Genworth MI Canada Inc.

Management's Discussion and Analysis

For the quarter ended March 31, 2018

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 April 30, 2018 is prepared for the three months ended March 31, 2018. The unaudited condensed consolidated interim financial statements of the Company were prepared in accordance with International Financial Reporting Standards ("**IFRS**"). This MD&A should be read in conjunction with the Company's financial statements.

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

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

Caution regarding forward-looking information and statements

Certain statements made in this MD&A contain forward-looking information within the meaning of applicable securities laws ("**forward-looking statements**"). When used in this MD&A, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions, as they relate to the Company are intended to identify forward-looking statements. Specific forward-looking statements in this document include, but are not limited to, statements with respect to the impact of guideline changes by OSFI and legislation introduced in connection with the Protection of Residential Mortgage or Hypothecary Insurance Act ("**PRMHIA**"); the effect of changes to the mortgage insurance rules, including government guarantee mortgage eligibility rules and Ontario's Fair Housing Plan; and the Company's beliefs as to housing demand and home price appreciation, key macroeconomic factors, unemployment rates; the Company's future operating and financial results; the operating range for the Company's expense ratio; 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. closing or failing to execute on a merger agreement with subsidiaries of China Oceanwide Holdings Group Co., Ltd. more fully described on Page 12 "*Genworth Financial, Inc. transaction.*"

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 19, 2018. 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 selected 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 and operating investment income. 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.

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Business profile

Business background

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

The Company offers both transactional and portfolio mortgage insurance.

Federally regulated lenders are required to purchase transactional mortgage insurance in respect of a residential mortgage loan whenever the loan-to-value ratio exceeds 80%. The Company's transactional mortgage insurance covers default risk on mortgage loans secured by residential properties to protect lenders from any resulting losses on claims. By offering insurance for transactional mortgages, the Company plays a significant role in providing access to homeownership for Canadian residents. Homebuyers who can only afford to make a smaller down payment can, through the benefits provided by mortgage insurers such as Genworth Canada, obtain mortgages at rates comparable to buyers with more substantial down payments.

The Company also provides portfolio mortgage insurance to lenders for loans with loan-to-value ratios of 80% or less. Portfolio mortgage insurance is beneficial to lenders as it provides 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)	**2018**	2017
Premiums written		
Transactional Insurance	**109**	89
Portfolio Insurance	**6**	38
Total Premiums written	$ **115**	$ 127
Premiums earned	$ **171**	$ 167
Losses on claims	**22**	26
Expenses	**32**	34
Total losses on claims and expenses	**54**	60
Net underwriting income	**117**	107
Interest and dividend income, net of investment expenses	**47**	45
Realized income from the interest rate hedging program	**4**	-
Net investment gains/(losses)[1]	**11**	(1)
Investment income	**62**	43
Interest expense	**6**	6
Income before income taxes	**172**	145
Net income	$ **128**	$ 106
Net operating income[2]	$ **119**	$ 107
Weighted average number of common shares outstanding		
Basic	**90,752,714**	91,902,409
Diluted[3]	**91,291,500**	91,939,376
Earnings per common share		
Earnings per common share (basic)	$ **1.41**	$ 1.16
Earnings per common share (diluted)[3]	$ **1.38**	$ 1.15
Selected non-IFRS financial measures[2]		
Operating earnings per common share (basic)	$ **1.31**	$ 1.17
Operating earnings per common share (diluted)[3]	$ **1.31**	$ 1.17
Insurance in-force (original insured amount)	$ **496,000**	$ 477,000
Outstanding insured mortgage balances[4]	$ **216,000**	$ 226,000
Transactional new insurance written	$ **3,156**	$ 3,047
Portfolio new insurance written	$ **1,152**	$ 10,513
Loss ratio	**13%**	15%
Expense ratio	**19%**	20%
Combined ratio	**32%**	36%
Operating return on equity	**12%**	12%
MCT ratio[5]	**170%**	162%
Delinquency ratio on outstanding insured mortgage balances	**0.18%**	0.21%

Note: Amounts may not total due to rounding.

[1]Excludes the realized income from the interest rate hedging program.

[2]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.

[3]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.

[4]This estimate is based on the amounts reported by lenders to the Company which represents the vast majority of outstanding insured mortgage balances.

[5]Company estimate at March 31, 2018.

Key first quarter of 2018 financial results:

The Company reported net income of $128 million and net operating income of $119 million in the first quarter of 2018, as compared to $106 million and $107 million, respectively, in the same quarter in the prior year.

- Premiums written of $115 million decreased by $12 million, or 9%, compared to the same quarter in the prior year. Premiums written from transactional insurance were $109 million. This represents an increase of $20 million, over the same quarter in the prior year, with a $17 million increase resulting from a higher average premium rate following the March 2017 premium rate increase.

- Premiums written from portfolio insurance were $6 million, a decrease of $32 million compared to the same quarter in the prior year. This decrease was primarily due to the closing of several large portfolio insurance transactions in the first quarter of 2017 on applications received in the fourth quarter of 2016, prior to implementation of the new capital framework.

- Premiums earned of $171 million were $4 million, or 2%, higher than the same quarter in the prior year reflecting the level of premiums written in recent years.

- Losses on claims of $22 million were $4 million, or 15%, lower than the same quarter in the prior year primarily due to fewer new reported delinquencies, net of cures, and a lower average reserve per delinquency as a result of strong or stable economic conditions in most regions. The loss ratio was 13% for the quarter as compared to 15% in the same quarter in the prior year.

- Expenses of $32 million were $2 million, or 5%, lower than the same quarter in the prior year, primarily due to lower share-based compensation expense. The expense ratio for the quarter was 19%, as compared to 20% in the same quarter in the prior year and within the Company's expected operating range of 18% to 20%.

- Operating Investment income, excluding net investment gains, was $50 million, or $6 million higher as compared to the same quarter in the prior year primarily as a result of higher interest and dividend income and the realized income from the interest rate hedging program in the current period of approximately $4 million.

- Net investment gains, excluding the realized income from the interest rate hedging program, was $11 million, primarily from net gains on derivatives and foreign exchange, which were $13 million higher than the same quarter in the prior year due to an increase in the market value of the Company's interest rate swaps used to hedge interest rate risk, and by the impact of movements in foreign exchange rates on the Company's invested assets denominated in U.S. dollars.

- The regulatory capital ratio or MCT ratio was approximately 170%, which was 13 percentage points higher than the internal MCT ratio target of 157% and 20 percentage points higher than 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 claim paying ability and financial strength;
- Help Canadians responsibly achieve and maintain homeownership;
- Promote strong and sustainable communities across Canada; and
- Advance prudent risk management practices to enhance the safety and soundness of the mortgage finance system.

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

2018 Objective	Year-to-date performance
Premiums Written and Premiums Earned	
Modestly higher premiums written:	Total premiums written decline : **9%** Total premiums written decreased by 9% in the first quarter of 2018 due to the closing of several large portfolio insurance transactions in the first quarter of 2017 on applications received in the fourth quarter of 2016, prior to implementation of the new capital framework which resulted in a price increase. The Company expects to achieve its 2018 objective of moderately higher premiums written.
Modestly higher transactional new insurance written and moderately higher transactional premiums written.	Transactional new insurance written increase: **4%** Transactional premiums written increase: **22%** New insurance written from transactional insurance increased by 4% in the first quarter of 2018 as compared to the same quarter in the prior year, primarily due to higher applications in the fourth quarter of 2017 ahead of regulatory changes effective January 1, 2018. Transactional premiums written increased 22% due to an increase in new insurance written and an 18% higher average premium rate.
Lower portfolio insurance, new insurance written and premium written compared to 2017.	Portfolio new insurance written decrease: **89%** Portfolio premiums written decline: **84%** New insurance written and premiums written from portfolio insurance declined by 89% and 84% respectively, in the first quarter of 2018 as compared to the same quarter in the prior year. The decrease was, primarily due to lower demand for portfolio insurance in response to higher regulatory capital requirements. The decrease was partially offset by a 48% higher average premium rate.

2018 Objective	Year-to-date performance
Premiums Written and Premiums Earned (cont.)	
Premiums earned relatively unchanged	Premiums earned growth: **2%** The Company realized $171 million of premiums earned in the first quarter of 2018, an increase of 2% as compared to the same quarter in the prior year, reflecting the level of premiums written in recent years. 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 $171 million in the first three months of 2018, the Company expects to earn between $460 and $480 million of premiums earned in the remaining nine months of 2018 from the unearned premiums reserve of $2.1 billion as at March 31, 2018. Total premiums earned for the remaining nine months of 2018 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 15% to 25%	Loss ratio: **13%** The Company's loss ratio of 13% was moderately below the Company's anticipated range of 15% to 25% for the first quarter of 2018. The loss ratio performance was favorably impacted by improving home prices and stable or low unemployment in most regions in Canada especially in Québec, Ontario, Alberta and the Pacific region.
• Workout penetration rate greater than 55%	Workout penetration rate: **56%** The workout penetration rate of 56% in the first quarter of 2018 was in line with expectations.
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 730 • Average transactional credit score below 660 of less than 5%	Average transactional credit score: **746** Average transactional credit score below 660: **3%** The Company originated a high quality insurance portfolio in the first quarter of 2018 with an average credit score of 746 primarily due to continued underwriting discipline.

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 of 160% to 165%

Ordinary dividend payout ratio: **36%**
Debt-to-total capital ratio as at March 31, 2018: **10%**
MCT ratio as at March 31, 2018: **170%**

The Company maintained a strong and efficient capital base with an MCT ratio of approximately 170%, 13 percentage points above the internal target, an ordinary dividend payout ratio of 36% and capital flexibility through $126 million in short-term liquid investments held outside of the Insurance Subsidiary and a $200 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:

- Investment income expected to be modestly higher as a result of higher average assets

The Company maintained a high quality investment portfolio, with 91% of its holdings in cash and investment grade bonds and debentures and 9% in preferred shares. Overall, the Company achieved an investment yield of 3.2% for the year.

Operating investment income, excluding net investment gains, of $50 million in the first quarter of 2018 was $6 million, or 13%, higher than the same quarter in the prior year, primarily due to higher interest and dividend income and realized income from the interest rate hedging program of $4 million. Net investment gains, excluding the realized income from the interest rate hedging program, of $11 million were primarily related to an increase in the market value of the Company's interest rate swaps used to hedge interest rate risk and the impact of movement in foreign exchange rates on the Company's invested assets denominated in U.S. dollars.

Recent business and regulatory developments

B-20 Guideline

On October 17, 2017, OSFI released the final version of Guideline B-20 "Residential Mortgage Underwriting Practices and Procedures" ("**B-20 Guideline**") which sets out OSFI's expectations for prudent residential mortgage underwriting by Federally Regulated Financial Institutions ("**FRFI**"). The Guideline is applicable to all federally-regulated financial institutions that are engaged in residential mortgage underwriting and/or the acquisition of residential mortgage loan assets in Canada. The Guideline, which came into effect January 1, 2018, clarifies and strengthens expectations in a number of specific areas, including:

- requiring qualifying debt service ratios to be established by FRFIs
- for all uninsured mortgages, at a minimum, using the greater of the five-year benchmark rate published by the Bank of Canada or the contract mortgage rate plus 2%;
- requiring that loan-to-value measurements and limits remain dynamic and adjust for market conditions and be regularly monitored, reviewed and updated; and
- expressly prohibiting arrangements (e.g., co-lending or bundling mortgages) that are designed, or appear to be designed, to circumvent regulatory requirements.

The B-20 Guideline does not directly impact the regulatory requirements for the Company which is governed by OSFI's Guideline B-21 "Residential Mortgage Insurance Underwriting Practices and Procedures". Based on an analysis of applications for portfolio insurance received in 2016 and the first half of 2017 and potential changes in borrower behavior the Company believes that the Guideline may reduce total mortgage originations in 2018 by 5% to 10% as compared to 2017 levels. The Company believes the Guideline will not have a material impact on the transactional mortgage insurance market size in 2018, given that qualifying uninsured mortgages have been subject to a mortgage rate stress test starting November 30, 2016. Overall, it is premature to determine the exact impact of this change and its ultimate effect on the mortgage and housing markets. As a result of the B-20 Guideline, the Company experienced an increase in transactional insurance applications in the fourth quarter of 2017 ahead of the January 1, 2018 effective date.

Regulatory capital framework

OSFI continues its review of the regulatory capital framework that was implemented on January 1, 2017. It is expected that OSFI will make some refinements to the framework to take effect on January 1, 2019. It is still too early to determine the exact impact of any changes to the regulatory capital framework.

British Columbia Government budget update

On February 20, 2018, the British Columbia Government introduced "Homes for B.C. A 30-Point Plan for Housing Affordability in British Columbia", which included strategies addressing speculation, curbing demand, increasing housing supply and improving security for renters. A new speculation tax of 0.5% was introduced on foreign and domestic speculators in the Metro Vancouver, Fraser Valley, Capital and Nanaimo Regional Districts and the municipalities of Kelowna and West Kelowna. The tax will increase to 2.0% in 2019 and subsequent years. The current foreign buyers' tax increased to 20% from 15% and was expanded from Metro Vancouver to include the Fraser Valley, Central Okanagan and Capital and Nanaimo Regional Districts. Additional measures included: increases to property transfer tax and school tax on homeowners with properties greater than $3 million; reducing tax evasion in pre-sale condo assignments by collecting more data; requiring the reporting of registration of beneficial ownership to end hidden ownership; investing $1.8 billion over ten years for 14,000 new rental units for the middle class; and winding down the Home Ownership Mortgage Loan program to redirect funding to a new provincial program that creates new partnerships to build affordable housing. Genworth Canada welcomes the measures aimed at addressing speculative activity, improving the affordability of homeownership and expediting access to affordable housing stock for aspiring first time homebuyers.

Anti-money laundering

On February 7, 2018, the Department of Finance released a discussion paper entitled "Reviewing Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime". The paper considers the merits of expanding the scope of the "*Proceeds of Crime (Money Laundering) and Terrorist Financing Act*" to include reporting on real estate transactions by mortgage insurers, land registries and

title insurance companies. The paper notes that: "Many of the measures that have been identified could potentially create a large number of new reporting entities, creating burden on the private sector and posing challenges to those responsible for overseeing compliance. As such, there could be increased costs associated with implementing some of these measures for both the private and public sector entities involved." The comment period for the consultation ends May 18, 2018 and the Company intends to participate in the consultation. The Company believes it is premature to determine the potential impact of this process on its compliance infrastructure and operating costs.

Consultation on lender risk sharing

On October 21, 2016, the federal 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. Although the federal government continues to examine lender risk sharing, it has not yet published any findings and the Company believes it is premature to determine the potential impact of this process and its ultimate outcome.

Credit Facility

On September 29, 2017, the Company entered into a $200 million senior unsecured revolving syndicated credit facility, which matures on September 29, 2022. As at March 31, 2018 there was no amount outstanding under the credit facility and all of the covenants were met.

Dividends

On March 7, 2018, the Company paid a quarterly dividend of $0.47 per common share.

Share repurchase

During the three months ended March 31, 2018, under the terms of its normal course issuer bid ("**NCIB**"), the Company repurchased 1,228,413 shares for cancellation, for an aggregate purchase price of approximately $50 million. Pursuant to the NCIB, the Company can purchase, for cancellation, up to 4,597,385 shares representing approximately 5% of its outstanding common shares. Purchases of common shares under the NCIB were permitted to commence on or after May 5, 2017 and will conclude on the earlier of May 4, 2018 and the date on which the Company has purchased the maximum number of shares under the NCIB.

Genworth Financial, Inc. transaction

On October 21, 2016, Genworth Financial, Inc. ("**Genworth Financial**") entered into an agreement and plan of merger (the "**Merger Agreement**") with Asia Pacific Global Capital Co., Ltd. ("the **Parent**"), a limited liability company incorporated in the People's Republic of China, and Asia Pacific Global Capital USA Corporation ("**Merger Sub**"), a Delaware corporation and an indirect, wholly-owned subsidiary of the Parent. Subject to the terms and conditions of the Merger Agreement, including the satisfaction or waiver of certain conditions, Merger Sub would merge with and into Genworth Financial with Genworth Financial surviving the merger as an indirect, wholly-owned subsidiary of the Parent. The Parent is a newly formed subsidiary of China Oceanwide Holdings Group Co., Ltd. (together with its affiliates, "**China Oceanwide**").

At a special meeting held on March 7, 2017, Genworth Financial's stockholders voted on and approved a proposal to adopt the Merger Agreement. The transaction remains subject to closing conditions, including the receipt of required regulatory approvals in the U.S., China, and other international jurisdictions. Requisite regulatory approvals include that of the Committee on Foreign Investment in the United States ("**CFIUS**"). On March 27, 2018, Genworth Financial, the Parent and Merger Sub entered into a Waiver and Agreement of each party's right to terminate the previously announced Merger Agreement. This fourth waiver and agreement extends the previous deadline of April 1, 2018 to July 1, 2018 and allows additional time for regulatory reviews of the transaction. On April 24, 2018, Genworth Financial and China Oceanwide announced that they had withdrawn and re-filed their joint voluntary notice with CFIUS.

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 2018 or as at March 31, 2018	**Estimate for Full Year 2018 or as at December 31, 2018**
Housing Resales Y/Y: **(13)%**[1]	Housing resales Y/Y: **(7)%**[1]
National Composite House Price Index change Y/Y: **8%**[2]	National Composite House Price Index change: **0% to (2)%** [2]
Average Oil Price: **US $63**[3]	Average Oil Price: **US$55 to US$65**[3]
5 year Government of Canada Bond Yields: **1.97%**[4]	5 year Government of Canada Bond Yields: **2.10% to 2.30%**[4]
GDP Estimate **2.2%**[5]	GDP Estimate **2.0%**[5]
Average Unemployment rate **5.8%**[6]	Average Unemployment rate **6.0% to 6.5%**[6]

[1] Canadian Real Estate Association ("**CREA**").
[2] Teranet-National Bank House Price Index (2018); Management estimate (2018).
[3] U.S. Energy Information Administration - WTI Light Crude Oil US$/barrel (2018); Management estimate (2018).
[4] Bloomberg.
[5] Bank of Canada - Monetary Policy Report, April 2018; 2018 Average Annual Real GDP growth projection.
[6] Statistics Canada – Labour Force Survey (2018); Management estimate (2018).

Macroeconomic environment

The Bank of Canada estimates economic growth, as measured by real Canadian Gross Domestic Product ("**GDP**"), to be 2.2% in the first quarter of 2018, down from 2.7% in the prior forecast as "housing activity contracted sharply in the first quarter following implementation of the revised B-20 Guideline".[1] The full year GDP estimate is 2.0% in 2018, down from 2.2% in the prior forecast and compared to 3.0% in 2017. GDP growth is expected to moderate in 2018 as consumption and residential investment are projected to slow as households respond to rising interest rates and as macro prudential and other housing policy measures continue to weigh on activity in the housing market. Business investments and exports are expected to assist growth in 2018 while growth from consumer spending and residential construction is expected to slow down.

The overnight interest rate in Canada increased 25 basis points in January 2018 to 1.25%. The 5-year Government of Canada bond yield at the end of the first quarter of 2018 was 1.97% and is expected to continue to rise modestly in 2018 to between 2.10% and 2.30%.

Canada's average unemployment rate was 5.8% for the first quarter of 2018, with quarter-over-quarter improvements in the majority of the provinces. The average oil price for the first quarter of 2018 rose to US $63 in response to increased demand due to global geo-political events. The Company expects that the average unemployment rate will be between 6.0% and 6.5% for 2018 and oil prices will be in the range of US$55 to US$65 for the year.

[1] Bank of Canada - Monetary Policy Report, April 2018.

Housing market

The Teranet-National Bank Composite House Price Index, based on closed resale transactions, was flat for the first quarter of 2018. The impact of the Ontario Fair Housing Plan and B-20 Guideline changes have softened housing demand in the Greater Toronto Area and surrounding areas. Homes prices in Toronto have declined from their recent peak by approximately 7% according to the Teranet House Price Index and 14% according to CREA's MLS House Price Index. The Toronto housing market is considered to be balanced based on a sales-to-listing ratio of 45% as reported by CREA as at March 31, 2018. Additional housing policy changes, as introduced in the February 2018 British Columbia budget, are expected to soften demand and home prices in Vancouver and the surrounding area. The Company expects the Teranet-National Bank Composite House Price Index for the full year of 2018 will be flat or decline by a modest 0% to (2)%.

Home resales for the first quarter of 2018, as reported by the CREA based on the timing of purchase agreements, were down 13% as compared to the prior year, driven by a pull forward demand of housing activity in the fourth quarter of 2017 ahead of the January

1, 2018 implementation of B-20 Guideline changes. This decrease in resales was more pronounced in Ontario with a province-wide decline of 25% and a Greater Toronto Area decline of 31%. CREA expects housing resales to decline nationally by 7% in 2018 largely the result of the regulatory and policy changes impacting Ontario and British Columbia.

First Quarter Review

Table 2: Results of operations

	Three months ended March 31,			
(in millions of dollars, unless otherwise specified)	**2018**	**2017**	**Change**	
Premiums written	**$ 115**	$ 127	$ (12)	(9)%
Premiums earned	**$ 171**	$ 167	$ 4	2%
Losses on claims and expenses:				
Losses on claims	**22**	26	(4)	(15)%
Expenses	**32**	34	(2)	(5)%
Total losses on claims and expenses	**54**	60	(5)	(9)%
Net underwriting income	**117**	107	9	8%
Investment income:				
Interest and dividend income, net of investment expenses	**47**	45	2	4%
Realized income from the interest rate hedging program	**4**	-	4	NM
Net investment gains/(losses)[1]	**11**	(1)	13	NM
Investment income	**62**	43	19	43%
Interest expense	**6**	6	-	-
Income before income taxes	**172**	145	28	19%
Provision for income taxes	**45**	38	6	17%
Net income	**$ 128**	$ 106	$ 21	20%
Adjustment to net income, net of taxes:				
Net investment (gains)/losses[1]	**(8)**	1	(10)	NM
Net operating income[2]	**$ 119**	$ 107	$ 12	11%
Effective tax rate	**26.0%**	26.6%	-	(0.6) pts
Selected non-IFRS financial measures[2]				
Transactional new insurance written	**$ 3,156**	$ 3,047	$ 110	4%
Portfolio new insurance written	**$ 1,152**	$ 10,513	$ (9,360)	(89)%
Loss ratio	**13%**	15%	-	(3) pts
Expense ratio	**19%**	20%	-	(1) pts
Combined ratio	**32%**	36%	-	(4) pts
Operating return on equity	**12%**	12%	-	- pts
Investment yield	**3.2%**	3.2%	-	- pts

Note: Amounts may not total due to rounding. NM means Not Meaningful.
[1] Excludes the realized income from the interest rate hedging program.
[2] 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)	**2018**	**2017**	**Change**	
New insurance written				
Transactional	**$ 3,156**	$ 3,047	$ 110	4%
Portfolio	**1,152**	10,513	(9,360)	(89)%
Total	**$ 4,308**	$ 13,559	$ (9,251)	(68)%
Premiums written				
Transactional	**109**	89	20	22%
Portfolio	**6**	38	(32)	(84)%
Total	**$ 115**	$ 127	$ (12)	(9)%
Average premium rate (in basis points)				
Transactional	**346**	293	53	18%
Portfolio	**53**	36	17	48%
Total	**268**	94	174	NM
Premiums earned	**$ 171**	$ 167	$ 4	2%

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

Transactional new insurance written was $3.2 billion in the first quarter of 2018, an increase of $0.1 billion, or 4%, as compared to the same quarter in the prior year. This increase was primarily due to a stronger housing market from a pull forward demand in the fourth quarter of 2017 ahead of the B-20 Guideline changes which introduced a mortgage rate stress test for uninsured mortgages. Although the B-20 Guideline changes did not directly impact the high loan-to-value mortgage market, the Company believes that borrower sentiment impacted the broader housing market ahead of implementation of the B-20 Guideline on January 1, 2018.

New insurance written from portfolio insurance was $1.2 billion in the first quarter of 2018, as compared to $10.5 billion in the same quarter in the prior year. The first quarter of 2017 included several large transactions from applications on portfolio insurance received in the fourth quarter of 2016 ahead of the implementation of the new capital framework on January 1, 2017. The lower portfolio insurance volumes in the first quarter of 2018 were due to a substantial increase in portfolio insurance premium rates on mortgage applications received after December 31, 2016 in response to higher regulatory capital requirements under the new capital framework.

Premiums written from transactional insurance were $109 million in the first quarter of 2018, an increase of $20 million, or 22%, compared to the same quarter in the prior year. The increase was primarily due to an 18%, or 53 basis point, higher average premium rate from the March 17, 2017 premium rate increase and higher new insurance written.

Premiums written from portfolio insurance were $6 million in the first quarter of 2018, a decrease of $32 million compared to the same quarter in the prior year, primarily due to a decrease in new insurance written. The average premium rate of 53 basis points in the first quarter of 2018 reflects a 48% increase in portfolio premium rates in response to higher regulatory capital requirements.

Premiums earned increased by $4 million, or 2%, to $171 million in the first quarter of 2018, as compared to the same quarter in the prior year, reflecting the level of premiums written in recent years.

Table 4: Losses on claims

	Three months ended March 31,			
	2018	**2017**	**Change**	
New delinquencies	**972**	1,248	(276)	(22)%
Cures	**607**	757	(150)	(20)%
New delinquencies, net of cures	**365**	491	(126)	(26)%
Average reserve per delinquency (in thousands of dollars)	**$ 68**	$ 76	$ (7)	(10)%
Losses on claims (in millions of dollars)	**$ 22**	$ 26	$ (4)	(15)%
Loss ratio	**13%**	15%	-	(3) pts

Note: Amounts may not total due to rounding.

Losses on claims of $22 million were lower by $4 million, primarily due to fewer new reported delinquencies, net of cures and lower average reserve per delinquency. Losses on claims included $7 million of favourable development from the prior quarter's loss reserve compared to $19 million of favourable development experienced in the same quarter of the prior year. This significant favourable loss reserve development in the first quarter of 2017 was primarily due to fewer new reported delinquencies from Alberta and Québec as compared to the incurred, but not reported reserve at December 31, 2016.

New reported delinquencies, net of cures, of 365 were 126 lower than in the same quarter in the prior year, and were led by decreases in the Pacific region (40), Québec (29), Alberta (29), the Atlantic region (23) and Ontario (13), consistent with strong or improving economic conditions in these regions.

The average reserve per delinquency decreased by approximately $7 thousand primarily due to strong or improving home prices in most regions and a favourable shift in regional mix due to a decrease in the number of outstanding delinquencies in Alberta and Québec, which typically have a higher average reserve amount.

The resulting loss ratio was 13% in the first quarter of 2018, 3 percentage points lower than the same period in the prior year primarily due to lower losses on claims.

Table 5: Expenses

	Three months ended March 31,			
(in millions of dollars, unless otherwise specified)	**2018**	**2017**	**Change**	
Expenses				
Premium taxes and underwriting fees	**$ 9**	$ 10	$ (1)	(8)%
Employee compensation	**12**	14	(2)	(15)%
Other	**8**	8	-	-
Expenses before net change in deferred policy acquisition costs	**29**	32	(3)	(9)%
Deferral of policy acquisition costs	**(14)**	(14)	1	(5)%
Amortization of deferred policy acquisition costs	**17**	17	-	-
Total	**$ 32**	$ 34	$ (2)	(5)%
Expense ratio	**19%**	20%	-	(1) pts

Note: Amounts may not total due to rounding.

Total expenses of $32 million decreased by $2 million and the expense ratio of 19% was 1 percentage point lower compared to the same quarter in the prior year. Expenses before net change in deferred policy acquisition costs decreased by $3 million, or 9%, to $29 million in the first quarter of 2018 as compared to the same quarter in the prior year. The decrease was primarily due to a $1 million decrease in premium taxes and underwriting fees, related to lower levels of premiums written and a decrease of $2 million in employee compensation, primarily due to lower share-based compensation in the first quarter of 2018.

Table 6: Investment income

	Three months ended March 31,			
(in millions of dollars, unless otherwise specified)	**2018**	**2017**	**Change**	
Interest and dividend income, net of investment expenses	**$ 47**	$ 45	$ 2	4%
Realized income from the interest rate hedging program	**4**	-	4	NM
Net realized (losses)/gains on sale of investments	**(1)**	1	(2)	NM
Net gains/(losses) on derivatives and foreign exchange[1]	**12**	(3)	15	NM
Investment income	**$ 62**	$ 43	$ 19	43%
Invested assets, end of period	**$ 6,327**	$ 6,278	$ 49	1%
Investment yield, average over period	**3.2%**	3.2%	-	- pts

Note: Amounts may not total due to rounding. NM means Not Meaningful.
[1] Excludes the realized income from the interest rate hedging program.

Operating investment income, excluding net investment gains and losses, was $50 million, or $6 million higher as compared to the same quarter in the prior year primarily as a result of higher interest and dividend income of $2 million. The realized income from the interest rate hedging program of $4 million in the current period represented the difference between the average CDOR of 167 basis points and the average fixed pay rate of 117 basis points, as compared to a modest expense in the same quarter in the prior year.

Interest and dividend income, net of investment expenses, increased by $2 million, or 4% in the first quarter of 2018, primarily due to an increase in the amount of invested assets. The investment yield for the quarter was 3.2%, relatively unchanged as compared to the same quarter in the prior year. Invested assets increased by $49 million primarily as a result of premiums written in 2017 and 2018 and lower losses on claims.

The Company recorded $1 million of realized losses in the first quarter of 2018, as compared to a $1 million gain in the same quarter in the prior year primarily due to the sale of fixed income securities.

Net gains on derivatives and foreign exchange of $12 million, excluding the realized income from the interest rate hedging program, were higher by $15 million, primarily due to the increase in the market value of the Company's interest rate swaps used to hedge interest rate risk and the impact of movements in foreign exchange rates on the Company's assets denominated in U.S dollars. The increase in the market value of the Company's interest rate swaps used to hedge interest rate risk in the first quarter of 2018 was $9 million as compared to a decrease of $3 million in the same quarter in the prior year.

Table 7: Net Income

	Three months ended March 31,			
(in millions of dollars, unless otherwise specified)	**2018**	**2017**	**Change**	
Income before income taxes	**$ 172**	$ 145	$ 28	19%
Provision for income taxes	**45**	38	6	17%
Net income	**$ 128**	$ 106	$ 21	20%
Effective tax rate	**26.0%**	26.6%	-	(0.6)

Note: Amounts may not total due to rounding.

Income before income taxes increased by $28 million, or 19%, to $172 million and net income increased by $21 million, or 20%, to $128 million in the first quarter of 2018, primarily as a result of higher investment income, higher premiums earned and lower losses on claims. The effective tax rate was 26.0% in the first quarter of 2018, and decreased by approximately 60 basis points as a result of higher non-taxable income and lower non-deductible expenses, partially offset by an increase in statutory tax rates in certain provinces as compared to the same quarter in the prior year.

Table 8: Statement of Financial Position Highlights

(in millions of dollars, unless otherwise specified)	**As at March 31, 2018**	**As at December 31, 2017**
Total investments	**$ 6,327**	$ 6,449
Other assets	**302**	264
Derivative financial instrument	**145**	151
Subrogation recoverable	**56**	59
Total assets	**6,830**	6,924
Unearned premiums reserves	**2,074**	2,130
Loss reserves	**118**	119
Long-term debt	**433**	433
Derivative financial instrument	**73**	60
Other liabilities	**166**	221
Total liabilities	**2,864**	2,963
Shareholders' equity excluding Accumulated other comprehensive income ("AOCI")	**3,922**	3,884
AOCI	**45**	78
Shareholders' equity	**3,966**	3,961
Total liabilities and shareholders' equity	**$ 6,830**	$ 6,924
Book value per common share		
Number of common shares outstanding (basic)	**89,792,327**	90,942,040
Book value per common share including AOCI (basic)	**$ 44.17**	$ 43.56
Book value per common share excluding AOCI (basic)	**$ 43.68**	$ 42.71
Number of common shares outstanding (diluted)[1]	**90,615,599**	91,841,277
Book value per common share including AOCI (diluted)[1]	**$ 43.77**	$ 43.13
Book value per common share excluding AOCI (diluted)[1]	**$ 43.28**	$ 42.29
Dividends paid per common share during the year	**$ 0.47**	$ 1.79

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)	**Q1'18**	Q4'17	Q3'17	Q2'17	Q1'17	Q4'16	Q3'16	Q2'16
Premiums written	**$ 115**	$ 164	$ 202	$ 170	$ 127	$ 171	$ 223	$ 249
Premiums earned	**171**	171	170	168	167	164	162	158
Losses on claims	**22**	15	23	6	26	29	41	32
Expenses	**32**	34	34	31	34	33	33	30
Net underwriting income	**117**	121	113	132	107	103	88	95
Investment Income	**62**	64	82	76	43	93	52	33
Net income	**$ 128**	$ 132	$ 140	$ 150	$ 106	$ 140	$ 98	$ 91
Adjustment to net income net of taxes:								
Net investment (gains) losses[1]	**(8)**	(11)	(27)	(24)	1	(35)	(5)	8
Net operating income[2]	**$ 119**	$ 121	$ 112	$ 126	$ 107	$ 105	$ 93	$ 99
Earnings per common share:								
Earnings per common share (basic)	**$ 1.41**	$ 1.45	$ 1.52	$ 1.63	$ 1.16	$ 1.52	$ 1.07	$ 0.99
Earnings per common share (diluted)[3]	**$ 1.38**	$ 1.45	$ 1.52	$ 1.61	$ 1.15	$ 1.52	$ 1.07	$ 0.99
Selected non-IFRS financial measures[2]								
Loss ratio	**13%**	9%	13%	3%	15%	18%	25%	21%
Expense ratio	**19%**	20%	20%	18%	20%	20%	20%	19%
Combined ratio	**32%**	29%	33%	22%	36%	38%	45%	40%
Operating earnings per common share (basic)	**$ 1.31**	$ 1.33	$ 1.23	$ 1.37	$ 1.17	$ 1.15	$ 1.02	$ 1.07
Operating earnings per common share (diluted)[3]	**$ 1.31**	$ 1.33	$ 1.23	$ 1.36	$ 1.17	$ 1.14	$ 1.02	$ 1.07
Operating return on equity	**12%**	13%	12%	14%	12%	12%	11%	12%

Note: Amounts may not total due to rounding.

[1] Excludes the realized income from the interest rate hedging program.

[2] 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.

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

The Company's key financial measures for each of the last eight quarters are summarized in the Table above. These highlights illustrate the Company's profitability, 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 new insurance 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, primarily due to an increase in new delinquencies in Alberta specifically related to wild fires in the Fort McMurray area. In the second quarter of 2017, losses on claims decreased significantly due to favourable development as there were fewer new reported delinquencies in Ontario, Alberta, Québec and the Atlantic Provinces as compared to the incurred but not reported reserve as at December 31, 2016. The Company's financial results for the first quarter of 2018 were driven by increasing premiums earned a relatively consistent expense ratio and a stable loss ratio compared to the prior year.

Financial condition

Financial instruments

As at March 31, 2018, 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, 2018**			**As at December 31, 2017**		
(in millions of dollars, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains (losses)**	Fair value	%	Unrealized gains (losses)
Collateralized loan obligations	**$ 397**	**6%**	**$ 1**	$ 357	6%	$ 2
Corporate bonds and debentures:						
Financial	**828**	**13%**	**(1)**	843	13%	5
Energy	**355**	**6%**	**5**	349	5%	8
Infrastructure	**92**	**1%**	**4**	98	2%	4
All other sectors	**922**	**15%**	**1**	893	14%	15
Total corporate bonds and debentures	**2,196**	**35%**	**8**	2,184	34%	31
Short-term investments:						
Canadian federal government treasury bills	**50**	**1%**	**-**	221	3%	-
Total short term investments	**50**	**1%**	**-**	221	3%	-
Government bonds and debentures:						
Canadian federal government	**1,929**	**30%**	**11**	1,907	30%	16
Canadian provincial and municipal governments	**906**	**14%**	**31**	946	15%	39
Total government bonds and debentures	**2,835**	**45%**	**42**	2,853	44%	55
Preferred shares:						
Financial	**339**	**5%**	**5**	329	5%	11
Energy	**105**	**2%**	**5**	99	2%	7
All other sectors	**119**	**2%**	**6**	119	2%	7
Total preferred shares	**563**	**9%**	**16**	547	8%	24
Total invested assets	**$ 6,041**	**95%**	**$ 67**	$ 6,162	96%	$ 112
Cash and cash equivalents[1]	**286**	**5%**	**-**	287	4%	-
Total investments	**$ 6,327**	**100%**	**$ 67**	$ 6,449	100%	$ 112
Accrued investment income and other receivables	**66**		**-**	32		-
Derivative financial instruments (asset net of liability and cash collateral)	**72**		**72**	92		92
Total Invested assets, accrued investment income and other receivables	**$ 6,465**		**$ 139**	$ 6,573		$ 204

Note: Amounts may not total due to rounding.

[1] Cash and cash equivalents includes cash collateral of $42 million (December 31, 2017 - $ 38 million) pledged to the benefit of the Company from its derivative counterparties with a corresponding liability to return the collateral included in derivative financial instruments.

Unrealized gains on AFS securities in the portfolio were $67 million, a decrease of $45 million from December 31, 2017 primarily as a result of an increase in interest rates in the first quarter of 2018. The Company has economically hedged a portion of its foreign exchange and interest rate risk and the net market value of these derivatives is a net asset of $72 million compared to a net asset of $92 million as at December 31, 2017. Excluding the liability of $42 million cash pledged as collateral as at March 31, 2018 and the liability of $38 million cash pledged as collateral as at December 31, 2017, the net market value of these derivatives is a net asset of $114 million as at March 31, 2018 compared to $130 million as at December 31, 2017.

The Company's average investment yield for the first quarter of 2018 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 Moody's ratings.

Table 11: Invested assets by credit rating for the portfolio

Credit Rating	**As at March 31, 2018**			**As at December 31, 2017**		
(in millions of dollars, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains (losses)**	**Fair value**	**%**	**Unrealized gains (losses)**
Cash and cash equivalents	**$ 286**	**5%**	**$ -**	$ 287	5%	$ -
AAA	**2,156**	**37%**	**11**	2,321	39%	17
AA	**1,088**	**19%**	**22**	1,126	19%	30
A	**1,668**	**29%**	**15**	1,593	27%	29
BBB	**555**	**10%**	**2**	566	10%	11
Below BBB	**10**	**0%**	**0**	10	0%	0
Total investments (excluding preferred shares)	**$ 5,764**	**100%**	**$ 51**	$ 5,903	100%	$ 88
Preferred shares						
P2	**438**	**78%**	**6**	430	79%	14
P3	**126**	**22%**	**10**	117	21%	10
Total Preferred shares	**563**	**100%**	**16**	547	100%	24
Total Investments	**$ 6,327**		**$ 67**	$ 6,449		$ 112

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 $397 million in collateralized loan obligations as of March 31, 2018, up from $357 million as of December 31, 2017. These securities are floating rate collateralized loan obligations denominated in U.S. dollars, of which 57% are rated AAA, 35% are rated AA and 8% are rated A.

Corporate bonds and debentures

As of March 31, 2018, approximately 35% of the investment portfolio was held in corporate bonds and debentures, up from 34% as at December 31, 2017. 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 13% of the investment portfolio, or approximately 38% of the corporate bonds and debentures. The Company continuously monitors and repositions its exposure to the financial sector, which represents a significant proportion of the corporate issuances of fixed income securities in the Canadian marketplace. The Company is mindful of correlation risk and looks for opportunities to diversify the portfolio outside of Canada to sectors and issuers that have a lower correlated risk to Canada. Energy sector exposure through corporate bonds and debentures represents $355 million or 6% of the investment portfolio.

Securities rated BBB and below were $565 million, or 9% of invested assets, as of March 31, 2018.

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, 2018, 45% of the investment portfolio was invested in sovereign fixed income securities, consisting of 30% in federal fixed income securities and 14% in provincial fixed income securities, relatively consistent with December 31, 2017.

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 $50 million in Canadian federal government short-term treasury bills in the investment portfolio as of March 31, 2018, a decrease of $172 million from December 31, 2017.

Preferred shares

As of March 31, 2018, the Company held $563 million of preferred shares, of which the financial sector represented 60%. 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. The preferred shares are in an unrealized gain position of $16 million as at March 31, 2018, a decline of $8 million as compared to December 31, 2017 consistent with a decrease in equity market valuations. Energy sector exposure through preferred shares represents $105 million or 2% 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 $286 million as of March 31, 2018, relatively unchanged from $287 million as at December 31, 2017 as a result of the Company's anticipation of a rising interest rate environment in 2018. Refer to "**Liquidity**" section below for additional information.

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 future financial years.

Table 12: Summary of the Company's cash flows

	Three months ended March 31,	
(in millions of dollars)	**2018**	2017
Cash provided by (used in):		
Operating activities	**$ (11)**	$ 15
Financing activities	**(91)**	(39)
Investing activities	**101**	113
Change in cash and cash equivalents	**$ (1)**	$ 89
Cash and cash equivalents, beginning of period	**287**	126
Cash and cash equivalents, end of period	**$ 286**	$ 215

Note: Amounts may not total due to rounding.

The Company utilized $11 million of cash flows from operating activities in the first quarter of 2018, as compared to $15 million generated in the first quarter of the prior year. The lower cash flows from operating activities were primarily the result of lower levels of premiums written and higher taxes paid.

The Company utilized $91 million of cash flows for financing activities in the first quarter of 2018, primarily related to the payment of ordinary dividends of $0.47 per common share as well as an approximately $50 million repurchase of common shares under its NCIB, as compared to $39 million primarily related to the payment of ordinary dividends of $0.44 per common share in the first quarter of the prior year.

The Company generated $101 million of cash flows for investing activities in the first quarter of 2018, primarily from the proceeds of sales or maturities of investments, compared to $113 million in the first quarter of the prior year. Cash flows generated from investing activities are as a result of the Company's anticipation of a rising interest rate environment in 2018.

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, 2018, the Company held liquid assets of $760 million, comprised of $286 million in cash and cash equivalents, and $474 million in bonds and debentures and short-term investments maturing within one year, in order to maintain financial flexibility. Of the $760 million liquid assets, $126 million were held outside of the Insurance Subsidiary. As at March 31, 2018, the duration of the fixed income portfolio was 3.9 years.

In addition to cash and cash equivalents, 46%, or $2,885 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 economic 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 millions of Canadian dollars

				Notional Amount *(in millions)*				
	Derivative Asset	Derivative Liability[1]	Net Fair value	1 year or less	1–3 years	3–5 years	Over 5 years	Total
March 31, 2018								
Foreign currency forwards	$ 1	$ (29)	$ (28)	$ 168	$ 35	$ 88	$ 117	$ 408
Cross currency interest rate swaps	$ 7	$ (3)	$ 4	$ 43	$ 231	$ 95	$ 161	$ 529
Equity total return swaps	$ 1	-	$ 1	$ 19	-	-	-	$ 19
Interest rate swaps	$ 137	-	$ 137	-	$ 500	$ 3,000	-	$ 3,500
Total	**$ 145**	**$ (32)**	**$ 114**	**$ 230**	**$ 766**	**$ 3,183**	**$ 277**	**$ 4,457**
December 31, 2017								
Foreign currency forwards	$ 6	$ (22)	$ (15)	$ 185	$ 28	$ 86	$ 117	$ 416
Cross currency interest rate swaps	$ 14	-	$ 14	$ 36	$ 156	$ 84	$ 162	$ 439
Equity total return swaps	-	-	-	$ 27	-	-	-	$ 27
Interest rate swaps	$ 131	-	$ 131	-	-	$ 3,500	-	$ 3,500
Total	**$ 151**	**$ (22)**	**$ 130**	**$ 249**	**$ 184**	**$ 3,670**	**$ 280**	**$ 4,382**

Note: Amounts may not total due to rounding.
[1]Excludes $42 million cash pledged as collateral by counterparties for derivative contracts as at March 31, 2018 (December 31, 2017 - $38 million).

Certain December 31, 2017 comparative figures in the above table have been corrected to conform to the December 31, 2017 annual financial statements.

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 2018, the Company invested less than $1 million in underwriting, loss mitigation and risk management technologies enhancements, relatively consistent with the expenditures in the same quarter in the prior year. 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 2018 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 ("MCT")

The Insurance Subsidiary is regulated by OSFI and evaluates MCT requirements using the capital advisory titled "Capital Requirements for Federally Regulated Mortgage Insurers" which went into effect in 2017. 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. The advisory includes a phase-in period for portfolio insurance originated prior to January 1, 2017 and extended amortization mortgages insured prior to January 1, 2017 on Genworth Canada's insurance in-force. This transitional arrangement will keep the required capital unchanged for these segments using the 2016 MCT guidelines as at December 31, 2016 until such time as the required capital under the new framework is less than the aforementioned capital under the 2016 standard. Additionally, the advisory provides for a three year phase-in period of the rising impact on capital required for operational risk. The Company has established an internal MCT target of 157% as compared to the OSFI Supervisory MCT target of 150% and the minimum MCT under PRMHIA is 150%.

As at March 31, 2018, the Insurance Subsidiary's MCT ratio estimate was approximately 170%, 20 percentage points higher than the OSFI Supervisory MCT target and 13 percentage points higher than the Company's internal MCT target of 157%. As at December 31, 2017, the Insurance Subsidiary's final MCT ratio was 172% as compared to the MCT ratio estimate of 168% reported in the Management Discussion and Analysis for the fourth quarter of 2017.

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 and subject to satisfactory capital required excluding the transitional capital benefit under the phase-in period.

Table 14: MCT as at March 31, 2018 and as at December 31, 2017

(in millions, unless otherwise specified) **Minimum Capital Test**	**As at** **March 31, 2018**	As at December 31, 2017
Capital available	**$4,273**	$4,234
Capital required	**$2,514**	$2,455
MCT ratio[1]	**170%**	172%

[1] Company estimate as at March 31, 2018.

Capital available increased modestly in the first quarter of 2018, primarily due to profitability net of the Insurance Subsidiary's dividends paid, partially offset by a decrease in unrealized gains on the investment portfolio. Capital required increased primarily due to an increase in the capital required for insurance risk. This increase was due to new insurance written during the quarter for both transactional and portfolio insurance, the impact of portfolio insurance substitutions for fully repaid insured mortgages related to portfolio insurance originally insured prior to 2015 partially offset by the decline in outstanding insured mortgage balances on 2017 and prior books of business. The portfolio insurance substitutions attract capital under the new capital framework and do not qualify for the transitional rules.

Debt

The Company proactively manages capital to balance capital strength, flexibility and efficiency. The Company currently has $435 million in long-term debt, issued in two series, with a debt-to-capital ratio as at March 31, 2018 of 10%.

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

Series	Series 1	Series 3
Timing of maturity	1-3 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	5.680%	4.242%
Semi-annual interest payments due each year on	June 15, December 15	October 1, April 1
Debenture Ratings		
S&P[1]	BBB+	BBB+
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 summarized 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.

The above summarized details will not include all details relating to the Company's debentures. For all pertinent 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 September 29, 2017, the Company entered into a $200 million senior unsecured revolving syndicated credit facility, which matures on September 29, 2022. Any borrowings under the syndicated credit facility will bear interest at a rate per annum equal to either a fixed rate based on a spread over banker's acceptance or will bear interest at a variable rate based on a spread over the agent bank's prime rate. The Company also pays a standby fee based on the unused amount of the commitment which is recorded in interest expense in the condensed consolidated interim statements of income. The syndicated credit facility includes customary representations, warranties, covenants, terms and conditions for transactions of this type.

As at March 31, 2018, there was no amount outstanding under the syndicated 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 July 21, 2017, DBRS confirmed the Insurance Subsidiary's AA financial strength rating and the Company's A (high) rating with stable trends citing "the Company's solid market position, high-quality insurance portfolio and advanced risk analytics, as well as its strong capital position relative to the capital required to meet insurance claims obligations." [1]

On August 15, 2017, 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.

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+	A (High), Stable

Capital transactions

Share repurchase

On May 2, 2017, the Company received approval by the Toronto Stock Exchange for the Company to undertake a NCIB. Pursuant to the NCIB, the Company can purchase, for cancellation, up to 4,597,385 shares representing approximately 5% of its outstanding common shares. Purchases of common shares under the NCIB may commence on or after May 5, 2017 and will conclude on the earlier of May 4, 2018 and the date on which the Company has purchased the maximum number of shares under the NCIB.

During the three months ended March 31, 2018, under the terms of the NCIB, the Company repurchased 1,228,413 shares for cancellation, for an aggregate purchase price of approximately $50 million. The Company's majority shareholder, Genworth Financial Inc., through its subsidiaries, participated proportionately in the share repurchase.

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

[1] DBRS August 18, 2017 press release: DBRS Confirms Ratings on Genworth Financial Mortgage Insurance Co. Canada at AA and Genworth MI Canada Inc. at A (high), stable trends.

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, 2018 and December 31, 2017

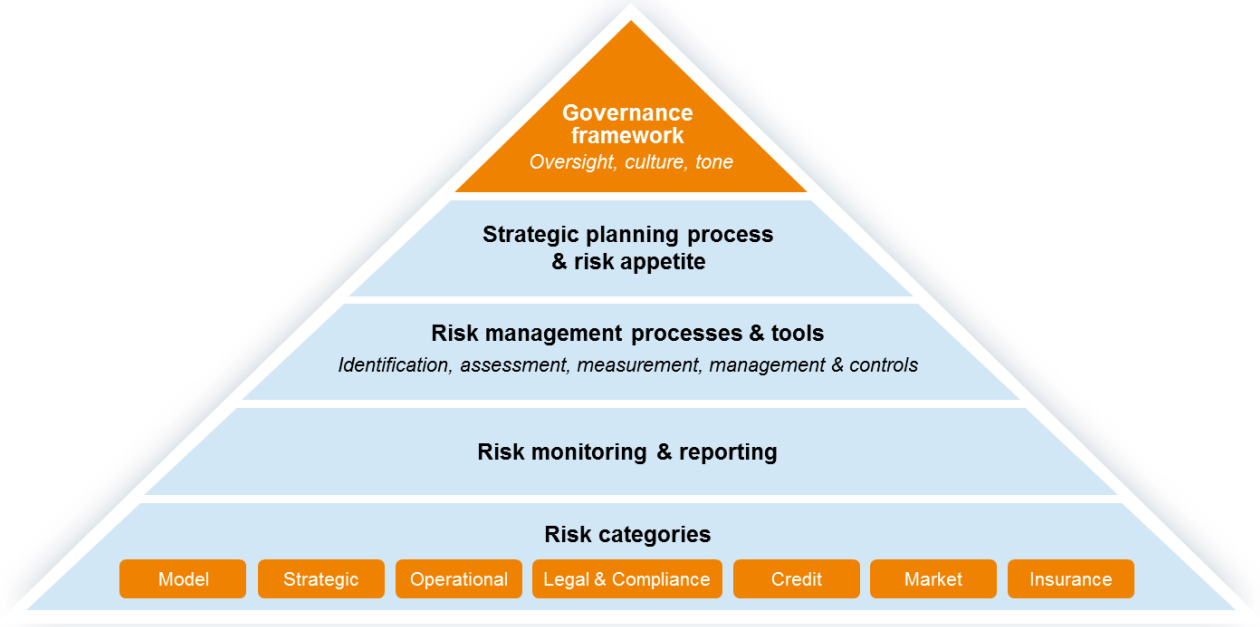
	March 31, 2018	December 31, 2017
Common shares, beginning of period	**90,942,040**	91,864,100
Effect of share repurchase	**(1,228,413)**	(1,114,260)
Common shares issued in connection with share-based compensation plans	**78,700**	192,200
Common shares, end of period	**89,792,327**	90,942,040

At March 31, 2018, Genworth Financial, Inc. beneficially owned 51,224,957 common shares, or approximately 57.0% 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 40.5%, 14.8% and 1.8% of the common shares, 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

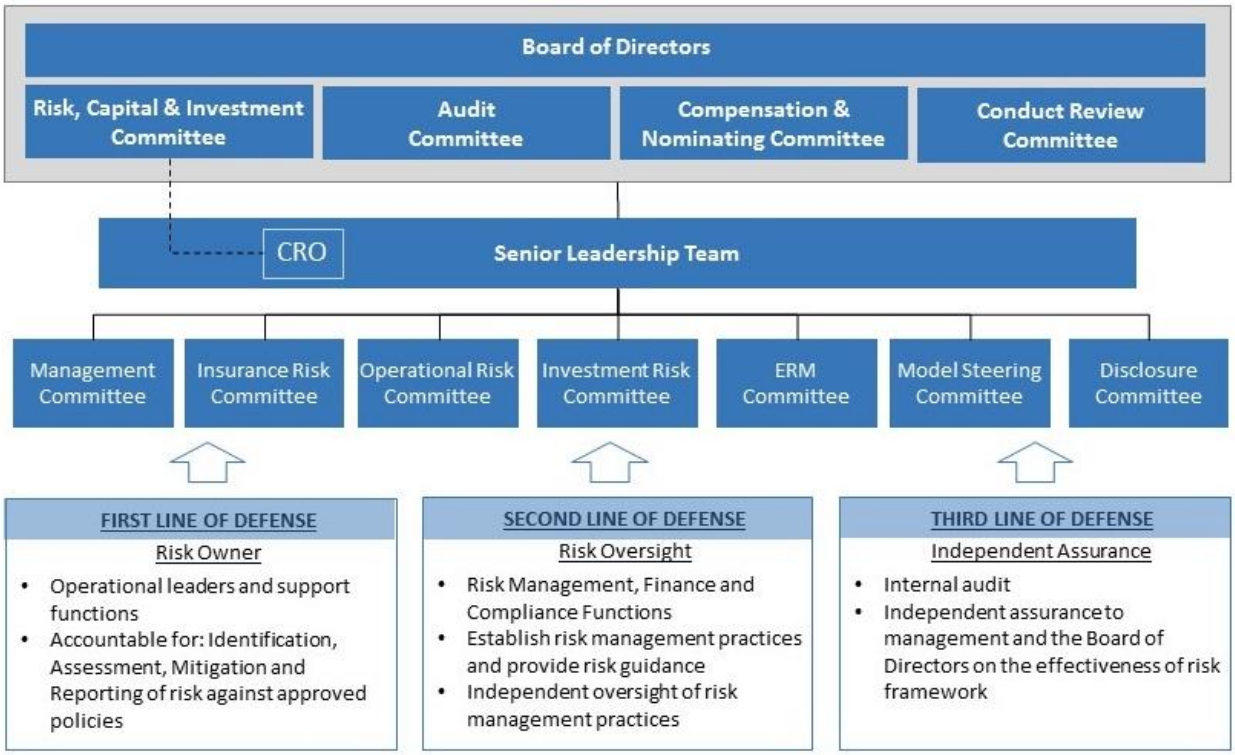
The Company's governance framework is designed to ensure the Board and management have effective oversight of the risks faced by the Company with clearly defined and articulated roles and responsibilities and inter-relationships. The governance framework is comprised of three core elements:

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 Solvency 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 746 primarily due to continued underwriting diligence. The average home price for transactional insurance originations has remained relatively stable at $342,000, representing an increase of less than 5%, over the prior year's period. The average gross debt service ratio for the first quarter of 2018 increased by less than one basis point to 25% and is 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, 2018			As at December 31, 2017		
	Transactional	**Portfolio**	**Total**	**Transactional**	**Portfolio**	**Total**
2009 & prior	**36**	**18**	**29**	37	18	29
2010	**53**	**26**	**42**	53	26	42
2011	**57**	**27**	**41**	57	28	41
2012	**62**	**33**	**45**	62	34	46
2013	**65**	**35**	**46**	65	36	46
2014	**71**	**41**	**51**	71	42	52
2015	**75**	**44**	**52**	75	45	53
2016	**81**	**49**	**60**	81	50	62
2017	**92**	**58**	**82**	91	60	84
2018	**95**	**62**	**89**	-	-	-
Total	**64**	**39**	**49**	64	39	49

[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 insurance risk committee on a monthly basis. The Company closely monitors the delinquency performance as a key indicator of insurance portfolio performance.

Quality Assurance

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

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

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.

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, 2018 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 amendments to existing standards have been issued by the International Accounting Standards Board ("**IASB**") and are effective for annual periods beginning on or after January 1, 2018.

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:
(i) The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
(ii) Share-based payment transactions with a net settlement feature for withholding tax obligations; and
(iii) The effect of 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 adoption of the amendments to IFRS 2 had no impact on the Company's financial statements.

Future accounting standards

The following new standards, amendments to existing standards or new interpretations have been issued by the IASB and became effective after March 31, 2018.

IFRS 17 - Insurance contracts

In May 2017, the IASB issued IFRS 17. IFRS 17 a comprehensive standard that establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 will replace IFRS 4. The measurement approach under IFRS 17 is based on the following:

(i) A current, unbiased probability-weighted estimate of future cash flows expected to arise as the insurer fulfills the contract;
(ii) The effect of the time value of money;
(iii) A risk adjustment that measures the effects of uncertainty about the amount and timing of future cash flows; and
(iv) A contractual service margin which represents the unearned profit in a contract and that is recognized as the insurer fulfills its performance obligations under the contract.

There will also be new financial statement presentation for insurance contracts and additional disclosure requirements.

IFRS 17 is effective for annual periods beginning on or after January 1, 2021.

The Company is currently assessing the impact of IFRS 17. The extent of the impact of adoption of the standard has not yet been determined.

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.

IFRS 9 is generally effective for years beginning on or after January 1, 2018. In September 2016, the IASB issued an amendment to IFRS 4: Insurance contracts ("IFRS 4") which provides optional relief to eligible insurers in respect of IFRS 9. The options permit entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4 (a) a temporary exemption to defer the implementation of IFRS 9 or alternatively (b) the option to remove from income 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 annual periods beginning on or after January 1, 2021. The Company has analyzed this amendment and has concluded that it is an eligible insurer that qualifies for the transitional relief. The Company has elected to apply the optional transitional relief that permits the deferral of the adoption of IFRS 9 for eligible insurers. As a result, the Company did not adopt IFRS 9 as at January 1, 2018. The Company will continue to apply IAS 39 until January 1, 2021.

Effective in reporting periods in 2018, an insurer that elected to apply the transitional relief under IFRS 4 is required to disclose how the insurer concluded that it is eligible for the transitional relief and provide additional disclosure that enable comparison with entities that applied IFRS 9 at January 1, 2018. These disclosures are included in the Company's condensed consolidated interim financial statements for the period ended March 31, 2018.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 which sets out the principles for the recognition, measurement, presentation and disclosure of leases. The new standard removes the current requirement of classifying leases as finance or operating leases by introducing a single lessee accounting model. Under the new model, the lessee will be required to recognize a right of use asset and a lease liability for the lease component of future payments. Lessees will also be required to replace operating lease expenses with the depreciation expense for the right of use assets and interest expense on lease liabilities in the statement of income. There are recognition exemptions for short-term leases and leases of low value items. There are no significant changes to lessor accounting requirements.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with retrospective application and some practical expedients available on adoption.

The Company is currently assessing the impact of IFRS 16. The Company expects that IFRS 16 will result in leases being recorded on the Company's statement of financial position, including those currently classified as operating leases, except leases with low value of the underlying asset. On transition, the Company expects to apply practical expedients available whereby the Company will not need to reassess whether a contract is, or contains, a lease for transactions recognized prior to the date of initial application.

IFRIC Interpretation 23 – Uncertainty over income tax treatments ("IFRIC 23")

In June 2017, the IASB issued IFRIC 23 which clarifies how to apply the recognition and measurement requirement in IAS 12 – Income taxes when there is uncertainty over income tax treatments. An entity is required to recognize and measure its taxable profit (taxable loss), tax bases, unused tax losses, unused tax credits and tax rates applying this interpretation.

IFRIC 23 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The interpretation requires retrospective application, with some practical expedients available on adoption.

The Company is evaluating the impact of IFRIC 23 on the Company's financial statements.

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. The Company performs actuarial studies of loss emergence at least annually and adjusts the factors under which premiums are earned in accordance with the results of such studies.

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.

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 2018, 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 investment 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)	**2018**	2017
Investment income	**$ 62**	$ 43
Adjustment to investment income:		
Net investment (gains)/losses[1]	**(11)**	1
Operating investment income	**50**	44
Realized income from the interest rate hedging program	**(4)**	-
Interest and dividend income, net of investment expenses	**$ 47**	$ 45
Net income	**128**	106
Adjustments to net income, net of taxes:		
Net investment (gains)/losses[1]	**(8)**	1
Net operating income	**$ 119**	$ 107
Earnings per common share (basic)	**$ 1.41**	$ 1.16
Adjustment to earnings per common share, net of taxes:		
Net investment (gains)/losses[1]	**(0.09)**	0.01
Operating earnings per common share (basic)	**$ 1.31**	$ 1.17
Earnings per common share (diluted)[2]	**$ 1.38**	$ 1.15
Adjustment to earnings per common share, net of taxes:		
Share based compensation re-measurement amount	**0.02**	-
Net investment (gains)/losses[1]	**(0.09)**	0.01
Operating earnings per common share (diluted)[2]	**$ 1.31**	$ 1.17

Note: Amounts may not total due to rounding.

[1]Excludes the realized income from the interest rate hedging program

[2]The difference between basic and diluted earnings per common shares and operating earnings per common share 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)	**2018**	2017
Selected non-IFRS financial measures		
Insurance in force[1]	**$ 496,000**	$ 477,000
Outstanding insured mortgage balances	**$ 216,000**	$ 226,000
New insurance written	**$ 4,308**	$ 13,559
Transactional new insurance written	**$ 3,156**	$ 3,047
Portfolio new insurance written	**$ 1,152**	$ 10,513
Loss ratio	**13%**	15%
Expense ratio	**19%**	20%
Combined ratio	**32%**	36%
Operating return on equity	**12%**	12%
Investment yield	**3.2%**	3.2%
MCT ratio [2]	**170%**	162%

[1] This estimate is based on amounts reported to the Company by lenders which represent the vast majority of outstanding insured mortgage balances.
[2] Company estimate at March 31, 2018.

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 including the realized income (cost) from the interest rate hedging program as represented by 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 investment income**" means the total net investment income excluding investment gains (losses) and including the realized income (cost) from the interest rate hedging program. This measure is an indicator of the realized operating performance of the investment portfolio and related hedging program.

"**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 on outstanding insured mortgage balances**" means the ratio (expressed as a percentage) of the total number of delinquent loans to the total number of outstanding insured mortgages 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 borrower's 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.