and total debt service ratio, respectively.

(b) ***Changes to Low-Ratio Mortgage Insurance Eligibility Requirements***

Effective November 30, 2016, for insured mortgages with a loan-to-value ratio less than or equal to 80%, the following mortgage insurance qualification criteria applies to both transactional mortgage insurance loans and portfolio mortgage insurance loans:

1. A loan whose purpose includes the purchase of a property or subsequent renewal of such a loan;
2. A maximum amortization length of 25 years commencing from when the loan was originally made;
3. A property value below $1,000,000;
4. For variable-rate loans that allow fluctuations in the amortization period, loan payments that are recalculated at least once every five years to conform to the established amortization schedule;
5. A minimum credit score of 600 at the time the loan is approved;
6. A maximum gross debt service ratio of 39% and a maximum total debt service ratio of 44% at the time the loan is approved, calculated by applying the greater of the mortgage contract rate or the Bank of Canada conventional five-year fixed posted mortgage interest rate; and
7. If the property is a single unit, it must be owner-occupied.

The new mortgage rules also prohibit insuring low loan-to-value refinances and most investor mortgages originated by lenders on or after November 30, 2016.

(c) ***Consultation on Lender Risk Sharing***

On October 21, 2016, the Canadian government launched a public consultation on a policy option that would require mortgage lenders to manage a portion of loan losses on insured mortgages that default, known as “lender risk sharing”. This could transfer some risk borne by mortgage insurers to lenders. The comment period for this consultation ended on February 28, 2017. The Company participated in the consultation; however, it is difficult to determine the potential impact of this process and its ultimate outcome.

(ii) ***Portfolio mortgage insurance***

Effective July 1, 2016, portfolio mortgage insurance is only available on mortgages used in CMHC securitization programs and is prohibited on mortgages used in private securitizations after a phase-in period for existing private securitizations. See “*Description of the Business – Overview of the Company’s Mortgage Insurance Business – Portfolio Insurance*” for further details.

(iii) **Additional taxes on select properties and purchases of residential property in Metro Vancouver**

In order to help improve housing affordability, during 2016, the British Columbia government introduced a plan that included an additional 15% land transfer tax for specified foreign buyers in Metro Vancouver. Also in 2016, the City of Vancouver approved a tax of 1% of the property's assessed value on homes that are deemed to be empty. The empty homes tax will be applied annually and it will not apply to principal residences or homes rented on a long-term basis. In connection with the 2018 provincial budget, the British Columbia government announced additional measures to try and address home affordability in the province, including that they would increase the foreign buyers' tax to 20% and would extend the geographic region it applies to; and introducing a provincial tax on real estate speculators. The Company does not expect the foregoing changes to have a material impact on its business, as foreign borrowers are typically not eligible for high loan-to-value mortgage insurance.

2017 – 2017 included several regulatory changes, including:

(i) ***Changes to the regulatory capital framework***

On January 1, 2017, the capital advisory titled "*Capital Requirements for Federally Regulated Mortgage Insurers*" came into effect, replacing OSFI's advisory, "*Interim Capital Requirements for Mortgage Insurance Companies*", which had been in place since January 2015. This advisory provides a new standard framework for determining the capital requirements for residential mortgage insurance companies. The new framework is more risk sensitive and incorporates additional risk attributes, including credit score, remaining amortization and outstanding loan balance.

The advisory focuses on capital requirements for insurance risk, which consists primarily of:

i. A base requirement that applies to all insured mortgages at all times; plus
ii. A supplementary requirement that applies only to mortgages originated during periods when the housing market for the region that corresponds to the mortgage has a house price-to-income ratio that exceeds a specified threshold (with this supplementary requirement not applying to mortgages insured prior to January 1, 2017); less
iii. Premium liabilities, consisting of unearned premiums reserve and the reserve for incurred but not reported ("**IBNR**") claims.

The advisory states that:

i. By using outstanding loan balance as the exposure measure, a mortgage's actual pay down rate is captured and capital is only held against insured mortgages that are still outstanding;
ii. By using a modified loan-to-value ratio (outstanding loan balance/original property value), the borrower's equity position in the property is better captured;
iii. Differentiating requirements by borrower credit score ensures that more capital is held for borrowers who have a greater risk of default; and
iv. Differentiating requirements by remaining amortization recognizes the importance of the expected future pay-down rate and progression of the borrower's equity position.

Supplementary capital will be tied to the behaviour of property prices, both in terms of recent housing price trends and the behavior of housing prices relative to household incomes. The Supplementary Capital Requirement Indicators ("**SCRIs**"), based primarily on the ratio of the Teranet – National Bank House Price IndexTM ("**Teranet Index**") for a metropolitan area to the national per capita income, is compared to a prescribed threshold value for that particular area. For a mortgage loan originated in any period after January 1, 2017, where the SCRI exceeds the threshold value for a

metropolitan area, supplementary capital applies for the life of that mortgage. SCRI thresholds are calculated on a one quarter lag based on availability of national household disposable income.

The Company has observed that Calgary, Edmonton, Hamilton, Toronto, Vancouver, and Victoria are breaching their SCRI thresholds, as prescribed by OSFI, at the end of the fourth quarter of 2017. These metropolitan areas represented approximately 35% of transactional new insurance written in the fourth quarter of 2017.

The advisory also includes a phase-in period to allow for a smooth transition to the new standard framework. For the segments of Genworth Mortgage Insurance Canada's insurance in-force listed below, these transition arrangements will keep the required capital unchanged from the 2016 MCT guideline level at 220% MCT ratio at December 31, 2016 until such time as the required capital under the new standard framework at the OSFI supervisory MCT target of 150% is less than the aforementioned required capital. The segments subject to this transitional arrangement are as follows:

- Transactional insured mortgages originated prior to December 31, 2016 with original amortizations greater than 25 years; and
- Portfolio insured mortgages for which the application for portfolio insurance was received prior to December 31, 2016 and the effective date of insurance is prior to March 31, 2017.

Additionally, the advisory provides for a three year phase-in period of the rising impact on capital required for operational risk.

It is important to note that further changes to the new standard framework may be made by OSFI as a result of comments and input it receives. The Company continues to work with OSFI to further refine this new standard framework in specific areas, including the proposed, but deferred, requirement to update credit scores during the life of the loan. Under the new capital framework, the OSFI Supervisory MCT Target is 150% and the minimum MCT under PRMHIA is 150%.

(ii) ***Ontario Government Fair Housing Plan***

On April 20, 2017, the Ontario government's "*Ontario's Fair Housing Plan*" came into effect, which introduced a 15% Non-Resident Speculation Tax on the price of homes in the Greater Toronto Area (the "**GTA**") and surrounding regions purchased by individuals who are not citizens or permanent residents of Canada or by foreign corporations. The plan consists of 16 strategies addressing housing demand including: consumer protection for renters and buyers; rent control measures; expediting new housing supply; and actions to increase information sharing between governments and external stakeholders.

(iii) ***Underwriting Rule Changes***

On October 17, 2017, OSFI released the final version of the B-20 Guideline which sets out OSFI's expectations for prudent residential mortgage underwriting by FRFI. The B-20 Guideline is applicable to all FRFIs that are engaged in residential mortgage underwriting and/or the acquisition of residential mortgage loan assets in Canada. The B-20 Guideline came into effect January 1, 2018 and clarifies and strengthens expectations in a number of specific areas, including: (i) requiring qualifying debt service ratios to be established by FRFIs; (ii) for all uninsured mortgages, at a minimum, using the greater of the five-year benchmark rate published by the Bank of Canada or the contract mortgage rate plus 2%; (iii) requiring that loan-to-value measurements and limits remain dynamic and adjust for market conditions and be regularly monitored, reviewed and updated; and (iv) expressly prohibiting

arrangements (e.g., co-lending or bundling mortgages) that are designed, or appear to be designed, to circumvent regulatory requirements.

The B-20 Guideline does not directly impact the regulatory requirements for the Company which is governed by the B-21 Guideline. Based on an analysis of applications for portfolio insurance received in 2016 and the first half of 2017 and potential changes in borrower behavior, the Company believes that the B-20 Guideline may reduce total mortgage originations in 2018 by 5% to 10% as compared to 2017 levels. The Company believes the B-20 Guideline will not have a material impact on the transactional mortgage insurance market size in 2018, given that qualifying insured mortgages have been subject to a mortgage rate stress test since the Fall of 2016. Overall, it is still too early to determine the exact impact of this change and its ultimate effect on the mortgage and housing markets. The Company does expect that corresponding changes to the B-21 Guideline may be made in 2018 to reflect the changes made to the B-20 Guideline.

For further details on the mortgage insurance industry see "*Industry Overview*".

RISK FACTORS

The Company is subject to the inherent insurance risk within its portfolio. The mortgage insurance business is influenced by macroeconomic conditions. Specifically, the level of premiums written is influenced by economic growth, interest rates, unemployment, housing activity, home prices and government policy, among other factors. Losses on claims are primarily impacted by unemployment rates, home prices and housing activity. As such, a significant downturn in the global, Canadian and provincial economies could adversely affect the Company's business and results of operations.

Insurance risk is the risk of loss arising from claims made by policyholders as a result of the end borrower's inability to fulfill their mortgage obligations, after taking into account recovery values and associated costs. Insurance risk and potential loss tolerance is a function of both national and regional factors and the Company's portfolio quality and mix. The key drivers of insurance risk for the Company can be categorized as economic and portfolio risk. Portfolio risk is the risk of increased losses due to the inaccurate assessment of risks entailed in underwriting an insurance policy; poor risk concentrations with respect to credit and collateral risk; or a lack of diversification in regards to lender, loan-to-value, region or product. Economic risk factors such as unemployment, changes in home prices, the amount of consumer spending, business investment, government spending, the volatility and strength of the global and Canadian capital markets, and inflation all affect the business and economic environment and, ultimately, the amount and profitability of the Company's business. In an economic downturn, which is characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending or regulatory actions, the demand for homes in Canada may be adversely affected. This could negatively impact the size of the Canadian mortgage insurance market, and the loss exposure and profitability of the Company.

A deterioration in Canadian economic conditions, regionally or nationwide, may also increase the likelihood that borrowers will lose their jobs or have insufficient income to pay their mortgages. This would result in increased claims which would adversely affect the Company's business and results of operations. An example of this would be a deterioration in trade relations with the United States, adversely impacting employment in regions such as Ontario and Quebec, where the economy relies heavily on the manufacturing industry, as well as all other regions of Canada that rely heavily on trade with the United States.

A decline in home prices, whether or not in conjunction with deteriorating economic conditions, would also increase the Company's risk of loss. A substantial economic downturn or decline in home

price appreciation or a decline in home prices could have a significant adverse effect on the Company's financial condition and results of operations.

Mortgage loans with higher loan-to-value ratios, which constitute a significant part of the Company's insurance in-force, typically have claim incidence rates higher than mortgage loans with lower loan-to-value ratios and may be more acutely impacted by economic volatility. Although mortgage insurance premiums for higher loan-to-value loans generally are higher than for loans with lower loan-to-value, the actual premium rates may not be sufficient to compensate the Company for the enhanced risks associated with mortgage loans bearing higher loan-to-values. This could have an adverse effect on the Company's financial condition and results of operations.

The Company's business is heavily regulated, and failure to meet its regulatory requirements or changes in regulation and governance requirements may impact the housing and mortgage markets, reduce the Company's profitability, impact the Company's ability to pay dividends or distribute capital to shareholders, expose the Company to claims, fines or penalties and could limit the Company's growth.

The Company is subject to significant regulation and supervision by insurance regulatory legislative authorities, which are granted significant powers, at the federal, provincial and territorial level in Canada. These laws and regulations and the regulatory authorities that apply them are aimed at protecting policyholders and creditors rather than investors, and are related to matters including:

- restrictions on the insurance that may be written by the Company;
- regulatory capital and solvency standards;
- the distribution of the Company's products;
- restrictions on types of invested assets;
- the maintenance of adequate margins for unearned premium reserves and unpaid claims;
- the examination of insurance companies by regulatory authorities, including periodic financial and market conduct examinations; and
- limitations on dividends, distribution of capital and transactions with affiliates.

It is not possible to predict the future impact of federal, provincial, territorial and municipal laws, regulations and guidelines on the Company's operations, and the Company cannot assure investors that laws and regulations enacted now and in the future will not have an adverse impact on the size or nature of its portfolio or any other aspects of the business of the Company. For example, federal, provincial and municipal governments implemented several regulatory changes in 2016 and 2017, including applying a mortgage rate stress test to all insured mortgages, changing low-ratio mortgage insurance eligibility requirements, the coming into force of regulations relating to mortgage insurance used as collateral in private sector securitization, the introduction of a new capital framework for mortgage insurers, and the introduction of measures to manage home affordability by the British Columbia and Ontario governments (see "*Regulatory Overview – Regulatory Changes*" for further details on these changes). As a result of these changes, the Company observed a decrease in demand for low loan-to-value mortgage insurance and a decline in the transactional market size and transactional new insurance written. As another example, the Government of Canada launched public consultation on a policy option that would require mortgage lenders to manage a portion of loan losses on insured mortgages that default, known as "lender

risk sharing". This could transfer some risk borne by mortgage insurers to lenders. The Company participated in the consultation; however, the Company cannot at this time determine the potential impact of this process and its ultimate outcome on the housing market, mortgage industry or the business of the Company. The laws and regulations governing the Company also typically require it to regularly and periodically make various filings, including securities regulatory filings, stock exchange filings and insurance regulatory filings with OSFI and various ministries at the federal and provincial level. Some of these documents will include financial statements and annual reports, prepared in accordance with IFRS, and other information and analyses concerning the Company's capital structure and actions, ownership, financial condition and general business operations. The Company could be subject to regulatory actions, sanctions, claims, fines or the loss of needed licenses if an applicable authority believed the Company had failed to comply with any applicable law, regulation or requirement. Any such failure could result in the imposition of significant restrictions on the Company's ability to do business or significant penalties, which could adversely affect the Company's growth prospects and its results of operations, financial condition and cash flow.

The provincial and territorial insurance regulators have not required the Company to use licensed individuals to sell its products. If such regulators decide to require licensing of individuals, or if future regulations affecting the sale or distribution of the Company's products or services contribute to increased costs for training and licensing, or contribute to reduced sales of the Company's products, the Company's results of operations and financial condition may be adversely affected. As demonstrated by changes introduced by the British Columbia and Ontario governments from 2016 to present, provincial governments can also introduce measures to impact supply, demand, affordability or other characteristics of the housing market (see "*Regulatory Overview – Regulatory Changes*" for details on the changes introduced in these markets).

The attractiveness of insured residential mortgages to lenders is dependent, in part, on the capital requirements that apply to them, which, in Canada, are currently derived from international standards adopted by Basel II and Basel III. Any changes to these international standards or the way in which they are applied in Canada could impact upon the risk weightings assigned to insured residential mortgages and could impact upon the attractiveness of insured residential mortgages as an asset class for lenders which could alter the competitive positions and financial performance of mortgage insurers. There can be no assurance that such changes will not be introduced or that if introduced, will not have an adverse effect on the Company's business, results of operations and financial condition.

The Company's loss mitigation efforts are also impacted by federal, provincial and territorial laws applicable to land transfers and mortgage enforcement. Changes to any such laws could impact the cost and efficiency with which the Company can exercise its loss mitigation efforts and, ultimately, could adversely impact the severity of claims paid.

The Company prepares its financial statements in accordance with IFRS. In 2017, the International Accounting Standards Board issued IFRS 17, Insurance Contracts (IFRS 17), which establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. The future adoption of these new standards will affect how the Company accounts for its insurance contracts and how it reports its financial performance. Implementation risk will exist with the transition to IFRS 17. The standard could also create material volatility in the Company's financial results and capital position.

In addition to the above noted risks related to a changing regulatory landscape, the Company is also subject to legal and compliance risk. Compliance risk is the risk of legal sanctions, class action lawsuits, material financial loss, or loss to reputation that the Company may suffer as a result of its failure to comply with applicable laws, regulations, guidelines, government or court orders, its own policies,

mandates, code of conduct, and standards of practice. Legal risk refers to the risk of financial or reputational loss arising from regulatory or legal action, disputes for or against the Company, failure to correctly document, enforce or adhere to contractual arrangements, and inadequate management of non-contractual rights.

Actions or inaction by the federal government in respect of its policy of supporting home ownership in Canada through mortgage insurance, could significantly reduce the demand for, or availability of, private sector mortgage insurance or mortgage insurance in general.

The Canadian government has a policy of supporting home ownership in Canada by providing mortgage insurance through CMHC and by supporting private sector competition to CMHC by guaranteeing the insurance provided by private sector mortgage insurance providers, subject to an aggregate cap of $350 billion, and by recognizing these guarantees in the capital rules that it has established for federally regulated mortgage lenders. If the Canadian government were to alter its policy in any manner adverse to the Company, including by not increasing the cap to take into account growth in value of outstanding mortgages, altering the terms of or terminating its guarantee of the policies of private sector mortgage insurance providers, including those with the Company, or varying the treatment of private sector mortgage insurance in the capital rules, the Company could lose its ability to compete effectively with CMHC and could effectively be unable to write new business as a private sector mortgage insurer in Canada. This could have an adverse effect on the business, financial condition and results of operations of the Company. An example of this risk can be seen in the 2016 and 2017 regulatory changes introduced by the Government of Canada (see "*Regulatory Overview – Regulatory Changes*") which the Company believes have resulted in a decrease in demand for low loan-to-value mortgage insurance and a decline in the transactional market size and transactional new insurance written in 2017.

Another example of this risk is the private sector mortgage insurer aggregate $350 billion cap permitted under PRMHIA. If private sector mortgage insurers meet or exceed this cap, they would be limited in their ability to write new insurance and would be dependent on the run-off of historical books of business and/or the Canadian government increasing the aggregate cap before they could write new business. This risk could be exacerbated by any further government changes in rules relating to the usage of portfolio insurance in CMHC sponsored NHA MBS securities.

A decline in the Company's regulatory capital or an increase in its regulatory capital requirements could result in: a decline in Genworth Canada's or Genworth Mortgage Insurance Canada's ratings, increased scrutiny by OSFI, preclude the Company from writing new business, distributing capital to shareholders, or utilizing capital for business needs, and have an adverse impact on the Company's financial condition, results of operations and prospects.

The Company is subject to capital requirements imposed under Canadian law, including the ICA and PRMHIA. Defaults or impairments in the Company's investment portfolio or an increase in reported losses could have an adverse impact on the Company's regulatory capital levels, in response to which the Company would be required to obtain capital from other sources. If adverse circumstances develop, there can be no assurance that the Company will not need additional capital or that the Company will be able to obtain it to maintain the targeted regulatory capital levels to support the Company's business operations, including its ability to write new insurance. There can be no assurance that Genworth Financial will be willing or able to provide additional capital to the Company.

The Minister (pursuant to PRMHIA) and OSFI (pursuant to their guidelines) determine the minimum capital required by federally regulated insurance companies and could decide to increase the amount of capital required, in which event the Company would be required to obtain capital from other

sources. Any changes to the capital requirements that are not matched with appropriate pricing responses could have an adverse impact on the Company's profitability (including return on equity). The failure of the Company to meet applicable regulatory capital requirements could subject it to further examination or corrective action imposed by OSFI, including limitations on its ability to write additional business, a restriction on the payment of dividends or interest, heightened supervision or seizure or liquidation. Any of these actions by OSFI could have an adverse effect on the Company's business, financial condition or results of operations.

A new capital framework applicable to mortgage insurers was implemented effective January 1, 2017, which OSFI continues to review and which the Company expects will be updated effective January 1, 2019. If the new framework requires an increase in the capital that the Company has to hold, it may expose the business to the risk of inadequate capital or an inability to meet its targeted operating return on capital equity.

A change to federal laws requiring mortgage insurance for mortgage loans exceeding 80% loan-to-value or any change to the threshold loan-to-value ratio could affect the Company's operations significantly and could reduce the demand for mortgage insurance.

All financial institutions that are federally regulated by OSFI are required to purchase mortgage insurance whenever the amount of a mortgage loan exceeds 80% of the value of the collateral property at the time the loan is made. From time to time, the Department of Finance reviews the federal financial services regulatory framework and has in the past examined whether to remove, in whole or in part, the requirement for mortgage insurance on such high loan-to-value mortgages. High loan-to-value mortgage loans constitute a significant part of the Company's portfolio of insured mortgages and the removal, in whole or in part, of the regulatory requirement for mortgage insurance for such loans could result in a reduction in the amount of new insurance written by the Company in future years. In addition, any increase in the threshold loan-to-value ratio above which mortgage insurance is required could also result in a reduction in the amount of new insurance written by the Company in future years. Any of these events could have an adverse effect on the Company's business, results of operations and financial condition.

The Company's business is subject to substantial competition from CMHC, a government-owned enterprise, and this may put the Company at a competitive disadvantage on pricing and other terms and conditions; new competition could affect the Company's ability to maintain or increase market share and profitability.

The Company primarily competes with CMHC, a Crown Corporation. CMHC may establish pricing terms and business practices that may be influenced by Canadian government policy initiatives such as advancing social housing policy or stabilizing the mortgage lending industry, initiatives which may not be consistent with maximizing return on capital or other profitability measures. In the event that CMHC determines to reduce prices or alter the terms and conditions of its mortgage insurance or other credit enhancement products in furtherance of social or other goals rather than a profit motive, the Company may be unable to compete effectively, which could have an adverse effect on the Company's financial condition and results of operations.

CMHC is a sovereign entity that provides mortgage lenders with 100% capital relief from bank regulatory capital requirements on loans that it insures. In contrast, lenders receive less than 100% capital relief on loans the Company insures. See "*Description of the Business – PRMHIA*". This difference in capital relief inherently puts the Company at a competitive disadvantage vis-à-vis CMHC. CMHC also operates the CMB program, which provides lenders the ability to efficiently securitize their mortgage loan portfolios. Accordingly, if the Company is unable to effectively distinguish itself from CMHC with

Canadian mortgage lenders in other ways, under current market conditions or in the future, the Company may be unable to compete effectively with CMHC. In addition, because CMHC is a sovereign entity, lenders may have lower funding costs for CMHC insured mortgages, which could make it more difficult for the Company to compete with CMHC.

The mortgage securitization programs administered by CMHC, including the CMB program, enable lenders to achieve maximum funding flexibility through access to low-cost funds for mortgage lending. As currently administered by CMHC, such programs accept mortgage loans insured by private sector mortgage insurers, including the Company, on substantially the same terms as loans insured by CMHC. However, if in the future CMHC no longer provides that private sector insured mortgages may participate in such programs on substantially the same terms, then the demand for the Company's mortgage insurance may decrease and the Company's ability to effectively compete with CMHC would be negatively impacted.

A number of other companies have in the past competed with the Company by offering private sector mortgage insurance in the Canadian market, although most have currently ceased writing new business. Canada Guaranty is active in the market today and is endeavouring to expand its business, and other competitors may choose to revive their Canadian operations or, additional competitors may enter the Canadian private sector mortgage insurance business. The addition of new competitors to the Canadian private sector mortgage insurance market could, among other things, result in fewer policies being written by the Company and increased competition. Such increased competition could have an adverse effect on the Company's business, results of operations and financial condition.

The Company's computer systems and internal controls may fail or its technology and information security may be compromised, resulting in an operations failure or a data or personal information breach, which could damage the Company's business and reputation and adversely affect its financial condition and results of operations.

The Company's business is highly dependent upon the effective operation of its computer systems and its internal control operating procedures. The Company relies on these systems throughout its business for a variety of functions, including underwriting new insurance, adjudicating applications, processing claims, providing information to lenders, performing portfolio analyses and maintaining financial records. Despite the implementation of security protocols and back-up measures, the Company's systems may be vulnerable to physical or electronic intrusions from both within and outside of the Company, computer viruses or other attacks, programming errors, theft, internal programming or human errors, fraud, and other similar disruptive problems or events. There is also a risk that certain internal procedural and security controls could fail, which could exacerbate the consequences from such events. These events or failures could cause significant interruptions to the Company's operations or the unauthorized disclosure of Company data or personal information, which could result in an adverse effect on its business, reputation, financial condition or results of operations.

The Company retains confidential information in its computer systems, and the Company relies on sophisticated commercial technologies and internal controls to maintain the security of the data and personal information that it holds. Anyone who might be able to circumvent the Company's security measures and penetrate its computer systems may be able to access, view, misappropriate, alter or delete any information in the systems, including personally identifiable consumer information and proprietary business information. Any internal or external compromise of the security of the Company's computer systems, or internal programing or human errors, may result in unauthorized disclosure or inappropriate use of personally identifiable consumer information or confidential information which could damage the Company's reputation in the marketplace, deter lenders from purchasing the Company's products, subject the Company to civil and criminal liability and require the Company to incur significant technical, legal

and other expenses. Any of these events could have an adverse effect on the Company's business, results of operations and financial condition.

The Company receives the personal and private information of borrowers and certain business information of lenders, and all of this information is subject to information management risk.

Information management risk is the risk of loss or harm resulting from the failure of the Company or its suppliers to manage information appropriately throughout its lifecycle. Exposure to this risk exists when information is acquired or created, processed, used, shared, accessed, retained or disposed. With respect to personal information, the failure to manage information appropriately can result in the misuse of personally identifiable information or privacy breaches. With respect to customer information, the inability to process information accurately and on a timely basis can result in service disruptions, errors in underwriting and inaccuracies in reserves. With respect to corporate and proprietary information, the mismanagement of information can result in the disclosure of confidential information, the inaccessability of information when it is required and the reliance on inaccurate information for decision-making purposes. Such events could lead to legal and regulatory consequences, reputational damage, the loss of the confidence and business of customers and financial loss.

Genworth Financial, the Company's majority shareholder, has entered into a transaction with China Oceanwide, which may or may not be completed under the timeframe, terms or manner currently anticipated, which could have a material adverse effect on Genworth Financial. Due to the delay in the transaction with China Oceanwide, Genworth Financial deemed it prudent to pursue the Genworth Financial Term Loan, which upon completion includes the pledging of approximately 41% of the issued and outstanding Common Shares held by GFIH. If such Common Shares are realized upon, it cannot be known what actions or intentions the holders of such Common Shares would have with respect to the Common Shares.

See "*General Development of the Business – Three Year History – 2017*" for details on the Oceanwide Transaction and the Genworth Financial Term Loan.

Risks enumerated herein that are associated with being majority held by Genworth Financial would continue to apply following the Oceanwide Transaction; however following such proposed transaction the risks would also apply to China Oceanwide. The proposed transaction with China Oceanwide may not be completed or may not be completed under the timeframe, terms or manner currently anticipated, which could have a material adverse effect on Genworth Financial, and which may require Genworth Financial to pursue strategic alternatives, including the potential sale of all or a portion of its interest in Genworth Canada.

If Genworth Financial should default under the Genworth Financial Term Loan then the syndicate of lenders may choose to realize on the Common Shares pledged under such loan. It cannot be known what actions or intentions the holders of such Common Shares would have with respect to the Common Shares, including selling such shares to one or more buyers. Should an acquirer of the Common Shares gain a controlling interest in Genworth Canada, the risks associated with Genworth Financial enumerated in this AIF may apply to such acquirer. The sale of such Common Shares could also have an adverse effect or cause fluctuations in the price of the Common Shares. Uncertainty related to the identity or intentions of an acquirer of the Common Shares could be heightened by the fact that under the ICA, the Minister needs to approve certain acquisitions of shares of an insurance company such as Genworth Mortgage Insurance Canada, or a controlling any entity, such as Genworth Canada (as further described in this "*Risk Factors*" section below).

There can also be no assurance that Genworth Financial, or any other owner of Common Shares will be willing or able to provide additional capital to the Company, if needed by the Company, following such a sale of the Common Shares.

The Canadian mortgage origination market is highly concentrated, which may expose the Company to reduced sales or adverse loan selection in the future should a key lender adversely select loans sent to the Company for insurance or terminate or reduce its relationship with the Company.

Canada's residential mortgage lending market is highly concentrated, with the five largest mortgage originators providing the majority of the residential mortgage financing in Canada. The Company maintains relationships with each of these key lenders. The Company is at risk that key lenders, particularly the Big Five Banks, may change the type of loans or level of business that they write with the Company, for any number of reasons, including adverse capital allocation requirements associated with choosing a private sector mortgage insurer or adverse funding options for the lender associated with private sector mortgage insurers. These or other lenders may choose to direct a greater proportion of higher risk and less profitable loans to the Company, reduce the amount of business written with the Company in light of adverse developments in financial or capital markets, adverse rating agency actions, concerns about market-related or counterparty risks or adverse developments in the Company's or Genworth Financial's business. A reduction in business with a key lender or adverse selection of loans could have an adverse effect on the Company's level of new insurance written, the Company's financial condition and results of operations.

A decrease in the volume of transactional insurance originations could result in a decline in the Company's revenue.

The Company provides mortgage insurance primarily for high loan-to-value mortgages. Material changes in factors that impact the volume of such mortgages, could lead to a decrease in the volume of transactional insurance originations, including:

- a change in the level of mortgage interest rates;
- a decline in economic conditions generally, or in conditions in regional and local economies;
- the level of consumer confidence, which may be adversely affected by economic instability, war or terrorist events;
- declines in the price of homes;
- adverse population trends, including lower homeownership rates;
- changes in government housing policy encouraging loans to first-time homebuyers; and
- a change in the Company's risk appetite.

A decline in the volume of transactional insurance originations would reduce the demand for mortgage insurance and, therefore, could have an adverse effect on the Company's financial condition and results of operations.

The Company's business is geographically concentrated and deterioration in regional economic factors could increase the Company's losses on claims or reduce demand for the Company's insurance.

Although generally consistent with the geographic distribution of the Canadian population and mortgage origination market, much of the Company's business is concentrated in a relatively few number of provinces, which increases the Company's vulnerability to economic or market downturns, catastrophic events or acts of terrorism in those provinces. As of December 31, 2017, approximately 87% of the Company's primary transactional outstanding balance of insured mortgages was concentrated in Ontario, British Columbia, Alberta and Quebec, with the highest percentage being in Ontario (approximately 36%). A catastrophic event, an act of terrorism, or any economic downturn that results in increased unemployment in a region coupled with a downturn in any of these geographic regions that is more severe than the rest of Canada could result in greater defaults and losses on claims from loans originated in those regions and result in lower demand for new insurance. Any of these events could result in an adverse effect on the Company's business, results of operations and financial condition. For example, a downturn in regional economies in Ontario or British Columbia, in particular in the GTA and the Greater Vancouver Area, coupled with downturns in home prices in those markets could result in more severe losses on claims in those regions relative to other Canadian regions.

The Company's risk management framework or mortgage insurance policies may not be effective or adequate in controlling or mitigating the risks it faces or may not be implemented successfully through its underwriting practices. This includes the risk of undiscovered or unproven fraud or misrepresentation by borrowers or lenders on an individual basis or at a systemic level within the mortgage industry.

The Company's success depends upon its ability to accurately assess the risks associated with the mortgage insurance policies that the Company writes. The risk management framework includes the assessment of risk, a proactive decision-making process to determine which risks are acceptable and the ongoing monitoring and management of those risks. Mortgage loans with higher loan-to-value typically have claim incidence rates substantially higher than mortgage loans with lower loan-to-value. Given the enhanced risks associated with mortgage loans bearing higher loan-to-value ratios and the Company's significant concentration of high loan-to-value loans, the Company's business and results of operation would be significantly impacted by defaults on the mortgage loans it insures.

The Company has developed a risk management program that includes risk identification, quantification, governance, policies and procedures and seeks to appropriately identify, monitor, measure, mitigate, control and report the types of risks to which it is subject, including but not limited to operational risks such as employee fraud, borrower or lender fraud or misrepresentation and operational control failures. The Company regularly reviews its risk management program and works to update it on an ongoing basis to be consistent with evolving global best market practices. However, the risk management program may not fully identify, monitor, measure, mitigate, control and report all of the risks the Company faces.

The Company's mortgage insurance policies exclude coverage for claims resulting from certain matters including, but not limited to, fraudulent, criminal or knowingly wrongful acts, or misrepresentations, material physical damage (beyond normal wear and tear), environmental conditions or negligence of the insured or any of its agents or employees. Despite the efforts of the Company to exclude coverage for certain matters, there can be no certainty that the Company has sufficiently and completely limited its contractual or operational exposure to only those losses on claims it has contemplated and for which it has priced its insurance premiums. The failure to do so could have an adverse impact on the financial condition of the Company.

If the Company's pricing is inadequate, or its loss and unearned premium reserves do not adequately reflect the Company's financial condition, results of operations and regulatory capital may be adversely affected.

In order to manage the risk profile of the Company's mortgage insurance portfolio and minimize the impact of claims, the Company places significant emphasis on the quality of its risk management framework. If the Company's standards are inadequate or ineffective it may lead to claims being more prevalent than expected and the new insurance written may be mispriced as premiums may be insufficient to generate an adequate return on capital. Additionally, if capital requirements increase in a manner that does not reflect historical pricing then the Company's pricing could be inadequate relative to such capital requirements. The premiums charged, and the associated investment income, may not be adequate to compensate the Company for the risks and costs associated with the insurance coverage provided to lenders. An increase in the number or size of claims, compared to what the Company anticipates, could adversely affect the Company's results of operations or financial condition. The implementation of a new capital framework for mortgage insurers at the start of 2017 and the resulting premium increases to address the new capital requirements have not yet been in place for a sufficient period of time to definitively determine if the existing pricing adequately addresses long-term business cycle needs and capital requirements. Similarly, the Company cannot be certain that existing premium amounts may be sufficient to address the imposition of any additional capital requirements by OSFI as it continues to review and update its capital framework.

See "*Description of the Business – Loss Reserves and Unearned Premium Reserves*" for details on the calculation of these items. Although loss reserve estimates may be appropriate initially, the ultimate cost of settling claims may vary significantly from initial loss reserves. In the event that actual losses on claims and loss adjustment expenses exceed the amount of loss reserves the Company has established, the Company may be required to increase its loss reserves which could result in the Company taking unexpected charges to income, a downgrade in the Company's financial strength ratings or the Company failing to meet minimum regulatory capital tests. Despite the Company's liability adequacy testing for unearned premium reserves, the unearned premium reserves may prove to be inadequate. The failure to accurately estimate and establish adequate reserves or a requirement that the Company increase its reserves could have an adverse effect on the Company's business, results of operations and financial condition.

The Company's loss experience may increase or vary as the Company's policies continue to age.

The Company expects the majority of claims on insured loans in the Company's current portfolio to occur between the second and fifth years after loan origination. Approximately 99% of the Company's transactional outstanding balance of insured mortgages as of December 31, 2017 was written after January 1, 2006. Loss experience could increase as its policies age, for example, if there are significant national or regional home price corrections, which could adversely affect the Company's results of operations and financial condition.

The Company recognizes unearned premium reserves based on actuarial curves derived from historical loss emergence experience. Sustained material shifts in the emergence of losses on claims could affect the timing of revenue recognition. The Company's results of operations and financial condition could be adversely affected if such material shifts occurred.

The Company may be unable to replace the services Genworth Financial provides it in a timely manner or on comparable terms.

Genworth Canada and Genworth Financial, among others, are parties to the Transition Services Agreement (as defined below) and certain other agreements pursuant to which Genworth Financial and its affiliates have agreed to provide the Company with a variety of services.

The Company originally negotiated these arrangements with Genworth Financial in the context of a parent-subsidiary relationship. Additionally, Genworth Financial may sub-contract portions of the services it is responsible for under the Transition Services Agreement to third parties. Although Genworth Financial is contractually obligated to provide the Company with services during the terms of these arrangements and for a period of time following certain triggering events (such as Genworth Financial ceasing to own 50% of the outstanding Common Shares or declaring bankruptcy), as with any service provider, there can be no assurance that these services will be provided at adequate levels during and after the completion of the agreements or their termination, or that the Company will be able to replace these services in a timely manner or on comparable terms. There can also be no guarantee that in any potential bankruptcy situation that an applicable court will honour the obligations set out in such agreements. In addition, under the Transition Services Agreement and other agreements, Genworth Financial is obligated to provide the Company with certain services only for specified periods of time beyond the triggering events. The Company has no control over such triggering events or Genworth Financial's ability to perform such services after the occurrence of such a triggering event. If Genworth Financial is not able to provide the services during a transition period or the Company is not able to find appropriate replacement service providers in a timely manner thereafter, it could have an adverse effect on the Company's business, results of operations and financial condition.

Market risks, such as defaults, downgrades, changes in interest rates and equity market corrections or other items and events impairing the value of the Company's investment portfolio may reduce the Company's income.

General economic conditions, political conditions and many other factors can also adversely affect the equity and bond markets and, consequently, the fair value of the securities owned, and ultimately affect the timing and level of realized gains or losses. Movements in interest rates, credit spreads, foreign exchange rates and equity prices cause changes in realized and unrealized gains and losses. The Company uses interest rate swaps to hedge a portion of the interest rate risk. The rate of currency exchange may also have an unintended effect on earnings and shareholder equity when measured in domestic currency. The Company is exposed to currency risk arising from investments and receivables denominated in U.S. dollars. The Company uses foreign exchange derivatives to mitigate currency risk.

The Company is subject to the risk that the issuers or guarantors of fixed income securities that the Company owns may default on principal and interest payments on such securities. As of December 31, 2017, fixed income securities of $5,258 million in the Company's investment portfolio represented 82% of the Company's total cash, cash equivalents and invested assets. With downgrades in the credit quality of certain issuers or guarantors, certain investments could become impaired, and, therefore, the Company's results of operations and financial position could be adversely affected. The Company sometimes also invests in equity securities, which are valued based on the market price of those securities. The securities business is speculative, prices are volatile and market movements are difficult to predict. The price of a security is affected by individual company developments, by general economic and financial conditions in those countries where the issuer of the security is located or where the stock is listed for trading, as well as global equity market sentiment and other factors. As of December 31, 2017, preferred shares investment holdings amounted to $547 million or 8% of the Company's total invested

assets and include $24 million of unrealized gains primarily as a result of an increase in interest rates and demand for preferred shares in the second half of 2017.

The Company has exposure to emerging markets risk, relating to international investing including greater market volatility, political risk, disclosure, governance, divergent economic cycles, higher transaction and custody costs, and taxation by foreign governments.

The Company's valuation of fixed maturity, equity and trading securities uses methodologies, estimations and assumptions that are subject to change and differing interpretations which could result in changes to investment valuations. Valuations use inputs and assumptions that are less observable or require greater estimation, as well as valuation methods that are more complex or require greater estimation, thereby resulting in values that are less certain and may vary significantly from the value at which the investments may be ultimately sold. The methodologies, estimates and assumptions the Company uses in valuing its investment securities evolve over time and are subject to different interpretation (including based on developments in relevant accounting literature), all of which can lead to changes in the value of investment securities. Rapidly changing and unanticipated interest rate, external macroeconomic, credit and equity market conditions could materially impact the valuation of investment securities as reported within Genworth Canada's Consolidated Financial Statements, and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on the Company's results of operations or financial condition.

Events reducing the value of the Company's investment portfolio could have an adverse effect on its business, results of operations and financial condition. Levels of write-downs or impairments are impacted by the Company's assessment of the financial condition of the issuer, whether or not the issuer is paying its principal and interest obligations and the Company's intent and ability to hold securities which have declined in value until recovery. If the Company decides to reposition or realign portions of the portfolio where it determines not to hold certain securities in an unrealized loss position to recovery, then the Company will incur an impairment charge which, as noted above, could have an adverse effect on the Company's business, results of operations and financial condition.

A downgrade or a potential downgrade in Genworth Canada's or Genworth Mortgage Insurance Canada's credit ratings or financial strength ratings, as applicable, could result in a loss of business and adversely affect the Company's financial condition and results of operations and could impact the Company's derivative and hedging program.

Although Genworth Canada and Genworth Mortgage Insurance Canada are not required to have a credit rating or financial strength rating to conduct business, such ratings are necessary in maintaining confidence in the Company's products, the ability to market the Company's products and the Company's competitive position. See "*Description of Capital Structure – Ratings*" for a description of Genworth Canada's and Genworth Mortgage Insurance Canada's current ratings. The standards used by rating agencies in determining financial strength ratings may be different from capital requirements set by government regulators. The Company may need to take actions in response to changing standards set by any of the rating agencies, in addition to the requirements of regulatory capital requirements, which could cause the Company's business, results of operations and financial condition to suffer.

Credit ratings and financial strength ratings are subject to revision or withdrawal at any time without notice by the rating agencies. A ratings downgrade could occur at any time for a variety of reasons, including for reasons specifically related to the Company's business, generally related to the Company's industry or the broader financial services industry or as a result of changes by the rating agencies in their methodologies or rating criteria. A negative outlook on Genworth Canada's or Genworth Mortgage Insurance Canada's credit ratings or financial strength ratings, as applicable, or a downgrade in

Genworth Canada's or Genworth Mortgage Insurance Canada's ratings, the announcement of a potential downgrade, or customer concerns about the possibility of a downgrade, could adversely affect the Company's relationships with key lenders and industry participants, which may reduce new sales of mortgage insurance and which would have an adverse effect on the Company's business, financial condition and results of operations. Any such event could also result in materially higher borrowing costs for the Company, may affect the price of outstanding debentures issued by Genworth Canada, and could impact market sentiment towards the Common Shares.

A ratings downgrade could also require Genworth Canada to post additional collateral for its derivatives or hedging agreements (including those providing us with protection against certain foreign currency exchange movement, interest rate fluctuation and share-based compensation expenses) or enabling the counterparties to these agreements to exercise their right to terminate all transactions under the agreements.

Changes in Genworth Financial's credit ratings and financial strength ratings could adversely affect Genworth Canada's or Genworth Mortgage Insurance Canada's ratings.

The credit ratings and financial strength ratings of Genworth Canada or Genworth Mortgage Insurance Canada, as applicable, may be affected by changes in the credit ratings and the financial strength ratings of Genworth Financial, including as a result of the application by a rating agency of a group rating methodology that links the ratings of Genworth Canada or Genworth Mortgage Insurance Canada to the ratings of Genworth Financial. See "– *Genworth Financial has significant control over the Company. Its interest could adversely affect the Company's business and profitability and it may not exercise its control in a way that benefits its public shareholders.*"

For example, S&P lowered Genworth Financial's counterparty credit rating and the counterparty credit and financial strength ratings of Genworth Financial's U.S. life insurance operating subsidiaries following the release of Genworth Financial's third quarter 2014 earnings. As a result of these downgrades and the application of S&P's group rating methodology, S&P lowered Genworth Canada's counterparty credit rating and the ratings on the Company's senior unsecured debentures and lowered the financial strength rating of Genworth Mortgage Insurance Canada.

Such changes may not always impact the credit ratings and financial strength ratings of the Genworth Canada or Genworth Mortgage Insurance Canada. For example, despite a further lowering by S&P of Genworth Financial's credit rating and the credit and financial strength ratings of Genworth Financial's U.S. life insurance operating subsidiaries following the release of Genworth Financial's fourth quarter 2014 earnings in February 2015, S&P affirmed its credit and financial strength ratings for Genworth Mortgage Insurance Canada and its credit rating on Genworth Canada and revised its outlook on Genworth Canada to stable from negative. In affirming the ratings and revising its outlook on Genworth Canada, S&P indicated that it had updated its stand-alone assessment of Genworth Canada and determined that the current ratings of Genworth Canada sufficiently capture any adverse brand, reputational or financial influence related to credit quality deterioration at Genworth's U.S. operations. However, there can be no guarantee that a rating agency will again affirm Genworth Canada's and Genworth Mortgage Insurance Canada's ratings if Genworth Financial or applicable subsidiaries experience any further downgrades. See "*Description of Capital – Ratings*" for further details on Genworth Canada's and Genworth Mortgage Insurance Canada's ratings.

The Company is subject to model risk.

Model risk is the risk of error in the design, development, implementation or subsequent use of models. The use of models plays an important role in many of the Company's business activities. We use a variety of models for many purposes, including risk measurement and management of different types of risk, such as the mortgage scoring model used to predict the likelihood of borrower defaults. The Company also utilizes internally developed stochastic modelling to estimate projected losses on claims and to measure the severity of loss and delinquency rate sensitivity to both changes in the economic environment as well as individual loan or borrower attributes. A failure in the Company's modelling could adversely impact its ability to properly evaluate, reserve, price, and mitigate risks and the associated losses. We have established an enterprise risk management framework, including principles, policies and procedures, roles and responsibilities to manage model risk. One of the key factors in the framework to mitigate model risk is independent model validation. In particular, the introduction of a new capital framework by OSFI effective January 1, 2017 includes extensive modelling. During or after the implementation of this capital framework, the Company may discover errors or other deficiencies in existing models, assumptions and/or methodologies.

Adverse capital and credit market conditions may significantly affect the Company's access to capital and may affect its ability to meet liquidity or refinancing requirements in the future.

In the event market or other conditions have an adverse impact on the Company's capital and liquidity needs beyond expectations and its sources of liquidity do not satisfy its needs, it may need to seek additional funding. Funding sources could potentially include the generation of proceeds from the sale of assets, the incurrence of additional debt, the refinancing of existing debt or drawing on its $200 million credit facility. In addition, funding sources could potentially include issuing equity, with any decision to issue equity thoroughly considering the degree to which such an equity issuance would dilute current shareholders' value. All such funding sources can have various impacts on the Company's financial condition, including book value, book value per share, earnings per share, results of operations and other items.

The availability of additional funding will depend on a variety of factors, such as market conditions, regulatory considerations, the general availability of credit, the overall availability of credit to the financial services industry, the level of activity of acquirers of assets, Genworth Canada's or Genworth Mortgage Insurance Company's credit ratings and the Company's credit capacity and the performance of, and outlook for, its business. Market conditions or the Company's financial condition may make it difficult or impossible to access funding sources or complete asset sales to generate additional liquidity, especially in a restricted timeframe. The Company's access to funding may be further impaired if its credit or financial strength ratings are negatively impacted.

Interest rate fluctuations could adversely affect the Company's business and profitability.

Rising interest rates generally reduce the volume of new mortgage originations and demand for homes. A decline in the volume of new mortgage originations would have an adverse effect on the Company's new mortgage insurance written. Rising interest rates also can increase the monthly mortgage payments for insured homeowners with variable rate mortgages and for borrowers renewing mortgages that could have the effect of increasing default rates on variable rate or renewed mortgage loans and thereby increasing the Company's exposure on its mortgage insurance policies. In addition, as noted below, rising interest rates may decrease the value of the Company's investment portfolio, which may negatively impact regulatory capital levels required to be maintained by the Company. By contrast, historically low interest rates can have an adverse impact on the economy in general and the housing

market in particular by contributing to increased household debt levels and encouraging home price appreciation beyond sustainable levels.

Prevailing interest rates will also affect the market value of the Debentures (as defined below). The price or market value of the Debentures will decline as prevailing interest rates for comparable securities rise. Genworth Canada may choose to redeem the Debentures from time to time, including when prevailing interest rates are lower than the interest rate of the Debentures. If prevailing rates are lower at the time of redemption, a holder may not be able to reinvest the redemption proceeds in a comparable security at an effective yield as high as the yield on the Debentures being redeemed.

Interest rate fluctuations also could have an adverse effect on the results of the Company's investment portfolio. During periods of declining market interest rates, the Company is forced to reinvest the cash it receives as interest or return of principal on its investments in lower-yielding high-grade instruments or in lower-credit instruments to maintain comparable returns. Issuers of fixed income securities also may decide to prepay their obligations in order to borrow at lower market rates, which exacerbates the risk that the Company may have to invest the cash proceeds of these securities in lower-yielding or lower-credit instruments. During periods of rising interest rates, market value of the fixed income investments held by the Company would likely fall. A decrease in the value of the Company's investment portfolio would likely have an adverse effect on the Company's results of operations and financial condition.

The Company's business could be harmed if it were unable to retain, attract and motivate qualified employees and members of the Company's senior management team or other key personnel.

The Company's future success is largely dependent on its ability to retain and attract qualified employees. The Company faces intense competition in the mortgage insurance industry for key employees with demonstrated industry knowledge and ability, including actuarial, finance, legal, investment, risk, compliance and other professionals. The occurrence of an event that is detrimental to the reputation or business of the Company, or the mortgage industry could make it difficult to attract or retain employees. The Company's future success also depends upon the continued services of its senior management team and other key employees. There can be no assurance that the Company will be able to retain members of its senior management team and key employees or, in the event their employment with the Company is terminated, be able to replace them in a timely manner with qualified individuals with the necessary skills and expertise. The loss of one or more members of the Company's senior management team or other key personnel could have an adverse effect on the Company's business and prospects.

As a holding company, Genworth Canada depends on the ability of its direct and indirect subsidiaries to make distributions in order to allow Genworth Canada to pay dividends, if declared, and to pay interest to meet its obligations.

Genworth Canada acts as an indirect holding company for Genworth Mortgage Insurance Canada and does not have any significant operations of its own. Dividends or other distributions from Genworth Mortgage Insurance Canada and, in turn, Genworth Canada's other subsidiaries are Genworth Canada's principal source of cash to pay shareholder dividends, if declared, and to meet its other obligations. These obligations include Genworth Canada's operating expenses, taxes and interest and principal on its borrowings, including debt issued Genworth Canada for $275 million principal amount of 5.68% debentures due June 15, 2020 (the "**2020 Debentures**") and $160 million principal amount of 4.24% debentures due April 1, 2024 (the "**2024 Debentures**", and together with the 2020 Debentures, the "**Debentures**"). There are or may be statutory, contractual, tax or other limitations on the ability of subsidiaries to make distributions to Genworth Canada. If the cash Genworth Canada receives from its subsidiaries pursuant to these distributions is insufficient for it to fund its obligations, or if Genworth

Mortgage Insurance Canada or its other subsidiaries are unable to make such distributions, Genworth Canada may be required to raise cash through the incurrence of debt, the issuance of additional equity or the sale of assets. However, there can be no assurance that Genworth Canada would be able to raise cash by any of these means in a timely manner or on terms that may be beneficial to the Company. The failure of the Company to pay its debt obligations could have a significant effect on the ratings of Genworth Canada or Genworth Mortgage Insurance Canada, the market price or value of the Common Shares and the confidence of investors and customers in the business of the Company.

The payment of dividends and other distributions by federally regulated insurance companies is regulated by insurance laws and regulations. Mortgage insurance companies maintain minimum levels of regulatory capital. If a company does not meet minimum capital requirements in compliance with the MCT ratio, its directors may not declare dividends. Furthermore, the Superintendent may direct a company to increase its capital or assets or to provide additional liquidity, even if the company has complied with capital regulations and guidelines. Additionally, if the Company were to write considerable new business, its regulatory capital requirements would increase significantly. Due to regulatory capital requirements or actions by the Superintendent, the Company's subsidiaries may be precluded from paying dividends in the future. The failure of Genworth Canada to pay dividends in circumstances where investors expect dividends to be paid could have a significant effect on the market price or value of the Common Shares.

Negative publicity about the Company, the mortgage insurance business or the housing market in general may negatively impact the Company's results of operations and financial condition.

Most of the Company's products and services are ultimately paid for by individual consumers. From time to time, consumer advocacy groups or the media may focus adverse attention on the housing market or the Company's products and support services, thereby subjecting the Company to periodic negative publicity. Negative publicity may also result in increased regulation and legislative scrutiny of practices in the mortgage insurance industry as well as increased litigation, which may further increase the Company's costs of doing business and adversely affect the Company's profitability by impeding the Company's ability to market its products and support services, requiring it to change its products or support services or by increasing the regulatory burdens under which it operates. Negative publicity could also cause fluctuations in the price of the Common Shares or cost of future debt issuances.

The value of Genworth Canada's debt instruments and Common Shares may fluctuate.

Stock markets and debt markets in general, and Genworth Canada's securities in particular, may experience significant price and volume volatility. The market price and volume of Genworth Canada's securities may be subject to significant fluctuations due not only to general market conditions, but also to a change in sentiment in the market regarding the mortgage insurance industry, the Canadian real estate market, employment levels in Canada and the Canadian economy in general, as well as investor concern about the Company's products, operations, reserves, ratings, business prospects, capital positions, its majority shareholder or the prospect of the potential merger of Genworth Financial with China Oceanwide or its implementation. The Common Shares may also fluctuate as a result of some investors using the Common Shares as a proxy for the Canadian housing market and using hedging strategies, such as short selling the Common Shares, to try and address the risks they perceive in the Canadian housing market. In addition to the risk factors discussed above, the price and volume volatility of Genworth Canada's securities may be affected by, among other issues, the Company's financial performance and condition and future prospects.

The insurance the Company has in place may be insufficient or may not cover all losses associated with the risk it is intended to mitigate.

There can be no guarantee that the Company's director and officers liability insurance, errors and omissions insurance or cybersecurity insurance, or any other insurance coverage the Company might acquire, will be sufficient or applicable to compensate the Company for all losses that may occur due to any incident. In addition, the Company's third-party insurance coverage will vary from time to time in both type and amount depending on availability, cost and decisions with respect to risk retention.

The Company's business is subject to the risk of legal, tax and regulatory investigations and actions which may result in financial losses and harm the Company's reputation.

The Company faces the risk of litigation and regulatory investigations and actions in the ordinary course of business, including the risk of class action lawsuits. The Company may become subject to class actions and individual suits alleging, among other things, issues relating to sales or underwriting practices, claims payments and procedures, product design, product disclosure, administration, charging excessive or impermissible fees on products, its pricing structures and business practices, including relating to electronic communications. In the Company's investment-related operations, the Company may be subject to litigation involving commercial disputes with counterparties. The Company may also be subject to litigation arising out of the Company's general business activities such as the Company's contractual and employment relationships. Plaintiffs in class action and other lawsuits against the Company may seek very large or indeterminate amounts, including punitive damages, which may remain unknown for substantial periods of time. The Company may also be subject to various regulatory inquiries, such as information requests, subpoenas and books and record examinations, from provincial and federal regulators and other authorities. The Company's positions in its tax filings could be challenged by taxation authorities and result in disputes regarding the Company's tax liabilities. A substantial legal liability, tax dispute or significant regulatory action against the Company could have an adverse effect on its business, financial condition and results of operations. Moreover, even if the Company ultimately prevails in any litigation, tax dispute, regulatory action or investigation, the Company could suffer significant reputational harm, which could have an adverse effect on its business, financial condition and results of operations.

There can be no assurance that any investigations, proceedings or disputes will not have an adverse effect on the Company's business, financial condition or results of operations. In addition, increased regulatory scrutiny and any resulting investigations or proceedings could result in new legal precedents and industry-wide regulations or practices that could adversely affect the Company's business, financial condition and results of operations.

The soundness of other financial institutions that are counterparties pursuant to the Company's securities lending and derivatives program could adversely affect the Company.

The Company participates in a securities lending program managed through an intermediary, whereby the Company lends securities it owns to other financial institutions to allow them to meet delivery commitments. The Company receives as collateral securities with an estimated fair value of at least 105% of the fair value of the securities loaned and an indemnity from such intermediary. The Company is also involved in derivative transactions that require the posting of collateral by the Company or the counterparty to the transactions. The bankruptcy or liquidation of a securities lending or derivative counterparty financial institution could result in the Company being unable to seize upon, or being delayed in its ability to foreclose on, its collateral either of which may impact the value of the collateral ultimately realized. The occurrence of any such event could have an adverse effect on the Company's results of operations and financial condition.

Applicable laws and the Company's relationship with Genworth Financial, including the pledging of the Common Shares by Genworth Financial, may discourage take-over attempts and business combinations that shareholders might consider in their best interests.

Applicable laws and the fact that Genworth Financial continues to control Genworth Canada, and has pledged the Common Shares held by GFIH pursuant to the terms of the Genworth Financial Term Loan, may delay, deter, prevent or render more difficult a take-over attempt that Genworth Canada's other shareholders might consider in their best interests. For example, this may prevent Genworth Canada's shareholders from receiving the benefit from any premium to the market price of the Common Shares offered by a bidder in a take-over context. Even in the absence of a take-over attempt, the existence of these facts may adversely affect the prevailing market price of the Common Shares if they are viewed as discouraging take-over attempts in the future.

For example, under the ICA no person may, without the approval of the Minister, acquire any share of an insurance company such as Genworth Mortgage Insurance Canada, or control any entity, such as Genworth Canada, that holds a share of an insurance company, if as a result the person would control the insurance company or the aggregate of the shares held by the person and by entities controlled by the person would exceed 10% of any class of shares of the insurance company.

In addition, the fact that Genworth Financial continues to own a majority of the outstanding Common Shares effectively requires the consent of Genworth Financial for any change of control transaction. Genworth Financial may decide for strategic or other reasons not to sell its Common Shares in a change of control transaction even in circumstances where the Board or other shareholders may consider such transaction to be in the best interests of the Company and such shareholders. These restrictions may delay, deter or prevent a potential merger or sale of Genworth Canada, even if the Board decides that it is in the best interests of shareholders for the Company to merge or be sold.

Any of the foregoing could result in an adverse effect on the Company's business and on the value of the Common Shares.

The occurrence of natural or man-made disasters or a pandemic could adversely affect the Company's financial condition and results of operations.

The Company is exposed to various risks arising out of natural disasters, including earthquakes, hurricanes, floods and tornadoes, and man-made disasters, including acts of terrorism and military actions and pandemics. For example, a natural or man-made disaster or a pandemic could affect borrowers' ability to make mortgage payments on loans insured by the Company's mortgage insurance policies or would adversely affect the business operations of lenders. The continued threat of terrorism and ongoing military actions may cause significant volatility in global financial markets, and a natural or man-made disaster or a pandemic could trigger an economic downturn in the areas directly or indirectly affected by the disaster. These consequences could, among other things, result in a decline in business and increased claims from those areas, as well as an adverse effect on home prices in those areas, which could result in increased loss experience in the Company's business. Disasters or a pandemic also could disrupt public and private infrastructure, including communications and financial services, which could disrupt the Company's normal business operations.

A natural or man-made disaster or a pandemic could also disrupt the operations of the Company's counterparties or result in increased prices for the products and services they provide to the Company. In addition, a disaster or a pandemic could adversely affect the value of the assets in the Company's investment portfolio if it affects companies' ability to pay principal or interest on their securities.

Any of the foregoing could have an adverse effect on the Company's business, results of operations and financial condition.

Genworth Financial is the majority shareholder of Genworth Canada. The relationship of Genworth Financial (or any acquirer(s) of Genworth Financial or its interest in Genworth Canada) with Genworth Canada could adversely affect the Company's business and profitability and it may not exercise its interest in a way that benefits Genworth Canada's public shareholders.

Genworth Financial beneficially owns approximately 57.1% of the outstanding Common Shares, and shares the same name and brand as the Company. Any adverse developments affecting Genworth Financial, including the potential merger with China Oceanwide, may be harmful to the Company's business and prospects. In particular, in an adverse scenario for Genworth Financial, lenders could become less likely to do business with the Company, even though the Company may be financially sound.

Genworth Financial (or any acquirer(s) of Genworth Financial or its interest in Genworth Canada), by virtue of its majority share ownership, has the ability to exert influence over strategic decisions taken by the Board, such as the declaration of special or other dividends. So long as Genworth Financial continues to beneficially own more than 50% of the outstanding Common Shares, Genworth Financial generally will be able to determine the outcome of most corporate actions requiring shareholder approval. In addition, until the first date on which Genworth Financial owns not less than one-third of the outstanding Common Shares, the prior affirmative vote or written consent of Genworth Financial is required for certain corporate actions. See "*Material Contracts – Shareholder Agreement*". Genworth Financial also has the right, through ownership of the Special Share (as defined in "*Description of Capital Structure – Special Share*"), to elect a portion of the Board.

Additionally, because Genworth Financial's interests may differ from other shareholders' interests, actions Genworth Financial takes with respect to Genworth Canada, as its controlling shareholder, and with respect to those corporate actions requiring its prior affirmative written consent described above, may not be favourable to public shareholders.

Conflicts of interest may arise between the Company and Genworth Financial that could be resolved in a manner unfavourable to the Company.

Questions relating to conflicts of interest may arise between the Company and Genworth Financial in a number of areas relating to its past and ongoing relationships. A majority of Genworth Canada's current directors have been nominated by Genworth Financial. Some of these directors are current or former employees of Genworth Financial. These directors and a number of Genworth Canada's officers own Genworth Financial shares and options to purchase Genworth Financial shares, and may participate in Genworth Financial pension plans. Such financial interests of Genworth Canada's directors or officers in Genworth Financial, or service as a director or officer of both Genworth Canada and Genworth Financial, could give rise to potential conflicts of interest when a director or officer is faced with a decision that could have different implications for the two companies. These potential conflicts could arise, for example, over matters such as the desirability of an acquisition opportunity, employee retention or recruiting, or treatment of Genworth Canada's Dividend Policy. There can be no assurance that any conflicts will be resolved in a manner that is in the best interests of the Company and Genworth Canada's other shareholders.

The Company's use of derivatives to hedge against certain risks could result in losses, which could have an adverse effect on the Company's results of operations, financial condition and capital management.

The Company uses derivatives for hedging purposes to mitigate certain market risks and to assist in the implementation of its capital management policies. Market risk may arise from positions in currencies, securities and derivatives arising from investment activities and in respect of the Company's outstanding debt. Market risk is defined as the potential for financial loss from adverse changes in underlying market factors, including interest and foreign exchange rates, credit spreads, and equity and commodity prices. The Company is also involved in derivative transactions that require the posting of collateral by the Company or the counterparty to the transactions. The Company's use of derivatives may expose it to a number of risks, including credit risk in respect of the potential failure of derivatives counterparties to perform their contractual obligations under the derivatives transactions (and any collateral and/or guarantees received in respect of such obligations not providing sufficient protection against such exposures). The hedging of market risks with derivatives may also result in basis risk. Basis risk is the risk that payment obligations under a hedging transaction will not exactly off-set price changes in the transaction or investment that was intended to be hedged, including due to the use of a reference value or price in the hedging derivative that is expected to, but ultimately does not, directly correlate to the value or price for the investment or derivative that is being hedged. This imperfect correlation between the two investments creates the potential for excess gains or losses in a hedging strategy, thus adding risk to the position. The Company has procedures in place to monitor the effectiveness of its hedges and compliance with its derivative policy on a regular basis and its capital management policy. Should the Company be unable to continue to hedge a portion of its interest rate risk and foreign exchange risk, the Company would be exposed to increased earnings volatility and capital requirements.

DIVIDENDS

In the fourth quarter of 2017, the Board amended its dividend policy (the "**Dividend Policy**") pursuant to which, following quarterly Board review and approval, Genworth Canada will endeavour to declare and pay to holders of Common Shares a quarterly dividend of $0.47 per Common Share. Prior to this increase, the dividend amount increased each successive year since Genworth Canada's initial public offering. The first dividend declared and paid out by Genworth Canada at a rate of $0.47 per Common Share was in the fourth quarter of 2017. The Board may alter or terminate the Dividend Policy at any time in its sole discretion, after taking into account such factors as the Company's financial condition, results of operations, current and anticipated cash needs, regulatory capital requirements, the requirements of any future financing agreements and other factors that the Board may deem relevant, with a view to paying dividends whenever operational circumstances permit. See "*Risk Factors – As a holding company, Genworth Canada depends on the ability of its direct and indirect subsidiaries to make distributions in order to allow Genworth Canada to pay dividends, if declared, and to meet its obligations.*"

DESCRIPTION OF CAPITAL STRUCTURE

General Description of Capital Structure

Genworth Canada's authorized share capital consists of an unlimited number of Common Shares, an unlimited number of preferred shares (the "**Preferred Shares**") issuable in series, and one Special Share. As of the date of this AIF, 91,020,740 Common Shares, no Preferred Shares and 1 Special Share have been issued and are outstanding.

Common Shares

Holders of Common Shares are entitled, except where otherwise provided by law and subject to the rights of the holder of the Special Share, to elect a portion of the Board, vote at all meetings of shareholders of Genworth Canada, and will be entitled to one vote per Common Share. Holders of Common Shares are entitled, subject to the rights of holders of Preferred Shares and any other shares ranking senior to the Common Shares, to receive dividends as and when declared by the Board and, upon the voluntary or involuntary liquidation, dissolution or winding-up of Genworth Canada, the holders of Common Shares are entitled to receive the remaining property and assets of Genworth Canada available for distribution, after payment of liabilities. For a description of the Company's Dividend Policy, see "*Dividends*".

Preferred Shares

Preferred Shares are issuable from time to time in one or more series. The Board is authorized to fix before issue the number of, the consideration per share of, the designation of, and the provisions attaching to, the Preferred Shares of each series, which may include voting rights. The Preferred Shares of each series rank on par with the Preferred Shares of every other series and are entitled to preference over the Common Shares with respect to payment of dividends and distribution of any assets in the event of Genworth Canada's liquidation, dissolution or winding-up. If any cumulative dividends (whether or not declared), non-cumulative dividends declared or amounts payable on a return of capital are not paid in full, the Preferred Shares of all series will participate rateably in accordance with the amounts that would be payable on such shares if all such dividends were declared and paid in full or the sums that would be payable on such shares on the return of capital if all amounts so payable were paid in full, as the case may be.

Special Share

The authorized number of "Special Shares" is limited to one. The holder of the Special Share is entitled to receive notice of, to attend and speak at any meeting of Genworth Canada shareholders; however, the holder of the Special Share is not entitled either to vote at any shareholder meeting or to sign a resolution in writing, other than (i) in respect of the director election rights described under the heading "*Material Contracts – Shareholder Agreement*", and (ii) as a separate class (a) pursuant to applicable law (including with respect to any proposed change to the provisions, restrictions and conditions of the Special Share) and (b) upon any proposed change to the maximum or minimum number of directors.

Under the Shareholder Agreement (as defined below), Genworth Financial has agreed that the Special Share may not be transferred, except to and among affiliates of Genworth Financial. The Special Share will be automatically redeemed for $1.00 in the circumstances described under the heading *"Material Contracts – Shareholder Agreement"*.

No dividends will be declared or paid by Genworth Canada on the Special Share. In the event of Genworth Canada's liquidation, dissolution or winding-up, whether voluntary or involuntary, the holder of the Special Share will be entitled to receive $1.00 for the Special Share, but only after any distribution on the Preferred Shares and before any distribution of any part of Genworth Canada's assets among the holders of any Common Shares.

For further information concerning the attributes of the Special Share, see "*Material Contracts – Shareholder Agreement*".

Constraints

There are no Genworth Canada imposed constraints on the ownership of securities of Genworth Canada, however, under the ICA no person may, without the approval of the Minister, acquire any share of an insurance company such as Genworth Mortgage Insurance Canada, or control any entity, such as Genworth Canada, that holds a share of an insurance company, if as a result the person would control the insurance company or the aggregate of the shares held by the person and by entities controlled by the person would exceed 10% of any class of shares of the insurance company.

Ratings

Genworth Canada and Genworth Mortgage Insurance Canada have the following ratings:

	Rating	
	Standard & Poor's Ratings Services	DBRS Limited
Genworth Canada - Debentures	BBB+, Stable	A (high), Stable
Genworth Mortgage Insurance Canada	A+, Stable	AA, Stable

Debt Ratings

Credit ratings are intended to provide investors with an independent assessment of the credit quality of an issue or issuer of securities and do not speak to the suitability of particular securities for any particular investor. A rating is therefore not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating agency.

Financial Strength Ratings

Although Genworth Mortgage Insurance Canada is not required to have a financial strength rating to conduct its business, a rating is helpful to maintain confidence in an insurer and in the marketing of its products. A financial strength rating is a current opinion of the financial condition of an insurance organization, in particular with respect to its ability to pay liabilities or claims under its insurance policies and contracts in accordance with their terms.

The financial strength ratings of Genworth Mortgage Insurance Canada reflect each rating agency's opinion of Genworth Mortgage Insurance Canada's financial strength, operating performance and ability to meet obligations to policyholders. These factors are important to lenders.

Ratings are not evaluations directed to the protection of investors in the Common Shares. They are not ratings of the Common Shares, do not represent a recommendation to buy, hold or sell the Common Shares and should not be relied upon when making a decision to buy, hold or sell the Common Shares or any other security of Genworth Canada.

As lenders benefit from the 90% Guarantee, the financial strength rating is primarily relevant to lenders in respect of the unguaranteed portions of Genworth Mortgage Insurance Canada's policies. In that respect, Genworth Mortgage Insurance Canada's ratings serve as an independent affirmation to

lenders of Genworth Mortgage Insurance Canada's financial strength. This should provide lenders with additional comfort as to Genworth Mortgage Insurance Canada's ability to pay outstanding claims and provide credit enhancement for securitization purposes.

S&P and DBRS review their ratings periodically and there can be no assurance that Genworth Canada or Genworth Mortgage Insurance Canada will maintain their current ratings in the future. Other agencies may also rate Genworth Canada or Genworth Mortgage Insurance Canada on a solicited or an unsolicited basis.

The application of S&P's group rating methodology caps the financial strength rating of Genworth Mortgage Insurance Canada at three notches, or three S&P rating levels, above Genworth Financial's group credit profile as determined by S&P with reference to the counterparty credit ratings and financial strength ratings of Genworth Financial. The application of S&P's group rating methodology also caps the ratings between Genworth Canada and Genworth Mortgage Insurance Canada (Genworth Canada's insurance operating subsidiary) at three notches. The ratings from DBRS apply a one-notch differential between Genworth Canada and Genworth Mortgage Insurance Canada to reflect the structural subordination of the Company's financial obligations relative to those of Genworth Mortgage Insurance Canada.

See the MD&A for details on the most recent updating of the Genworth Canada and Genworth Mortgage Insurance Canada ratings.

During 2017, the Company made payments to S&P and DBRS of approximately US$101,700 and $114,130, respectively, in connection with the ratings services provided by such agencies. No other payments were made to these rating organizations in respect of any other service provided to the Company during the last two years as no other such services were provided.

MARKET FOR SECURITIES

The Common Shares are listed and posted for trading on the Toronto Stock Exchange under the symbol "MIC". The closing price ranges and average daily trading volume of the Common Shares on the Toronto Stock Exchange from the first day to the last day of public trading during 2017 were as follows (share price is stated in Canadian dollars per Common Share):

2017	High	Low	Avg. Daily Volume ('000)
January	34.90	32.25	314
February	38.06	33.46	492
March	38.56	36.16	287
April	37.17	33.02	405
May	34.45	30.58	471
June	37.11	31.11	402
July	36.66	34.64	264
August	37.73	35.81	325
September	37.35	32.25	251
October	40.24	37.02	346
November	43.39	40.29	496
December	44.30	42.37	446

Source: Bloomberg

Prior Sales

Other than issuances of Common Shares under the Company employee equity plans, no outstanding securities of Genworth Canada were issued during the 2017 financial year.

DIRECTORS AND OFFICERS

Directors and Executive Officers

Genworth Canada's directors will hold office for a term expiring at the conclusion of the next annual meeting of shareholders of Genworth Canada or until their successors are elected or appointed and will be eligible for re-election. Subject to the rights of Genworth Financial under the Shareholder Agreement, Genworth Canada's executive officers are appointed by and serve at the discretion of the Board.

All of the directors of Genworth Canada have statutory duties to Genworth Canada, which include the duty to act honestly and in good faith with a view to the best interests of the corporation, and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The business address of Genworth Canada's directors and executive officers is c/o Genworth Canada, 2060 Winston Park Drive, Suite 300, Oakville, Ontario L6H 5R7.

In October 2017, Michel Cubric joined Genworth Canada as its Senior Vice-President, Operations.

As a group, the directors and executive officers of Genworth Canada listed below beneficially own, or control or direct, directly or indirectly, 189,637 Common Shares representing less than 1% of the issued and outstanding Common Shares as of the date of this AIF. The below chart sets out details of Genworth Canada's director and senior officer securities ownership, including Common Shares, options, performance share units ("**PSUs**"), restricted share units ("**RSUs**") deferred share units ("**DSUs**") and executive deferred share units ("**EDSUs**").

Name	Residence	Equity Ownership		Principal Occupation	Director of Genworth Canada Since
Brian Hurley Chairman of the Board of Directors	Ontario, Canada	Common Shares EDSUs Options	68,645 23,137 239,100	Chairman of the Board of Directors, Genworth MI Canada Inc. and Genworth Mortgage Insurance Canada	May 25, 2009
Sidney Horn[(1)(2)] Lead Director, Compensation & Nominating Committee Chair	Quebec, Canada	Common Shares DSUs	6,000 32,547	Senior Counsel, Stikeman Elliott LLP (law firm)	June 30, 2009
Andrea Bolger[(1)(2)(4)] Director, Special Committee Chair	Ontario, Canada	Common Shares DSUs	5,850 2,144	Corporate Director	June 2, 2016

Name	Residence	Equity Ownership		Principal Occupation	Director of Genworth Canada Since
Sharon Giffen[3] [4] Director	Ontario, Canada	DSUs	611	Corporate Director	June 8, 2017
Rohit Gupta[3] Director	North Carolina, USA		None	President and Chief Executive Officer for U.S. Mortgage Insurance, Genworth Financial	June 3, 2016
Stuart Levings Director, President, Chief Executive Officer	Ontario, Canada	Common Shares Options PSUs RSUs	33,787 225,400 32,879 16,438	Director, President and Chief Executive Officer, Genworth Mortgage Insurance Canada	June 4, 2015
Neil Parkinson[1] [4] Director, Audit Committee Chair	Ontario, Canada	Common Shares DSUs	9,000 1,179	Corporate Director	February 6, 2017
Leon Roday [2] Director	Virginia, USA	Common Shares	3,020	Corporate Director	June 30, 2009
Jerome Upton [3] Director, Risk, Capital & Investment Committee Chair	North Carolina, USA	Common Shares	906	Chief Financial Officer and Chief Operations Officer for Global Mortgage Insurance, Genworth Financial	June 30, 2009
Michel Cubric Senior Vice President, Operations	Ontario, Canada	Common Shares Options PSUs	820 4,100 1,640	Senior Vice President, Operations, Genworth Mortgage Insurance Canada	-
Mary-Jo Hewat Senior Vice President, Human Resources	Ontario, Canada	Common Shares EDSUs Options PSUs RSUs	805 896 10,800 4,037 3,022	Senior Vice President, Human Resources, Genworth Mortgage Insurance Canada	-
Winsor Macdonell Senior Vice President, General Counsel and Secretary	Ontario, Canada	Common Shares Options PSUs RSUs	15,697 55,800 8,650 4,322	Senior Vice President, General Counsel and Secretary, Genworth Mortgage Insurance Canada	-
Philip Mayers Senior Vice President and Chief Financial Officer	Ontario, Canada	Common Shares EDSUs Options PSUs RSUs	21,520 19,621 188,600 14,461 7,230	Senior Vice President and Chief Financial Officer, Genworth Mortgage Insurance Canada	-

Name	Residence	Equity Ownership		Principal Occupation	Director of Genworth Canada Since
Deborah McPherson Senior Vice President, Sales and Marketing	Ontario, Canada	Common Shares EDSUs Options PSUs RSUs	15,976 5,322 34,934 9,074 4,535	Senior Vice President, Sales and Marketing, Genworth Mortgage Insurance Canada	-
Craig Sweeney Senior Vice President, Chief Risk Officer	Ontario, Canada	Common Shares Options PSUs RSUs	8,431 34,700 7,398 3,698	Senior Vice President and Chief Risk Officer, Genworth Mortgage Insurance Canada	-

Notes:
(1) Member of the Audit Committee.
(2) Member of the Compensation and Nominating Committee.
(3) Member of the Risk, Capital and Investment Committee.
(4) Member of Special Committee

Biographies

Brian Hurley, Chairman of the Board and Director, Genworth Canada. Prior to his current role, Mr. Hurley has served as Executive Chairman, and as Chairman and Chief Executive Officer of Genworth Canada. Prior to that he served as President, Genworth International, with responsibility for Genworth Financial's activities in key markets around the world. Before that, Mr. Hurley held several leadership positions at General Electric and several affiliated entities, including General Electric Capital. In 1981, Mr. Hurley joined General Electric as a member of the General Electric Financial Management Program. Mr. Hurley graduated from Assumption College in Worcester, Massachusetts with a Bachelor of Science degree in Economics.

Sidney Horn, Lead Director. Mr. Horn has been a director of Genworth Mortgage Insurance Canada since 1995. Mr. Horn is senior counsel at the law firm of Stikeman Elliott LLP and specializes in commercial, corporate and securities law. Mr. Horn has been recognized in several legal publications. Mr. Horn received his LL.B., B.C.L. and B.A. degrees from McGill University in Montreal, Québec and his MBA from Columbia University, New York. Mr. Horn is a member of the Alberta and Québec Bars.

Andrea Bolger, Director. Ms. Bolger has been a director of Genworth Financial Mortgage Insurance Company Canada since October 2015. Ms. Bolger is also currently a member of the board of directors of Knowledge First Financial/Foundation where she chairs the Governance Committee, the board of directors of the Capital Markets Authority Implementation Organization which is charged with implementing the new Capital Markets Review Authority, and is also on the board of directors of Equitable Life Insurance Company. Ms. Bolger is a former senior executive at Royal Bank of Canada, serving in a variety of senior executive positions. She has also served as Chair of the board of directors and Chair of the Audit and Risk Committee of Moneris Solutions and was a long-time member of the board of directors of The Childrens' Aid Foundation and the Canadian Chamber of Commerce.

Sharon Giffen, Director. Ms. Giffen has been a director of Genworth Financial Mortgage Insurance Company Canada since July 2015. Ms. Giffen has spent her professional career in the life insurance business, holding several executive positions at The Independent Order of Foresters, including Chief Actuary, Chief Financial Officer, President of the Canadian Division and Chief Risk Officer. She also serves the board of directors of Opera Atelier, and on the board of directors of Brookfield Annuity Company; as President of the Canadian Institute of Actuaries, she serves on the board of directors, and

chairs the Governance Committee, and previously chaired the Risk Committee. She also serves on the Board of Directors of Group Medical Services in June 2017. Ms. Giffen is a graduate of the University of Waterloo, is a Fellow of the Society of Actuaries, a Fellow of the Canadian Institute of Actuaries and holds the ICD.D designation.

Rohit Gupta, Director. Mr. Gupta has served on the Board since June 2016 and is also the President and Chief Executive Officer of Genworth Financial's U.S. Mortgage Insurance business, a position he has held since May 2012. Prior to this role Mr. Gupta served as the Genworth Financial U.S. Mortgage Insurance business Chief Commercial Officer, 2009-2012, Senior Vice President of Products, Intelligence and Strategy, 2007-2009, and Vice President, Commercial Operations, 2006-2007. Mr. Gupta held several management positions with GE Capital and GE Mortgage Insurance since joining them in 2000 and began his career with FedEx in Strategic Marketing in 1998.

Stuart Levings, Director, President and Chief Executive Officer, Genworth Canada. Mr. Levings assumed his current role as President and Chief Executive Officer in January 2015. Prior to that Mr. Levings served in the roles of Senior Vice President, Chief Operating Officer, as well as Senior Vice President, Chief Operations Officer and Senior Vice President, Chief Risk Officer. Mr. Levings joined Genworth Canada in July 2000 as the Financial Controller, and has also held positions in finance and product development, including five years as Chief Financial Officer. Before that, Mr. Levings spent seven years with Deloitte & Touche. Mr. Levings holds a CPA, CA professional designation with over 20 years of professional experience in a variety of industry sectors. Mr. Levings holds a Bachelor of Accounting Science degree from the University of South Africa and is a member of the Canadian Institute of Chartered Accountants.

Neil Parkinson, Director. Mr. Parkinson joined the Board in February 2017. Mr. Parkinson is a chartered professional accountant and consultant with over 35 years of experience in the insurance and financial services field. From 1988 until his retirement in 2016, he was a Partner with KPMG LLP. He was the National Leader for the firm's insurance practice from 2004 to 2015, held the role of Chair of the Insurance Auditors Advisory Committee for the Superintendent of Financial Institutions Canada from 2010 to 2016 and served as a member of the Canadian Accounting Standards Board's Insurance Accounting Task Force from 2007 to 2017. He also serves as chair of the Audit and Risk Committee of the Board of Governors of the University of Guelph, and as a member of the boards of Equitable Life Insurance Company of Canada and of Gore Mutual Insurance Company. Mr. Parkinson has been the Chair of the Audit Committee of the Company since June of 2017.

Leon Roday, Director. Mr. Roday has been a member of Genworth Mortgage Insurance Canada's board of directors since 2009. He served as Senior Vice President, General Counsel and Secretary of Genworth Financial, from 2004 until February 2015. Mr. Roday held the same position for General Electric Financial from 1996. Before joining General Electric, he was a partner at LeBoeuf, Lamb, Greene, and McRae for 14 years. Mr. Roday earned his BA degree from the University of California at Santa Barbara and his Juris Doctor from Brooklyn Law School. He is a member of the New York State and Virginia Bar Associations.

Jerome Upton, Director. Prior to his current position as Chief Financial Officer and Chief Operations Officer for Global Mortgage Insurance of Genworth Financial, which he has held since 2012, Mr. Upton served as Senior Vice President and Chief Operating Officer for International Mortgage Insurance of Genworth Financial, beginning in October 2009. Mr. Upton served as Senior Vice President and Chief Financial Officer, Genworth Financial International - Asia Pacific, Canada and Latin America from November 2007 to September 2009. His previous roles also included responsibility for Global Financial Planning & Analysis from 2004 to 2007, International Finance Manager from 2002 to 2004 and Mortgage Insurance Global Controller from 1998 to 2002. Mr. Upton joined General Electric in July

1998 from KPMG Peat Marwick, where he served in accounting positions of increasing authority before attaining the position of Senior Manager - Insurance in Raleigh, North Carolina. Prior to that, Mr. Upton was the Controller and Director of Financial Reporting for Century American Insurance Company in Durham, North Carolina, and obtained the status of Certified Public Accountant (since relinquished). He began his career as a Financial Analyst with Coastal Group, Inc. Mr. Upton obtained his Bachelors of Science, Accounting from the University of North Carolina at Pembroke.

Michel Cubric, Senior Vice President, Operations. Mr. Cubric joined Genworth Canada as Senior Vice President, Operations in October 2017. Mr. Cubric acquired over 14 years of mortgage related experience at the Canadian Imperial Bank of Commerce. In 2009, Mr. Cubric assumed the role of Senior Vice President, Operations and Lending Services for Resmor Trust Company (now RMG Mortgages). In 2012, MCAP Inc. acquired the mortgage division of RMG Mortgages, and Mr. Cubric continued his lead role in sales and underwriting until 2016, in addition to assuming responsibility for MCAP's sub-servicing and lender marketing units. Mr. Cubric holds a Bachelor of Arts in Physical Education and a Master of Business Administration from Barrington University.

Mary-Jo Hewat, Senior Vice President, Human Resources, Genworth Canada. Ms. Hewat brings over 20 years of human resources expertise spanning numerous industries and geographies. Ms. Hewat assumed her current role in May 2016. Prior to joining Genworth Canada, she was Senior Vice President, HR Business Partnerships at Ontario Municipal Employees Retirement System. Her career has also included senior human resource roles with Sherritt and Hudson's Bay. Ms. Hewat has a Bachelor of Commerce from Ryerson University and a Masters in Business Administration from the Schulich School of Business, York University.

Winsor Macdonell, Senior Vice President, General Counsel and Secretary, Genworth Canada. Mr. Macdonell is responsible for all of Genworth Canada's legal and compliance matters, as well as government relations. Mr. Macdonell joined the Company in 1999. He was called to the bar of Ontario in 1994. Prior to joining the Company, he spent three years in the life and property and casualty industry, and prior to that was in private practice. Mr. Macdonell received an honours Bachelor of Commerce degree from Queens University in 1988 and his LL.B. from Dalhousie University in 1992 and his ICD.D in 2014.

Philip Mayers, Senior Vice President and Chief Financial Officer, Genworth Canada. Mr. Mayers became Chief Financial Officer of Genworth Canada in 2009. He has over 25 years of finance and general management experience in financial services businesses. Since joining the Company in 1995, Mr. Mayers has held several senior positions, including Vice President, Finance, Vice President, Operations, and Senior Vice President, Business Development. Prior to joining the Company, he held finance positions with Mortgage Insurance Company of Canada ("**MICC**"), Esso Petroleum Canada and Deloitte & Touche. He holds CPA, CA and CMA professional designations and has a Master of Accounting degree from the University of Waterloo.

Deborah McPherson, Senior Vice President, Sales and Marketing, Genworth Canada. Ms. McPherson has over 25 years of experience and success in sales and quality management with the Company. Prior to her current position, Ms. McPherson was Genworth Canada's Ontario Regional Sales Director. Ms. McPherson plays an active role in many industry organizations, including Mortgage Professionals Canada and the Canadian Real Estate Association. Ms. McPherson graduated from the University of Toronto with a Bachelor of Arts degree.

Craig Sweeney, Senior Vice President, Chief Risk Officer, Genworth Canada. Mr. Sweeney has more than 22 years of professional experience in the mortgage and banking industry. Since joining the Company in 1998, Mr. Sweeney has held senior positions in Operations and Business Development,

including Director of Risk Operations and Director of Product Development. Mr. Sweeney received an honours Bachelor of Arts degree in Economics from Carleton University in 1994.

Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions

No director or executive officer of the Company is, or within the 10 years prior to the date hereof has been, a director, chief executive officer or chief financial officer of any company that (i) was subject to a cease trade order or similar order or an order that denied the company access to any exemption under securities legislation, in each case in effect for a period of more than 30 consecutive days, that was issued while that person was acting in the capacity of a director, chief executive officer or chief financial officer of that company, or (ii) was subject to such an order that was issued after that person ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while the person was acting in that capacity.

Other than as specified below, no director or executive officer of the Company or shareholder holding sufficient securities of the Company to affect materially the control of the Company is, or within the 10 years prior to the date hereof has been, a director or executive officer of any company that, while that person was acting in that capacity or within a year of ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. Sidney Horn was a director of Landauer Metropolitan Inc. which filed for protection under Chapter 11 of the United States Bankruptcy Code on August 13, 2013.

No director or executive officer of the Company or shareholder holding sufficient securities of the Company to affect materially the control of the Company has, within the 10 years prior to the date hereof become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

No director or executive officer of the Company or shareholder holding sufficient securities of the Company to affect materially the control of the Company has (i) been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Conflicts of Interest

Certain conflicts of interest could arise as a result of the Company's relationship with Genworth Financial. Certain executive officers of Genworth Financial serve as directors of the Company. See "*Risk Factors – Conflicts of interest may arise between the Company and Genworth Financial that could be resolved in a manner unfavourable to the Company.*"

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Management of the Company is not aware of any existing or contemplated legal proceedings material to the Company to which it is a party or to which its property is subject. The Company has not had any material penalties or sanctions imposed against it by any legal or regulatory authorities.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director, executive officer or principal holder of securities, or any associate or affiliate of the foregoing has, or has had, any material interest in any transaction prior to the date hereof or any proposed transaction that has materially affected or will materially affect the Company or any of its affiliates, except as disclosed elsewhere in this AIF.

TRANSFER AGENT AND REGISTRARS

The transfer agent and registrar for the Common Shares is Canadian Stock Transfer Company Inc. at its principal offices in Toronto, Ontario. The indenture trustee, paying agent and registrar of the Debentures is BNY Trust Company of Canada at its principal offices in Toronto, Ontario.

MATERIAL CONTRACTS

The following are the only material contracts, other than those contracts entered into in the ordinary course of business, which Genworth Canada has entered into since the beginning of the last financial year before the date of this AIF, or entered into prior to such date but which contract is still in effect.

The following agreements dated July 7, 2009, among Genworth Canada and Genworth Financial and/or its affiliates, as amended (collectively, the "**IPO Agreements**"):

- Master Agreement (as defined below);
- Shareholder Agreement;
- Intellectual Property Cross License (as defined below);
- Transitional Trade-Mark License Agreement (as defined below);
- Transition Services Agreement; and
- Registration Rights Agreement (as defined below).

Copies of the above material agreements and any amendments thereto may be viewed on SEDAR at www.sedar.com. Details of the material terms of these contracts are outlined below.

Master Agreement

The Master Agreement provides the key arrangements for Genworth Financial's reduced ownership interest in Genworth Mortgage Insurance Canada's business as a result of Genworth Canada's initial public offering. The Master Agreement contemplates that the reduction in Genworth Financial's interest in the business of Genworth Mortgage Insurance Canada and various interim and ongoing relationships between Genworth Financial and the Company will be governed by the Master Agreement and the other IPO Agreements. Except as otherwise expressly set out in the Master Agreement, all of the covenants and agreements in the such agreement will survive indefinitely, subject to applicable laws. Certain of the principal provisions of the Master Agreement are discussed below.

Indemnification and Release

Genworth Canada agreed to indemnify Genworth Financial and its subsidiaries and each of their respective directors, officers and employees with respect to any and all liabilities or claims arising out of, resulting from or otherwise related to:

- any failure by Genworth Canada or its subsidiaries to pay, perform or otherwise properly discharge any of their liabilities;
- the business of Genworth Mortgage Insurance Canada or Genworth Canada's future business and, in respect of third party claims, Genworth Mortgage Insurance Canada's businesses irrespective of when the facts giving rise to such claim arose; and
- any breach by Genworth Canada or any of its subsidiaries of any IPO Agreement.

Genworth Financial agreed to indemnify Genworth Canada and its subsidiaries, and each of their respective directors, officers and employees with respect to any and all liabilities or claims arising out of, resulting from or otherwise related to:

- the failure by Genworth Financial or any of its subsidiaries to pay, perform or otherwise properly discharge any of their liabilities;
- Genworth Financial's business or future businesses, excluding any liability arising out of the business of Genworth Mortgage Insurance Canada, and, in respect of third party claims, Genworth Financial's businesses irrespective of when the facts giving rise to such claim arose;
- certain tax liabilities of Genworth Canada that may arise out of the Reorganization; and
- any breach by Genworth Financial or any of its subsidiaries of any IPO Agreement.

The parties to the Master Agreement each waived all special, indirect, incidental, punitive, consequential, exemplary, statutorily-enhanced and similar damages in excess of compensatory damages incurred by either of them, other than those related to a third party in connection with an indemnification obligation.

Subject to the indemnities described above, Genworth Canada also released Genworth Financial and its subsidiaries, and their respective directors, officers and employees, and Genworth Financial released Genworth Canada and its subsidiaries and their respective directors, officers and employees, from any and all liabilities existing or arising from any acts, events or conditions occurring or existing on or before the time immediately prior to the closing of Genworth Canada's initial public offering. This release will not prevent Genworth Canada and its subsidiaries or Genworth Financial and its subsidiaries from enforcing the Master Agreement, any other IPO Agreement or any other agreement between any of them that was in force and effect immediately prior to such closing.

Non-competition and Non-solicitation

The Master Agreement contains non-competition covenants that prohibit competition between Genworth Canada and its subsidiaries, on the one hand, and Genworth Financial and its subsidiaries, on the other hand, in certain businesses and geographic areas during the period beginning on the date of such agreement and ending on the date that is two years after the date on which Genworth Financial ceases to

beneficially own, directly or indirectly, at least one-third of the outstanding Common Shares (the "**Restricted Period**").

The Master Agreement provides that Genworth Canada and its subsidiaries will not, during the Restricted Period, directly or indirectly, engage in any line of business (other than the mortgage insurance business in Canada) in a jurisdiction where Genworth Financial or any of its subsidiaries is licensed to conduct, or has local employees dedicated to, such line of business (each such business line so conducted by Genworth Financial or an applicable subsidiary of Genworth Financial is referred to as a "**Genworth Financial Business Line**") at the time Genworth Canada wishes to commence or engage in such line of business in such jurisdiction. The foregoing non-competition agreement is subject to a limited exception in the case of certain acquisitions by Genworth Canada and its subsidiaries that involve or would include the acquisition of a line of business that competes with a Genworth Financial Business Line (a "**Genworth Financial-Competitive Business**"), so long as (i) the Genworth Financial-Competitive Business comprises less than 15% of the total assets and revenues of the business to be acquired by Genworth Canada, and (ii) Genworth Financial is given a right of first refusal to acquire the Genworth Financial-Competitive Business on terms specified in the Master Agreement. If Genworth Financial does not exercise its right of first refusal, then Genworth Canada will be permitted to complete the larger acquisition, and thereafter to carry on the Genworth Financial-Competitive Business, provided that Genworth Canada will be required to divest the Genworth Financial-Competitive Business within two years and to hold the Genworth Financial-Competitive Business separate from Genworth Canada's other businesses until such time as it is sold.

The Master Agreement provides that Genworth Financial and its subsidiaries (for so long as they are subsidiaries of Genworth Financial) will not, during the Restricted Period, directly or indirectly, engage in the mortgage insurance business in Canada or commence any line of business in a jurisdiction where Genworth Canada or any of its subsidiaries is licensed to conduct, or has local employees dedicated to, such line of business (the Canadian mortgage insurance business and each such other business line are referred to as a "**Company Business Line**") at the time Genworth Financial wishes to commence or engage in such line of business in such jurisdiction. The foregoing non-competition agreement is subject to a limited exception in the case of certain acquisitions by Genworth Financial that involve or would include acquisition of a line of business that competes with a Company Business Line (a "**Company-Competitive Business**"), so long as (i) the Company-Competitive Business comprises less than 15% of the total assets and revenues of the business to be acquired by Genworth Financial, and (ii) Genworth Canada is given a right of first refusal to acquire the Company-Competitive Business on terms specified in the Master Agreement. If Genworth Canada does not exercise its right of first refusal, then Genworth Financial will be permitted to complete the larger acquisition, and thereafter to carry on the Company-Competitive Business, provided that Genworth Financial will be required to divest the Company-Competitive Business within two years and to hold the Company-Competitive Business separate from Genworth Financial's other businesses until such time as it is sold.

If Genworth Canada or Genworth Mortgage Insurance Canada are acquired during the Restricted Period, they will continue to be subject to the non-competition restrictions described above. However, the purchaser will not be prohibited from carrying on a Genworth Financial-Competitive Business, provided that during the Restricted Period it does not do so through Genworth Canada or Genworth Mortgage Insurance Canada and that such party's brand, personnel, confidential information and certain restricted intellectual property are not utilized by such purchaser in the conduct of the Genworth Financial-Competitive Business during the Restricted Period.

If Genworth Financial is acquired during the Restricted Period, Genworth Financial will continue to be subject to the non-competition restrictions described above. However, the purchaser of Genworth Financial will not be prohibited from carrying on a Company-Competitive Business, provided that during

the Restricted Period it does not do so through Genworth Financial and that Genworth Financial's brand, personnel, confidential information and certain restricted intellectual property are not utilized by such purchaser in the conduct of the Company-Competitive Business during the Restricted Period.

In addition, during the Restricted Period, (i) Genworth Canada and its subsidiaries may not solicit to hire, employ, retain or contract for service any employee of Genworth Financial or any of its subsidiaries above a specified employment level or encourage any such individual to terminate his or her employment, and (ii) Genworth Financial and its subsidiaries (for so long as they are subsidiaries of Genworth Financial) may not solicit to hire, employ, retain or contract for service any executive officer of Genworth Canada or any of its subsidiaries or encourage any such individual to terminate his or her employment as an executive officer. These non-solicitation agreements are subject to certain customary exceptions, including for solicitations of a general nature such as advertising.

The Master Agreement provides that the parties will be entitled to apply to the courts of Ontario and New York for relief, including injunctive or other equitable relief, in respect of any alleged breach of the non-competition or non-solicitation covenants described above, notwithstanding the arbitration provisions that will apply in respect of disputes regarding other aspects of the Master Agreement.

Confidentiality and Records Retention

The Master Agreement provides that each of Genworth Canada and its subsidiaries and Genworth Financial and its subsidiaries will maintain the confidentiality of all information respecting the other party and its subsidiaries that it holds, and that it will not disclose or use such information for any purpose other than to exercise its rights and to discharge its obligations under the IPO Agreements.

Disputes

Except as described above under "– *Master Agreement – Non-competition and Non-solicitation*" and with the exception of Genworth Financial's rights as a shareholder of Genworth Canada and certain other limited circumstances under which interim or injunctive relief may be sought from a court, any dispute under an IPO Agreement is subject to the arbitration procedure set out in the Master Agreement.

Assignment

Except as set out below, neither party will have the right to assign the Master Agreement or any other IPO Agreement without the prior consent of the other party, not to be unreasonably withheld. The Master Agreement (and certain other IPO Agreements) contains specific provisions to address divestitures and acquisitions of business units by either party having an impact on either the reduction of ownership or the continued relationship between the parties post-closing. The IPO Agreements (other than the Shareholder Agreement, the Registration Rights Agreement and the Transitional Trade-Mark License Agreement) are assignable (i) to the extent that, in the case of Genworth Canada, substantially all of the business of Genworth Mortgage Insurance Canada is transferred to a third party and, in the case of Genworth Financial, substantially all of any one or more of its businesses that are involved in providing services to or receiving services from Genworth Canada are transferred to a third party, and (ii) by any party to the surviving entity in any merger, consolidation, equity exchange or reorganization involving such party. Any permitted assignee shall agree to perform the obligations of the assignor of the relevant IPO Agreement.

Shareholder Agreement

The Shareholder Agreement contains the key provisions relating to the provision of information and certain other rights, duties and obligations of the parties thereto. Certain of the principal provisions of the Shareholder Agreement are discussed below.

Special Approval Rights of Genworth Financial

For so long as Genworth Financial beneficially owns not less than one-third of the outstanding Common Shares, Genworth Canada will be required to seek the prior written consent of Genworth Financial to take any of the following actions, whether directly or indirectly through a subsidiary:

(i) entering into any merger, amalgamation, consolidation or similar business combination;

(ii) acquiring any assets, business or operations (in a single transaction or a series of related transactions) in the aggregate with a value of more than $50 million;

(iii) adopting any plan or proposal for a complete or partial liquidation, dissolution or winding up of Genworth Canada or any of its subsidiaries or any reorganization or recapitalization of Genworth Canada or any of its subsidiaries or commencing any case, proceeding or action seeking relief under any existing or future laws relating to bankruptcy, insolvency, conservatorship or relief of debtors;

(iv) selling, transferring, leasing, pledging or otherwise disposing of any of Genworth Canada's assets, business or operations or any of its subsidiaries' assets, business or operations (in a single transaction or a series of related transactions) in the aggregate with a value of more than $100 million;

(v) making any reductions in the Dividend Policy of Genworth Canada or its subsidiaries (other than those required by law or by OSFI); and

(vi) issuing new debt securities or incurring indebtedness or guarantees in an amount which, at the time of incurrence or issuance, would result in Genworth Canada having a debt-to-capital ratio greater than 20%.

For so long as Genworth Financial beneficially owns not less than 50% of the outstanding Common Shares, Genworth Canada will be required to seek the prior written consent of Genworth Financial to take any of the following actions, whether directly or indirectly through a subsidiary:

(i) approval of any annual business plan of Genworth Canada and its subsidiaries on a consolidated basis and any material amendments to, or departure from, such business plan;

(ii) appointment or removal of the Chief Executive Officer of Genworth Canada; and

(iii) issuing Common Shares or other equity securities or securities convertible into or exercisable or exchangeable for Common Shares or other equity securities of Genworth Canada (other than pursuant to incentive plans approved by the Board).

If Genworth Financial beneficially owns less than 50% of the outstanding Common Shares, then, for so long as Genworth Financial beneficially owns not less than one-third of the Common Shares, Genworth Canada will be required to consult with Genworth Financial with respect to the foregoing

matters; however, Genworth Financial will no longer have the right to approve or deny approval of such matters.

The Shareholder Agreement also provides that, for so long as Genworth Financial beneficially owns not less than 15% of the Common Shares, Genworth Canada may not implement or adopt any shareholder rights plan without the approval of Genworth Financial, unless the plan includes an exception that would permit a purchase of all or part of the Common Shares beneficially owned by Genworth Financial without causing the rights thereunder to separate from the Common Shares or become exercisable or otherwise triggering the plan.

Information Sharing

Genworth Financial expects that it will be required to consolidate Genworth Canada's financial results in its own for so long as it beneficially owns a majority of the Common Shares, and thereafter will be required to account for its investment in Genworth Canada using the equity method while it owns a significant number of Common Shares. Accordingly, the Shareholder Agreement includes covenants by Genworth Canada, for so long as Genworth Financial beneficially owns not less than 50% of the Common Shares or is required to consolidate the financial results of Genworth Canada, relating to certain financial matters including:

(i) maintenance of and certification of controls over financial reporting;

(ii) access to the books and records and personnel of Genworth Canada so that Genworth Financial may conduct audits of Genworth Canada's financial statements;

(iii) maintenance of monthly closing routines and continued monthly financial and other operating reviews;

(iv) provision of advance notice of, and consultation with Genworth Financial regarding, any proposed material change in accounting estimates or discretionary accounting principles;

(v) certification by the Chief Executive Officer and Chief Financial Officer of Genworth Canada of the accuracy and completeness of financial and accounting records; and

(vi) provision of copies of correspondence with and reports submitted by accountants of Genworth Canada.

In addition, for so long as Genworth Financial beneficially owns at least 20% of the Common Shares, Genworth Canada agreed to provide to Genworth Financial certain financial and other information and take certain actions, including:

(i) provision of quarterly and annual financial statements and other financial information by Genworth Canada required for Genworth Financial's quarterly and annual financial statements, MD&A and other public filings, including certification by the Chief Executive Officer and Chief Financial Officer of the accuracy and completeness of such information;

(ii) coordination of auditors and audit and review of financial statements;

(iii) release of financial results by Genworth Canada concurrently with or immediately following release of financial results by Genworth Financial;

(iv) provision of advance notice to Genworth Financial of, and consultation with Genworth Financial regarding, any proposed meetings by Genworth Canada with financial analysts;

(v) provision of other specified risk, risk management, capital, investment and compliance information and material regulatory correspondence, including information provided to or reviewed by the Risk, Capital and Investment Committee; and

(vi) access to personnel and working papers.

The Shareholder Agreement provides that, for so long as Genworth Financial beneficially owns less than 50% but 20% or more of the Common Shares, Genworth Canada will consult with Genworth Financial regarding the choice of audit firm to be proposed to be appointed as auditor by Genworth Canada's shareholders.

Pre-emptive Right

Genworth Financial has the right (the "**Pre-emptive Right**"), subject to applicable law, exercisable for so long as Genworth Financial beneficially owns not less than one-third of the outstanding Common Shares, to participate in future offerings and other issuances of Common Shares or securities convertible into Common Shares (subject to certain exceptions, including any grant of incentive options under an incentive plan approved by the Board, or the issue of Common Shares on the exercise of such options) by purchasing that number of securities in the offering or issuance necessary for Genworth Financial to maintain its relative beneficial ownership interest of Common Shares (on a fully diluted basis in the case of an offering of convertible securities). In respect of each exercise of the Pre-emptive Right for any issuance, Genworth Financial will acquire its securities on the same terms and conditions, including with respect to the price per security, subject to any requirements of stock exchange rules or applicable securities regulators, as is provided in the issuance in respect of which the Pre-emptive Right is exercised.

Committee Representation

The Shareholder Agreement provides that, for so long as Genworth Financial beneficially owns at least one-third of the Common Shares, Genworth Financial will be entitled to designate one member of each committee of the Board.

Director Elections and Nominations

Under the terms of the Shareholder Agreement, Genworth Financial has agreed to not to vote its Common Shares for the election of directors at any Genworth Canada shareholders meeting at which Genworth Financial exercises its rights to elect directors under the Special Share. However, where Genworth Financial does not exercise its Special Share director election rights in connection with such election of directors, it is permitted to vote its Common Shares for the election of directors. Genworth Financial may also exercise the voting rights attached to Common Shares beneficially owned by it on any other matter.

Within a specified period of time prior to the record date for any Genworth Canada shareholders meeting at which directors are to be elected, Genworth Financial will notify Genworth Canada as to whether the director election rights attached to the Special Share will be exercised. If no notice is provided, Genworth Financial shall be deemed to have chosen to exercise the voting rights attached to the Common Shares owned by Genworth Financial in respect of the election of directors. In that case, or if Genworth Financial notifies Genworth Canada that it will not be exercising its Special Share rights at the meeting, then Genworth Financial will be entitled to vote the Common Shares it beneficially owns for the

election of directors, and will be entitled to have nominated in the management information circular for such meeting a number of nominees equal to the number of directors it would have been entitled to elect at such meeting had Genworth Financial determined to exercise the Special Share director election rights in connection with such election of directors.

The Shareholder Agreement also provides that if the Special Share is redeemed upon demand by Genworth Financial, Genworth Canada will nominate for election as directors of Genworth Canada at any meeting of shareholders at which directors are to be elected, a number of persons designated by Genworth Financial equal to the number of directors that Genworth Financial would have been entitled to elect at such meeting had the Special Share remained outstanding.

Genworth Financial Nominees

The attributes of the Special Share provide that the holder of the Special Share will be entitled to nominate a certain number of directors to the Board, as determined by the number of Common Shares that the holder of the Special Share and its affiliates beneficially own from time to time. Accordingly, for so long as Genworth Financial beneficially owns a specified percentage of Common Shares, the holder of the Special Share will be entitled to nominate a specified number of Genworth Canada's directors rounded to the nearest whole number, as set out in the table below.

Common Share Ownership	Number of Directors
Greater than or equal to 50%	5/9
Less than 50% but not less than 40%	4/9
Less than 40% but not less than 30%	3/9
Less than 30% but not less than 20%	2/9
Less than 20% but not less than 10%	1/9
Less than 10%	None

Transfer and Automatic Redemption of Special Share

Under the Shareholder Agreement, GFIH agrees that the Special Share may not be transferred, except to and among certain affiliates of Genworth Financial. Subject to applicable law, the Special Share will be automatically redeemed for $1.00 immediately upon (i) any transfer to a non-affiliate of Genworth Financial, (ii) the time that any affiliate of Genworth Financial who, at the relevant time, holds the Special Share is no longer an affiliate of Genworth Financial, (iii) the time that Genworth Financial first ceases to beneficially own at least 10% of the outstanding Common Shares, or (iv) demand by the holder of the Special Share.

Intellectual Property Cross License

Pursuant to the Intellectual Property Cross License, the parties thereto have licensed to the others certain intellectual property, other than trade-marks, for use in connection with the provision of certain services and otherwise in connection with the conduct of their respective businesses. The Intellectual Property Cross License is terminable only upon the agreement of the parties. In addition to the permitted assignments set forth in the Master Agreement, any party may assign the Intellectual Property Cross License to any of its subsidiaries without any other party's consent (provided that the assigning party shall continue to remain liable for the performance by such assignee).

Transitional Trade-Mark License Agreement

Pursuant to the Transitional Trade-Mark License Agreement, Genworth Financial granted Genworth Canada and its subsidiaries a non-exclusive, non-transferable, royalty-free license to use the

Genworth name and brands (including trade-marks, logos and Internet domain names) in connection with the business of Genworth Mortgage Insurance Canada in Canada, with no right to sublicense (other than to certain specified persons). The license is effective until two years following the date on which Genworth Financial ceases to beneficially own more than 50% of the outstanding Common Shares, unless terminated sooner for its breach or in the event of a change in control of Genworth Canada, a merger or consolidation of Genworth Canada with an unrelated third party, or a sale of all or substantially all of the assets of Genworth Canada to an unrelated third party. The Transitional Trade-Mark License Agreement also terminates automatically in the event of the insolvency or bankruptcy of Genworth Mortgage Insurance Canada. The Transitional Trade-Mark License Agreement may not be assigned by either party without the other party's consent, except that Genworth Financial may freely assign the agreement to any of its subsidiaries.

Transition Services Agreement

Pursuant to the Transition Services Agreement, the parties thereto have agreed to provide certain services to one another (and to certain of their respective affiliates). Such services are provided on a temporary, transitional basis, with the time period for the provision of each specific service determined on the basis of anticipated need, with most services being terminated not later than the date on which Genworth Financial ceases to beneficially own more than 50% of the Common Shares, subject, in some cases, to a short transition period thereafter. The continued provision of each service is further subject to periodic review by the parties.

The services to be provided by Genworth Financial to Genworth Canada and its subsidiaries pursuant to the Transition Services Agreement include:

- finance (including treasury, investment, tax and accounting) and related services;
- human resources, employee benefits and related services;
- legal and compliance support services;
- information technology, infrastructure and technical support services; and
- other specified services.

The services provided by Genworth Mortgage Insurance Canada to Genworth Financial and certain of its affiliates pursuant to the Transition Services Agreement include certain United States financial reporting and tax compliance support services.

The Transition Services Agreement requires each party to perform its services such that the nature, quality, standard of care and the service levels at which such services are performed are no less than the nature, quality, standard of care and the service levels at which substantially the same services were performed by or on behalf of the provider during the most recent prior service period in which such services were performed in the ordinary course, and all services will generally be provided at the lesser of the provider's actual cost and fair market value, subject in each case to volume and price adjustments which may be made in the event of acquisitions or dispositions of relevant business units by either party.

Neither Genworth Canada nor Genworth Financial will be liable to the other in respect of the services it provides, except where, in providing such services, it has been grossly negligent, engaged in wilful misconduct, improperly used or disclosed customer information or violated applicable law. The

liability of each of Genworth Canada and Genworth Financial is limited in respect of their indemnification obligations under the Transition Services Agreement.

The Transition Services Agreement may be terminated by any party in respect of any service upon the failure of another party to perform any material obligation relating to such service, after notice and expiry of a cure period.

Each party shall be relieved of its obligations to provide its respective services in the event of force majeure, provided that such party shall first have exhausted its disaster recovery, crisis management and business continuity procedures.

Registration Rights Agreement

The Registration Rights Agreement provides Genworth Financial, through certain of its subsidiaries which hold the Common Shares and are party to the agreement (or their respective assignees), with the right to require Genworth Canada to qualify by prospectus Common Shares beneficially owned by the applicable Genworth Financial subsidiary for distribution to the public in Canada.

During such time that the applicable Genworth Financial subsidiary (or its assignee) is unable to sell all or any of the Common Shares it beneficially owns without such sale being considered a "control distribution", requiring that Genworth Canada, absent an exemption from such requirement, file a prospectus and obtain a receipt therefor, the applicable Genworth Financial subsidiary (or its assignee) may demand twice during each 12-month period that Genworth Canada file a prospectus and obtain a receipt therefor provided such demand relates to all of the Common Shares that it beneficially owns or, alternatively, such demand will result in a minimum offering size of $50 million. Genworth Canada is entitled to defer any such demand in certain circumstances for a limited period.

In addition to the foregoing, during such time as Genworth Canada is a reporting issuer in Canada and until such time that the applicable Genworth Financial subsidiary (or its assignee) is able to sell all or any of the Common Shares it beneficially owns without such sale being considered a "control distribution", the applicable Genworth Financial subsidiary (or its assignee) will be entitled to participate in any future prospectus offering of Common Shares that Genworth Canada initiates, unless Genworth Canada determines, acting reasonably, that including such Common Shares in the distribution would materially adversely affect Genworth Canada's distribution. The applicable Genworth Financial subsidiary (or its assignee) will not be entitled to exercise its rights under the Registration Rights Agreement in respect of any offering in which Genworth Financial exercises the Pre-emptive Right.

In any completed offering in which the applicable Genworth Financial subsidiary (or its assignee) participates, the parties will bear their expenses in an equitable manner having regard to the proportion of the number of Common Shares sold by each relative to the total number of Common Shares sold pursuant to the offering.

INTERESTS OF EXPERTS

KPMG LLP are the auditors of the Company and have confirmed that they are independent within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations.

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness and principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Company's Management Information Circular to be filed in connection with the Company's annual general meeting of shareholders in June 2018. Additional financial information is provided in the Consolidated Financial Statements and MD&A.

GLOSSARY

Terms and abbreviations used but not defined in this annual information form will have the meaning given to them in the MD&A. The following additional terms and abbreviations used in this AIF are defined below.

"**90% Guarantee**" means the guarantee of the Canadian government of the benefits payable under eligible mortgage insurance policies issued by the Company, less 10% of the original principal amount of each insured loan, in the event that Genworth Mortgage Insurance Canada fails to make claim payments with respect to that loan due to its bankruptcy or insolvency. Currently the 90% Guarantee is provided under the terms of PRMHIA.

"**Alt A mortgages**" means mortgages provided to self-employed borrowers with strong credit and reduced income documentation. Specific loan qualification criteria apply, including down payment documentation, assessment of income reasonableness and a 660 minimum credit score for mortgages with loan-to-value ratios exceeding 85%.

"**Common Shares**" means the issued and outstanding common shares of Genworth Canada.

"**compound annual growth rate**" or "**CAGR**" means the annualized year-over-year growth rate of the applicable measure over a specified period of time.

"**Genworth Holdings**" means Genworth Holdings, Inc., a wholly owned subsidiary of Genworth Financial.

"**GMICO**" means Genworth Mortgage Insurance Corporation, a wholly owned subsidiary of Genworth Financial.

"**GMIC-NC**" means Genworth Mortgage Insurance Corporation of North Carolina, a wholly owned subsidiary of Genworth Financial.

"**Government Guarantee Agreement**" means the agreement Genworth Mortgage Insurance Canada had with the Canadian government pursuant to which the Canadian government guaranteed that lenders would receive the benefits payable under eligible mortgage insurance policies issued by Genworth Mortgage Insurance Canada, less 10% of the original principal amount of an insured loan, in the event that Genworth Mortgage Insurance Canada failed to make claim payments with respect to that loan due to its bankruptcy or insolvency. This agreement was terminated effective January 1, 2013 and was replaced by PRMHIA.

"**Intellectual Property Cross License**" means the intellectual property cross license among Genworth Financial, Genworth Mortgage Insurance Canada and Genworth Canada, as modified, amended, supplemented or assigned.

"**investment portfolio**" means invested assets, including cash and cash equivalents, short-term investments, bonds or other fixed income securities and equity investments.

"**Master Agreement**" means the master agreement among Genworth Canada, Genworth Holdings, Genworth Financial, Genworth Mortgage Insurance Canada and GFIH, as modified, amended, supplemented or assigned.

"**multi-family**" means dwellings with five or more units, including apartment buildings and long-term care facilities, but excluding individual condominium units.

"**net premiums written**" relates to the period of time prior to the implementation of PRMHIA, and means gross payments received from insurance policies issued during a specified period, net of the risk premiums payable pursuant to the Government Guarantee Agreement in respect of those policies.

"**new insurance written**" means the original principal balance of mortgages, including any capitalized premiums, insured during a specified period. New insurance written measures the maximum potential risk exposure under insurance contracts added during a specific time period and is used to determine potential loss exposure.

"**NHA**" means the *National Housing Act* (Canada).

"**original amortization period**" means the number of years at inception that it takes to repay in full the original mortgage balance based on the regularly scheduled payment of principal and interest.

"**OSFI**" means the Office of the Superintendent of Financial Institutions.

"**Registration Rights Agreement**" means the registration rights agreement among GFIH, GMICO, GMIC-NC and Genworth Canada, as modified, amended, supplemented or assigned.

"**remaining amortization period**" means the estimated number of years that it takes to repay the outstanding mortgage balance as of the reporting date based on the regularly scheduled payments of principal and interest.

"**residential mortgage insurance market**" means the mortgage insurance market for residential properties, including one to four unit residential properties and individual condominium units, but excluding multi-family units.

"**severity on claims paid**" or "**severity ratio**" means the ratio (expressed as a percentage) of the dollar amount of paid claims during a specified period on insured loans to the original insured mortgage amount relating to such loans. The main determinants of the severity ratio are the loan-to-value (original balance of a mortgage loan divided by the original value of the mortgaged property), age of the mortgage loan, the value of the underlying property, accrued interest on the loan, expenses advanced by the insured and foreclosure expenses. Severity on claims paid ratio measures the size of the average loss on a paid claim relative to the original insured mortgage amount and is used to assess the potential loss exposure related to insurance in force and for comparison to industry benchmarks and internal targets.

"**Shareholder Agreement**" means the shareholder agreement among Genworth Canada, Genworth Financial, Genworth Holdings, GMICO, GMIC-NC, and GFIH, as modified, amended, supplemented or assigned.

"**shortfall sale**" means a sale of a property by the owner for less than the amount owing on the mortgage.

"**Transition Services Agreement**" means the transition services agreement among Genworth Holdings, Genworth Mortgage Insurance Canada and Genworth Canada, as modified, amended, supplemented or assigned.

"**Transitional Trade-Mark License Agreement**" means the transitional trade-mark license agreement among Genworth Financial, Genworth Mortgage Holdings, LLC, Genworth Mortgage Insurance Canada and Genworth Canada, as modified, amended, supplemented or assigned.

APPENDIX "A"

AUDIT COMMITTEE INFORMATION

1. Audit Committee Mandate

See Schedule 1 attached hereto.

2. Composition of the Audit Committee

The Audit Committee of the Company is currently comprised of Andrea Bolger, Neil Parkinson and Sidney Horn. Each member of the Audit Committee is independent and financially literate within the meaning of National Instrument 52-110 – *Audit Committees*.

3. Relevant Education and Experience

All members of the Audit Committee have experience reviewing financial statements and dealing with related accounting and auditing issues. Please see the "*Directors and Officers – Biographies*" section for the education and experience of each member of the Audit Committee relevant to the performance of their responsibilities as an audit committee member.

4. Pre-Approval Policy

As part of its mandate, the Audit Committee has adopted a policy regarding the engagement of audit and non-audit services (the "**Pre-Approval Policy**") for the purpose of identifying, mitigating or eliminating potential threats to the independence of the external auditor. The Pre-Approval Policy is reviewed and approved by the Audit Committee on an annual basis.

The Pre-Approval Policy prohibits the Company from engaging the external auditor to provide certain specified non-audit services. Pursuant to the Pre-Approval Policy, all non-audit services that are not specifically prohibited may be provided to the Company or any of its subsidiary entities by the external auditor if such services have been pre-approved by the Audit Committee.

1. External Auditor Service Fees

Audit Fees

In 2016 and 2017, KPMG charged the Company $858,627 and $861,863, respectively, for audit services in connection with the audit of the annual financial statements of the Company and its subsidiaries and services provided in connection with the statutory and regulatory filings or engagements.

Audit Related Fees

In 2016 and 2017, KPMG charged the Company $99,842 and $120,243, respectively for audit related services for assurance and services related to the performance of the audit of the annual statements not reported under "*Audit Fees*" above. In 2016 and 2017 these included fees in relation to the translation of Interim and Annual Financial Statements, and the audit of the employee pension plan.

Tax Fees

In 2016 and 2017, KPMG charged the Company $43,000 and $42,000, respectively, for tax compliance services. In 2017, KPMG also charged the Company and its subsidiaries $14,900 for SR&ED related services.

All Other Fees

In 2017, KPMG charged the Company $86,518 for services incurred other than those described above, which include the Service Organization Report and actuarial peer review of the Appointed Actuary's Report to the Superintendent of Financial Institutions.

SCHEDULE 1

GENWORTH MI CANADA INC.

AUDIT COMMITTEE MANDATE

1. Introduction

The Audit Committee (the "**Committee**" or the "**Audit Committee**") of Genworth MI Canada Inc. (the "**Company**") is a committee of the Board of Directors (the "**Board**"). The Committee shall oversee the accounting and financial reporting practices of the Company and the audits of the Company's financial statements and exercise the responsibilities and duties set out in this Mandate.

2. Membership

Number of Members

The Committee shall be composed of three or more members of the Board.

Independence of Members

Each member of the Committee must be independent. "Independent" shall have the meaning, as the context requires, given to it in Multilateral Instrument 52-110 – *Audit Committees*, as may be amended from time to time.

Chair

At the time of the annual appointment of the members of the Audit Committee, the Board shall appoint a chair of the Audit Committee (the "**Chair**"). The Chair shall be a member of the Audit Committee, preside over all Audit Committee meetings, coordinate the Audit Committee's compliance with this Mandate, work with management to develop the Audit Committee's meeting agendas and provide reports of the Audit Committee to the Board.

Financial Literacy of Members

At the time of his or her appointment to the Committee, each member of the Committee shall have, or shall acquire within a reasonable time following appointment to the Committee, the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

Term of Members

The members of the Committee shall be appointed annually by the Board. Each member of the Committee shall serve at the pleasure of the Board until the member resigns, is removed, or ceases to be a member of the Board. Unless a Chair is elected by the Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.

3. Meetings

Number of Meetings

The Committee may meet as many times per year as necessary to carry out its responsibilities.

Quorum

No business may be transacted by the Committee at a meeting unless a quorum of the Committee is present. A majority of members of the Committee shall constitute a quorum.

Calling of Meetings

The Chair, any member of the Audit Committee, the external auditors, the Chair of the Board, the President & Chief Executive Officer or the Chief Financial Officer may call a meeting of the Audit Committee by notifying the Company's Secretary, who will notify the members of the Audit Committee. The Chair shall chair all Audit Committee meetings that he or she attends, and in the absence of the Chair, the members of the Audit Committee present may appoint a chair from their number for a meeting.

Minutes; Reporting to the Board

The Committee shall maintain minutes or other records of meetings and activities of the Committee in sufficient detail to convey the substance of all discussions held. Upon approval of the minutes by the Committee, the minutes shall be circulated to the members of the Board. However, the Chair may report orally to the Board on any matter in his or her view requiring the immediate attention of the Board.

Attendance of Non-Members

The external auditors are entitled to attend and be heard at each Audit Committee meeting. In addition, the Committee may invite to a meeting any directors, officers or employees of the Company, legal counsel, the Company's actuary advisors and other persons whose attendance it considers necessary or desirable in order to carry out its responsibilities. At least once per year, the Committee shall meet with the internal auditor and management in separate sessions to discuss any matters that the Committee or such individuals consider appropriate.

The Audit Committee shall have the authority to retain external legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities and to set and pay the respective compensation for these advisers without consulting or obtaining the approval of the Board or any Company officer. The Company shall provide appropriate funding, as determined by the Audit Committee, for the services of these advisors.

Meetings without Management

The Committee shall hold unscheduled or regularly scheduled meetings, or portions of meetings, at which management is not present.

Procedure

The procedures for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those applicable to meetings of the Board.

Access to Management

The Committee shall have unrestricted access to the Company's management and employees and the books and records of the Company.

4. Duties and Responsibilities

The Committee shall have the functions and responsibilities set out below as well as any other functions that are specifically delegated to the Committee by the Board and that the Board is authorized to delegate by applicable laws and regulations. In addition to these functions and responsibilities, the Committee shall perform the duties required of an audit committee by any exchange upon which securities of the Company are traded, or any governmental or regulatory body exercising authority over the Company, as are in effect from time to time (collectively, the "**Applicable Requirements**").

Financial Reports

(a) General

The Audit Committee is responsible for overseeing the Company's financial statements and financial disclosures, including but not limited to, the Company's Annual Information Form, Management Information Circular, Management's Discussion and Analysis, quarterly supplement and financial press releases. Management is responsible for the preparation, presentation and integrity of the Company's financial statements and financial disclosures and for the appropriateness of the accounting principles and the reporting policies used by the Company. The external auditors ("external auditors" or "auditors", not including the "internal auditor") are responsible for auditing the Company's annual consolidated financial statements and for reviewing the Company's unaudited interim financial statements.

(b) Review of Annual Financial Reports

The Audit Committee shall review the annual consolidated audited financial statements of the Company, the auditors' report thereon, the related management's discussion & analysis of the Company's financial condition and results of operation ("**MD&A**"), related financial press release and the Company's management information circular. After completing its review, if advisable, the Audit Committee shall approve and recommend for Board approval such documents.

(c) Review of Interim Financial Reports

The Audit Committee shall review the interim consolidated financial statements of the Company, the auditors' review report thereon, the related MD&A quarterly supplement and financial press release. After completing its review, if advisable, the Audit Committee shall approve and recommend for Board approval the interim financial statements and the related MD&A.

(d) Review Considerations

In conducting its review of the annual financial statements or the interim financial statements, the Audit Committee shall:

(i) meet with management and the external auditors to discuss the financial statements and MD&A;

(ii) review the disclosures in the financial statements;

(iii) review the audit report or review report prepared by the external auditors;

(iv) discuss with management, the auditors, the actuary and internal legal counsel, as requested, any litigation claim or other contingency that could have a material effect on the financial statements;

(v) review the accounting policies followed and critical accounting and other significant estimates and judgements underlying the financial statements as presented by management;

(vi) review any material effects of regulatory accounting initiatives or off-balance sheet structures on the financial statements as presented by management, including requirements relating to complex or unusual transactions, significant changes to accounting principles and alternative treatments under Canadian GAAP;

(vii) review any material changes in accounting policies and any significant changes in accounting practices and their impact on the financial statements as presented by management;

(viii) review management's report on the effectiveness of internal controls over financial reporting;

(ix) review the factors identified by management as factors that may affect future financial results;

(x) review results of the Company's Audit Committee whistleblower hotline program; and

(xi) review any other matters, related to the financial statements, that are brought forward by the internal auditor, external auditors, management or which are required to be communicated to the Audit Committee under accounting policies, auditing standards or Applicable Requirements.

(e) Approval of Other Financial Disclosures

The Audit Committee shall review and, if advisable, approve and recommend for Board approval financial disclosure in a prospectus or other securities offering document of the Company, press releases disclosing, or based upon, financial results of the Company and any other material financial disclosure, including the Annual Information Form and any financial guidance provided to analysts or otherwise publicly disseminated.

External Auditors

(a) General

The Audit Committee shall be responsible for oversight of the work of the external auditors, including the auditors' work in preparing or issuing an audit report, performing other audit, review or attest services or any other related work.

(b) Appointment and Compensation

The Audit Committee shall review and, if advisable, select and recommend for shareholder approval the appointment of, the external auditors. The Audit Committee shall have authority to approve all audit engagement terms and fees, including the auditors' audit plan.

(c) Resolution of Disagreements

The Audit Committee shall resolve any disagreements between management and the external auditors as to financial reporting matters brought to its attention.

(d) Discussions with External Auditors

At least annually, the Audit Committee shall discuss with the external auditors such matters as are required by applicable auditing standards to be discussed by the auditors with the Audit Committee.

(e) Audit Plan

At least annually, the Audit Committee shall review a summary of the external auditors' annual audit plan. The Audit Committee shall consider and review with the auditors any material changes to the scope of the plan.

(f) Quarterly Review Report

The Audit Committee shall review any report prepared by the external auditors in respect of each of the interim financial statements of the Company.

(g) Independence of External Auditors

At least annually, and before the auditors issue their report on the annual financial statements, the Audit Committee shall obtain from the external auditors a formal written statement describing all relationships between the auditors and the Company; discuss with the auditors any disclosed relationships or services that may affect the objectivity and independence of the auditors; and obtain written confirmation from the auditors that they are objective and independent within the meaning of the applicable Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of chartered accountants to which the auditors belong and other Applicable Requirements. The Audit Committee shall take appropriate action to oversee the independence of the external auditors.

(h) Evaluation and Rotation of Lead Partner

At least annually, the Audit Committee shall review the qualifications and performance of the lead partner(s) of the external auditors and determine whether it is appropriate to adopt or continue a policy of rotating lead partners of the external auditors.

(i) Requirement for Pre-Approval of Non-Audit Services

The Audit Committee shall approve in advance any retainer of the external auditors to perform any non-audit service to the Company that it deems advisable in accordance with Applicable Requirements and Board approved policies and procedures. The Audit Committee may delegate pre-approval authority to a member of the Audit Committee. The decisions of any member of the Audit Committee to whom this authority has been delegated must be presented to the full Audit Committee at its next scheduled Audit Committee meeting.

(j) Approval of Hiring Policies

The Audit Committee shall review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Company.

Internal Controls

(a) General

The Audit Committee shall, with the assistance of management, review the adequacy of the internal control over financial reporting adopted by the Company. The Audit Committee shall, with the assistance of management, review the effectiveness of the controls and procedures that have been adopted to ensure the disclosure of all material information about the Company and its subsidiaries as required by applicable law or security exchange rules. The Audit Committee shall receive regular reports from the Company's Disclosure Committee with respect to the Company's disclosure and its controls and procedures. The Audit Committee shall also regularly review the Company's Disclosure Policy.

(b) Establishment, Review and Approval

The Audit Committee shall require management to implement and maintain appropriate systems of internal controls in accordance with Applicable Requirements, including internal controls over financial reporting and disclosure and to review, evaluate and approve these procedures. At least annually, the Audit Committee shall consider and review with management, internal audit and the external auditors:

(i) the effectiveness of, or weaknesses or deficiencies in: the design or operation of the Company's internal controls (including computerized information system controls and security); the overall control environment for managing business risks; and accounting, financial and disclosure controls (including, without limitation, controls over financial reporting), non-financial controls, and legal and regulatory controls and the impact of any identified weaknesses in internal controls on management's conclusions;

(ii) any significant changes in internal controls over financial reporting that are disclosed, or considered for disclosure, including those in the Company's periodic regulatory filings;

(iii) any material issues raised by any inquiry or investigation by the Company's regulators;

(iv) the Company's fraud prevention and detection program, including deficiencies in internal controls that may impact the integrity of financial information, or may expose the Company to other significant internal or external fraud losses and the extent of those losses and any disciplinary action in respect of fraud taken against management or other employees who have a significant role in financial reporting; and

(v) any related significant issues and recommendations of the internal and external auditors together with management's responses thereto, including the timetable for implementation of recommendations to correct weaknesses in internal controls over financial reporting and disclosure controls.

(c) Financial Executives

The Committee shall review and discuss with management the appointment of key financial executives and recommend qualified candidates to the Board, as appropriate.

Compliance with Legal and Regulatory Requirements

The Audit Committee shall review reports from the Company's Secretary and other management members on: legal or compliance matters that may have a material impact on the Company; monitoring adherence to the effectiveness of the Company's compliance policies; and any material communications received from regulators. The Audit Committee shall review management's evaluation of and representations relating to compliance with specific applicable law and guidance, and management's plans to remediate any deficiencies identified.

Audit Committee Hotline Whistleblower Procedures

The Audit Committee has adopted whistleblower procedures for (a) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters. Any such complaints or concerns that are received shall be reviewed by the Audit Committee and, if the Audit Committee determines that the matter requires further investigation, it will direct the Chair of the Audit Committee to engage outside advisors, as necessary or appropriate, to investigate the matter and will work with management and the general counsel to reach a satisfactory conclusion.

Audit Committee Disclosure

The Audit Committee shall prepare, review and approve any audit committee disclosures required by Applicable Requirements in the Company's disclosure documents.

Delegation

The Audit Committee may, to the extent permissible by Applicable Requirements, designate a sub-committee to review any matter within this mandate as the Audit Committee deems appropriate.

5. Access to Management and Outside Advisors

The Committee shall have unrestricted access to management and employees of the Company. The Committee shall have the authority to retain and terminate external legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities and to set and pay the respective reasonable compensation of these advisors without consulting or obtaining the approval of any officer of the Company. The Company shall provide appropriate funding, as determined by the Committee, for the services of these advisors.

6. No Rights Created

This Mandate is a statement of broad policies and is intended as a component of the flexible governance framework within which the Audit Committee functions. While it should be interpreted in the context of all applicable laws, regulations and listing requirements, as well as in the context of the Company's articles and by-laws, it is not intended to establish any legally binding obligations.

7. Mandate Review

The Committee shall review and assess the adequacy of this Mandate at least annually to ensure compliance with any rules or regulations promulgated by any regulatory body and recommend to the Board for its approval any modifications to this Mandate as considered.