Genworth MI Canada Inc.

Management's Discussion and Analysis

For the quarter ended September 30, 2016

Interpretation

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

The following Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of operations as approved by the Company's board of directors (the "Board") on November 2, 2016 is prepared for the three and nine months ended September 30, 2016. The unaudited condensed consolidated interim financial statements of the Company were prepared in accordance with International Financial Reporting Standards ("**IFRS**"). This MD&A should be read in conjunction with the Company's financial statements.

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

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

Caution regarding forward looking information and statements

Certain statements made in this MD&A contain forward-looking information within the meaning of applicable securities laws ("**forward-looking statements**"). When used in this MD&A, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions, as they relate to the Company are intended to identify forward-looking statements. Specific forward-looking statements in this document include, but are not limited to, statements with respect to the Company's expectations regarding the effect of the Canadian government guarantee legislative framework, the impact of proposed guideline changes by OSFI (as defined herein) and legislation introduced in connection with the Protection of Residential Mortgage or Hypothecary Insurance Act ("**PRMHIA**") (as defined herein) and the effect of changes to the government guarantee mortgage eligibility rules, and the Company's beliefs as to housing demand and home price appreciation, unemployment rates, the Company's future operating and financial results, sales expectations regarding premiums written, capital expenditure plans, dividend policy and the ability to execute on its future operating, investing and financial strategies.

The forward-looking statements contained herein are based on certain factors and assumptions, certain of which appear proximate to the applicable forward-looking statements contained herein. 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 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, which may be affected by the ratings of its majority shareholder, Genworth Financial, Inc.; interest rate fluctuations; 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; and potential conflicts of interest between the Company and its majority shareholder, Genworth Financial, Inc.

This is not an exhaustive list of the factors that may affect any of the Company's forward-looking statements. Some of these and other factors are discussed in more detail in the Company's Annual Information Form (the "**AIF**") dated March 16, 2016. 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 (including the Company's AIF) 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 MD&A represent the Company's views only as of the date hereof. Forward-looking statements contained in this MD&A are based on management's current plans, estimates, projections, beliefs and opinions and the assumptions related to these plans, estimates, projections, beliefs and opinions may change, and are presented for the purpose of assisting the Company's security holders in understanding management's current views regarding those future outcomes and may not be appropriate for other purposes. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company does not undertake to update any forward-looking statements, except to the extent required by applicable securities laws.

Non-IFRS financial measures

To supplement the Company's consolidated 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 MD&A 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), operating earnings per Common Share (diluted), shareholders' equity excluding accumulated other comprehensive income ("**AOCI**"), operating return on equity.

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, operating return on equity, Minimum Capital Test ("**MCT**") ratio, delinquency ratio, investment yield, average reserve per delinquency, credit score, gross debt service ratio, ordinary dividend payout ratio, workout penetration, cures, effective tax rate, gross debt service ratio, book value per Common Share (basic) including AOCI, book value per Common Share (basic) excluding AOCI, book value per Common Share (diluted) including AOCI, book value per Common Share (diluted) excluding AOCI, and dividends paid per Common Share. 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.

See the "Non-IFRS financial measures" section at the end of this MD&A for a reconciliation of net operating income to net income, total net investment income to interest and dividend income, net of investment expenses, operating earnings per Common Share (basic) to earnings per Common Share (basic), operating earnings per Common Share (diluted) to earnings per Common Share (diluted), and shareholders' equity excluding AOCI to shareholders' equity.

Definitions of key non-IFRS financial measures and explanations of why these measures are useful to investors and management can be found in the Company's "Glossary", in the "Non-IFRS financial measures" section at the end of this MD&A.

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Business profile

Business background

Genworth Canada is the largest private-sector residential mortgage insurer in Canada and has been providing mortgage default insurance in the country since 1995. The Company has built a broad underwriting and distribution platform across the country that provides customer-focused products and support services to the vast majority of Canada's residential mortgage lenders and originators. Genworth Canada underwrites mortgage insurance for residential properties in all provinces and territories of Canada and has the leading market share among private mortgage insurers. The Canada Mortgage and Housing Corporation ("**CMHC**"), a crown corporation, is the Company's main competitor.

The Company offers both transactional and portfolio mortgage insurance.

Federally regulated lenders are required to purchase transactional mortgage insurance in respect of a residential mortgage loan whenever the loan-to-value ratio exceeds 80%. The Company's transactional mortgage insurance covers default risk on mortgage loans secured by residential properties to protect lenders from any resulting losses on claims. By offering insurance for transactional mortgages, the Company plays a significant role in providing 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 Genworth Canada, obtain mortgages at rates comparable to buyers with more substantial down payments.

The Company also provides portfolio mortgage insurance to lenders for loans with loan-to-value ratios of 80% or less. Portfolio insurance is beneficial to lenders as they provide the ability to manage capital and funding requirements and mitigate risk. The Company views portfolio mortgage insurance as an extension of its relationship with existing transactional customers. Therefore, the Company carefully manages the level of its portfolio mortgage insurance relative to its overall mortgage insurance business. Premium rates on portfolio mortgage insurance are significantly lower than those on transactional mortgage insurance due to the lower risk profile associated with portfolio loans.

Seasonality

The transactional mortgage insurance business is seasonal. Premiums written vary each quarter, while premiums earned, investment income, underwriting and administrative expenses tend to be relatively 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, due primarily to an increase in new delinquencies, and decrease during the spring and summer months.

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

Distribution and marketing

The Company works with lenders, mortgage brokers and real estate agents across Canada to make homeownership more accessible for first-time homebuyers. Mortgage insurance customers consist of originators of residential mortgage loans, such as banks, mortgage loan and trust 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. The five largest Canadian chartered banks have been the largest mortgage originators in Canada and provide the majority of financing for residential mortgages.

Overview

Third quarter financial highlights

Table 1: Selected financial information

	Three months ended September 30,		Nine months ended September 30,	
(in millions of dollars, unless otherwise specified)	**2016**	2015	**2016**	2015
Premiums written	$ **223**	$ 260	$ **588**	$ 595
Premiums earned	$ **162**	$ 148	$ **474**	$ 435
Losses on claims	**41**	31	**110**	87
Expenses	**33**	28	**91**	82
Total losses on claims and expenses	**74**	59	**201**	169
Net underwriting income	**88**	89	**272**	266
Interest and dividend income, net of investment expenses	**44**	42	**130**	125
Net investment gain (losses)	**7**	(3)	**(9)**	29
Net investment income	**52**	39	**121**	154
Interest expense	**6**	6	**17**	17
Income before income taxes	**134**	122	**376**	403
Net income	$ **98**	$ 90	$ **277**	$ 301
Net operating income [1]	$ **93**	$ 92	$ **283**	$ 280
Weighted average number of common shares outstanding				
Basic	**91,852,491**	91,794,296	**91,819,480**	92,465,491
Diluted [2]	**91,857,866**	92,209,495	**91,831,211**	92,931,839
Earnings per common share				
Earnings per common share (basic)	$ **1.07**	$ 0.98	$ **3.02**	$ 3.25
Earnings per common share (diluted) [2]	$ **1.07**	$ 0.96	$ **3.01**	$ 3.19
Selected non-IFRS financial measures [1]				
Operating earnings per common share (basic)	$ **1.02**	$ 1.01	$ **3.09**	$ 3.03
Operating earnings per common share (diluted) [2]	$ **1.02**	$ 1.00	$ **3.09**	$ 3.02
Insurance in-force [3]	$ **455,536**	$ 389,972	$ **455,536**	$ 389,972
Total new insurance written	$ **13,407**	$ 14,464	$ **53,013**	$ 35,113
Transactional new insurance written	$ **6,868**	$ 8,341	$ **16,050**	$ 19,012
Portfolio new insurance written	$ **6,539**	$ 6,123	$ **36,963**	$ 16,101
Loss ratio	**25%**	21%	**23%**	20%
Expense ratio	**20%**	19%	**19%**	19%
Combined ratio	**45%**	40%	**43%**	39%
Operating return on equity	**11%**	12%	**11%**	12%
MCT ratio [4]	**236%**	228%	**236%**	228%
Delinquency ratio [5]	**0.10%**	0.10%	**0.10%**	0.10%

Note: Amounts may not total due to rounding.

[1] These financial measures are not calculated based on IFRS. See the "Non-IFRS financial measures" section at the end of this MD&A for additional information.

[2] The difference between basic and diluted number of Common Shares outstanding, basic and diluted earnings per Common Share, and basic and diluted operating earnings per Common Share is caused by the potentially dilutive impact of share-based compensation awards.

[3] The Company estimates that the outstanding balance of insured mortgages was approximately $221 billion as at June 30, 2016. Outstanding balances are reported on a quarter lag.

[4] Company estimate at September 30, 2016.

[5] Based on original insured loans in-force for which coverage terms have not expired and excludes delinquencies that have been incurred but not reported.

Key third quarter financial metrics:
The Company reported net income of $98 million and net operating income of $93 million in the third quarter of 2016, as compared to $90 million and $92 million, respectively, in the same quarter in the prior year.

- Premiums written of $223 million decreased by $37 million, or 14%, as compared to the same quarter in the prior year. Premiums written from transactional insurance of $201 million were lower by $36 million, or 15%, from the prior year's period due to an 18% decrease in new insurance written, primarily as a result of targeted underwriting changes in select markets and a smaller transactional insurance market size. This was partially offset by a 3% higher average premium rate resulting from the June 2015 premium rate increase. Premiums written of $22 million from portfolio insurance were lower by $1 million, or 6%, from the prior year's period.

- Premiums earned of $162 million were $14 million, or 10%, higher than the same quarter in the prior year due to the relatively higher level of premiums written in the 2013, 2014 and 2015 books of business.

- Losses on claims of $41 million were $10 million, or 31%, higher than the same quarter in the prior year, primarily due to oil-producing regions which experienced an increase in new delinquencies, net of cures, and an increase in the average reserve per delinquency. The loss ratio was 25% for the quarter as compared to 21% in the same quarter in the prior year.

- Expenses of $33 million were $5 million, or 18%, higher than the same quarter in the prior year, primarily due to higher share-based compensation expense. The expense ratio for the quarter was 20%, as compared to 19% in the same quarter in the prior year consistent with the Company's expected operating range of 18% to 20%.

- Investment income, excluding realized and unrealized investment gains and losses, of $44 million was $2 million, or 6%, higher than the same quarter in the prior year, primarily due to an increase in the amount of invested assets.

Year-to-date financial metrics:
The Company reported year-to-date net income of $277 million and net operating income of $283 million, as compared to $301 million and $280 million, respectively, in the prior year. The prior year's net income and net operating income included a non-recurring favourable tax item of $5 million.

- Premiums written of $588 million decreased by $7 million, or 1%, year-to-date as compared to the same period in the prior year. Premiums written from transactional insurance of $470 million were lower by $54 million, or 10%, due to a 16% decrease in new insurance written, primarily as a result of targeted underwriting changes in select areas and a smaller transactional insurance market size. This was partially offset by a 3% increase in the average transactional insurance premium rate resulting from the 2015 premium rate increase. Portfolio insurance premiums written of $118 million were higher by $47 million as the Company experienced significant increased demand for portfolio insurance in the first six months of the year of 2016 in advance of the July 1, 2016 regulatory changes which restrict the use of portfolio mortgage insurance.

- Premiums earned of $474 million increased by $39 million, or 9%, year-to-date as compared to the same period in the prior year due to the higher level of premiums written in the 2013, 2014 and 2015 books of business. The unearned premiums reserve was $2.1 billion at the end of the third quarter, up $152 million, or 8%, from December 31, 2015.

- Losses on claims of $110 million were $23 million, or 26%, higher year-to-date as compared to the same period in the prior year, primarily due to an increase in new delinquencies, net of cures, and an increase in the average reserve per delinquency in oil-producing regions.

- Expenses of $91 million increased by $10 million, or 12%, as compared to the same period in the prior year primarily due to share-based compensation expense. The expense ratio was 19%, comparable to the same period in the prior year and is consistent with the Company's expected operating range of 18 to 20%.

- Investment income, excluding realized and unrealized gains and losses of $130 million was $5 million, or 4%, higher than the same period in the prior year due to an increase in invested assets. The Company's investment portfolio had a market value of $6.2 billion at September 30, 2016 and earned a pre-tax equivalent book yield of 3.2% year-to-date.

The regulatory capital ratio or MCT ratio was approximately 236%, 8 percentage points higher than the prior year's period and 16 percentage points higher than the Company's operating MCT holding target of 220%.

Recent business and regulatory developments

Changes to the housing mortgage insurance rules

On October 3, 2016, the Minister of Finance announced a number of changes designed to reinforce the Canadian housing finance system. Building on measures announced in late 2015, the government will:

- Bring consistency to mortgage insurance rules by standardizing eligibility criteria for high- and low-ratio insured mortgages, including a mortgage rate stress test;
- Improve tax fairness by closing loopholes surrounding the capital gains tax exemption on the sale of a principal residence; and,
- Consult on how to better protect taxpayers by ensuring that the distribution of risk in the housing finance system is balanced

Key changes to the mortgage insurance rules are described below.

Applying a Mortgage Rate Stress Test to All Insured Mortgages

Effective October 17, 2016, all insured homebuyers 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, which is currently 4.64%. This requirement is already in place for high-ratio insured mortgages with variable interest rates or fixed interest rates with terms less than five years. 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.

Changes to Low-Ratio Mortgage Insurance Eligibility Requirements

Effective November 30, 2016, for insured loan-to-value ratio mortgages less than or equal to 80% loan-to-value, the following mortgage insurance criteria will apply to both transactional mortgage insurance loans and portfolio insured 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 per cent and a maximum total debt service ratio of 44 per cent 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.

Impact of Changes Related to Mortgage Rate Stress Tests and Low-Ratio Mortgage Insurance Eligibility Requirements

After the Company's review of the mortgage insurance eligibility rule changes announced October 3, 2016, it expects that the transactional market size and its transactional new insurance written in 2017 may decline by approximately 15% to 25% reflecting expected changes to borrower home buying patterns, including the purchase of lower priced properties and higher downpayments.

As the result of clarifications provided by the Department of Finance after the October 3, 2016 public announcement, the Company now expects that portfolio new insurance written in 2017 may decline by approximately 25% to 35% as compared to the normalized run rate after the July 1, 2016 regulatory changes for portfolio insurance. The new mortgage rules prohibit insuring low loan-to-value refinances and most investor mortgages originated by lenders on or after October 17, 2016.

The impact on any future premiums written from the smaller market size should be partly offset by potential premium rate increases, in response to the higher capital requirements arising from OSFI's draft capital advisory. With an unearned premiums reserve of $2.1

billion as at September 30, 2016, premiums earned in the next 12 to 18 months will continue to benefit from the relatively higher level of premiums written in 2014 through 2016. As a result, there should be limited near-term impact on the level of premiums earned.

Forthcoming Consultation on Lender Risk Sharing

On October 21, 2016, the government launched a public consultation on a policy option that would require mortgage lenders to manage a portion of loan losses on insured mortgage that default, known as "lender risk sharing". This could transfer some risk borne by mortgage insurers and taxpayers to lenders. The comment period for this consultation ends on February 28, 2017. The Company will participate in the consultation, however it is too early to comment on the potential impact of this process and its ultimate outcome.

Changes to the regulatory capital framework

On September 23, 2016, OSFI released a draft capital advisory for comment titled "*Capital Requirements for Federally Regulated Mortgage Insurers"*. This draft advisory provides a new standard framework for determining the capital requirements for residential mortgage insurance companies. The proposed framework is more risk sensitive and incorporates additional risk attributes, including credit score, remaining amortization and outstanding loan balance. The comment period for the draft advisory ended on October 21, 2016. The finalized advisory is expected to come into effect on January 1, 2017, replacing OSFI's current advisory, "*Interim Capital Requirements for Mortgage Insurance Companies"*, which has been in effect since January 2015.

The draft advisory focuses on capital requirements for insurance risk, which will primarily consist 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 draft 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 adjusting borrower credit scores recognizes that credit scores lose predictive value over time;
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 behavior of property prices, both in terms of recent housing price trends and the behavior of housing prices relative to household incomes using data for each of the 11 cities in the Teranet – National Bank House Price Index™ for those exposures within such cities, while using the composite-11 data for loans outside of the 11 cities. The Supplementary Capital Requirement Indicators ("**SCRIs**") based primarily on the ratio of the Teranet Index for a metropolitan area index to the national per capita income is compared to a prescribed threshold value for that particular area. If the SCRI exceeds the threshold value for that metropolitan area, then the risk sensitive floor is applied at the beginning of a bank's next quarterly fiscal reporting period for exposures in that metropolitan area.

The Company has reviewed the proposed methodology for calculating SCRIs and observed that Calgary, Edmonton, Toronto, Vancouver and Victoria are breaching their SCRI thresholds, as prescribed by OSFI, at the end of the second quarter of 2016. These metropolitan areas represent approximately 35% - 40% of transactional new insurance written in the first nine months of 2016.

The draft advisory also includes a phase-in period to allow for a smooth transition to the new standard framework. For the segments of Genworth Canada's insurance in force listed below, these transition arrangements will keep the capital unchanged from the December 31, 2016 level until such time as the required capital under the new standard framework at the OSFI Supervisory MCT Target of 150% MCT ratio is less than the existing required capital at a 220% MCT ratio:

- Transactional insured mortgages originated prior to December 31, 2016 with original amortizations greater than twenty-five years; and
- Portfolio insured mortgages originated prior to December 31, 2016.

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

Under the new capital framework, set forth in the draft advisory, the current Holding Target of 220% will be recalibrated to the OSFI Supervisory MCT Target of 150%. Based on the new framework, the Company estimates that its pro forma MCT ratio as at September 30, 2016 would have been in the range of 155% to 158%. In addition, the Company held $181 million of cash and investments as at September 30, 2016 and has access to a $100 million credit facility that is undrawn. These resources could be used to enhance the capital level of the Company. As a result, the Company expects to be compliant with the new framework upon its implementation on January 1, 2017, subject to business and market conditions.

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 received during the consultation period. The Company continues to work with OSFI to further refine this new standard framework in specific areas, including the requirement to update credit scores. The proposed updating of credit scores could increase capital requirements in 2017 and future years.

The Company expects that transactional and portfolio insurance premium rates may have to be increased as a result of the implementation of the new capital framework in 2017.

The Company expects to be advised by the Minister of Finance, by the end of the year, on the revised minimum MCT level under the *Protection of Residential Mortgage or Hypothecary Insurance Act* ("PRMHIA"). Under PRMHIA, the Canadian federal government partially guarantees the benefits payable under eligible mortgage insurance policies.

Additional property tax on purchases of residential property in Metro Vancouver by foreign buyers

In order to help improve housing affordability, on July 25, 2016, the B.C. government introduced a four-pronged plan that includes an additional land transfer tax on foreign buyers. As of August 2, 2016, foreign individuals and corporations will be subject to an additional 15% land transfer tax on the purchase of residential property in Metro Vancouver. The Company does not expect these changes to have a material impact on its business, as foreign borrowers are typically not eligible for high loan-to-value mortgage insurance.

Financial strength ratings

On August 18, 2016, Standard & Poor's ("**S&P**") affirmed the Insurance Subsidiary's A+ rating with a stable outlook and the Company's BBB+ rating with a stable outlook.

On May 17, 2016, DBRS confirmed the Insurance Subsidiary's AA financial strength rating with a stable trend.

Dividends

On August 26, 2016, the Company paid a quarterly dividend of $0.42 per Common Share.

Share repurchase

On April 28, 2016, the Company received approval by the Toronto Stock Exchange for the Company to undertake a normal course issuer bid ("**NCIB**"). Pursuant to the NCIB, the Company can purchase, for cancellation, up to 4,589,958 shares representing approximately 5% of its outstanding Common Shares as of April 25, 2016. Purchases of Common Shares under the NCIB may commence on or after May 5, 2016 and will conclude on the earlier of May 4, 2017 and the date on which the Company has purchased the maximum number of shares under the NCIB.

The Company's prior NCIB, which commenced on April 28, 2015, expired on May 4, 2016. The Company did not purchase any shares under such NCIB during the three and nine months ended September 30, 2016.

E-21 – Operational Risk Management Guideline

In June 2016, OSFI released its E-21 Operational Risk Management Guideline (the "**E-21 Guideline**"). In the E-21 Guideline, OSFI defines operational risk "as the risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events. This includes legal risk but excludes strategic and reputational risk". The E-21 guideline sets out four principles: i) integrated and documented operational risk management framework; ii) support of a corporate governance structure including a risk appetite statement; iii) use of a "three lines of defense" approach to ensure accountability; and iv) comprehensive identification and assessment process. The E-21 Guideline is generally consistent with the Company's current operational risk management framework.

Maximum outstanding insured exposure for all private insured mortgages

The maximum outstanding insured exposure for all private insured mortgages permitted by the PRMHIA is $300 billion. The Company estimates, that as of June 30, 2016, the outstanding principal amount of insured mortgages under PRMHIA was $221 billion for Genworth-insured mortgages and $275 billion for all privately insured mortgages. While the federal government has increased the cap to ensure that the private sector can continue to compete with CMHC in the past as the total of the outstanding principal mortgage amounts has approached the legislative cap, there is no guarantee that this will continue. The Company estimates that the private sector will remain below the cap through the first half of 2017 based on the current market share of the private mortgage insurers and the forecasted size of the mortgage originations market.

Credit facility

During the second quarter of 2016 the Company entered into a $100 million senior unsecured revolving credit facility, which matures on May 20, 2019. The Company has not drawn on the credit facility as at September 30, 2016. The credit facility provides further financial flexibility in an efficient and cost effective manner.

Subsequent event

On October 23, 2016, Genworth Financial Inc., the Company's major shareholder, announced that it has entered into a definitive agreement with China Oceanwide Holdings Group Co., Ltd. ("China Oceanwide") under which China Oceanwide has agreed to acquire all of the outstanding shares of Genworth Financial Inc. The transaction is subject to approval by the shareholders of Genworth Financial Inc. as well as other closing conditions, including the receipt of required regulatory approvals.

Economic environment

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.

Key Macroeconomic Factors Influencing Business Performance	
Year to Date or As At September 30, 2016	**Full Year 2016 or as at December 31, 2016 (Estimate)**
Housing resales Y/Y: **8%**[1]	Housing resales Y/Y: **6%**[1]
National Composite House Price Index change: **11%**[2]	National Composite House Price Index Y/Y change: **6% to 10%**[5]
Average Oil Price: **US $41**[3]	Average Oil Price: **US $40 to US $50**[5]
5 year Government of Canada Bond Yields: **0.62%**[4]	5 year Government of Canada Bond Yields Q4'16: **0.58%**[4]

Quarterly and Full Year 2016								
GDP[6]					**Average Unemployment**[7]			
Q1'16	Q2'16	Q3'16	Q4'16	2016	Q1'16	Q2'16	Q3'16	2016
Actual	Actual	Estimate	Estimate	Estimate	Actual	Actual	Actual	Estimate
2.5%	**(1.6)%**	**3.2%**	**1.5 %**	**1.1%**	**7.2%**	**6.9%**	**7.0%**	**7.0% - 7.5%**[5]

[1] Canadian Real Estate Association ("CREA") quarterly forecast published September 2016 and monthly actual resales through September 2016, published October 2016.
[2] Teranet – National Bank Home Price Index.
[3] U.S. Energy Information Administration - WTI Light Crude Oil US$/barrel.
[4] Bloomberg.
[5] Company Estimate.
[6] Monetary Policy Report, October 2016 Real GDP quarter over quarter percentage change at annual rates.
[7] Statistics Canada – Labour Force Survey.

Macroeconomic environment

The Bank of Canada currently expects economic growth for 2016, as measured by real Canadian Gross Domestic Product ("**GDP**"), to be 1.1% in 2016 and 2.0% in 2017. The Bank of Canada's forecast has been revised down due to a weaker outlook for exports and a slower housing market due to the new federal regulatory mortgage changes in October 2016. A shift in the timing of the implementation of federal infrastructure measures was an additional factor for the revisions.

The overnight interest rate in Canada continues to remain flat at 0.50%.

Canada's unemployment rate increased to 7.0% at the end of the third quarter of 2016 compared to 6.8% at the end of the second quarter of 2016 partly due to an increase in workforce participation.

Oil prices are expected to range between US$45 to US$55 for the remainder of the year and management estimates that the average unemployment rate will be between 7.0% and 7.5% for 2016. As part of its proactive risk management strategy, the Company remains focused on maintaining strong insurance portfolio quality.

Housing market

Home resales in Canada decreased 4% in the third quarter of 2016 as compared to the prior quarter and increased by 8% during the first nine months of 2016 as compared to the prior year. The National Composite House Price Index increased by 11% during the first nine months of 2016 driven by strong housing markets in British Columbia and Ontario which was partially offset by continued weakness in the oil-producing regions. The new foreign buyer tax imposed in Vancouver has already started cooling its real estate market. Furthermore, the recently announced federal rule changes with respect to mortgage insurance qualification is expected to make homes less attainable for some potential first time homebuyers resulting in a modest reduction in home resales and prices over the next 12 months. These changes will impact the housing market across Canada, but is expected to have more pronounced effect in Toronto and Vancouver. In light of the above rule changes, the Company expects the National Composite House Price Index for 2017 to be in the range of 0% to (2)%.

Performance against strategic priorities

In pursuit of being Canada's mortgage insurer of choice, the Company seeks to enhance stakeholder value through working with its lender partners, regulators and influencers to:

- Maintain strong claim paying ability and financial strength;
- Help Canadians responsibly achieve and maintain homeownership;
- Promote strong and sustainable communities across Canada; and
- Advance prudent risk management practices to enhance the safety and soundness of the mortgage finance system.

The Company's long term objective is to enhance shareholder value by achieving a return on equity that exceeds its cost of capital and by increasing net income over time. The Company's priorities to achieve its long-term objective are identified in the following sections.

2016 Objective	Year to Date Key Performance Metrics/Current Outlook
Premiums Written and Premiums Earned	
Flat or modestly lower premiums written from transactional insurance compared to 2015 as the full year impact of the June 2015 price increase partially offsets the impact of an expected decline in mortgage originations. Total premiums written moderately higher compared to 2015, primarily due to higher portfolio insurance volumes.	Year to date transactional premiums written decline: **10%** Year to date total premiums written decline: **1%** In advance of the July 1, 2016 portfolio mortgage insurance changes, the Company noted an increase in demand for portfolio insurance. Despite this anticipated growth in portfolio insurance volumes, total premiums written are still expected to be lower than in 2015 due to lower transactional insurance volumes.
Moderate growth in premiums earned of 5% or greater for the full year.	Year to date premiums earned growth: **9%** Given the single upfront premium model, the Company is generally able to reliably estimate the proportion of unearned premiums that will be earned into revenues as premiums earned over the next 12 months as long as there are no significant changes to the Company's current premiums recognition curve. In addition to premiums earned of $474 million in the first nine months of 2016, the Company expects to **earn between $155 and $165 million of premiums earned in the fourth quarter of 2016 from the unearned premiums reserve of $2.1 billion as at September 30, 2016.** Total premiums earned for the fourth quarter of 2016 will also include premiums to be earned from premiums written in this period.

2016 Objective	Year to date Key Performance Metrics/Current Outlook
Losses on Claims	
Proactive risk management and focused loss mitigation strategies: • Loss ratio range of 25% to 40% • Workout penetration greater than 55%	As a result of the loss ratio performance through the first half of 2016 and the economic forecast for the balance of the year, the loss range for 2016 was revised to 25% to 35%. Year to date loss ratio: **23%** Year to date workout penetration rate: **58%**
Portfolio Quality and Risk Management	
Maintain a high quality insurance portfolio through prudent underwriting guidelines, proactive risk management and disciplined underwriting: • Average Transactional Credit score of greater than 735 • Average Transactional Gross Debt Service ratio of less than 26% • Average Transactional Credit score below 660 of less than 5%	The Company continues to originate a high quality insurance portfolio. Average Transactional Credit Score: **752** Average Transactional Gross Debt Service Ratio: **24%** Average Transactional Credit score below 660: **3%**
Capital Management	
Proactively manage capital to balance capital strength, flexibility and efficiency: • Ordinary Dividend Payout Ratio of 35% - 45% • Debt to Total Capital Ratio of less than or equal to 15% • MCT Ratio modestly above 220%	The Company continues to maintain a strong capital base. Year to date Ordinary Dividend Payout Ratio: **41%** Debt to Total Capital Ratio as at September 30, 2016: **11%** MCT Ratio as at September 30, 2016: **236%**
Investments Management	
Optimize investment portfolio to maximize investment yield while maintaining a high quality investment portfolio to minimize the correlation of risk with our insurance in force.	The quality of the Company's investment portfolio remains strong, but the lower prevailing interest rate environment continues to pressure the investment yield. Year to date average investment yield: **3.2%** Percentage of Investment Grade Bonds and Debentures as at September 30, 2016: **91%**

Third Quarter Review

Table 2: Results of operations

	Three months ended September 30,				Nine months ended September 30,			
(in millions of dollars, unless otherwise specified)	**2016**	**2015**	**Change**		**2016**	**2015**	**Change**	
Premiums written	**$ 223**	$ 260	**$** (37)	(14)%	**$ 588**	$ 595	(7)	(1)%
Premiums earned	**$ 162**	$ 148	**$** 14	10%	**$ 474**	$ 435	39	9%
Losses on claims and expenses:								
Losses on claims	**41**	31	10	31%	**110**	87	23	26%
Expenses	**33**	28	5	18%	**91**	82	10	12%
Total losses on claims and expenses	**74**	59	15	25%	**201**	169	33	19%
Net underwriting income	**88**	89	-	-	**272**	266	6	2%
Investment income:								
Interest and dividend income, net of investment expenses	**44**	42	2	6%	**130**	125	5	4%
Net investment gains (losses)	**7**	(3)	11	NM	**(9)**	29	(37)	NM
Investment income	**52**	39	13	34%	**121**	154	(32)	(21)%
Interest expense	**6**	6	-	-	**17**	17	-	-
Income before income taxes	**134**	122	12	10%	**376**	403	(27)	(7)%
Provision for income taxes	**36**	32	4	12%	**99**	102	(3)	(3)%
Net income	**$ 98**	$ 90	**$** 9	10%	**$ 277**	$ 301	(24)	(8)%
Adjustment to net income, net of taxes:								
Net investment (gains) losses	**(5)**	3	(8)	NM	**7**	(20)	27	NM
Net operating income [1]	**$ 93**	$ 92	**$** 1	1%	**$ 283**	$ 280	3	1%
Effective tax rate	**26.5%**	26.2%	-	0.4 pts	**26.4%**	25.4%	-	1.0 pts
Selected non-IFRS financial measures [1]								
New insurance written	**$ 13,407**	$ 14,464	**$** (1,057)	(7)%	**$ 53,013**	$ 35,113	17,900	51%
Transactional new insurance written	**$ 6,868**	$ 8,341	**$** (1,474)	(18)%	**$ 16,050**	$ 19,012	(2,962)	(16)%
Portfolio new insurance written	**$ 6,539**	$ 6,123	**$** 417	7%	**$ 36,963**	$ 16,101	20,862	NM
Loss ratio	**25%**	21%	-	4 pts	**23%**	20%	-	3 pts
Expense ratio	**20%**	19%	-	1 pts	**19%**	19%	-	1 pts
Combined ratio	**45%**	40%	-	5 pts	**43%**	39%	-	4 pts
Operating return on equity	**11%**	12%	-	(1) pts	**11%**	12%	-	(1) pts
Investment yield	**3.2%**	3.3%	-	(0.1) pts	**3.2%**	3.3%	-	(0.1) pts

Amounts may not total due to rounding. NM means Not Meaningful.

[1] These financial measures are not calculated based on IFRS. See the "Non-IFRS financial measures" section at the end of this MD&A for additional information.

Table 3: New insurance written, premiums written and premiums earned

	Three months ended September 30,				Nine months ended September 30,			
(in millions of dollars, unless otherwise specified)	**2016**	**2015**	**Change**		**2016**	**2015**	**Change**	
New insurance written								
Transactional	$ **6,868**	$ 8,341	$ (1,474)	(18)%	$ **16,050**	$ 19,012	$ (2,962)	(16)%
Portfolio	**6,539**	6,123	417	7%	**36,963**	16,101	20,862	NM
Total	$ **13,407**	$ 14,464	$ (1,057)	(7)%	$ **53,013**	$ 35,113	$ 17,900	51%
Premiums written								
Transactional	**201**	236	(36)	(15)%	**470**	524	(54)	(10)%
Portfolio	**22**	24	(1)	(6)%	**118**	71	47	66%
Total	$ **223**	$ 260	$ (37)	(14)%	$ **588**	$ 595	$ (7)	(1)%
Average premium rate (in basis points)								
Transactional	**292**	283	9	3%	**293**	275	18	7%
Portfolio	**34**	39	(5)	(12)%	**32**	44	(12)	(28)%
Total	**166**	180	(14)	(8)%	**111**	170	(59)	(35)%
Premiums earned	$ **162**	$ 148	$ 14	10%	$ **474**	$ 435	$ 39	9%

Amounts may not total due to rounding. NM means Not Meaningful.

Current quarter

Transactional new insurance written was $6.9 billion in the third quarter of 2016, representing a decrease of $1.5 billion, or 18%, as compared to the same quarter in the prior year primarily as a result of targeted underwriting changes in select markets and a smaller transactional insurance originations market. New insurance written from portfolio insurance was $6.5 billion in the third quarter of 2016, which was relatively flat as compared to $6.1 billion in the prior year.

Premiums written from transactional insurance were $201 million in the third quarter of 2016, a decrease of $36 million, or 15%, as compared to the prior year's period. The $36 million decrease was primarily due to lower volumes of transactional insurance business, partially offset by a 3% increase in the average premium rate to 2.92% primarily due to the June 2015 premium rate increase. Premiums written from portfolio insurance were $22 million in the third quarter of 2016 which was relatively flat as compared to $24 million in the prior year's period. The average premium rate of 0.34% this quarter reflects the high quality portfolio and higher proportion of portfolio insured mortgages with loan-to-values below 65%.

Premiums earned increased by $14 million, or 10%, to $162 million in the third quarter of 2016, as compared to the prior year's period due to higher premiums earned from the higher levels of premiums written in 2014 and 2015.

Year-to-date

For the nine months ended September 30, 2016, transactional new insurance written was $16.1 billion, a decrease of $3.0 billion, or 16%, as compared to the prior year primarily as a result of targeted underwriting changes in select markets and a smaller transactional insurance originations market. New insurance written from portfolio insurance was $37.0 billion in the nine months ended September 30, 2016, as compared to $16.1 billion in the prior year. The Company experienced increased demand for portfolio insurance in the second quarter of 2016 in advance of the July 1, 2016 regulatory changes which restricts the use of portfolio mortgage insurance.

Premiums written from transactional insurance were $470 million in the nine months ended September 30, 2016, a decrease of $54 million, or 10%, as compared to the prior year's period. The $54 million decrease was primarily due to lower volumes of transactional insurance business, partially offset by a 7% increase in the average premium rate to 2.93% primarily due to the June 2015 premium rate increase. Premiums written from portfolio insurance were $118 million in the nine months ended September 30, 2016 as compared to $71 million in the prior year's period primarily due to an increase in new insurance written for portfolio insurance. The average premium rate of 0.32% in the nine months ended September 30, 2016 reflects the high quality portfolio and higher proportion of portfolio insured mortgages with loan-to-values below 65%.

Premiums earned increased by $39 million, or 9%, to $474 million in the nine months ended September 30, 2016, as compared to the prior year's period due to higher premiums earned from the relatively larger 2014 and 2015 books of business.

Table 4: Losses on claims

	Three months ended September 30,				Nine months ended September 30,			
	2016	**2015**		**Change**	**2016**	**2015**		**Change**
New delinquencies	**1,252**	1,056	196	19%	**3,712**	3,268	444	14%
Cures	**759**	616	143	23%	**2,299**	2,077	222	11%
New delinquencies, net of cures	**493**	440	53	12%	**1,413**	1,191	222	19%
Average reserve per delinquency (*in thousands of dollars*)	$ **79**	$ 70	$ 9	13%	$ **79**	$ 70	$ 9	13%
Losses on claims (in millions of dollars)	$ **41**	$ 31	$ 10	31%	$ **110**	$ 87	$ 23	26%
Loss ratio	**25%**	21%	-	4 pts	**23%**	20%	-	3 pts

Amounts may not total due to rounding.

Current quarter

New delinquencies, net of cures, of 493 were 53 higher than the same quarter in the prior year primarily due to pressure in oil-producing regions with an increase of 159 in Alberta and 7 in the Prairies region, partially offset by a decrease of 23 in Quebec, 63 in Ontario, 17 in the Pacific region and 10 in the Atlantic region, as housing markets performed well in those regions.

Average reserve per delinquency increased by approximately $9 thousand primarily due to a shift in regional mix towards oil-producing regions with higher average insured amounts and modest declines in house prices.

The resulting loss ratio was 25% in the third quarter of 2016, 4 percentage points higher than the same period in the prior year due to higher losses on claims partially offset by higher earned premium.

Year-to-date

In the nine months ended September 30, 2016, new delinquencies, net of cures, of 1,413 were 222 higher than the same period in the prior year primarily due to pressure in oil-producing regions with an increase of 377 in Alberta, and 82 in the Prairies region, 7 in the Atlantic region partially offset by a decrease of 71 in Quebec, 123 in Ontario, and 50 in the Pacific region as housing markets performed well in those regions.

Average reserve per delinquency increased by approximately $9 thousand primarily due to a shift in regional mix towards oil-producing regions with higher average insured amounts and modest declines in house prices.

The resulting loss ratio was 23% for the nine months ended September 30, 2016, 3 percentage points higher than the same period in the prior year due to higher losses on claims partially offset by higher earned premium.

Table 5: Expenses

	Three months ended September 30,				Nine months ended September 30,			
(in millions of dollars, unless otherwise specified)	**2016**	**2015**		**Change**	**2016**	**2015**		**Change**
Expenses								
Premium taxes and underwriting fees	$ **17**	$ 18	$ (1)	(8)%	$ **45**	$ 45	$ 1	1%
Employee compensation	**14**	11	3	28%	**37**	31	6	19%
Other	**7**	7	1	11%	**21**	21	-	-
Net change in deferred policy acquisition costs	**(5)**	(8)	3	(33)%	**(12)**	(16)	3	(21)%
Total	$ **33**	$ 28	$ 5	18%	$ **91**	$ 82	$ 10	12%
Expense ratio	**20%**	19%	-	1 pt	**19%**	19%	-	1 pt

Amounts may not total due to rounding. NM means Not Meaningful.

Current quarter

Expenses increased by $5 million, or 18%, to $33 million in the third quarter of 2016 as compared to the same quarter in the prior year primarily the result of a $3 million increase in employee compensation related to higher share based compensation and a $3 million increase in deferred policy acquisition costs expensed during the quarter in line with higher premiums earned. This $6 million increase was partially offset by a $1 million decrease in premium taxes and underwriting fees related to lower levels of premiums written. Other expenses in the quarter, which consist primarily of professional fees and promotional and travel expense, were relatively unchanged.

The expense ratio increased 1 percentage point to 20% for the third quarter of 2016, as compared to the same quarter in the prior year due to higher expenses, partially offset by higher earned premium.

Year-to-date

Expenses increased by $10 million, or 12%, to $91 million in the nine months ended September 30, 2016 as compared to the same period in the prior year primarily the result of a $6 million increase in employee compensation related to higher share based compensation and a $3 million increase in deferred policy acquisition costs expensed year-to-date in line with higher premiums earned.

The expense ratio of 19% for the nine months ended September 30, 2016 remained relatively unchanged, as compared to the same period in the prior year as higher expenses were offset by higher earned premium.

Table 6: Investment income

	Three months ended September 30,				Nine months ended September 30,			
(in millions of dollars, unless otherwise specified)	**2016**	**2015**		**Change**	**2016**	**2015**		**Change**
Interest and dividend income, net of investment expenses	$ **44**	$ 42	$ 2	6%	$ **130**	$ 125	$ 5	4%
Net realized gains on sale of investments	**2**	-	2	NM	**2**	25	(23)	(92)%
Net gains (losses) on derivatives and foreign exchange	**5**	(3)	9	NM	**(8)**	4	(12)	NM
Impairment loss	**-**	-	-	NM	**(3)**	-	(3)	NM
Investment income	$ **52**	$ 39	$ 13	34%	$ **121**	$ 154	$ (32)	(21)%
Invested assets, end of period	$ **6,246**	$ 5,678	$ 567	10%	$ **6,246**	$ 5,678	$ 567	10%
Investment yield, average over period	**3.2%**	3.3%	-	(0.1) pts	**3.2%**	3.3%	-	(0.1) pts

Amounts may not total due to rounding. NM means Not Meaningful.

Current quarter

Interest and dividend income, net of investment expenses, increased by $2 million, or 6%, to $44 million in the third quarter of 2016, primarily due to an increased level of invested assets and higher dividend income, partially offset by the impact of the low interest rate environment on the reinvestment of fixed income maturities. The average investment yield for the quarter was 3.2%, relatively unchanged as compared to the investment yield in the prior year's period. Invested assets increased by $567 million as a result of strong growth in premiums written in 2016.

The Company recorded $2 million of net realized gains in the third quarter of 2016 primarily due to the sale of fixed income securities. In the same period in the prior year the Company did not record any net gains or losses.

Net gains on derivatives and foreign exchanges were $5 million in the third quarter of 2016, as compared to a loss of $3 million in the same period in the prior year, an increase of $9 million. The increase is the result of the impact of the movement in foreign exchange rates on the Company's invested assets denominated in U.S. dollars, partially offset by foreign exchange-related derivatives activity.

Year-to-date

Interest and dividend income, net of investment expenses, increased by $5 million, or 4%, to $130 million in the nine months ended September 30, 2016, primarily due to an increased level of invested assets and higher dividend income, partially offset by the impact of the low interest rate environment on the reinvestment of fixed income maturities as compared to the same period in the prior year. The average investment yield for the nine months ended September 30, 2016 was 3.2% as compared to 3.3% in the same period in the prior year. Invested assets increased by $567 million as a result of strong growth in premiums written and lower losses in 2016.

The Company recorded $2 million of realized gain in the nine months ended September 30, 2016 as compared to a $25 million gain, primarily from the sale of its common shares holdings, in the same period in the prior year.

Net losses on derivatives and foreign exchanges were $8 million in the nine months ended September 30, 2016 as compared to a gain of $4 million in the same period in the prior year, a decrease of $12 million which primarily reflects the impact of the movement in foreign exchange rates on the Company's invested assets denominated in U.S. dollars, partially offset by foreign exchange-related derivatives activity. The Company also recorded an impairment loss of $3 million.

Table 7: Net Income

	Three months ended September 30,				Nine months ended September 30,			
(in millions of dollars, unless otherwise specified)	**2016**	**2015**		**Change**	**2016**	**2015**		**Change**
Income before income taxes	$ **134**	$ 122	$ 12	10%	$ **376**	$ 403	$ (27)	(7)%
Provision for income taxes	**36**	32	4	12%	**99**	102	(3)	(3)%
Net income	$ **98**	$ 90	$ 9	10%	$ **277**	$ 301	$ (24)	(8)%
Effective tax rate	**26.5%**	26.2%	-	0.4 pts	**26.4%**	25.4%	-	1.0 pts

Amounts may not total due to rounding. NM means Not Meaningful.

Current quarter

The effective tax rate was 26.5% in the third quarter of 2016, an increase of approximately 0.4 percentage points from 26.2% in the prior year's period. The increase was primarily the result of an increase in tax rates in certain provinces and higher non-deductible items partially offset by higher non-taxable dividend income in the current year's period.

Net income increased by $9 million, or 10%, to $98 million, primarily as a result of higher investment income and higher earned premium partially offset by higher losses on claims and higher expenses.

Year-to-date

The effective tax rate was 26.4% in the nine months ended September 30, 2016, an increase of approximately 1 percentage points from 25.4% in the prior year's period. The increase was primarily the result of an approximately $5 million favourable non-recurring tax adjustment for prior years recorded in the first quarter of 2015 and an increase in tax rates in certain provinces in 2016, partially offset by higher non-taxable dividend income in the current year's period.

Net income decreased by $24 million, or 8%, to $277 million, primarily as a result of higher losses on claims, higher expenses, lower investment income and the prior period favourable tax adjustment, partially offset by higher earned premium.

Summary of quarterly results

Table 8: Summary of quarterly results

(in millions of dollars, unless otherwise specified)	**Q3'16**	Q2'16	Q1'16	Q4'15	Q3'15	Q2'15	Q1'15	Q4'14
Premiums written	**$ 223**	$ 249	$ 117	$ 213	$ 260	$ 205	$ 130	$ 178
Premiums earned	**$ 162**	158	154	151	148	144	143	143
Losses on claims	**41**	32	37	35	31	25	31	37
Expenses	**33**	30	28	27	28	29	24	30
Net underwriting income	**88**	95	88	90	89	90	87	76
Investment Income	**52**	33	37	47	39	58	57	47
Net income	**98**	91	88	98	90	103	107	86
Adjustment to net income net of taxes:								
Net investment (gains) losses	**(5)**	8	3	(3)	3	(12)	(11)	(3)
Net operating income [1]	**$ 93**	$ 99	$ 91	$ 95	$ 92	$ 92	$ 97	$ 84
Earnings per common share:								
Earnings per common share (basic)	**$1.07**	$ 0.99	$ 0.96	$ 1.06	$ 0.98	$ 1.12	$ 1.15	$ 0.92
Earnings per common share (diluted) [2]	**$1.07**	$ 0.99	$ 0.96	$ 1.03	$ 0.96	$ 1.12	$ 1.08	$ 0.91
Selected non-IFRS financial measures: [1]								
Loss ratio	**25%**	21%	24%	23%	21%	17%	22%	26%
Expense ratio	**20%**	19%	19%	18%	19%	20%	17%	21%
Combined ratio	**45%**	40%	42%	41%	40%	37%	39%	47%
Operating earnings per common share (basic)	**$1.02**	$ 1.07	$ 1.00	$ 1.04	$ 1.01	$ 0.99	$ 1.04	$ 0.89
Operating earnings per common share (diluted) [2]	**$1.02**	$ 1.07	0.99	$ 1.03	$ 1.00	$ 0.99	$ 1.03	$ 0.89
Operating return on equity	**11%**	12%	11%	12%	12%	12%	12%	11%

Note: Amounts may not total due to rounding.

[1] These financial measures are not calculated based on IFRS. See the "Non-IFRS financial measures" section at the end of this MD&A for additional information.

[2] The difference between basic and diluted earnings per Common Share and basic and diluted operating earnings per Common Share is caused by the potentially dilutive impact of share-based compensation awards.

The Company's key financial measures for each of the last eight quarters are summarized in the table above. These highlights illustrate the Company's profitability, return on equity, loss ratio, expense ratio, and combined ratio. The transactional mortgage insurance business is seasonal. Premiums written vary each quarter, while premiums earned, investment income, underwriting and administrative expenses tend to be relatively 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 in addition to changes in market share and premium rates. Portfolio mortgage insurance volume and mix varies from quarter to quarter based on lender demand. Losses on claims vary from quarter to quarter, primarily as the result of prevailing economic conditions and characteristics of the insurance in-force portfolio, such as loan size, age, seasonality and geographic mix of delinquencies. Typically, losses on claims increase during the winter months, due primarily to an increase in new delinquencies, and decrease during the spring and summer months.

The Company continues to achieve solid financial results driven by increasing premiums earned in recent quarters, a consistent expense ratio and relatively favourable loss ratios.

Financial condition

Table 9: Statement of financial position highlights and selected financial data

(in millions of dollars, unless otherwise specified)	As at September 30, 2016	As at December 31, 2015	$ Change	% Change
Total investments	**$ 6,246**	$ 5,917	328	6%
Other assets	**277**	261	17	6%
Subrogation recoverable	**63**	61	2	4%
Total assets	**6,586**	6,239	347	6%
Unearned premiums reserves	**2,136**	2,021	115	6%
Loss reserves	**161**	132	30	22%
Long-term debt	**433**	433	-	-
Other liabilities	**233**	234	(1)	-
Total liabilities	**2,963**	2,819	144	5%
Shareholders' equity excluding Accumulated other comprehensive income ("AOCI")[1]	**3,456**	3,293	163	5%
AOCI	**167**	127	40	32%
Shareholders' equity	**3,623**	3,420	203	6%
Total liabilities and shareholders' equity	**$ 6,586**	$ 6,239	347	6%
Selected non-IFRS financial measures [1]				
MCT ratio [2]	**236%**	234%	-	2 pts
Book value per common share				
Number of common shares outstanding (basic)	**91,854,100**	91,795,125	58,975	-
Book value per common share including AOCI (basic)	**$ 39.44**	$ 37.26	2.19	6%
Book value per common share excluding AOCI (basic)	**$ 37.63**	$ 35.88	1.75	5%
Number of common shares outstanding (diluted) [3]	**92,883,666**	92,872,626	11,040	-
Book value per common share including AOCI (diluted) [3]	**$ 39.01**	$ 36.82	2.18	6%
Book value per common share excluding AOCI (diluted) [3]	**$ 37.21**	$ 35.46	1.75	5%
Dividends paid per common for the nine months ended	**$ 1.26**	-		
Dividends paid per common for the full year ended	**-**	**$** 1.59		

Note: Amounts may not total due to rounding.

[1] These financial measures are not calculated based on IFRS. See the "Non-IFRS financial measures" section at the end of this MD&A for additional information.

[2] The MCT ratio as at September 30, 2016 is a Company estimate and as at December 31, 2015 is the actual reported figure.

[3] The difference between basic and diluted number of Common Shares outstanding, book value per Common Share including AOCI and book value per Common Share excluding AOCI is caused by the potentially dilutive impact of share-based compensation awards.

Financial instruments

As at September 30, 2016, the Company had total cash and cash equivalents and invested assets of $6.2 billion in its investment portfolio. All of the Company's invested assets are classified as available-for-sale ("**AFS**") with the exception of cash and cash equivalents, and accrued investment income and other receivables which are classified as loans and receivables and derivative financial instruments which are classified as Fair Value through Profit and Loss. Fair value measurements for AFS securities are based on quoted market prices for identical assets when available. In the event an active market does not exist, estimated fair values are obtained primarily from industry-standard pricing sources using market observable information and through processes such as benchmark curves, benchmarking of like securities and quotes from market participants.

Table 10: Invested assets by asset class for the portfolio

Asset Class	**As at September 30, 2016**			**As at December 31, 2015**		
(in millions of dollars, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains [2] (losses)**	Fair value	%	Unrealized gains [2] (losses)
Collateralized loan obligations	**$ 218**	**3%**	**$ 27**	$ 178	3%	$ 32
Corporate bonds and debentures:						
Financial	**938**	**15%**	**33**	940	16%	34
Energy	**338**	**5%**	**26**	452	8%	28
Infrastructure	**101**	**2%**	**8**	99	2%	6
All other sectors	**909**	**15%**	**75**	564	10%	56
Total corporate bonds and debentures	**2,286**	**37%**	**142**	2,054	35%	124
Short-term investments:						
Canadian federal government treasury bills [1]	**155**	**2%**	**-**	78	1%	-
Total short term investments	**155**	**2%**	**-**	78	1%	-
Government bonds and debentures:						
Canadian federal government [1]	**2,022**	**32%**	**90**	1,963	33%	79
Canadian provincial and municipal governments	**1,016**	**16%**	**85**	1,006	17%	73
Total government bonds and debentures	**3,037**	**49%**	**175**	2,969	50%	152
Preferred shares:						
Financial	**211**	**3%**	**(26)**	155	3%	(20)
Energy	**66**	**1%**	**(4)**	15	0%	(2)
All other sectors	**89**	**1%**	**(9)**	78	1%	(11)
Total preferred shares	**366**	**6%**	**(39)**	248	4%	(33)
Total invested assets	**$ 6,062**	**97%**	**$ 305**	$ 5,527	93%	$ 276
Cash and cash equivalents	**184**	**3%**	**-**	391	7%	-
Total investments	**$ 6,246**	**100%**	**$ 305**	$ 5,917	100%	$ 276
Accrued investment income and other receivables	**43**	**-**	**-**	28	-	-
Derivative financial instruments	**2**	**-**	**-**	-	-	-
Total Invested assets, accrued investment income and other receivables	**$ 6,291**	**100%**	**$ 305**	$ 5,946	100%	$ 276

Note: Amounts may not total due to rounding.

[1] Canadian federal government bonds and treasury bills includes $31 million (December 31, 2015 - $85 million) in collateral posted for the benefit of the Company's counterparties to its derivative financial instrument contracts.

[2] Unrealized gains include unrealized foreign exchange gains of $71 million (December 31, 2015- $97 million).

Unrealized gains on AFS securities in the portfolio were $305 million, which included $71 million of unrealized foreign exchange gains. Unrealized gains increased $29 million from the end of 2015 primarily as a result of a decrease in government bond rates partially offset by a decrease in unrealized foreign exchange gains due to the appreciation of the Canadian dollar.

The Company's average investment yield for the quarter ended September 30, 2016 was 3.2%, which included the favourable impact of non-taxable dividend income from its preferred shares.

The Company assigns credit ratings based on the asset risk guideline as outlined in OSFI's Interim Capital Requirements for Mortgage Insurance Companies, Minimum Capital Test Guideline effective January 1, 2015. Based on this guideline, the Company assigns ratings from DBRS when available. The majority of the assets in the Company's current investment portfolio have a DBRS rating. In the absence of a DBRS rating, the Company assigns S&P or Fitch Rating Services ratings.

Table 11: Invested assets by credit rating for the portfolio

Credit Rating	**As at September 30, 2016**			**As at December 31, 2015**		
(in millions of dollars, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains (losses)**	**Fair value**	**%**	**Unrealized gains (losses)**
Cash and cash equivalents	**$ 184**	**3%**	**$ -**	$ 391	7%	-
AAA	**2,260**	**38%**	**95**	2,160	38%	90
AA	**1,176**	**20%**	**102**	1,024	18%	93
A	**1,717**	**29%**	**98**	1,703	30%	87
BBB	**522**	**9%**	**45**	387	7%	37
Below BBB	**22**	**0%**	**4**	5	-	1
Total investments (excluding preferred shares)	**$ 5,880**	**100%**	**S 343**	$ 5,670	100%	308
Preferred shares						
P2	**255**	**70%**	**(30)**	227	92%	(32)
P3	**110**	**30%**	**(8)**	20	8%	(1)
Total Preferred shares	**366**	**100%**	**(39)**	248	100%	(33)
Total invested assets and cash and cash equivalents	**$ 6,246**		**305**	$ 5,917		276

Note: Amounts may not total due to rounding.

Investment portfolio management

The Company manages its portfolio assets to meet liquidity, credit quality, diversification and yield objectives by investing primarily in fixed income securities, including federal and provincial government bonds, corporate bonds and preferred shares. The Company also holds short-term investments. In all cases, investments are required to comply with restrictions imposed by law and insurance regulatory authorities as well as the Company's own investment policy, which has been approved by the Board.

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

Collateralized loan obligations

The Company held $218 million in asset-backed bonds as of September 30, 2016, up from $178 million as of December 31, 2015. These securities are floating rate collateralized loan obligations ("**CLOs**") denominated in U.S. dollars of which 90% are rated AA and above, and 10% are rated A.

Corporate bonds and debentures

As of September 30, 2016, approximately 37% of the investment portfolio was held in corporate bonds and debentures, up from 35% at December 31, 2015. The investment policy limits the percentage of the portfolio that can be invested in any single issuer or group of related issuers. Financial sector exposure through corporate bonds and debentures represents 15% of the investment portfolio, or approximately 41% of the corporate bonds and debentures. The Company continuously monitors and repositions its exposure to the financial sector, which represents greater than 35% of the corporate issuances of fixed income securities in the Canadian marketplace. Energy sector exposure through corporate bonds and debentures represents 5% of the investment portfolio, which generally allocated between the following:

- 63% is in pipelines and distribution companies that are primarily regulated entities with stable cash flows; and
- 37% is in integrated oil and gas companies with large market capitalizations.

Securities rated BBB and below were $544 million, or 9% of invested assets, as of September 30, 2016.

Government bonds and debentures

The Company's investment policy requires that a minimum of 30% of the investment portfolio be invested in sovereign fixed income securities. As of September 30, 2016, 49% of the investment portfolio was invested in sovereign fixed income securities, consisting of 32% in federal fixed income securities and 16% in provincial fixed income securities, as compared to 50% as of December 31, 2015.

Canadian federal government treasury bills held by the Company consist primarily of short-term investments with original maturities greater than 90 days and less than 365 days. The Company held $155 million in Canadian short-term treasury bills in the investment portfolio as of September 30, 2016 as compared to $78 million as of December 31, 2015.

Preferred shares

As of September 30, 2016, the Company held $366 million of preferred shares, of which the financial sector represented 59%. The Company believes that preferred shares have a comparable dividend yield to common shares and offer a more attractive risk and capital adjusted return profile to that of common shares under the current MCT guidelines. As a result of the continued low interest rate environment, the value of the Company's preferred share investment holdings have an unrealized loss of $39 million at September 30, 2016, a modest increase from a $33 million unrealized loss at December 31, 2015.

Cash and cash equivalents

Cash and cash equivalents consist primarily of cash in bank accounts and government treasury bills with original maturities of 90 days or less. The Company determines its target cash holdings based on near-term liquidity needs, market conditions and perceived favourable future investment opportunities. The Company's cash holdings in the investment portfolio were $184 million as of September 30, 2016, a decrease of $207 million from the $391 million in cash holdings as of December 31, 2015. The decrease was primarily due to cash holdings in the fourth quarter of 2015 being higher as a result of the timing of investment maturities.

Liquidity

The purpose of liquidity management is to ensure there is sufficient cash to meet all of the Company's financial commitments and obligations. The Company has five primary sources of funds, consisting of premiums written from operations, investment income, cash and short-term investments, investment maturities or sales and proceeds from the issuance of debt and equity. The Company believes it has the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill its cash requirements during the current financial year and in the future financial years.

Table 12: Summary of the Company's cash flows

	Nine months ended September 30,	
(in millions of dollars, unless otherwise specified)	**2016**	2015
Cash provided by (used in):		
Operating activities	**$ 414**	$ 408
Financing activities	**(114)**	(156)
Investing activities	**(507)**	(238)
Change in cash and cash equivalents	**(207)**	13
Cash and cash equivalents, beginning of period	**391**	190
Cash and cash equivalents, end of period	**$ 184**	$ 204

Note: Amounts may not total due to rounding.

The Company generated $414 million of cash flows from operating activities in the nine months ended September 30, 2016, as compared to $408 million in the prior year's period. The consistent cash flows from operating activities in the current and prior periods were primarily the result of strong levels of premiums written, interest income and dividends received on invested assets.

The Company utilized $114 million of cash flows for financing activities in the nine months ended September 30, 2016, primarily related to the payment of ordinary dividends of $0.42 per Common Share per quarter, as compared to $156 million primarily related to the payment of ordinary dividends of $0.39 per Common Share per quarter as well as the repurchase of Common Shares under its NCIB in the prior year's period.

The Company utilized $507 million of cash flows from investing activities in the nine months ended September 30, 2016, primarily from the purchase of bonds and debentures, preferred shares and short-term investments, as compared to $238 million in the prior year's period.

The Company maintains a portion of its investment portfolio in cash and liquid securities to meet working capital requirements and other financial commitments. As of September 30, 2016, the Company held liquid assets of $733 million, comprised of $184 million in cash and cash equivalents, and $549 million in bonds and debentures maturing within one year in order to maintain financial flexibility. Of the $733 million liquid assets, $181 million were held outside of the Insurance Subsidiary. As at September 30, 2016, the duration of the fixed income portfolio was 3.8 years.

In addition to cash and cash equivalents, 51%, or $3,192 million, of the Company's investment portfolio comprises federal and provincial government securities for which there is a highly liquid market. Funds are used primarily for operating expenses, claims payments, and interest expense, as well as dividends and other distributions to shareholders. Potential liquidity risks are discussed in more detail in the "Risk Factors" section of the Company's AIF.

Derivative financial instruments

Derivative financial instruments are used by the Company for hedging purposes and for the purpose of modifying the risk profile of the Company's investment portfolio, subject to exposure limits specified within the Company's investment policy guidelines, which have been approved by the Board of Directors.

The Company uses foreign currency forwards and cross currency interest rate swaps to mitigate foreign currency risk associated with bonds and collateralized loan obligations denominated in U.S. dollars. Foreign currency forwards and cross currency interest rate swaps are contractual obligations to exchange one currency for another at a predetermined future date.

The Company uses equity total return swaps to hedge a portion of its economic exposure from the changes in fair market value of the Company's Common Shares in relation to risks associated with share-based compensation expense.

The Company uses fixed for floating interest rate swaps in conjunction with the management of interest rate risk related to its fixed income securities. The interest rate swaps are derivative financial instruments in which the Company and its counterparty agree to exchange interest rate cash flows based on a specified notional amount from a fixed rate to a floating rate.

Table 13: Fair value and notional amounts of derivatives by terms of maturity, in Canadian dollars

		Notional Amount *(in millions)*				
	Net Fair value	1 year or less	1–3 years	3–5 years	Over 5 years	Total
September 30, 2016						
Foreign currency forwards	$(37)	$160	$21	$46	$185	$413
Cross currency interest rate swaps	$(7)	$31	$38	$62	$134	$266
Equity total return swaps	$ -	-	$17	-	-	$17
Interest rate swaps	$(1)	-	-	$1,200	-	$1,200
Total	**$(44)**	**$191**	**$76**	**$1,309**	**$319**	**$1,895**
December 31, 2015						
Foreign currency forwards	$(45)	$14	$26	$36	$213	$289
Cross currency interest rate swaps	$(37)	$144	$28	$19	$34	$225
Equity total return swaps	$(2)	$20	-	-	-	$20
Total	**$(84)**	**$177**	**$54**	**$55**	**$247**	**$533**

Note: Amounts may not total due to rounding.

Capital expenditures

The Company's capital expenditures primarily relate to technology investments aimed at improving operational efficiency and effectiveness for sales, underwriting, risk management and loss mitigation. In the nine months ended September 30, 2016, the Company invested approximately $4 million in underwriting, loss mitigation and risk management technologies enhancements. The Company expects that future capital expenditures will continue to be allocated to underwriting, loss mitigation, and risk management technology improvements. The Company expects that capital expenditures in 2016 will be in the $3 million to $5 million range and it is anticipated that such expenditures will be funded primarily from operating cash flows.

Capital management

Minimum capital test

The Insurance Subsidiary is regulated by OSFI. Under the MCT, an insurer calculates a ratio of capital available to capital required in a prescribed manner. Mortgage insurers are required to maintain a minimum ratio of regulatory capital available, as defined for MCT purposes, to capital required.

Under the PRMHIA and the *Insurance Companies Act* (Canada) ("**ICA**"), the minimum MCT ratio for the Insurance Subsidiary is 175%. In conjunction with this requirement, the Insurance Subsidiary has set its internal MCT target capital ratio to 185%. The Company manages its capital base to maintain a balance between capital strength, efficiency and flexibility. As at September 30, 2016, the Insurance Subsidiary's MCT ratio was approximately 236%, 16 percentage points higher than the Company's holding target of 220%. While the Company's internal MCT capital target is calibrated to cover the various risks that the business would face in a severe recession, the holding target ratio is designed to provide a capital buffer to allow management time to take the necessary actions should capital levels be pressured by deteriorating macroeconomic conditions. Under this framework, capital in excess of the holding target may be redeployed.

Capital above the amount required to meet the Insurance Subsidiary's MCT operating targets could be used to support organic growth of the business or declaration and payment of dividends or other distributions, and if distributed to Genworth Canada, to repurchase Common Shares of the Company, for acquisitions, for repayment of debt, or for such other uses as permitted by law and approved by the Board.

Table 14: MCT as at September 30, 2016 and as at December 31, 2015

(in millions, unless otherwise specified) **Minimum Capital Test**	As at September 30, 2016	As at December 31, 2015
Capital available	**$3,762**[1]	$3,633
Capital required	**$1,591**[1]	$1,552
MCT ratio	**236%**[1]	234%

[1] Company estimate

The Company's MCT estimate as at September 30, 2016 of 236% was higher than the MCT as at December 31, 2015. The increase to capital available was due primarily to profitability and a modest increase in unrealized gains in the investment portfolio, which was partially offset by the Insurance Subsidiary's dividends. The increase in capital required during the nine months ended September 30, 2016 was primarily due to an increase in insurance margin risk from premiums written partially offset by a decrease in interest rate risk, as the Company entered into $1.2 billion of interest rate swaps. The Company uses fixed for floating interest rate swaps in conjunction with the management of interest rate risk related to its fixed income securities.

On September 23, 2016, OFSI released a draft advisory for comment titled "*Capital Requirements for Federally Regulated Mortgage Insurers*". This draft advisory provides a new regulatory capital framework for determining the capital requirements for residential mortgage insurance companies. The proposed framework is more risk sensitive and incorporates additional risk attributes, including credit score, remaining amortization and outstanding loan balance. The comment period for the draft advisory ended on October 21, 2016. The finalized advisory is expected to come into effect on January 1, 2017, replacing OSFI's current advisory, "*Interim Capital Requirements for Mortgage Insurance Companies*", which has been in effect since January 2015.

Under the new standard framework set forth in the draft advisory, the current Holding Target of 220% will be recalibrated to the OSFI Supervisory MCT Target of 150%. Based on the new regulatory capital framework, the Company estimates that Genworth Canada's pro forma MCT ratio as at September 30, 2016 would have been in the range of 155% to 158%. In addition, the Company held $181 million of cash and investments as of September 30, 2016 and has access to a $100 million credit facility that is undrawn. These resources could be used to enhance the capital of Genworth Canada. As a result, the Company expects to be compliant with the new framework upon its implementation on January 1, 2017, subject to business and market conditions.

Debt

The Company proactively manages capital to balance capital strength, flexibility and efficiency. The Company currently has $433 million in long-term debt, issued in two series, with a debt-to-capital ratio as at September 30, 2016 of 11%.

Table 15: Details of the Company's long-term debt

(in millions unless otherwise specified)

Series	Series 1	Series 3
Timing of maturity	3–5 years	After 5 years
Principal amount outstanding	$275	$160
Date issued	June 29, 2010	April 1, 2014
Maturity date	June 15, 2020	April 1, 2024
Fixed annual rate	5.68%	4.242%
Semi-annual interest payments due each year on	June 15, December 15	October 1, April 1
Debenture Ratings		
S&P[1]	BBB+, (Stable)	BBB+, (Stable)
DBRS[1]	A (High), Stable	A (High), Stable

[1] See "Financial Strength Rating" section of this MD&A for additional information.

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

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

In the case of certain events of default under the terms of the debentures issued by the Company in 2010 and 2014, the aggregate unpaid principal amount of such debentures, together with all accrued and unpaid interest thereon and any other amounts owing with respect thereto, shall become immediately due and payable. The events of default that would trigger such an acceleration of payment include if the Company takes certain voluntary insolvency actions, such as instituting proceedings for its winding up, liquidation or dissolution, or consents to the filing of such proceedings against it; or if involuntary insolvency proceedings go uncontested by the Company or are not dismissed within a specified time period, or the final order sought in such proceedings is granted against the Company.

For more specific details on the terms and conditions of the Company's debentures, please see the relevant prospectus, copies of which are available on the SEDAR website at www.sedar.com.

Credit facility

On May 20, 2016, the Company entered into a $100 million senior unsecured revolving credit facility, which matures on May 20, 2019. Any borrowings under the credit facility will bear interest at a rate per annum equal to, either a fixed rate based on a spread over Bankers' Acceptance or a variable rate based on a spread over the Lender Prime Rate. The Company will also pay a standby fee based on the unused amount of the commitments. The credit facility includes customary representations, warranties, covenants, terms and conditions for transactions of this type.

As at September 30, 2016 there was no amount outstanding under the credit facility and all of the covenants were fully met.

Financial strength ratings

The Insurance Subsidiary has financial strength ratings from both S&P and DBRS. Although the Insurance Subsidiary is not required to have ratings to conduct its business, ratings may influence the confidence in an insurer and its products.

On August 18, 2016, Standard & Poor's ("**S&P**") affirmed the Insurance Subsidiary's A+ rating with a stable outlook and the Company's BBB+ rating with a stable outlook. S&P noted that the Company had a strong competitive position, low industry risk due to the Company's strong portfolio quality, tight regulation, extremely strong earnings and capitalization and adequate financial flexibility with a moderate risk due to monoline focus in a sector prone to capital and earnings volatility.

On May 17, 2016, DBRS confirmed the Insurance Subsidiary's AA financial strength rating with a stable trend citing "the Insurance Company's solid market position, seasoned insurance portfolio and advanced risk analytics, as well as its strong capital position relative to the capital required to meet insurance claim obligations. The confirmation also reflects the Company's strong capital adequacy as assessed through the application of the DBRS residential mortgage-backed securities (RMBS) model, assuming a runoff scenario." DBRS downgraded the Company's issuer rating and senior unsecured debentures rating one notch to A (high) with a stable trend citing "DBRS's concern that there is now a greater risk that OSFI, in a stressed mortgage market situation, may place restrictions on dividend payments from the Insurance Company." [1]

Ratings Summary	S&P	DBRS
Issuer Rating		
Company	BBB+, Stable	A (High), Stable
Financial Strength		
Insurance Subsidiary	A+, Stable	AA, Stable
Senior Unsecured Debentures		
Company	BBB+, Stable	A (High), Stable

[1] DBRS May 17, 2016 press release: DBRS Confirms Ratings on Genworth Financial Mortgage Insurance Company Canada and Downgrades Genworth MI Canada Inc.

Capital transactions

Share repurchase

On April 28, 2016, the Company received approval by the Toronto Stock Exchange for the Company to undertake an NCIB. Pursuant to the NCIB, the Company can purchase, for cancellation, up to 4,589,958 shares representing approximately 5% of its outstanding Common Shares as at April 25, 2016. Purchases of Common Shares under the NCIB may commence on or after May 5, 2016 and will conclude on the earlier of May 4, 2017 and the date on which the Company has purchased the maximum number of shares under the NCIB.

The Company's prior NCIB which commenced on April 28, 2015, expired on May 4, 2016. The Company did not purchase any shares under either NCIB during the three and nine months ended September 30, 2016. The Company had made purchases in 2015 pursuant to the NCIB.

The Company's major shareholder, Genworth Financial Inc., intends to participate proportionately to maintain its approximately 57.2% ownership interest in the Company throughout the course of the NCIB, if any shares are purchased. Shareholders may obtain a copy of the NCIB notice, without charge, by contacting the Company.

Restrictions on dividends and capital transactions

The Insurance Subsidiary is subject to certain restrictions with respect to dividend 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 that the Company is, or the payment of the dividend would cause the company to be, in contravention of applicable requirements to maintain adequate capital, liquidity and assets. The ICA also requires an insurance company to notify OSFI of the declaration of a dividend at least 15 days prior to the date fixed for its payment. Similarly, the ICA prohibits the purchase for cancellation of any shares issued by an insurance company or the redemption of any redeemable shares or other similar capital transactions if there are reasonable grounds for believing that the company is, or the payment would cause the Company to be, in contravention of applicable requirements to maintain adequate capital, liquidity and assets. Share cancellation or redemption would also require the prior approval of OSFI. Finally, OSFI has broad authority to take actions that could restrict the ability of an insurance company to pay dividends.

Outstanding share data

Table 16: Changes in the number of Common Shares outstanding at September 30, 2016 and December 31, 2015

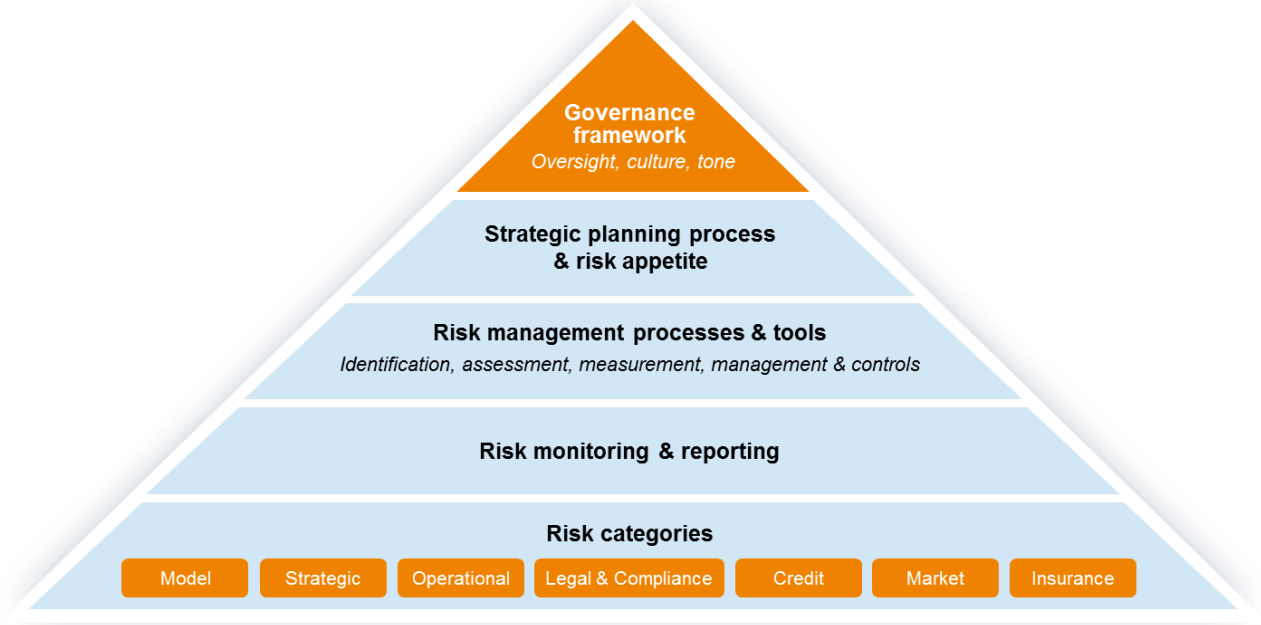
	September 30, 2016	December 31, 2015
Common Shares, beginning of period (January 1)	**91,795,125**	**93,147,778**
Common Shares issued in connection with share-based compensation plans	**58,975**	**101,543**
Common Shares repurchased and cancelled	**-**	**(1,454,196)**
Common Shares, end of period	**91,854,100**	**91,795,125**

At September 30, 2016, Genworth Financial, Inc. beneficially owned 52,562,042 Common Shares of the Company, or approximately 57.2% of the Company's outstanding Common Shares, through its wholly-owned subsidiaries, Genworth Financial International Holdings LLC ("**GFIH**"), Genworth Mortgage Insurance Corporation ("**GMIC**") and Genworth Mortgage Insurance Corporation of North Carolina ("**GMICNC**") which held approximately 40.7%, 14.9% and 1.7% of the Common Shares of the Company, respectively.

Risk management

Enterprise risk management framework

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



Governance framework

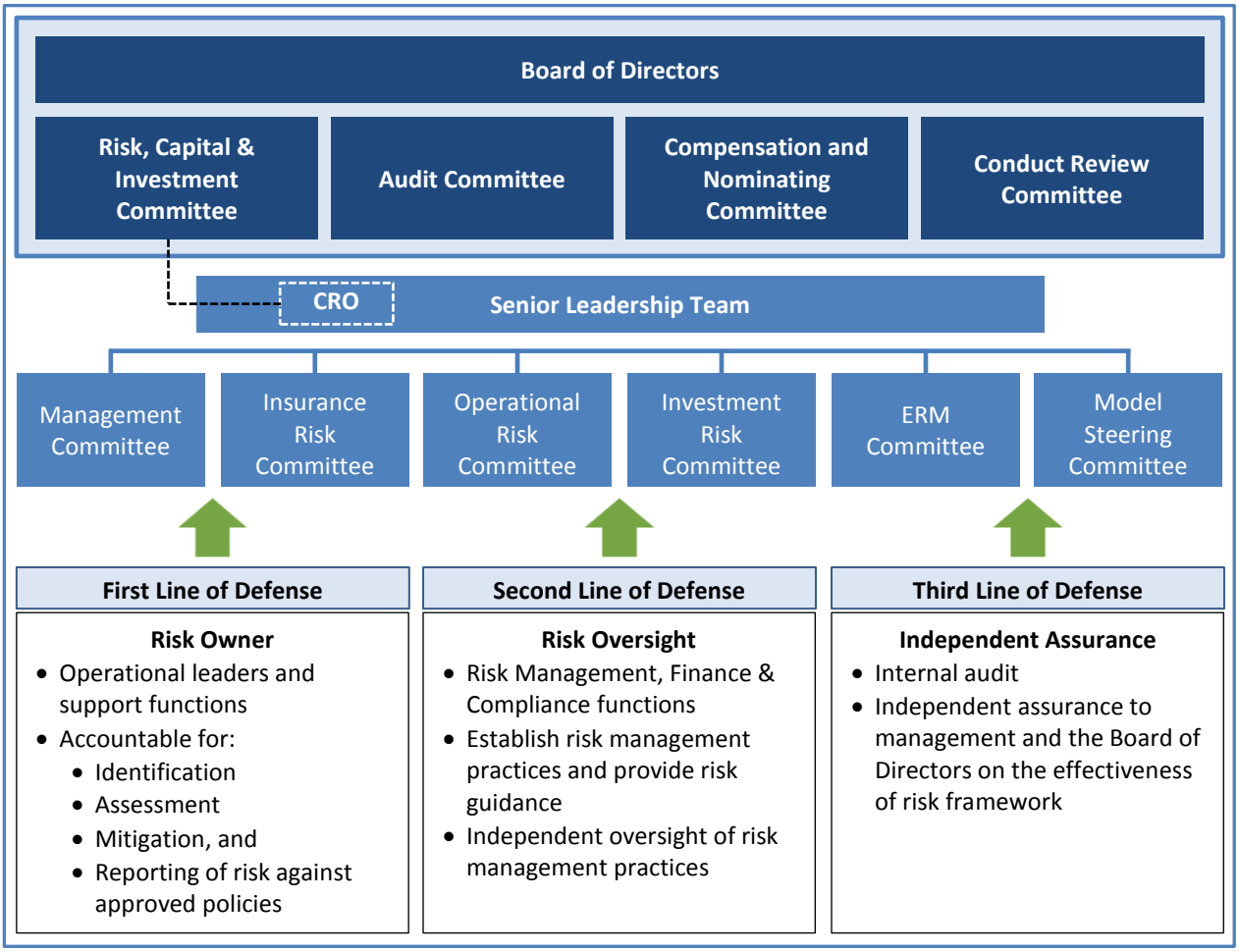
The Company's governance framework is designed to ensure the Board of Directors and management have effective oversight of the risks faced by the Company with clearly defined and articulated roles and responsibilities and inter-relationships. The governance framework is comprised of three core elements:

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

The Board of Directors 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 of Directors carries out its risk management mandate primarily through its committees, with the 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 ("**CRO**"), who oversees the Risk Management Group, reports to the Chief Executive Officer ("**CEO**") but has direct access via in-camera sessions with the Risk, Capital and Investment Committee of the Board.

The Board of Directors of the Company and of the Insurance Subsidiary 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 outlined in the chart below.



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 boundaries. It articulates the desired balance between risk objectives, meeting customer needs and profitability objectives, and is a key 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 no less than 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 and operating procedures.

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 adverse 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 our 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 ERM framework and internal control procedures are designed to reduce the level of volatility in its financial results. The Company's ERM framework is linked to its business strategy and decision making framework. One of the key tools is the Own Risk and Self-Assessment ("**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 undertaken in conjunction with the Company's business and strategic planning.

Risk controls

The Company's ERM approach is supported by a comprehensive set of risk controls. The controls are embedded through its ERM framework and risk-specific frameworks. These frameworks lay the foundation for the development and communication of management -approved policies and the establishment of formal review and approval processes. The Company's risk management framework and policies are organized as follows:

- **ERM Framework**: provides an overview of the enterprise-wide program for identifying, measuring, controlling and reporting of material risks the Company faces.
- **Risk-Specific Frameworks**: provides an overview of the Company's program for identifying, measuring, controlling and reporting for each of its material risks.
- **Company-wide Policies and Procedures**: governs activities such as product risk review and approval, project initiatives, stress testing, risk limits and risk approval authorities.

Risk categories

Insurance risk

Genworth Canada'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. For Genworth Canada-insured transactional mortgages in the third quarter of 2016, the average credit score has increased to 752, or 8 points, and the average home price has increased to $330,000, or 1%, from the prior year's period. The average gross debt service ratio for the third quarter of 2016 was stable at 24%, as compared to the prior year's period, and below the new mortgage stress test threshold of 26%.

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.

Table 17: Estimated effective loan-to-value % of the Company's outstanding mortgage insurance balances[1] by book of business

	As at June 30, 2016			As at December 31, 2015		
	Transactional	**Portfolio**	**Total**	Transactional	Portfolio	Total
2009 & prior	**47**	**23**	**43**	49	25	45
2010	**64**	**30**	**57**	67	32	61
2011	**68**	**38**	**62**	71	41	65
2012	**72**	**39**	**56**	76	42	59
2013	**77**	**43**	**59**	81	46	62
2014	**83**	**49**	**66**	87	53	69
2015	**87**	**55**	**69**	92	59	72
2016	**91**	**60**	**66**	-	-	-
Total	**70**	**49**	**60**	72	49	62

[1] This is based on the amounts reported by lenders surveyed, which represents the vast majority of insurance in-force. Outstanding mortgage insured balances are reported on a one quarter lag.

Genworth Canada'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 Risk Committee on a monthly basis. The Company closely monitors the delinquency performance as a key indicator of insurance portfolio performance.

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.

Market and credit risk

The Company monitors and manages the credit risk, liquidity risk and market risk, including interest rate risk, equity price risk, currency risk, emerging markets risk and counterparty risk of its investment portfolio.

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. The Company is exposed to credit risk principally through its investment assets. The Company's investment management strategy is to invest primarily in debt instruments of Canadian government agencies and other high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer, business sector, or credit rating category, as specified in its investment policy. Credit quality of financial instrument issuers is assessed based on ratings supplied by rating agencies DBRS, S&P and Moody's and credit analysis completed by the Company and its investment managers.

Credit risk from derivative transactions reflects the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the Company. Therefore, derivative-related credit risk is represented by the positive fair value of the instrument and is normally a small fraction of the contract's notional amount. To mitigate credit risk related to derivative counterparties, the Company has adopted a policy whereby, upon signing the derivative contract, the counterparty is required to have a minimum credit rating of A-.

Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet policy obligations and other financial commitments as they fall due without raising funds at unfavourable rates or selling assets on a forced basis. To ensure liquidity requirements are met, the Company holds a portion of investment assets in liquid securities. Adverse capital and credit market conditions and the MCT requirements of the Insurance Subsidiary may significantly affect the Company's access to capital and may affect its ability to meet liquidity or debt refinancing requirements in the future. Potential liquidity risks are discussed in more detail in the "Risk Factors" section of the Company's AIF and the "Liquidity" section in this MD&A.

Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign currency exchange rates and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. The market risks to which the Company is exposed are interest rate risk, equity price risk, currency risk, emerging markets risk and counterparty risk.

Interest rate risk

Fluctuations in interest rates have a direct impact on the market valuation of the Company's fixed income investment portfolio. Short-term interest rate fluctuations will generally create unrealized gains or losses. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher-yielding fixed income investments are called, mature or are sold and the proceeds are reinvested at lower rates, and this will likely result in unrealized gains in the value of fixed income investments the Company continues to hold, as well as realized gains to the extent that the relevant investments are sold. During periods of rising interest rates, the market value of the Company's existing fixed income investments will generally decrease and gains on fixed income investments will likely be reduced or become losses. To mitigate interest rate risk, the Company uses fixed for floating interest rate swaps to hedge a portion of the interest rate risk.

Equity price risk

Equity price risk is the risk that the fair values of equities will decrease as a result of changes in the levels of equity indices and the values of individual stocks. Equity price risk exposure arises from the Company's investment in Common Shares. The Company has policies to limit and monitor exposures to individual equity investment issuers and its aggregate exposure to equities.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk arising from investments denominated in U.S. dollars. The Company uses foreign exchange forward contracts and cross-currency interest rate swaps to mitigate currency risk.

Emerging markets risk

Emerging markets risk relates to international investment grade bond holdings which are exposed to greater market volatility, have less availability of reliable financial information, carry higher transactional and custody costs, are subject to taxation by foreign governments, have decreased market liquidity and may be exposed to political instability.

Counterparty risk

Counterparty risk relates to the risk that a counterparty will fail to discharge its obligation related to a bond, derivative contract or other trade or transaction.

Financial reporting controls and accounting disclosures

Disclosure controls and procedures and internal controls over financial reporting

As required by National Instrument 52-109, the Company has in place disclosure controls and procedures and internal controls over financial reporting, designed under the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**") Framework (2013) to ensure the disclosure of all material information or changes relating to the Company to all members of the public in a fair and timely manner. Such controls and procedures ensure that all relevant material is gathered and reported to senior management (including the CEO, CFO and General Counsel) and the Company's management-level disclosure committee on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation and certification of the Company's disclosure controls and procedures and internal controls over financial reporting is done regularly under supervision by the Company's CEO and CFO in accordance with the requirements of National Instrument 52-109 of the Canadian Securities Administrators, and such certifications are available with the Company's filings on the SEDAR website at www.sedar.com. The certifications filed in connection with certain interim and annual financial disclosure documents, confirm that the CEO and CFO have concluded that the design and operation of the disclosure controls and procedures and internal controls over financial reporting were effective, for such periods. There were no changes in the Company's internal controls over financial reporting during the quarter ending June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's controls over financial reporting.

Changes in accounting policies and future accounting standards

There have been no changes in accounting policies during the quarter ending September 30, 2016.

IFRS 9 - Financial instruments

In July 2014, the IASB published an amended version of IFRS 9, which replaces *IAS 39 -Financial instruments: recognition and measurement*, and includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and a new general hedge accounting model. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces a single impairment model for financial instruments not measured at Fair Value through Profit or Loss that requires recognition of expected credit losses at initial recognition of a financial instrument and the recognition of full lifetime expected credit losses if certain criteria are met. The new model for hedge accounting aligns hedge accounting with risk management activities.

While the new standard is generally effective for years beginning on or after January 1, 2018, on September 12, 2016, the IASB issued amendments to *IFRS 4 Insurance Contracts*, which permits eligible insurers optional transitional relief until the forthcoming insurance accounting standard is available for implementation. The options permit (a) entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4 a temporary exemption to defer the implementation of IFRS 9, which may allow alignment of the implementation of IFRS 9 with the forthcoming insurance accounting standard, or alternatively (b) give entities issuing insurance contracts the option to remove from profit or loss the incremental volatility caused by changes in the measurement of specified financial assets upon application of IFRS 9. Entities that apply either of the options will be required to adopt IFRS 9 on the earlier of the date that IFRS 4 is effective and annual periods beginning on or after January 1, 2021. Additional financial statement disclosures will be required for insurers that apply either of the options. The Company expects that it will be eligible for the transitional relief.

The Company is evaluating the impact of IFRS 9 on its financial assets and financial liabilities and the optional transitional relief that permits deferral of the adoption of IFRS 9.

IFRS 4 - Insurance contracts

In June 2014, the IASB issued a revised exposure draft proposing a comprehensive measurement approach for all types of insurance contracts, which would replace the existing *IFRS 4 Insurance Contracts*. Deliberations of the exposure draft have substantially concluded and in its February 2016 meeting, the IASB decided to commence its formal process for drafting the final standard. The final standard is expected to be issued in early 2017 and its effective date is not expected to be before 2020.

The Company is monitoring the development of IFRS 4 and assessing the impact of its adoption.

IFRS 16 - Leases

IFRS 16 was issued on January 13, 2016. The new standard will replace existing lease guidance in IFRS and related interpretations, and requires companies to bring most leases on-balance sheet. The new standard is effective for years beginning on or after January 1, 2019.

The Company is assessing the impact of IFRS 16.

Significant estimates and judgments

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

Accounting estimates

Information about assumptions and estimation uncertainties that have a risk of resulting in material adjustment within the next 12 months are as follows:

Premiums earned

Mortgage insurance premiums are deferred and then taken into underwriting revenues over the terms of the related policies. The rates or formulae under which premiums are earned relate to the loss emergence pattern in each year of coverage. In order to match premiums earned to losses on claims, premiums written are recognized as premiums earned using a factor-based premium recognition curve.

In constructing the premium recognition curve, the Company applies actuarial forecasting techniques to historical loss data to determine expected loss development and the related loss emergence pattern.

Loss reserves

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

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

The Company establishes reserves for IBNR based on the reporting lag from the date of first missed payment to the reporting date for mortgages in default that have not been reported to the Company. IBNR is calculated using estimates of expected claim frequency and claim severity based on the most current available historical loss data, adjusted for seasonality.

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

The Company recognizes a provision for adverse deviation based on assessment of the adequacy of the Company's loss reserves and with reference to the current and future expected condition of the Canadian housing market and its impact on the expected development of losses.

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

Subrogation recoverable

The Company estimates the fair value of subrogation rights related to real estate included in subrogation recoverable based on third party property appraisals or other types of third party valuations deemed to be more appropriate for a particular property.

The Company estimates borrower recoveries related to claims paid and loss reserves included in subrogation recoverable based on historical recovery experience. Borrower recoveries are discounted to present value and include an actuarial margin for adverse deviation.

Deferred policy acquisition costs

Deferred policy acquisition costs are comprised of premium taxes, appraisal costs, risk fee, certain employee compensation, and other expenses that relate directly to acquisition of new mortgage insurance business. Deferred policy acquisition costs are deferred and expensed in proportion to and over the periods in which premiums are earned.

The Company estimates expenses eligible for deferral based on the nature of expenses incurred and results of time and activity studies performed to identify the portion of time the Company's employees incur in the acquisition of new mortgage insurance business.

Accounting judgments

Objective evidence of impairment of AFS financial assets

Financial assets not carried at Fair Value Through Profit and Loss are assessed at each reporting period to determine whether there is existence of objective evidence of impairment.

For investments in bonds and preferred shares, evaluation of whether impairment has occurred is based on the Company's assessment that a loss event has occurred and the Company's best estimate of the cash flows to be collected at the individual investment level. The Company considers all available information relevant to the collectability of the investment, including information about past events, current conditions, and reasonable and supportable forecasts. Impairment assessment is a qualitative and quantitative process that incorporates information received from third party sources along with certain internal assumptions and judgments regarding the future performance of any underlying collateral for asset-backed investments. Impairment for bonds and preferred shares is deemed to exist

when the Company does not expect full recovery of the amortized cost of the investment based on the estimate of cash flows to be collected or when the Company intends to sell the investment prior to recovery from its unrealized loss position.

For Common Shares, the Company recognizes an impairment loss in the period in which it is determined that an investment has experienced significant or prolonged losses.

Transactions with related parties

Services

The Company enters into related party transactions with Genworth Financial, Inc. and its subsidiaries. Services rendered by Genworth Financial, Inc. and subsidiaries consist of information technology, finance, human resources, legal and compliance, and other specified services. The services rendered by the Company and the Insurance Subsidiary relate mainly to financial reporting and tax compliance support services. These transactions are in the normal course of business and are at terms and conditions no less favourable than market. Balances owing for service transactions are non-interest bearing and are settled on a quarterly basis. The Company incurred net related party charges of approximately $5 million in the nine months ended September 30, 2016, as compared to $5 million in prior year's period.

Reinsurance

During the year ended December 31, 2015, the Company, through its indirect subsidiary MIC Insurance Company Canada, terminated its retrocession agreement with a third party reinsurance company, under which the Company assumed reinsurance risk for approximately 33% of the retroceded liabilities on claims paid by Genworth Financial Mortgage Insurance Pty Limited, an Australian company ("Genworth Australia") in excess of 700 million Australian dollars within any one year up to a maximum exposure to the Company of 30 million Australian dollars less claims paid by the Company in prior years. The term of the agreement was for 3 years. Under the Agreement, the Company received premium equal to 6.75% of the maximum exposure of 30 million Australian dollars in the first year of coverage and 5.75% of the maximum exposure in the second and third years of coverage.

During the nine months ended September 30, 2015, the Company recognized $1 million of premiums and incurred no losses.

Non-IFRS financial measures

To supplement the Company's consolidated 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 MD&A 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), operating earnings per Common Share (diluted), shareholders' equity excluding AOCI, operating return on equity. 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.

Table 18: Non-IFRS financial measures reconciled to comparable IFRS measures for such periods

	Three months ended September 30,		Nine months ended September 30,	
(in millions of dollars, unless otherwise specified)	**2016**	2015	**2016**	2015
Investment income	**$ 52**	$ 39	$ **121**	$ 154
Adjustment to investment income:				
Net investment (gains) losses	**(7)**	3	**9**	(29)
Interest and dividend income, net of investment expenses	**$ 44**	$ 42	**130**	$ 125
Net income	**98**	90	**277**	301
Adjustments to net income, net of taxes:				
Net investment (gains) losses	**(5)**	3	**7**	(20)
Net operating income	**$ 93**	$ 92	$ **283**	$ 280
Earnings per common share (basic)	**$ 1.07**	$ 0.98	$ **3.02**	$ 3.25
Adjustment to earnings per common share, net of taxes:				
Net investment (gains) losses	**(0.06)**	0.03	**0.07**	(0.22)
Operating earnings per common share (basic)	**$ 1.02**	$ 1.01	$ **3.09**	$ 3.03
Earnings per common share (diluted) [1]	**$ 1.07**	$ 0.96	$ **3.01**	$ 3.19
Adjustment to earnings per common share, net of taxes:				
Share based compensation re-measurement amount	**0.00**	0.01	**0.00**	0.05
Net investment (gains) losses	**(0.06)**	0.03	**0.07**	(0.22)
Operating earnings per common share (diluted) [1]	**$ 1.02**	$ 1.00	$ **3.09**	$ 3.02
Shareholders' equity	**$ 3,623**	$ 3,357	$ **3,623**	$ 3,357
Adjustment to shareholders' equity:				
AOCI	**(167)**	(125)	**(167)**	(125)
Shareholders' equity excluding AOCI	**$ 3,456**	$ 3,232	$ **3,456**	$ 3,232

Note: Amounts may not total due to rounding.

[1]The difference between basic and diluted number of Common Shares outstanding is caused by the potentially dilutive impact of share-based compensation awards.

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, operating return on equity, MCT ratio, delinquency ratio, investment yield, average reserve per delinquency, credit score, gross debt service ratio, ordinary dividend payout ratio, workout penetration, cures, effective tax rate, gross debt service ratio, book value per Common Share (basic) including AOCI, book value per Common Share (basic) excluding AOCI, book value per Common Share (diluted) including AOCI, book value per Common Share (diluted) excluding AOCI, and dividends paid per Common Share.

Table 19: Non-IFRS financial measures for which no comparable IFRS measure is available

For a more meaningful description of the measure, refer to the "Glossary" at the end of this MD&A.

	Three months ended September 30,		Nine months ended September 30,	
(in millions of dollars, unless otherwise specified)	**2016**	2015	**2016**	2015
Selected non-IFRS financial measures				
Insurance in force	$ **455,536**	$ 389,972	$ **455,536**	$ 389,972
New insurance written	$ **13,407**	$ 14,464	$ **53,013**	$ 35,113
Loss ratio	**25%**	21%	**23%**	20%
Expense ratio	**20%**	19%	**19%**	19%
Combined ratio	**45%**	40%	**43%**	39%
Operating return on equity	**11%**	12%	**11%**	12%
MCT ratio [1]	**236%**	227%	**236%**	227%
Delinquency ratio	**0.10%**	0.10%	**0.10%**	0.10%
Investment yield	**3.2%**	3.3%	**3.2%**	3.3%
Average reserve per delinquency	**79**	70	**79**	70
Credit score	**752**	744	**752**	742
Debt service ratio	**24%**	24%	**24%**	24%
Ordinary dividend payout ratio	**41%**	39%	**41%**	39%
Workout penetration	**55%**	58%	**58%**	57%
Cures	**759**	616	**2,299**	2,077
Effective tax rate	**26.5%**	26.2%	**26.4%**	25.4%
Book value per common share				
Number of common shares outstanding (basic)	**91,854,100**	91,795,125	**91,854,100**	91,795,125
Book value per common share including AOCI (basic)	$ **39.44**	$ 36.57	$ **39.44**	$ 36.57
Book value per common share excluding AOCI (basic)	$ **37.63**	$ 35.21	$ **37.63**	$ 35.21
Number of common shares outstanding (diluted)[2]	**92,883,666**	92,891,155	**92,883,666**	92,891,155
Book value per common share including AOCI (diluted)[2]	$ **39.01**	$ 36.14	$ **39.01**	$ 36.14
Book value per common share excluding AOCI (diluted)[2]	$ **37.21**	$ 34.80	$ **37.21**	$ 34.80
Dividends paid per common share	**$ 0.42**	$ 0.39	**$ 1.26**	$ 1.17

[1] The Company estimates that the outstanding balance of insured mortgages was approximately $221 billion as at June 30, 2016. Outstanding balances are reported on a quarter lag.
[2] The MCT ratio as at September 30, 2016 is the company estimate and as at September 30, 2015 is the actual reported figure.
[3] Based on original insured loans in-force for which coverage terms have not expired and excludes delinquencies that have been incurred but not reported.
[4] The difference between basic and diluted number of Common Shares outstanding is caused by the potentially dilutive impact of share-based compensation awards.

Glossary

"**accumulated other comprehensive income**" or "**AOCI**" is a component of shareholders' equity and reflects the unrealized gains and losses, net of taxes, related to available-for-sale assets. Unrealized gains and losses on assets classified as available-for-sale are recorded in the consolidated statement of comprehensive income and included in accumulated other comprehensive income until recognized in the consolidated statement of income.

"**available-for-sale**" or "**AFS**" means investments recorded at fair value on the balance sheet, using quoted market prices, with changes in the fair value of these investments included in AOCI.

"**average reserve per delinquency**" means the average reserve per delinquent loan calculated by total loss reserves in dollars divided by the number of outstanding delinquent loans reported by lenders. Average reserve per delinquency measures the potential size of the average loss, including delinquent loans with no expected loss, and is used for trending purposes and comparisons against internal targets.

"average premium rate" means the average premiums written collected divided by the new insurance written

"**book value per Common Share**" is a measure of the carrying value of each individual share of the Company and is a key metric used in assessing the market value of the Company.

"**book value per Common Share excluding AOCI (basic)**" means the per Common Share amount of shareholders' equity excluding AOCI to the number of basic Common Shares outstanding at a specified date.

"**book value per Common Share excluding AOCI (diluted)**" means the per Common Share amount of shareholders' equity excluding AOCI to the number of diluted Common Shares outstanding at a specified date. Diluted Common Shares outstanding takes into account all of the outstanding dilutive securities that could potentially be exercised.

"**book value per Common Share including AOCI (basic)**" means the per Common Share amount of shareholders' equity including AOCI to the number of basic Common Shares outstanding at a specified date.

"**book value per Common Share including AOCI (diluted)**" means the per Common Share amount of shareholders' equity including AOCI to the number of diluted Common Shares outstanding at a specified date. Diluted Common Shares outstanding takes into account all of the outstanding dilutive securities that could potentially be exercised.

"**case reserves**" means the expected losses associated with reported delinquent loans. Lenders report delinquent loans to the Company on a monthly basis. The Company analyzes reported delinquent files on a case-by-case basis and derives an estimate of the expected loss. Case reserve estimates incorporate the amount expected to be recovered from the ultimate sale of the residential property securing the insured mortgage.

"**claim**" means the amount demanded under a policy of insurance arising from the loss relating to an insured event.

"**combined ratio**" means the sum of the loss ratio and the expense ratio. The combined ratio measures the proportion of the Company's total cost to its premium earned and is used to assess the profitability of the Company's insurance underwriting activities.

"**Common Shares**" means the issued and outstanding Common Shares of the Company.

"**credit score**" means the lowest average credit score of all borrowers on a mortgage insurance application. Average credit scores are calculated by averaging the score obtained from both Equifax and TransUnion for each borrower on the application. This is a key measure of household financial health.

"cures" means previously reported delinquent loans where the borrower has made all scheduled mortgage payments or a successful workout has been completed and the loan is no longer considered a delinquent loan.

"**debt-to-capital ratio**" means the ratio (expressed as a percentage) of debt to total capital (the sum of debt and equity). This is a measure of financial leverage that the Company considers in capital management planning.

"**deferred policy acquisition costs**" means the expenses incurred in the acquisition of new business, comprised of premium taxes and other expenses that relate directly to the acquisition of new business. Policy acquisition costs are only deferred to the extent that they are in excess of the service fees and can be expected to be recovered from unearned premium reserves. Deferred policy acquisition costs are amortized into income in proportion to and over the periods in which premiums are earned.

"**delinquency ratio**" means the ratio (expressed as a percentage) of the total number of delinquent loans to the total original number of policies in-force at a specified date. The delinquency ratio is an indicator of the emergence of losses on claims and the quality of the insurance portfolio and is a useful comparison to industry benchmarks and internal targets.

"**delinquent loans**" means loans where the borrowers have failed to make scheduled mortgage payments under the terms of the mortgage and where the cumulative amount of mortgage payments missed exceeds the scheduled payments due in a three-month period.

"**dividends paid per Common Share**" means the portion of the Company's profits distributed to shareholders during a specified period and measures the total amount distributed by the Company to shareholders.

"**dividend payout ratio**" means the ratio (expressed as a percentage) of the dollar amount of ordinary dividends paid during a specified period to shareholders as a percentage of net operating income over the same period. This is a measure of the proportion of net operating income returned to shareholders in the form of ordinary dividends.

"**effective loan-to-value**" means a Company estimate based on the estimated balance of loans insured divided by the estimated fair market value of the mortgaged property using the Teranet - National Bank Home Price Index Composite 11.

"effective tax rate" means the ratio (expressed as a percentage) of provision for income taxes to income before income taxes for a specified period. The effective tax rate measures the actual amount of pre-tax income the Company pays in taxes and is a useful comparison to industry benchmarks and prior periods.

"**expense ratio**" means the ratio (expressed as a percentage) of sales, underwriting and administrative expenses to premiums earned for a specified period. The expense ratio measures the operational efficiency of the Company and is a useful comparison to industry benchmarks and internal targets.

"**Fair Value through Profit or Loss**" or "**FVTPL**" means investments recorded at fair value on the statement of financial position with changes in the fair value of these investments recorded in income.

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

"**gross debt service ratio**" or "**GDSR**" means the percentage of borrowers' total monthly debt servicing costs, in respect of the debt in question, as a percentage of borrowers monthly gross income. This is a key measure of household financial health.

"**incurred but not reported**" or "**IBNR**" reserves means the estimated losses on claims for delinquencies that have occurred prior to a specified date, but have not been reported to the Company.

"**insurance in-force**" means the amount of all mortgage insurance policies in effect at a specified date, based on the original principal balance of mortgages covered by such insurance policies, including any capitalized premiums. Insurance in-force measures the maximum potential total risk exposure under insurance contracts at any given time and is used to assess potential losses on claims.

"**interest and dividend income, net of investment expenses**" means the total net investment income excluding investment gains (losses). This measure is an indicator of the core operating performance of the investment portfolio.

"**investment yield**" means the net investment income before investment fees and excluding net investment gains (losses) tax affected for dividends for a period divided by the average of the beginning and ending investments book value, for such period. For quarterly results, the investment yield is the annualized net investment income using the average of beginning and ending investments book value, for such quarter.

"**loan-to-value ratio**" means the original balance of a mortgage loan divided by the original value of the mortgaged property.

"**loss adjustment expenses**" means all costs and expenses incurred by the Company in the investigation, adjustment and settlement of claims. Loss adjustment expenses include third-party costs as well as the Company's internal expenses, including salaries and expenses of loss management personnel and certain administrative costs.

"**losses on claims**" means the estimated amount payable under mortgage insurance policies during a specified period. A portion of reported losses on claims represents estimates of costs of pending claims that are still open during the reporting period, as well as estimates of losses associated with claims that have yet to be reported and the cost of investigating, adjusting and settling claims.

"**loss ratio**" means the ratio (expressed as a percentage) of the total amount of losses on claims associated with insurance policies incurred during a specified period to premiums earned during such period. The loss ratio is a key measure of underwriting profitability and the quality of the insurance portfolio and is used for comparisons to industry benchmarks and internal targets.

"**loss reserves**" means case reserves based on delinquencies reported to the Company, an estimate for losses on claims based on delinquencies that are IBNR, supplemental loss reserves for potential adverse developments related to claim severity and loss adjustment expenses representing an estimate for the administrative costs of investigating, adjusting and settling claims. Loss reserves are discounted to take into account the time value of money.

"**market share**" or "**share**" of a mortgage insurer means the insurer's gross premiums written as a percentage of the reported gross premiums written of the Canadian mortgage insurance industry.

"**Minimum Capital Test**" or "**MCT**" means the minimum capital test for certain federally regulated insurance companies established by OSFI (as defined herein). Under MCT, companies calculate an MCT ratio of regulatory capital available to regulatory capital required using a defined methodology prescribed by OSFI in monitoring the adequacy of a company's capital. The MCT ratio is a key metric of the adequacy of the Company's capital in comparison to regulatory requirements and is used for comparisons to other mortgage insurers and internal targets.

"net investment gains or losses" means the sum of net realized gains or losses on sales of investments, net gains or losses on derivatives and foreign exchanges and impairment losses.

"**net operating income**" means net income excluding after-tax net realized gains (losses) on sale of investments, unrealized gains (losses) on FVTPL securities and the cost of interest rate swaps representing the difference between the fixed rate and floating rate. Net operating income estimates the recurring after-tax earnings from core business activities and is an indicator of core operating performance.

"**net underwriting income**" means the sum of premiums earned and fees and other income, less losses and sales, underwriting and administrative expenses during a specified period.

"**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.

"**operating earnings per Common Share (basic)**" means the net operating income divided by the basic average Common Shares outstanding during the period.

"**operating earnings per Common Share (diluted)**" means the net operating income divided by the diluted average Common Shares outstanding during the period. The Company excludes the impact of the share based compensation re-measurement amount from operating earnings per share (diluted) as it believes this results is a better indicator of core operating performance.

"**operating return on equity**" means the net operating income for a period divided by the average of the beginning and ending shareholders' equity, excluding AOCI, for such period. For quarterly results, the operating return is the annualized operating return on equity using the average of beginning and ending shareholders' equity, excluding AOCI, for such quarter. Operating return on equity is an indicator of return on invested capital in the core business activities.

"**portfolio insurance**" means mortgage insurance covering an individual mortgage that is underwritten as part of a portfolio of mortgages that have a loan-to-value ratio equal to or less than 80% at the time the loan is insured.

"**premium tax**" means a tax paid by insurance companies to provincial and territorial governments calculated as a percentage of gross premiums written.

"**premium written**" means gross payments received from insurance policies issued during a specified period.

"**sales, underwriting and administrative expenses**" means the cost of marketing and underwriting new mortgage insurance policies and other general and administrative expenses, including premium taxes, risk fee and net of the change in deferred policy acquisition costs.

"**severity**" means the dollar amount of losses on claims.

"**share based compensation re-measurement amount**" means the impact of revaluation of stock option liability as required under IFRS due to the cash settlement option. The Company believes that excluding this impact from operating earnings per share (diluted) is a better indicator of core operating performance.

"**total debt service ratio**" or "**TDSR**" means the borrowers' monthly debt servicing costs as a percentage of borrowers' monthly gross income.

"**transactional insurance**" means mortgage insurance covering an individual mortgage that typically has been underwritten individually, and which is predominantly a mortgage with a loan-to-value ratio of greater than 80% at the time the loan is originated.

"**underwriter**" means an individual who examines and accepts or rejects mortgage insurance risks based on the Company's approved underwriting policies and guidelines.

"**unearned premiums reserve**" or "**UPR**" means 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.

"**workout penetration**" means the ratio (expressed as a percentage) of the number of total workouts approved, including shortfall sales, over total workout opportunities. Total workout opportunities include all new and re-delinquencies reported plus total workouts approved over the same period. Workout penetration ratio measures the number of workouts performed relative to the number of existing workout opportunities and is used to assess the success of the loss mitigation Homeowner Assistance Program.

The Company's full glossary is posted on the Company's website at http://investor.genworthmicanada.ca and can be accessed by clicking on the link under the Investor Resources heading on the bottom navigation bar.