Genworth MI Canada Inc.

Management's Discussion and Analysis

For the quarter ended March 31, 2017

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 May 1, 2017 is prepared for the three months ended March 31, 2017. The unaudited consolidated 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 introduction by the British Columbia government of a land transfer tax for foreign buyers, the impact of 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); the effect of changes to the mortgage insurance rules, including 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; potential conflicts of interest between the Company and its majority shareholder, Genworth Financial, Inc; and Genworth Financial Inc. entering into a definitive agreement with China Oceanwide (as defined herein) under which China Oceanwide has agreed to acquire all of the outstanding shares of Genworth Financial Inc. through a merger. Risks associated with the Company being majority held by Genworth Financial Inc. will apply to China Oceanwide.

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 15, 2017. 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, among others, interest and dividend income, net of investment expenses, net operating income, operating earnings per common share (basic) and operating earnings per common share (diluted).

Other non-IFRS financial measures used by the Company to analyze performance for which no comparable IFRS measure is available include, among others, insurance in-force, new insurance written, loss ratio, expense ratio, combined ratio, operating return on equity, investment yield, Minimum Capital Test ("**MCT**") ratio. The Company believes that these non-IFRS financial measures provide meaningful supplemental information regarding its performance and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making. Non-IFRS financial measures do not have standardized meanings and are unlikely to be comparable to any similar measures presented by other companies.

See the "Non-IFRS financial measures" section at the end of this MD&A for a reconciliation of net operating income to net income, investment income to interest and dividend income, net of investment expenses, operating earnings per common share (basic) to earnings per common share (basic) and operating earnings per common share (diluted) to earnings per common share (diluted).

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 "Non-IFRS financials measures glossary", in the "Non-IFRS financial measures" section at the end of this MD&A.

Table of contents

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 mortgage 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 have historically been 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 transactional new insurance 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

First quarter financial highlights

Table 1: Selected financial information

	Three months ended March 31,			
(in millions of dollars, unless otherwise specified)		**2017**		2016
Premiums written	$	**127**	$	117
Premiums earned	$	**167**	$	154
Losses on claims		**26**		37
Expenses		**34**		28
Total losses on claims and expenses		**60**		65
Net underwriting income		**107**		88
Interest and dividend income, net of investment expenses		**45**		41
Net investment losses		**(2)**		(5)
Investment income		**43**		37
Interest expense		**6**		6
Income before income taxes		**145**		120
Net income	$	**106**	$	88
Net operating income [1]	$	**107**	$	91
Weighted average number of common shares outstanding				
Basic		**91,902,409**		91,797,652
Diluted [2]		**91,939,376**		91,835,231
Earnings per common share				
Earnings per common share (basic)	$	**1.16**	$	0.96
Earnings per common share (diluted) [2]	$	**1.15**	$	0.96
Selected non-IFRS financial measures [1]				
Operating earnings per common share (basic)	$	**1.17**	$	1.00
Operating earnings per common share (diluted) [2]	$	**1.17**	$	0.99
Insurance in-force (original insured amount)	$	**477,000**	$	412,000
Outstanding insured mortgage balances [3]	$	**226,000**		197,000
Transactional new insurance written	$	**3,047**	$	3,413
Portfolio new insurance written	$	**10,513**	$	4,493
Loss ratio		**15%**		24%
Expense ratio		**20%**		19%
Combined ratio		**36%**		42%
Operating return on equity		**12%**		11%
MCT ratio[4]		**162%**		234%
Internal MCT target (2017) / MCT holding target (2016)[5]		**157%**		220%
Delinquency ratio[6]		**0.10%**		0.11%

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 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] This estimate is based on the amounts reported by lenders to the Company which represents the vast majority of outstanding insured mortgage balances.
[4] Company estimate at March 31, 2017.
[5] Effective January 1, 2017, the 2016 holding target MCT ratio of 220% was recalibrated to the OSFI Supervisory MCT ratio target of 150% and the minimum MCT ratio under PRMHIA was reduced to 150%.
[6] 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 first quarter financial metrics:
The Company reported net income of $106 million and net operating income of $107 million in the first quarter of 2017, as compared to $88 million and $91 million, respectively, in the same quarter in the prior year.

- Premiums written of $127 million increased by $10 million, or 9%, as compared to the same quarter in the prior year. Premiums written from transactional insurance of $89 million were lower by $10 million, primarily due to a smaller high loan-to-value mortgage originations market as a result of regulatory changes in the fourth quarter of 2016. Premiums written of $38 million from portfolio insurance were higher by $20 million as compared to the prior year's period, primarily due to the closing of several large transactions on portfolio insurance applications received in the fourth quarter of 2016.

- Premiums earned of $167 million were $13 million, or 9%, higher than the same quarter in the prior year due to the relatively larger contributions from premiums written in recent years.

- Losses on claims of $26 million were $11 million, or 31%, lower than the same quarter in the prior year, primarily due to a decrease of delinquencies, net of cures. The loss ratio was 15% for the quarter as compared to 24% in the same quarter in the prior year.

- Expenses of $34 million were $6 million, or 19%, higher than the same quarter in the prior year, primarily due to higher share-based compensation expense and the amortization of previously deferred policy acquisition costs consistent with the higher premiums earned. 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 net investment losses, of $45 million was $3 million, or 8%, higher than the same quarter in the prior year, primarily due to an increase in the amount of invested assets.

- The Company's investment portfolio had a market value of $6.3 billion at the end of the quarter. The portfolio had a book yield of 3.2% and duration of 3.8 years as at March 31, 2017, relatively unchanged from the same quarter in the prior year.

- The regulatory capital ratio or MCT ratio was approximately 162%, 12 percentage points higher that the OSFI Supervisory MCT target of 150%.

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 claims 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 below:

2017 Objective	Year-to-date performance metrics
Premiums Written and Premiums Earned	
Moderate decline in premiums written despite expected higher premium rates:	Total premiums written increase: **9%** Total premiums written increased by 9% year-over-year as an increase in premiums written from portfolio insurance was partially offset by a decrease in premiums written from transactional insurance.
The Company expects that the transactional market size and its transactional new insurance written in 2017 may decline by approximately 15% to 25%	Transactional premiums written decline: **10%** New insurance written and premiums written from transactional insurance declined by 11% and 10%, respectively, primarily due to a smaller high loan-to-value mortgage originations market as a result of the regulatory changes that took effect in the fourth quarter of 2016. The Company has experienced a 20% decline in purchase applications and continues to expect that the market size may decline by approximately 15% to 25% for the full year as compared to the prior year. The price increase on transactional insurance premium rates for homebuyers which took effect March 17, 2017 had no impact on the first quarter of 2017.
Portfolio insurance premiums written are expected to be significantly lower compared to 2016	Portfolio premiums written increase: **114%** New insurance written and premiums written from portfolio insurance increased 134% and 114%, respectively, primarily due to a one-time increase in volume as the Company closed several large portfolio insurance transactions on portfolio insurance applications received in the fourth quarter of 2016. Portfolio insurance written is expected to be significantly lower for the remainder of 2017 compared to the $41.9 billion of new insurance written in 2016. The Company expects that the average premium rate for portfolio insurance will increase substantially in the second quarter as the phase-in period under the new capital framework for portfolio insured mortgages ended March 31, 2017.

2017 Objective	Year-to-date performance metrics
Premiums Written and Premiums Earned (cont.)	
Modest increase in premiums earned due to seasoning of recent books of business:	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 to 18 months as long as there are no significant changes to the Company's current premiums recognition curve. In addition to premiums earned of $167 million in the first three months of 2017, the Company expects to earn between $465 and $480 million of premiums earned in the remaining nine months of 2017 from the unearned premiums reserve of $2.1 billion as at March 31, 2017. Total premiums earned for the remaining nine months of 2017 will also include premiums to be earned from premiums written in this period.
Losses on Claims	
Proactive risk management and focused loss mitigation strategies: • Loss ratio range of 25% to 35%	Loss ratio: **15%** The Company experienced a loss ratio of 15%, 10 percentage points below the lower end of the Company's anticipated range of 25% to 35% for 2017. The loss ratio performance was favorably impacted by strong home price appreciation in the Greater Toronto Area (**"GTA")** and Vancouver, stable unemployment and continued strong underwriting discipline which partially offset the elevated levels of new delinquencies, net of cures, in oil-producing regions. As a result of the loss ratio performance through the first quarter of 2017 and the economic forecast for the balance of the year, the company's anticipated loss ratio range for 2017 was revised to 20% to 30%.
• Workout penetration rate greater than 55%	Workout penetration rate: **53%** The Company expects a workout penetration rate of 55% for the full year, following a 53% penetration rate thus far in 2017.

2017 Objective	Year-to-date performance metrics
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 credit score below 660 of less than 5%	Average transactional credit score: **745** Average transactional credit score below 660: **3%** The Company continues to originate a high quality insurance portfolio with an average credit score of 745 primarily due to continued underwriting diligence on applications.
Capital Management	
Prudently manage capital to balance capital strength, flexibility and efficiency: • Ordinary dividend payout ratio of 35% to 45% • Debt-to-total capital ratio of less than or equal to 15% • MCT ratio in the range of 160% to 165%	Ordinary dividend payout ratio: **38%** Debt-to-total capital ratio as at March 31, 2017: **10%** MCT ratio as at March 31, 2017: **162%** The Company maintained a strong and efficient capital base with an MCT ratio of approximately 162%, 5 percentage points above the internal target, an ordinary dividend payout ratio of 38% and capital flexibility through $189 million in short-term liquid investments at the holding company and a $100 million undrawn credit facility.
Investment 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 Company continues to maintain a high quality investment portfolio, including an allocation of 89% to investment grade bonds and debentures and a modest increase in holdings of preferred shares. Overall, the Company achieved an average investment yield of 3.2%.
• Investment income expected to be modestly higher as a result of higher average assets	Investment income, excluding gains and losses, of $45 million in the first quarter of 2017 was $3 million higher than the same quarter in the prior year, primarily due to a 7% increase in the amount of invested assets.

Recent business and regulatory developments

Ontario Government Fair Housing Plan

On April 20, 2017, the Ontario Government released its "Ontario's Fair Housing Plan" which includes the introduction of a 15-per-cent Non Resident Speculation Tax on the price of homes in the Greater Toronto Area and surrounding regions purchased by individuals who are not citizens or permanent resident of Canada or by foreign corporations. The plan consists of sixteen strategies addressing housing demand: consumer protection for renters and buyers; rent control measures; expediting new housing supply; and actions to increase information sharing between governments and external stakeholders. Genworth welcomes the measures aimed at addressing affordability for first time homebuyers.

Price increase

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

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

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

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

Based on the expected loan-to-value mix, the average transactional premium rate increase is approximately 18% to 20% and is expected to result in an average transactional premium rate of 330 to 335 basis points for 2017, compared to 293 basis points in 2016. The average transactional premium rate after 2017 is expected to be 345 to 350 basis points. The Company believes the new premium rates adequately reflect the increased capital requirements and allows the Company to earn the targeted operating return of equity of 13% on new business.

Similarly, the Company increased its premium rates for portfolio insurance as a result of the higher regulatory capital that came into effect on January 1, 2017. There was a one-time increase in portfolio insurance volumes in the first quarter of 2017, as the Company closed several large transactions on portfolio insurance applications received in the fourth quarter of 2016. The Company expects the average premium rate for portfolio insurance will increase substantially in the second quarter as the phase-in period for portfolio insured mortgages under the new capital framework ended March 31, 2017.

Changes to the mortgage insurance rules

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 was already in place for high loan-to-value 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 mortgages with a loan-to-value ratio less than or equal to 80%, the following mortgage insurance criteria applies to both transactional mortgage insurance loans and portfolio mortgage insurance loans:

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

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

Based on 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/or larger downpayments.

The Company also expects that portfolio new insurance written in 2017, excluding portfolio insurance transactions with the big banks, may decline by approximately 25% to 35%, as compared to the normalized run rate of approximately $13 billion following regulatory changes for portfolio insurance, as described below. Portfolio insurance demand from mortgage finance companies and credit unions tends to be relatively consistent quarter to quarter, while demand from big banks is more variable and less predictable. The new mortgage rules prohibit insuring low loan-to-value refinances and most investor mortgages originated by lenders on or after November 30, 2016.

The impact on any future premiums written from the smaller market size will be partially offset by the premium rate increase in March 2017, in response to the higher capital requirements arising from OSFI's new capital framework. With an unearned premiums reserve of $2.1 billion as at March 31, 2017, 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, the Company expects that premiums earned in 2017 should be modestly higher.

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 mortgages that default, known as "lender risk sharing". This could transfer some risk borne by mortgage insurers to lenders. The comment period for this consultation ended on February 28, 2017. The Company participated in the consultation; however, the Company believes it is premature to determine the potential impact of this process and its ultimate outcome.

Portfolio mortgage insurance

Effective July 1, 2016, portfolio mortgage insurance is only available on mortgages used in CMHC securitization programs and is prohibited on mortgages used in private securitizations after a phase-in period for existing private securitizations.

Changes to the regulatory capital framework

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

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

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

The advisory states that:

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

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

The Company has observed that Calgary, Edmonton, Toronto, Vancouver and Victoria are breaching their SCRI thresholds, as prescribed by OSFI, at the end of the fourth quarter of 2016. These metropolitan areas represented approximately 35% - 40% of transactional new insurance written in the first quarter of 2017.

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

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

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

Under the new capital framework, the OSFI Supervisory MCT Target is 150% and the minimum MCT under PRMHIA is 150%.

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

Dividends

On March 8, 2017, the Company paid a quarterly dividend of $0.44 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 did not purchase any shares under the NCIB through the period ended March 31, 2017.

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 risk management framework.

Maximum outstanding insured exposure for all private insured mortgages

The Company estimates that its outstanding insured mortgage balances as at March 31, 2017 was $226 billion, or 47% of the original insured amount. The maximum outstanding insured exposure for all private insured mortgages permitted by PRMHIA is $350 billion. The Company estimates, that as at December 31, 2016, the outstanding insured mortgage balances for all privately insured mortgages was $284 billion.

Genworth Financial, Inc. transaction

On October 21, 2016, Genworth Financial, Inc., the Company's majority shareholder, entered into a definitive agreement with China Oceanwide Holdings Group Co., Ltd., a limited liability company incorporated in the People's Republic of China ("**China Oceanwide**"), under which China Oceanwide has agreed to acquire all of the outstanding shares of Genworth Financial through a merger. Upon completion of the transaction, Genworth Financial, Inc. will be a standalone subsidiary of China Oceanwide. Genworth Financial stockholders approved the transaction on March 7, 2017. The transaction is subject to a number of closing conditions, including the receipt of 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	
First Quarter 2017 or as at March 31, 2017	**Estimate for Full Year 2017 or as at December 31, 2017**
Housing Resales Y/Y: **1%**[1] National Composite House Price Index change Y/Y: **13.5%**[2] Average Oil Price: **US $52**[3] 5 year Government of Canada Bond Yields: **1.12%**[4] GDP Estimate **2.2%**[5] Average Unemployment **6.7%**[6]	Housing resales Y/Y: **(3)%**[1] National Composite House Price Index change: **0% to +4%**[2] Average Oil Price: **US $50 to $60**[3] 5 year Government of Canada Bond Yields: **1.20% to 1.40%**[4] GDP Estimate **2.6%**[5] Average Unemployment **6.8% to 7.3%**[6]

[1] Canadian Real Estate Association ("**CREA**")
[2] Teranet Index (Q1 2017); Management estimate (2017)
[3] U.S. Energy Information Administration - WTI Light Crude Oil US$/barrel (Q1 2017); Management estimate (2017)
[4] Bloomberg
[5] Monetary Policy Report, April 2017; 2016 Real GDP quarter over quarter percentage change at annual rates and 2017 estimate
[6] Statistics Canada – Labour Force Survey (Q1 2017); Management estimate (2017).

Macroeconomic environment

The Bank of Canada estimates economic growth, as measured by real Canadian Gross Domestic Product ("**GDP**") to 2.2% in the first quarter of 2017 and 2.6% in 2017, up from 2.1% in the prior forecast and compared to 1.4% in 2016. The expected improvement in GDP reflects higher oil prices, stronger exports related to a weaker Canadian dollar, steady consumer spending and increased government investment on infrastructure projects, partially offset by lower residential housing demand.

The overnight interest rate in Canada remained flat at 0.50% in the first quarter of 2017 and is expected to remain at this level throughout the year. The 5-year Government of Canada bond yield, which fluctuated in the first quarter of 2017 between 1.01% and 1.32% primarily in response to rising U.S. rates, is expected to continue to rise modestly in 2017.

Canada's unemployment rate was at 6.7% at the end of the first quarter of 2017, with quarter-over-quarter improvements in the majority of the provinces. The average oil price for the first quarter of 2017 was US$52, recovering from its historic low in early 2016. The Company expects that the average unemployment rate will be between 6.8% and 7.3% for 2017 and oil prices will be in the range of US$50 and US$60 for the year.

Housing market

The National Composite House Price Index in March 2017 increased by 13.5% on a year-over-year basis. This increase was driven primarily by a strong housing market in the GTA, up 25%. While Vancouver was up 12%, the housing market has cooled as a result of the 15% land transfer tax on foreign buyers introduced in August 2016. The Company does not expect this tax to have a material impact on its business, as foreign borrowers are typically not eligible for high loan-to-value mortgage insurance. The rest of Canada experienced stable or modest fluctuations in home prices year-over-year. The average home price in the first quarter of 2017, on the Company's transactional insurance, increased by less than 1%, with the GTA up 7%, as compared to the prior year's period. The Company expects the National Composite House Price Index for 2017 to be in the range of 0% to 4%.

Home resales for the first quarter of 2017 were up 1% over the prior year's period. The Canadian Real Estate Association expects housing resales to decline by 3% in 2017. The federal mortgage rule changes with respect to mortgage insurance qualifications introduced in the fourth quarter of 2016 have adversely impacted first time homebuyers and reduced the size of the high-loan-to-value origination market in the first quarter of 2017.

First Quarter Review

Table 2: Results of operations

	Three months ended March 31,							
(in millions of dollars, unless otherwise specified)		**2017**		2016		**Change**		
Premiums written	**$**	**127**	$	117	**$**	10	9%
Premiums earned	**$**	**167**	$	154	**$**	13	9%
Losses on claims and expenses:							
Losses on claims		**26**		37		(11)	(31)%
Expenses		**34**		28		6	19%
Total losses on claims and expenses		**60**		65		(6)	(9)%
Net underwriting income		**107**		88		19	21%
Investment income:							
Interest and dividend income, net of investment expenses		**45**		41		3	8%
Net investment losses		**(2)**		(5)		3	(64)%
Investment income		**43**		37		6	17%
Interest expense		**6**		6		-	-
Income before income taxes		**145**		120		25	21%
Provision for income taxes		**38**		32		7	22%
Net income	**$**	**106**	$	88	**$**	18	21%
Adjustment to net income, net of taxes:							
Net investment gains		**1**		3		(2)	(69)%
Net operating income [1]	**$**	**107**	$	91	**$**	16	17%
Effective tax rate		**26.6%**		26.4%		-	0.1 pts
Selected non-IFRS financial measures [1]							
Transactional new insurance written	**$**	**3,047**	$	3,413	**$**	(367)	(11)%
Portfolio new insurance written	**$**	**10,513**	$	4,493	**$**	6,020	NM
Loss ratio		**15%**		24%		-	(9) pts
Expense ratio		**20%**		19%		-	2 pts
Combined ratio		**36%**		42%		-	(7) pts
Operating return on equity		**12%**		11%		-	1 pts
Investment yield		**3.2%**		3.1%		-	0.1 pts

Note: 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 March 31,			
(in millions of dollars, unless otherwise specified)	**2017**	**2016**	**Change**	
New insurance written				
Transactional	$ 3,047	$ 3,413	$ (367)	(11)%
Portfolio	10,513	4,493	6,020	NM
Total	$ 13,559	$ 7,906	$ 5,653	72%
Premiums written				
Transactional	89	99	(10)	(10)%
Portfolio	38	18	20	NM
Total	$ 127	$ 117	$ 10	9%
Average premium rate (in basis points)				
Transactional	293	291	2	1%
Portfolio	36	39	(3)	(8)%
Total	94	148	(54)	(37)%
Premiums earned	$ 167	$ 154	$ 13	9%

Note: Amounts may not total due to rounding. NM means not meaningful.

Transactional new insurance written was $3.0 billion in the first quarter of 2017, representing a decrease of $0.4 billion, or 11%, as compared to the same quarter in the prior year. This decrease resulted primarily from a smaller high-loan-to-value origination market as a result of regulatory changes in the fourth quarter of 2016. New insurance written from portfolio insurance was $10.5 billion in the first quarter of 2017, as compared to $4.5 billion in the prior year's period. This increase was primarily due to the closing of several large portfolio insurance transactions on applications received in the fourth quarter of 2016.

Premiums written from transactional insurance were $89 million in the first quarter of 2017, a decrease of $10 million, or 10%, as compared to the prior year's period, consistent with the decline in new insurance written. Premiums written from portfolio insurance were $38 million in the first quarter of 2017, an increase of $20 million, primarily due to an increase in new insurance written.

Premiums earned increased by $13 million, or 9%, to $167 million in the first quarter of 2017, as compared to the prior year's period due to the relatively larger contributions from premiums written in recent years.

Table 4: Losses on claims

	Three months ended March 31,			
	2017	**2016**	**Change**	
New delinquencies	1,248	1,296	(48)	(4)%
Cures	757	728	29	4%
New delinquencies, net of cures	491	568	(77)	(14)%
Average reserve per delinquency *(in thousands of dollars)*	$ 76	$ 71	$ 5	7%
Losses on claims (in millions of dollars)	$ 26	$ 37	$ (11)	(31)%
Loss ratio	15%	24%	-	(9) pts

Note: Amounts may not total due to rounding.

Losses on claims of $26 million were lower by $11 million, reflecting 77 fewer new delinquencies, net of cures, and favourable development from the prior quarter's outstanding delinquencies which was partially offset by a higher average reserve per delinquency. The resulting loss ratio was 15% in the first quarter of 2017, 9 percentage points lower than the same period in the prior year due to lower losses on claims and higher premiums earned.

New delinquencies, net of cures, of 491 were 77 lower than in the same quarter in the prior year primarily due to decreases in Alberta (42), Quebec (29), Ontario (21) and the Pacific region (6), which was consistent with strong or improving economic conditions in these regions. These decreases were partially offset by increases in new delinquencies, net of cures, in the Prairies region (12) and the Atlantic region (9).

Average reserve per delinquency increased by approximately $5 thousand primarily due to a shift in the regional mix of delinquencies towards oil-producing regions, with higher average insured amounts and lower or negative home price appreciation relative to the rest of Canada.

Table 5: Expenses

	Three months ended March 31,			
(in millions of dollars, unless otherwise specified)	**2017**	**2016**	**Change**	
Expenses				
Premium taxes and underwriting fees	$ 10	$ 10	$ -	-
Employee compensation	14	11	3	23%
Other	8	7	1	11%
Expenses before net change in deferred policy acquisition costs	32	28	4	14%
Deferral of policy acquisition costs	(14)	(15)	-	-
Amortization of deferred policy acquisition costs	17	15	1	10%
Total	$ 34	$ 28	$ 6	19%
Expense ratio	20%	19%	-	2 pts

Note: Amounts may not total due to rounding.

Expenses, before net change in deferred policy acquisition costs, increased by $4 million, or 14%, to $32 million in the first quarter of 2017 as compared to the same quarter in the prior year. The increase was primarily due to a $3 million increase in employee compensation, including share based compensation, and a moderate increase in other expenses of $1 million. Amortization of previously deferred policy acquisition costs increased by $1 million and was consistent with higher premiums earned.

Total expenses increased by $6 million and the expense ratio increased 2 percentage points to 20% for the first quarter of 2017, as compared to the same quarter in the prior year, due to the higher expenses, partially offset by higher premiums earned.

Table 6: Investment income

	Three months ended March 31,			
(in millions of dollars, unless otherwise specified)	**2017**	**2016**	**Change**	
Interest and dividend income, net of investment expenses	$ 45	$ 41	$ 3	8%
Net realized gains on sale of investments	1	-	1	NM
Net losses on derivatives and foreign exchange	(3)	(5)	2	(36)%
Investment income	$ 43	$ 37	$ 6	17%
Invested assets, end of period	$ 6,278	$ 5,867	$ 411	7%
Investment yield, average over period	3.2%	3.1%	-	0.1 pts

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

Interest and dividend income, net of investment expenses, increased by $3 million, or 8%, to $45 million in the first quarter of 2017, primarily due to a 7% increase in assets. The average investment yield for the quarter was 3.2%, as compared to 3.1% in the prior year's period. Invested assets increased by $411 million as a result of premiums written in recent quarters.

The Company recorded $1 million of net realized gains in the first quarter of 2017 primarily due to the sale of fixed income securities.

The Company recorded a $3 million net loss on derivatives and foreign exchange primarily from the impact of the movement in interest rates on the Company's interest rate swaps. The $5 million net loss in the prior year's period is primarily from movements in foreign exchange rates on the Company's invested assets denominated in U.S. dollars partially offset by foreign currency derivatives.

Table 7: Net Income

	Three months ended March 31,			
(in millions of dollars, unless otherwise specified)	**2017**	**2016**	**Change**	
Income before income taxes	$ 145	$ 120	$ 25	21%
Provision for income taxes	38	32	7	22%
Net income	$ 106	$ 88	$ 18	21%
Effective tax rate	26.6%	26.4%	-	0.1 pts

Note: Amounts may not total due to rounding.

Income before income taxes increased by $25 million, or 21%, and net income increased by $18 million, or 21%, to $106 million, primarily as a result of higher investment income, higher premiums earned and lower losses on claims partially offset by higher expenses.

The effective tax rate was 26.6% in the first quarter of 2017, an increase of approximately 0.1 percentage points from 26.4% in the prior year's period. The modest increase was primarily the result of an increase in tax rates in certain provinces partially offset by higher non-taxable dividend income in the current year's period.

Table 8: Statement of Financial Position Highlights

(in millions of dollars, unless otherwise specified)	**As at March 31, 2017**	**As at December 31, 2016**
Total investments	**$ 6,278**	$ 6,226
Other assets	**308**	319
Subrogation recoverable	**69**	67
Total assets	**6,655**	6,612
Unearned premiums reserves	**2,103**	2,143
Loss reserves	**157**	163
Long-term debt	**433**	433
Other liabilities	**204**	224
Total liabilities	**2,898**	2,963
Shareholders' equity excluding ("AOCI")	**3,625**	3,556
AOCI	**133**	93
Shareholders' equity	**3,757**	3,649
Total liabilities and shareholders' equity	**$ 6,655**	$ 6,612
Book value per common share		
Number of common shares outstanding (basic)	**91,947,700**	91,864,100
Book value per common share including AOCI (basic)	**$ 40.86**	$ 39.72
Book value per common share excluding AOCI (basic)	**$ 39.42**	$ 38.71
Number of common shares outstanding (diluted) [1]	**92,947,898**	92,885,377
Book value per common share including AOCI (diluted) [1]	**$ 40.42**	$ 39.28
Book value per common share excluding AOCI (diluted) [1]	**$ 39.00**	$ 38.28
Dividends paid per common share during the year	**$ 0.44**	$ 1.70

Note: Amounts may not total due to rounding.
[1] 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.

Summary of quarterly results

Table 9: Summary of quarterly results

(in millions of dollars, unless otherwise specified)	**Q1'17**	Q4'16	Q3'16	Q2'16	Q1'16	Q4'15	Q3'15
Premiums written	**$ 127**	$ 171	$ 223	$ 249	$ 117	$ 213	$ 260
Premiums earned	**$ 167**	164	162	158	154	151	148
Losses on claims	**26**	29	41	32	37	35	31
Expenses	**34**	33	33	30	28	27	28
Net underwriting income	**107**	103	88	95	88	90	89
Investment Income	**43**	93	52	33	37	47	39
Interest expense	**6**	6	6	6	6	6	6
Net income	**106**	140	98	91	88	98	90
Adjustment to net income net of taxes:							
Net investment (gains) losses	**1**	(35)	(5)	8	3	(3)	3
Net operating income [1]	**$ 107**	$ 105	$ 93	$ 99	$ 91	$ 95	$ 92
Earnings per common share:							
Earnings per common share (basic)	**$1.16**	$ 1.52	$ 1.07	$ 0.99	$ 0.96	$ 1.06	$ 0.98
Earnings per common share (diluted) [2]	**$1.15**	$ 1.52	$ 1.07	$ 0.99	$ 0.96	$ 1.03	$ 0.96
Selected non-IFRS financial measures [1]							
Loss ratio	**15%**	18%	25%	21%	24%	23%	21%
Expense ratio	**20%**	20%	20%	19%	19%	18%	19%
Combined ratio	**36%**	38%	45%	40%	42%	41%	40%
Operating earnings per common share (basic)	**$1.17**	$ 1.15	$ 1.02	$ 1.07	$ 1.00	$ 1.04	$ 1.01
Operating earnings per common share (diluted) [2]	**$1.17**	$ 1.14	$ 1.02	$ 1.07	$ 0.99	$ 1.03	$ 1.00
Operating return on equity	**12%**	12%	11%	12%	11%	12%	12%

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 Table 10 above. These highlights illustrate the Company’s profitability, operating 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. In the third quarter of 2016, losses on claims increased significantly from the prior quarter, and the same quarter in the prior year, primarily due to an increase in new delinquencies in Alberta specifically related to wild fires in the Fort McMurray area. In the fourth quarter of 2016, losses on claims decreased from the prior quarter and the same quarter in the prior year, primarily due to an increase in cures in Alberta. In the first quarter of 2017, losses on claims continued to trend lower due to fewer new delinquencies, net of cures, and stable or improving economic conditions in most regions of Canada.

The Company’s financial results for the first quarter of 2017 were driven by increasing premiums earned in recent quarters, a relatively consistent expense ratio and a lower loss ratio compared to the prior year.

Financial condition

Financial instruments

As at March 31, 2017, the Company had total cash and cash equivalents and invested assets of $6.3 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 March 31, 2017**			**As at December 31, 2016**		
(in millions of dollars, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains** [2]	Fair value	%	Unrealize gains (losse
Collateralized loan obligations	**$ 250**	**4%**	**$ 17**	$ 207	3%	$ 2
Corporate bonds and debentures:						
Financial	**923**	**15%**	**26**	910	15%	2
Energy	**343**	**5%**	**22**	356	6%	1
Infrastructure	**107**	**2%**	**6**	101	2%	
All other sectors	**939**	**15%**	**60**	930	15%	5
Total corporate bonds and debentures	**2,312**	**37%**	**113**	2,297	37%	10
Short-term investments:						
Canadian federal government treasury bills [1]	**97**	**2%**	**-**	206	3%	
Total short term investments	**97**	**2%**	**-**	206	3%	
Government bonds and debentures:						
Canadian federal government [1]	**1,964**	**31%**	**51**	1,976	32%	4
Canadian provincial and municipal governments	**974**	**16%**	**58**	988	16%	5
Total government bonds and debentures	**2,938**	**47%**	**108**	2,964	48%	10
Preferred shares:						
Financial	**269**	**4%**	**3**	247	4%	(1
Energy	**88**	**1%**	**7**	80	1%	
All other sectors	**107**	**2%**	**4**	99	2%	(
Total preferred shares	**465**	**7%**	**14**	426	7%	(1
Total invested assets	**$ 6,062**	**97%**	**$ 253**	$ 6,100	98%	$ 21
Cash and cash equivalents	**215**	**3%**	**-**	126	2%	
Total investments	**$ 6,278**	**100%**	**$ 253**	$ 6,226	100%	$ 21
Accrued investment income and other receivables	**42**	**-**	**-**	47	-	
Derivative financial instruments	**36**	**-**	**-**	39	-	
Total Invested assets, accrued investment income and other receivables	**$ 6,356**	**100%**	**$ 253**	$ 6,312	100%	$ 21

Note: Amounts may not total due to rounding.
[1] Canadian federal government bonds and treasury bills includes $13 million (December 31, 2016 – $3 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 $65 million (December 31, 2016- $79 million).

Unrealized gains on AFS securities in the portfolio were $253 million, which included $65 million of unrealized foreign exchange gains. Unrealized gains increased by $40 million from the end of 2016 primarily as a result of a $33 million increase in preferred share values and a modest increase in the value of fixed income securities.

The Company's average investment yield for the first quarter of 2017 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 Minimum Capital Test guideline. Based on the 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 Standard & Poor's "**S&P**" or Moodys ratings.

Table 11: Invested assets by credit rating for the portfolio

Credit Rating	**As at March 31, 2017**			**As at December 31, 2016**		
(in millions of dollars, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains**	**Fair value**	**%**	**Unrealized gains (losses)**
Cash and cash equivalents	**$ 215**	**4%**	**$ -**	$ 126	2%	-
AAA	**2,139**	**37%**	**52**	2,262	39%	49
AA	**1,196**	**21%**	**70**	1,164	20%	75
A	**1,683**	**29%**	**72**	1,687	29%	66
BBB	**556**	**10%**	**41**	539	9%	37
Below BBB	**22**	**0%**	**4**	22	0%	4
Total investments (excluding preferred shares)	**$ 5,813**	**100%**	**S 239**	$ 5,800	100%	$ 231
Preferred shares						
P2	**364**	**78%**	**6**	338	79%	(19)
P3	**101**	**22%**	**9**	88	21%	-
Total Preferred shares	**465**	**100%**	**14**	426	100%	(19)
Total invested assets and cash and cash equivalents	**$ 6,278**		$ **253**	$ 6,226		$ 212

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 five 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 $250 million in asset-backed bonds as of March 31, 2017, up from $207 million as of December 31, 2016. These securities are floating rate collateralized loan obligations denominated in U.S. dollars, of which 86% are rated AA and above and 14% are rated A.

Corporate bonds and debentures

As of March 31, 2017, approximately 37% of the investment portfolio was held in corporate bonds and debentures, relatively unchanged from December 31, 2016. 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 40% 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 $343 million or 5% of the investment portfolio.

Securities rated BBB and below were $579 million, or 10% of invested assets, as of March 31, 2017.

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 March 31, 2017, 47% of the investment portfolio was invested in sovereign fixed income securities, consisting of 31% in federal fixed income securities and 16% in provincial fixed income securities, relatively unchanged from December 31, 2016.

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 $97 million in Canadian federal government short-term treasury bills in the investment portfolio as of March 31, 2017, a decrease of $109 million from December 31, 2016 as the Company increased its cash and cash equivalents and collateralized loan obligations.

Preferred shares

As of March 31, 2017, the Company held $465 million of preferred shares, of which the financial sector represented 58%. 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 an increase in interest rates and demand in the first quarter of 2017, the preferred shares are in an unrealized gain position of $14 million as compared to an unrealized loss of $19 million at the end of December 31, 2016. Energy sector exposure through preferred shares represents $88 million or 1% of the investment portfolio.

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 $215 million as of March 31, 2017, an increase of $89 million from the $126 million in cash holdings as of December 31, 2016.

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 six primary sources of funds, consisting of premiums written from operations, investment income, cash and short-term investments, investment maturities or sales, proceeds from the issuance of debt and equity and a revolving credit facility. 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

	Three months ended March 31,	
(in millions of dollars)	**2017**	2016
Cash provided by (used in):		
Operating activities	**$ 20**	$ 33
Financing activities	**(39)**	(39)
Investing activities	**109**	(180)
Change in cash and cash equivalents	**89**	(185)
Cash and cash equivalents, beginning of period	**126**	391
Cash and cash equivalents, end of period	**$ 215**	$ 205

Note: Amounts may not total due to rounding.

The Company generated $20 million of cash flows from operating activities in the first quarter of 2017, as compared to $33 million in the prior year. Cash flow from operations in the first quarter of 2017 were modestly lower as a result of higher taxes paid partially offset by higher levels of premiums.

The Company utilized $39 million of cash flows for financing activities in the first quarter of 2017, primarily related to the payment of ordinary dividends of $0.44 per common share in the quarter as compared to $39 million primarily related to the payment of ordinary dividends of $0.42 per common share in the first quarter of 2016.

The Company generated $109 million of cash flows from investing activities in the first quarter of 2017, primarily from the maturity of bonds and debentures and short term investments, as compared to $180 million of purchases of bonds, debentures and preferred shares 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 March 31, 2017, the Company held liquid assets of $787 million, comprised of $215 million in cash and cash equivalents, and $571 million in bonds and debentures maturing within one year in order to maintain financial flexibility. Of the $787 million liquid assets, $189 million were held outside of the Insurance Subsidiary. As at March 31, 2017, the duration of the fixed income portfolio was 3.8 years.

In addition to cash and cash equivalents, 48%, or $3,035 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.

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)*				
	Derivative Asset	Derivative Liability	Net Fair value	1 year or less	1–3 years	3–5 years	Over 5 years	Total
March 31, 2017								
Foreign currency forwards	-	$(34)	$(34)	$204	$21	$78	$171	$474
Cross currency interest rate swaps	$1	$(4)	$(3)	$22	$39	$83	$166	$310
Equity total return swaps		$(1)	$(1)	$24	-	-	-	$24
Interest rate swaps	$35	-	$34	-	-	$2,250	-	$2,250
Total	**$36**	**$(39)**	**$(3)**	**$250**	**$59**	**$2,411**	**$337**	**$3,058**
December 31, 2016								
Foreign currency forwards	-	$(35)	$(35)	$161	$24	$50	$187	$422
Cross currency interest rate swaps	-	$(7)	$(7)	$19	$39	$71	$142	$271
Equity total return swaps	$1	-	$1	$21	-	-	-	$21
Interest rate swaps	$38	-	$38	-	-	$2,000	-	$2,000
Total	**$39**	**$(43)**	**$(4)**	**$201**	**$63**	**$2,121**	**$329**	**$2,714**

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 first quarter of 2017, the Company invested less than a million in underwriting, loss mitigation and risk management technologies enhancements as compared to $1 million in the prior year's period. The Company expects that future capital expenditures will continue to be related to underwriting, loss mitigation, and risk management technology improvements. The Company expects that capital expenditures in 2017 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.

On January 1, 2017, the capital advisory titled "*Capital Requirements for Federally Regulated Mortgage Insurers"* came into effect replacing OSFI's previous advisory, "*Interim Capital Requirements for Mortgage Insurance Companies*", which had been in effect since 2015. This 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.

Under the new capital framework, the holding target of 220% has been recalibrated to the OSFI Supervisory MCT Target of 150% and the minimum MCT under PRMHIA has been reduced to 150%. Based on the new framework, the Company has established an internal MCT target of 157% for 2017.

As at March 31, 2017, the Insurance Subsidiary's MCT ratio was approximately 162%, 12 percentage points higher than the OSFI Supervisory MCT target and 5 percentage points higher than the Company's internal MCT target of 157%.

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 March 31, 2017 and as at December 31, 2016

(in millions, unless otherwise specified) **Minimum Capital Test**	As at March 31, 2017	As at December 31, 2016
Capital available	**$3,998**	$3,827
Capital required	**$2,473**	$1,560
MCT ratio[1]	**162%**	245%
Internal MCT target (2017) / MCT holding target ratio (2016)	**157%**	220%

[1] Company estimate as at March 31, 2017

The increase to capital available in the first quarter of 2017 was due primarily to the profitability and an increase in unrealized gains in the investment portfolio which was partially offset by the Insurance Subsidiary's dividends. During the quarter, the Company entered into an additional $250 million 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.

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 March 31, 2017 of 10%.

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; and
- 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 also pays 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 March 31, 2017 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, 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

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 did not purchase any shares under the NCIB through the period ended March 31, 2017.

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.

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

Restrictions on dividends and capital transactions

The Insurance Subsidiary is subject to certain restrictions with respect to dividend and capital transactions. The Insurance Companies Act ("**ICA**") prohibits directors from declaring or paying any dividend on shares of an insurance company if there are reasonable grounds for believing 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 March 31, 2017 and December 31, 2016

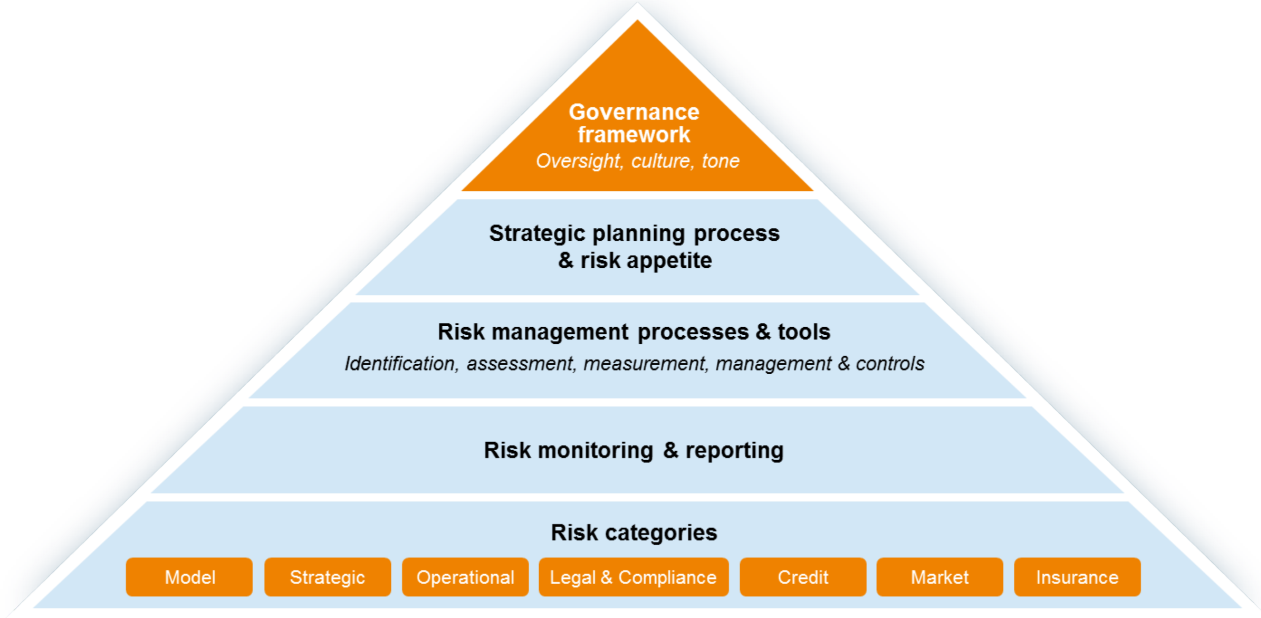
	March 31, 2017	December 31, 2016
Common shares, beginning of period (January 1)	**91,864,100**	**91,795,125**
Common shares issued in connection with share-based compensation plans	**83,600**	**68,975**
Common shares, end of period	**91,947,700**	**91,864,100**

At March 31, 2017, 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 Genworth Mortgage Insurance Corporation and Genworth Mortgage Insurance Corporation of North Carolina which held approximately 40.6%, 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

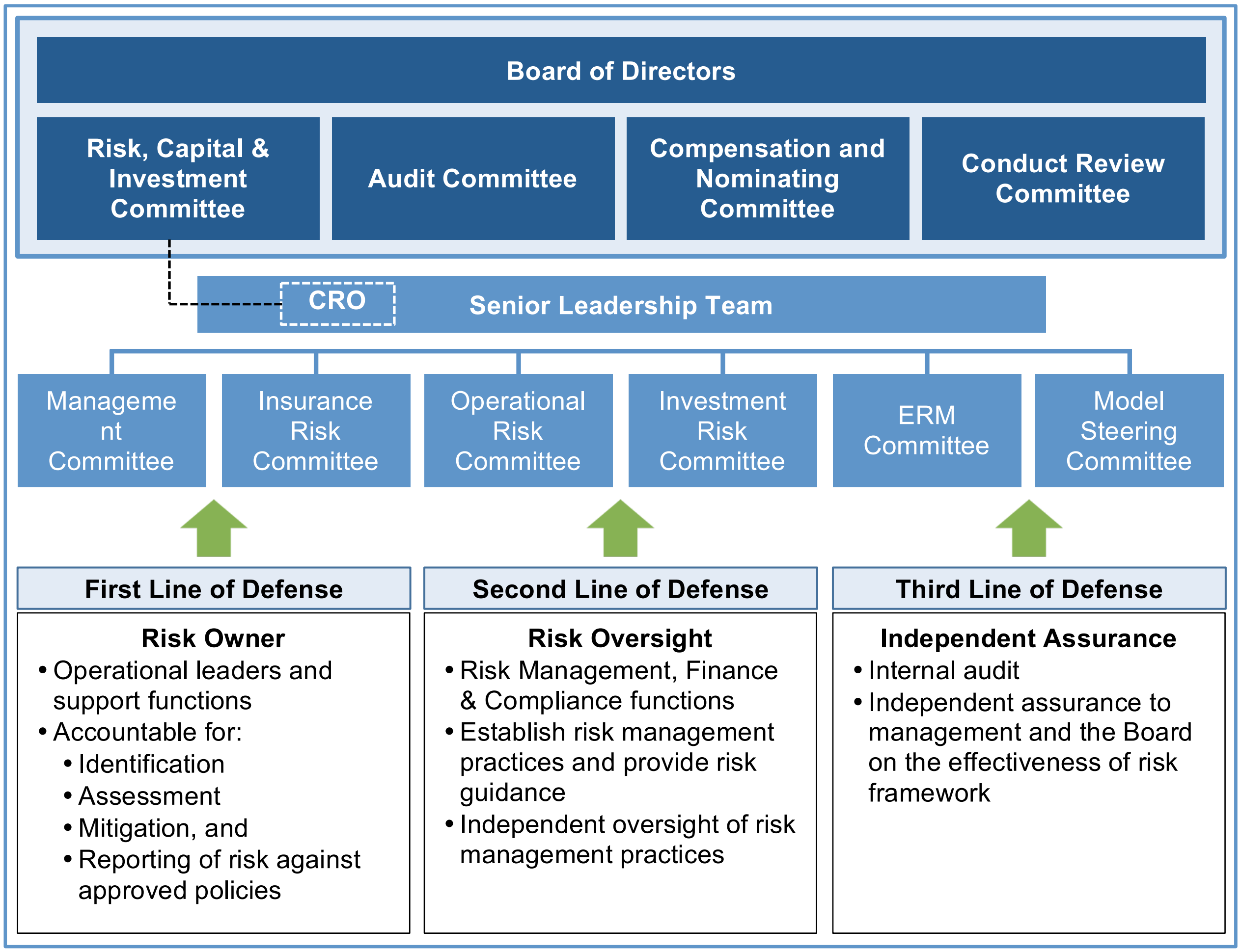
The Company's governance framework is designed to ensure the Board and management have effective oversight of the risks faced by the Company with clearly defined and articulated roles and responsibilities and inter-relationships. The governance framework is comprised of three core elements:

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

The Board is responsible for reviewing and approving the Company's Risk Appetite and ensuring that it remains consistent with the Company's short and long-term strategy, business and capital plans. The Board carries out its risk management mandate primarily through its committees, with 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 and the board of directors 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 major communication tool that enables the Board to cascade key messages throughout the organization. It establishes a common understanding around the acceptable level of variability in financial performance and answers the question of how much risk the Company is willing to take under expected and extreme scenarios.

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

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

Risk principles

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

- Ensure the expected outcomes of risk taking activities are consistent with the Company’s strategies and risk appetite;
- Ensure there is an appropriate balance between risk, return, capital, and liquidity in order to meet policyholder obligations and maximize shareholder value throughout economic cycles;
- Ensure business decisions are based on an understanding of risk;
- Ensure a deep understanding of risk drivers as they relate to 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; and
- **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. The Company continues to originate a high quality insurance portfolio with an average credit score of 745 primarily due to continued underwriting diligence. The average home price for transactional insurance originations has remained stable at $329,000, or an increase of less than 1%, over the prior year’s period. The average gross debt service ratio for the first quarter of 2017 was stable at 24%, and is well 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 March 31, 2017			As at December 31, 2016		
	Transactional	**Portfolio**	**Total**	Transactional	Portfolio	Total
2009 & prior	**44**	**21**	**40**	44	21	41
2010	**60**	**27**	**55**	61	27	55
2011	**65**	**33**	**59**	65	34	59
2012	**70**	**33**	**53**	70	34	53
2013	**73**	**38**	**56**	74	39	56
2014	**79**	**43**	**61**	79	44	62
2015	**83**	**49**	**63**	84	50	64
2016	**89**	**52**	**63**	90	53	64
2017	**93**	**55**	**62**	-	-	-
Total	**69**	**46**	**58**	69	46	58

[1] This estimate is based on the amounts reported by lenders to the Company, which represents the vast majority of insurance in-force.

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- and to collateralize its derivative obligations.

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 did not hold any common shares as at March 31, 2017 and 2016.

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 emerging market 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 (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 March 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's controls over financial reporting.

Changes in accounting standards and future accounting standards

The following amendment to existing standards has been issued by the International Accounting Standards Board ("**IASB**") and is effective for annual periods beginning on or after January 1, 2017.

Amendments to IAS 7 – Disclosure initiative ("IAS 7")

Amendments to IAS 7 were published in January 2016. The amendments add disclosure requirements that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

The Company does not expect the amendments to have a material impact on the financial statements.

Amendments to IAS 12 – Recognition of deferred tax assets for unrealized losses ("IAS 12")

Amendments to IAS 12 were published in January 2016, clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by future changes in the carrying amount or the expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences.

The amendments apply retrospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted.

The Company does not expect the amendments to have a material impact on the financial statements.

Future accounting standards

IFRS 17 - Insurance contracts

IFRS 17 (previously IFRS 4 phase II) is intended to replace *IFRS 4: Insurance contracts.* Under the IFRS 17 model, insurance contract liabilities will be calculated as the present value of future insurance cash flows with a provision for risk. The discount rate will reflect current interest rates. If the present value of future cash flows would produce a gain at the inception of the contract, the model will also require a "contractual service margin" to offset the day one gain. The contractual service margin will amortize over the life of the contract. Certain types of contracts will be permitted to use a simplified unearned premium liability model until a claim is incurred. Additionally, for the contracts in which the cash flows are linked to underlying items, the liability value will reflect that linkage. There will also be a new income statement presentation for insurance contracts and additional disclosure requirements. IFRS 17 is anticipated to be released in the first half of 2017 and has an expected effective date of January 1, 2021.

The Company is assessing the impact of the existing draft of IFRS 17.

IFRS 9 - Financial instruments

In July 2014, the IASB published the final 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 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 17 Insurance Contracts*, which permit 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 17 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 17 is effective and annual periods beginning on or after January 1, 2021. The Company has concluded that it is an eligible insurer that qualifies for the transitional relief.

The Company intends to apply the optional transitional relief that permits deferral of the adoption of IFRS 9. The Company is currently assessing the impact of IFRS 9 on its financial assets and financial liabilities.

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. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Short-term leases and leases of low value items are optional exemptions under the standard. Lessor accounting remains similar to the current standards, where lessors classify leases as finance or operating leases.

The new standard is effective for years beginning on or after January 1, 2019.

The Company is assessing the impact of IFRS 16.

Amendments to IFRS 2 – Share-based payments (“IFRS 2”)

Amendments to IFRS 2 were published in June 2016, which clarify how to account for certain types of share-based payment transactions.

The amendments provide requirements on the accounting for:
- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- Share-based payment transactions with a net settlement feature for withholding tax obligations; and
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted if information is available without the use of hindsight.

The Company is currently assessing the impact of the amendments to IFRS 2.

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. 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.
IBNR is the Company's best estimate of losses that have been incurred but not reported from the time the first scheduled mortgage payment has been missed by a mortgage borrower. 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

As of each reporting date, the Company evaluates AFS financial assets for 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 $2 million in the first quarter of 2017, consistent with the prior year.

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, among others, net operating income, operating earnings per common share (basic), and operating earnings per common share (diluted). 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 March 31,	
(in millions of dollars, unless otherwise specified)	**2017**	2016
Investment income	**$ 43**	$ 37
Adjustment to investment income:		
Net investment losses	**2**	5
Interest and dividend income, net of investment expenses	**$ 45**	$ 41
Net income	**106**	88
Adjustments to net income, net of taxes:		
Net investment losses	**1**	3
Net operating income	**$ 107**	$ 91
Earnings per common share (basic) [1]	**$ 1.16**	$ 0.96
Adjustment to earnings per common share, net of taxes:		
Net investment losses	**0.01**	0.04
Operating earnings per common share (basic) [1]	**$ 1.17**	$ 1.00
Earnings per common share (diluted) [1]	**$ 1.15**	$ 0.96
Adjustment to earnings per common share, net of taxes:		
Share based compensation re-measurement amount	**0.00**	-
Net investment losses	**0.01**	0.04
Operating earnings per common share (diluted) [1]	**$ 1.17**	$ 0.99

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, investment yield, and MCT ratio.

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 "Non-IFRS financial measures glossary".

	Three months ended March 31,	
(in millions of dollars, unless otherwise specified)	**2017**	2016
Selected non-IFRS financial measures		
Insurance in-force (original insured amount)	$ **477,000**	$ 412,000
Outstanding insured mortgage balances [1]	$ **226,000**	$ 197,000
New insurance written	$ **13,559**	$ 7,906
Transactional new insurance written	$ **3,047**	$ 3,413
Portfolio new insurance written	$ **10,513**	$ 4,493
Loss ratio	**15%**	24%
Expense ratio	**20%**	19%
Combined ratio	**36%**	42%
Operating return on equity	**12%**	11%
Investment yield	**3.2%**	3.1%
MCT ratio [2]	**162%**	234%

[1] This estimate is based on amounts reported to the Company by lenders which represents the vast majority of outstanding insured mortgage balances.
[2] Company estimate at March 31, 2017

Non-IFRS financial measures glossary

"**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.

"**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.

"**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 annualized investment income before investment fees and excluding net investment gains (losses) tax affected for dividends for such 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 investment income using the average of beginning and ending investments book value, for such quarter.

"**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.

"**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 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.

"**portfolio new insurance written**" means the original principal balance of mortgages, insured during a specified period 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. 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.

"outstanding insured mortgage balances" means the amount of all mortgage insurance policies in effect at a specified date, based on the current balance of mortgages covered by such insurance policies, including any capitalized premiums. Outstanding insured mortgage balances measures the current total risk exposure under insurance contracts at any given time and is used to assess potential losses on claims.

"**transactional new insurance written**" means the original principal balance of mortgages, including any capitalized premiums, insured during a specified period predominantly on mortgages with a loan-to-value ratio of greater than 80% at the time the loan is originated. 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.

Other 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.

"**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.

"**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.

"**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.

"**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.

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

"**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 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.

"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 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.

"**ordinary 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.

"**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 rate**" 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 rate 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.