

# **GENWORTH MI CANADA INC.**

**ANNUAL INFORMATION FORM  
For the year ended December 31, 2010**

**March 18, 2011**

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## NOTICE TO INVESTORS

### Interpretation

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

The Company presents its financial statements in Canadian dollars. In this AIF, references to “\$”, “Cdn\$”, “dollars” or “Canadian dollars” are to Canadian dollars and references to “US\$” are to United States dollars. Amounts are stated in Canadian dollars unless otherwise indicated. Except as otherwise noted, the information in this AIF is given as of March 18, 2011.

### Caution Regarding Forward-Looking Information and Statements

Certain statements made in this AIF contain forward-looking information within the meaning of applicable securities laws (“**forward-looking statements**”). When used in this AIF, the words “may”, “would”, “could”, “will”, “intend”, “plan”, “anticipate”, “believe”, “seek”, “propose”, “estimate”, “expect”, and similar expressions, as they relate to the Company are intended to identify forward-looking statements. Specific forward-looking statements in this document include, but are not limited to, statements with respect to housing demand and home price appreciation, unemployment rates, the Company’s future operating and financial results, sales expectations regarding premiums written, capital expenditure plans, dividend policy and the ability to execute on its future operating, investing and financial strategies.

The forward-looking statements contained herein are based on certain factors and assumptions, certain of which appear proximate to the applicable forward-looking statements contained herein. Inherent in the forward-looking statements are known and unknown risks, uncertainties and other factors beyond the Company’s ability to control or predict, that may cause the actual results, performance or achievements of the Company, or developments in the Company’s business or in its industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Actual results or developments may differ materially from those contemplated by the forward-looking statements.

The Company’s actual results and performance could differ materially from those anticipated in these forward-looking statements as a result of both known and unknown risks, including the continued availability of the Canadian government’s guarantee of private mortgage insurance on terms satisfactory to the Company; the Company’s expectations regarding its revenues, expenses and operations; the Company’s plans to implement its strategy and operate its business; the Company’s expectations regarding the compensation of directors and officers; the Company’s anticipated cash needs and its estimates regarding its capital expenditures, capital requirements, reserves and its needs for additional financing; the Company’s plans for and timing of expansion of service and products; the Company’s ability to accurately assess and manage risks associated with the policies that are written; the Company’s ability to accurately manage market, interest and credit risks; the Company’s ability to maintain ratings; interest rate fluctuations; a decrease in the volume of high loan-to-value mortgage orientations; 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; loss of members of the Company's senior management team; potential legal, tax and regulatory investigations and actions; the failure of the Company's computer systems; and potential conflicts of interest between the Company and its majority shareholder, Genworth Financial, Inc.

This is not an exhaustive list of the factors that may affect any of the Company's forward-looking statements. Some of these and other factors are discussed in more detail herein under the heading "*Risk Factors*". Investors and others should carefully consider these and other factors and not place undue reliance on the forward-looking statements. Further information regarding these and other risk factors is included in the Company's public filings with provincial and territorial securities regulatory authorities and can be found on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") website at [www.sedar.com](http://www.sedar.com). The forward-looking statements contained in this AIF represent the Company's views only as of the date hereof. Forward-looking statements contained in this AIF are based on management's current plans, estimates, projections, beliefs and opinions and the assumptions related to these plans, estimates, projections, beliefs and opinions may change, and are presented for the purpose of assisting the Company's securityholders in understanding management's current views regarding those future outcomes and may not be appropriate for other purposes. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company does not undertake to update any forward-looking statements, except to the extent required by applicable securities laws.

#### **GAAP and Non-GAAP Measures**

The Company's consolidated financial statements included in this AIF have been prepared in accordance with Canadian generally accepted accounting principles ("**GAAP**"). The Company's key performance indicators and certain other information included in this AIF include certain non-GAAP measures. Non-GAAP measures used by the Company to analyze performance include underwriting ratios such as loss ratio, expense ratio and combined ratio as well as other performance measures such as net operating income and return on net operating income. The Company believes that these non-GAAP 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-GAAP measures do not have standardized meaning and are unlikely to be comparable to any similar measure presented by other companies.

#### **Documents Incorporated by Reference**

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

- (a) the Company's Management's Discussion and Analysis ("**MD&A**") for the year ended December 31, 2010, and
- (b) the Company's Consolidated Financial Statements and accompanying notes ("**Consolidated Financial Statements**") for the year ended December 31, 2010.

These documents have been filed with securities regulators in Canada and may be accessed on SEDAR at [www.sedar.com](http://www.sedar.com).

## GLOSSARY

Certain terms and abbreviations used in this annual information form are defined below.

“**90% Guarantee**” means the guarantee of the Canadian government provided under the terms of the Government Guarantee Agreement (as defined herein) of the benefits payable under eligible mortgage insurance policies issued by the Company, less 10% of the original principal amount of each insured loan, in the event that Genworth Mortgage Insurance Canada fails to make claim payments with respect to that loan due to its bankruptcy or insolvency.

“**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 investments. Unrealized gains and losses on investments 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.

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

“**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.

“**book yield**” means the ratio (expressed as a percentage) of interest income to the average amortized cost for all or a given portion of invested assets during a specified period.

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

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

“**combined ratio**” means the sum of the loss ratio and the expense ratio. The combined ratio provides a measure of the Company’s ability to generate profits from its insurance underwriting activities.

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

“**credit score**” means the lowest average credit score of all borrowers on a mortgage insurance application. Average credit scores, in most instances, are calculated by averaging the score obtained from both Equifax and TransUnion for each borrower on the application.

“**debt-to-capital ratio**” means the ratio (expressed as a percentage) of debt to total capital (the sum of debt and equity).

“**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 and are amortized into income in proportion to and over the periods in which premiums are earned.

“**delinquency rate**” means the ratio (expressed as a percentage) of the total number of delinquent loans to the total number of policies in-force at a specified date.

“**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.

“**effective loan-to-value**” means a Company approximation based on the estimated balance of loans insured (original balance less principal repayments on a standard amortization schedule) divided by the estimated fair market value of the mortgaged property (original value plus or minus adjustments for changes in home prices for the province in which the property is located).

“**expense ratio**” means the ratio (expressed as a percentage) of sales, underwriting and administrative expenses to net premiums earned for a specified period.

“**government guarantee fund**” means a trust account which is intended to provide the federal government with a source of funds in the event it is required to make a guarantee payment.

“**general portfolio**” means invested assets (including cash and cash equivalents, short-term securities, bonds or other fixed income securities and preferred shares) excluding the government guarantee fund.

“**gross premiums written**” means gross payments received from insurance policies issued during a specified period.

“**guarantee fund earnings**” means the investment income from the cash and invested assets held in the government guarantee fund, net of applicable exit fees.

“**high loan-to-value mortgage insurance**” means mortgage insurance covering an individual mortgage that typically has a loan-to-value ratio of greater than 80% at the time the loan is originated.

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

“**insurance in-force**” means the amount of all mortgage insurance policies in effect at a specified date, based on the original principal balance of mortgages covered by such insurance policies, including any capitalized premiums.

“**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 by an insurer under mortgage insurance policies during a specified period. A portion of reported losses on claims represents estimates of costs of pending

claims that are still open during the reporting period, as well as estimates of losses associated with claims that have yet to be reported and the cost of investigating, adjusting and settling claims.

“**loss ratio**” means the ratio (expressed as a percentage) of the total amount of losses on claims associated with insurance policies incurred during a specified period to net premiums earned during such period.

“**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.

“**low loan-to-value**” or “**conventional**” mortgage insurance mean mortgage insurance covering an individual mortgage that has a loan-to-value ratio equal to or less than 80% at the time the loan is insured.

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

“**Minimum Capital Test**” or “**MCT**” means the minimum capital test for certain federally regulated insurance companies established by OSFI (as defined herein). Under MCT, companies calculate a ratio of capital available to capital required using a defined methodology prescribed by OSFI in monitoring the adequacy of a company’s capital.

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

“**net operating income**” means net income excluding after-tax net realized gains (losses) on sale of investments and unrealized gains (losses) on held for trading securities.

“**net premiums earned**” means the portion of net premiums written from current and prior periods that is recognized as revenue in a specified period. Premiums written are initially deferred and recorded as unearned premium reserves and then recognized in revenue as premiums earned over the term of the related policies based on the expected pattern of loss emergence.

“**net premiums written**” means gross payments received from insurance policies issued during a specified period, net of the risk premiums payable pursuant to the Government Guarantee Agreement in respect of those policies.

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

“**new insurance written**” means the original principal balance of mortgages, including any capitalized premiums, insured during a specified period.

“**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.

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



“**residential mortgage insurance market**” means the mortgage insurance market for residential properties, including properties with one to four residential units or individual condominium units, but excluding multi-family units.

“**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 and net of the change in deferred policy acquisition costs.

“**severity**” means the dollar amount of losses on claims.

“**severity ratio**” means the ratio (expressed as a percentage) of the dollar amount of paid claims during a specified period on insured loans to the original insured mortgage amount relating to such loans. The main determinants of the severity ratio are the loan-to-value, age of the mortgage loan, the value of the underlying property, accrued interest on the loan, expenses advanced by the insured and foreclosure expenses.

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

“**total debt service ratio**” or “**TDS**” means the percentage of borrowers’ monthly debt servicing costs as a percentage of borrowers’ monthly gross income.

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

“**unearned premium reserves**” 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 term in accordance with the expected pattern of loss emergence as derived from actuarial analysis of historical loss development.

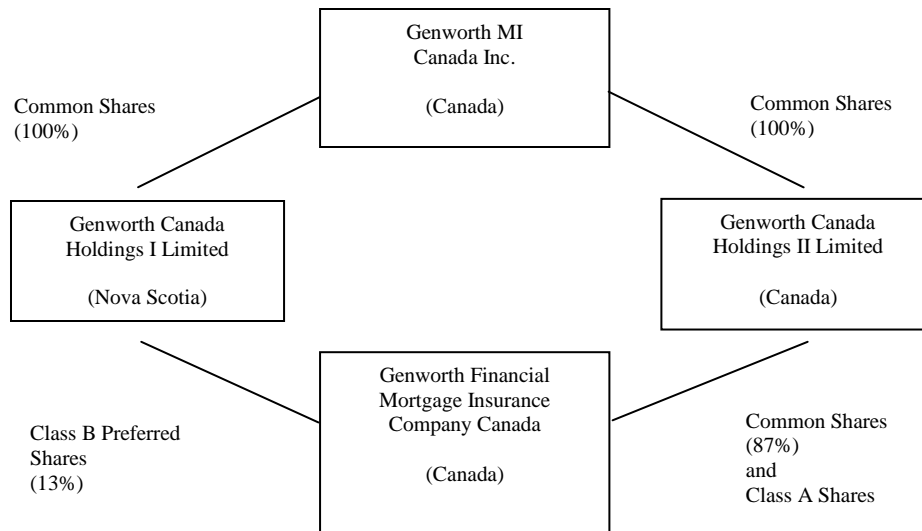
## CORPORATE STRUCTURE

### Name, Address and Incorporation

The Company was incorporated as a corporation under the *Canada Business Corporations Act* pursuant to a Certificate of Incorporation dated May 25, 2009. From 1995 to 2004, the Company's business was operated by Genworth Financial (when it operated as a wholly owned subsidiary of the General Electric Company ("**General Electric**"). In 2004, General Electric completed an initial public offering of Genworth Financial, the Company's indirect parent company. Pursuant to a reorganization on July 6, 2009 (the "**Reorganization**"), the Company acquired Genworth Canada Holdings I Limited ("**Holdings I**") and Genworth Canada Holdings II Limited ("**Holdings II**"), which control Genworth Mortgage Insurance Canada. The principal business office and registered office of the Company is located at 2060 Winston Park Drive, Suite 300, Oakville, Ontario L6H 5R7.

### Inter-corporate Relationships

The following chart illustrates the Company's corporate structure, together with the jurisdiction of incorporation of each of the Company's material subsidiaries, each of which is wholly owned.



## GENERAL DEVELOPMENT OF THE BUSINESS

### Introduction

Genworth Canada is the largest private residential mortgage insurer in Canada and has been providing private mortgage insurance in Canada since 1995. The Company has built a broad underwriting and distribution platform across the country that provides customer-focused products and support services to the vast majority of Canada's residential mortgage lenders and originators. Today, 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. Canada Mortgage and Housing Corporation ("CMHC"), a crown corporation, is the Company's major competitor. As of December 31, 2010, Genworth Canada had \$5.4 billion in total assets and \$2.6 billion in shareholders' equity. For the year ended December 31, 2010, the Company generated gross premiums written of \$564 million, net operating income of \$343 million and an operating return on equity of approximately 14%. The Company employs approximately 263 people across Canada.

### Three Year History

In 2008, Genworth Canada implemented product restrictions to reflect publicly announced adjustments by the Canadian government to the rules for government guaranteed mortgages, including reducing the maximum amortization period to 35 years, requiring a minimum down payment of five percent and establishing a consistent minimum credit score. For the year ended December 31, 2008 gross premiums written were \$722 million, net premiums earned were \$518 million and net income was \$337 million.

In 2009, Genworth Canada completed its initial public offering (the "**Offering**"). In connection with the Offering, the Company completed the Reorganization. As part of the Reorganization, Brookfield Life Assurance Company Limited ("**Brookfield**"), an indirect wholly-owned subsidiary of Genworth Financial transferred all of the issued and outstanding common shares held by it in each of Holdings I and Holdings II to the Company in exchange for newly issued common shares of the Company (the "**Common Shares**"). Additional information on the Reorganization is available in the business acquisition report of the Company dated September 22, 2009 with respect to the Reorganization, which is available on SEDAR at [www.sedar.com](http://www.sedar.com). For the year ended December 31, 2009 gross premiums written were \$374 million, net premiums earned were \$710 million (including a \$100 million earnings curve adjustment) and net income was \$379 million (including \$63 million from the change in the premium recognition curve). During the course of the year, the Company built up a strong financial flexibility that resulted in an MCT ratio of 149%, which comfortably surpassed its MCT ratio requirements of 135%. The Company also increased the number of loan modifications done under its "Homeowner Assistance Program", which is designed to help homeowners who are experiencing temporary financial difficulties that prevent them from making mortgage payments when due.

In 2010, Genworth Canada filed a short form base shelf prospectus which will allow the Company to issue various types of securities. Following such filing the Company completed an offering of \$275 million principal amount of 5.68% debentures due June 15, 2020 (the "**2020 Debentures**") and an offering of \$150 million principal amount of 4.59% debentures due December 2015 (the "**2015 Debentures**", and together with the 2020 Debentures, the "**Debentures**"). The Company also completed a substantial issuer bid where it purchased for cancellation 12,310,606 of its Common Shares at an aggregate price of \$325 million, which represented 10.5% of the Common Shares then outstanding. During the year the Company also increased its quarterly dividends from \$0.22 per share to \$0.26 per share. Despite the dividend increase, the Company continued to build up its strong financial position that resulted in an MCT ratio of 156%, which comfortably surpassed its revised MCT ratio requirements of

145%. For the year ended December 31, 2010 gross premiums written were \$564 million, net premiums earned were \$621 million (including \$48 million from the change in the premium recognition curve). Also during 2010, the Canadian government implemented adjustments to the rules for government guaranteed mortgages, which are reflected in an amendment to the Government Guarantee Agreement between the Company and the government of Canada (for further details on these amendments see “*Material Agreements – Government Guarantee Agreement*”).

## **Acquisitions, Disposals, Reorganizations and Other Developments**

As part of an initial public offering of the Company, Genworth Financial, a public company listed on the New York Stock Exchange (NYSE ticker: GNW), sold a portion of its interest in the Company. As of the date of this AIF, Genworth Financial indirectly holds a 57.5% interest in the Company.

## **DESCRIPTION OF THE BUSINESS**

### **General**

Information about the Company’s business and its operating segments is included in the MD&A which is incorporated by reference in this AIF and should be read in conjunction with the Company’s Consolidated Financial Statements. These documents are available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Overview of the Canadian Mortgage Insurance Industry**

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

The success of Canada’s housing finance system is made possible, in part, by government policies that rely on mortgage insurance to promote sustainable homeownership. The important role of mortgage insurance in Canada’s housing finance system is evidenced by the requirement that all financial institutions that are federally regulated by the Office of the Superintendent of Financial Institutions (“**OSFI**”) must purchase mortgage insurance in respect of a residential mortgage loan whenever the amount of the loan exceeds 80% of the value of the collateral property at the time of loan origination. Moreover, the federal government provides an explicit guarantee of the benefits payable to approved mortgage lenders under eligible private mortgage insurance policies, less 10% of the original principal amount of an insured loan, in the event that the private mortgage insurer is unable to meet its obligations to the beneficiaries of its policies upon bankruptcy or insolvency. In accordance with regulatory capital requirements, lenders are permitted to hold reduced capital for credit risks on eligible mortgages insured under the guarantee by approved and regulated private mortgage insurers, including Genworth Mortgage Insurance Canada. The federal government helps to maintain sound underwriting standards in the market by establishing, in conjunction with mortgage insurance providers, the types of mortgage products that are eligible for coverage under the guarantee. In 2009, the total Canadian residential mortgage and multi-family mortgage insurance industry gross premiums written were reported to be approximately \$2.9 billion.

As a result of the regulatory requirements noted above, the vast majority of mortgages in Canada that are originated with a loan-to-value ratio of greater than 80%, known as “high loan-to-value mortgages”, are insured by a mortgage insurer. Lenders may also obtain mortgage insurance for mortgages with loan-to-value ratios of 80% or less, known as “low loan-to-value mortgages”, for a

number of reasons, including: to obtain credit enhancement for the securitization market that exists for Canadian mortgages (which typically requires that a mortgage loan be insured to become eligible for securitization); to obtain capital relief from regulatory capital requirements for lenders (which is available in respect of insured mortgages); and to mitigate risks associated with certain mortgage loans.

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

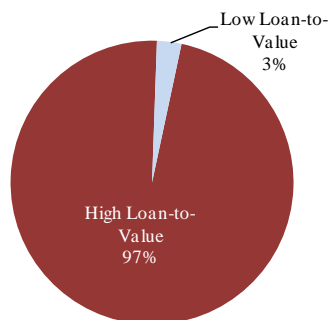
The mandatory requirement for mortgage insurance, coupled with sound capital regulation of lending institutions as well as private mortgage insurers, has fostered a stable housing market in Canada supported by prudent and sustainable lending practices that help moderate the impact of economic and housing market cycles.

For further details on the mortgage insurance industry see “*Industry Overview*” below.

### Overview of the Company's Mortgage Insurance Business

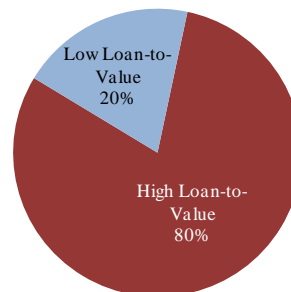
The Company offers both high loan-to-value and low loan-to-value mortgage insurance. The chart on the left below demonstrates that for the 12-month period ended December 31, 2010, high loan-to-value mortgage insurance represented 97% of the Company's gross premiums written and low loan-to-value mortgage insurance represented 3% of its gross premiums written. The chart on the right below demonstrates that, as of December 31, 2010, high loan-to-value mortgage insurance represented 80% of the Company's aggregate insurance in-force, and low loan-to-value mortgage insurance represented 20%. Premiums on low loan-to-value mortgage insurance are significantly lower than those on high loan-to-value mortgage insurance, due to the lower risk profile associated with such loans.

**2010 Gross Premiums Written by Product Type**



**Total: \$564 million**

**Insurance in-force by Product Type (as at December 31, 2010)**



**Total: \$245 billion**

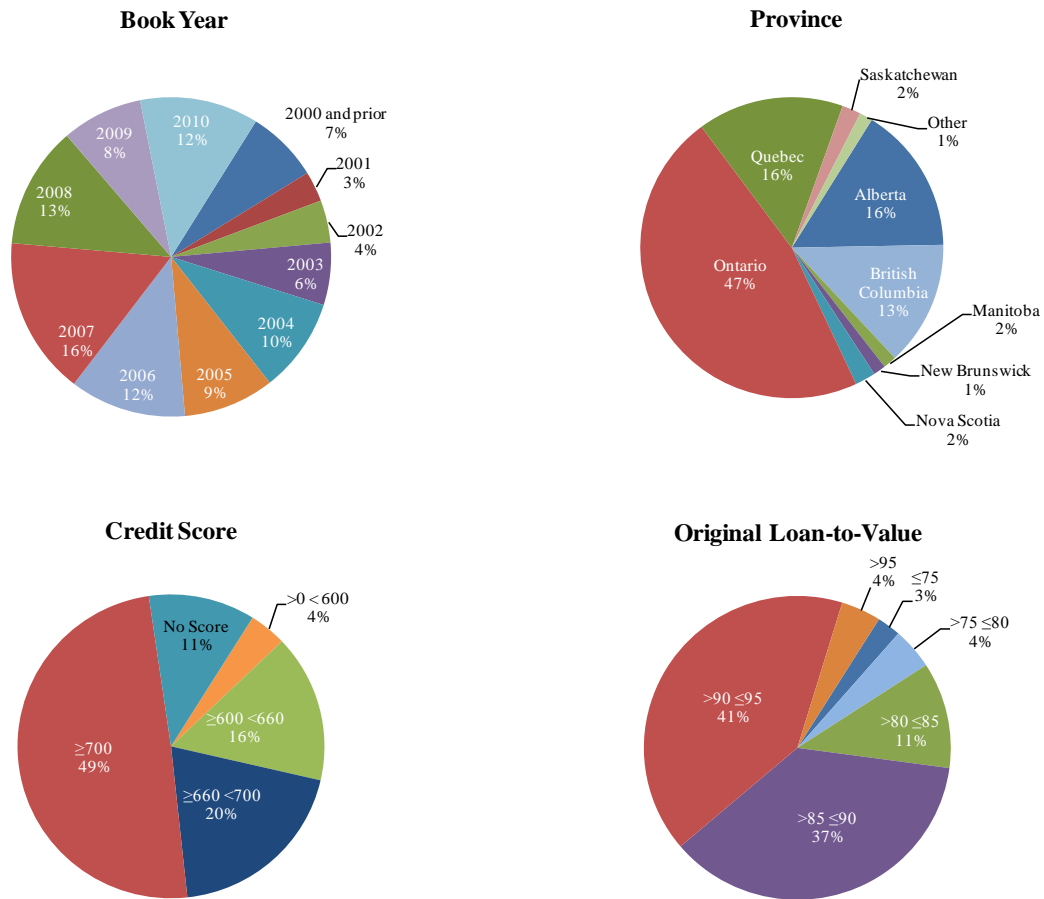
### High Loan-to-Value Mortgage Insurance

Lenders are required to purchase high loan-to-value mortgage insurance in respect of a residential mortgage loan whenever the loan-to-value exceeds 80%. The Company's high loan-to-value mortgage insurance covers default risk on mortgage loans secured by residential properties to protect lenders from losses on claims resulting from default on any type of residential mortgage loan instrument that the Company has approved.

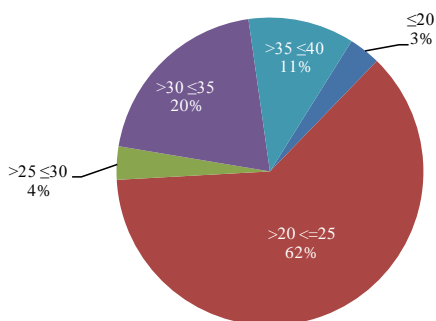
By offering insurance for high loan-to-value mortgages, the Company plays a significant role in increasing access to homeownership for Canadian residents. Homebuyers who wish to make smaller down payments can, through the benefits provided by mortgage insurers such as Genworth Canada, obtain mortgages at rates comparable to buyers with more substantial down payments.

The Company's high loan-to-value mortgage insurance portfolio can be segmented by various classifications. The following charts display the segmentation of the Company's insurance in-force, as of December 31, 2010.

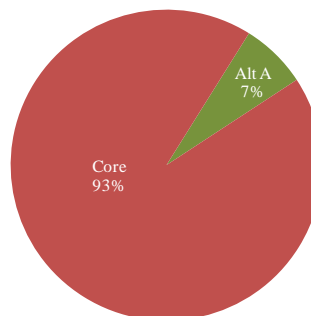
**Total high loan-to-value mortgage insurance portfolio: \$197 billion**



**Amortization (Years)**



**Product**



The process by which lenders purchase high loan-to-value mortgage insurance from the Company is summarized in the following diagram.

**Process for New Insurance Written**



- (1) Borrower buys / refinances home
- (2) Borrower requests mortgage from Lender
- (3) Lender submits insurance application electronically to Genworth Mortgage Insurance Canada
- (4) Genworth Mortgage Insurance Canada reviews and approves applications if the Company’s underwriting standards are met
- (5) Lender advances mortgage funds
- (6) Lender submits premium to Genworth Mortgage Insurance Canada

Although lenders are the beneficiaries of mortgage insurance policies, borrowers have benefited from Genworth Canada’s product innovations and enhancements. The Company has been able to differentiate itself in the Canadian mortgage insurance marketplace by introducing product enhancements and through customer-focused support services such as the Homeowner Assistance Program, which is designed to help homeowners who are experiencing temporary financial difficulties that prevent them from making mortgage payments when due. For further details on the Homeowner Assistance Program see “*Risk Management - Loss Mitigation and Loan Modification Initiatives*” below.

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

To the extent that home prices appreciate over time and/or the principal amount of the loan is paid down, the effective loan-to-value of the Company’s insurance written in a given year decreases. The table below illustrates the original loan-to-value and estimated effective loan-to-value of the Company’s insurance in-force by book of business. As depicted below, the estimated effective loan-to-value of the

Company's overall high loan-to-value insurance in-force was approximately 65% as of December 31, 2010.

**Original Loan-to-Value and Effective Loan-to-Value by Book of Business**

Book Year	Insurance In-Force		Original	Effective
	\$ billions	% of total	Loan-to-Value	Loan-to-Value
2004 and Prior.....	60	31%	90%	46%
2005.....	18	9%	89%	57%
2006.....	23	12%	89%	64%
2007.....	31	16%	91%	75%
2008.....	24	12%	92%	86%
2009.....	16	8%	91%	84%
2010.....	24	12%	91%	92%
	<u>197</u>	<u>100%</u>	<u>90%</u>	<u>65%<sup>1</sup></u>

Note:

<sup>(1)</sup> Overall estimated effective loan-to-value is calculated by weighting the book year estimated effective loan-to-value percentages based on the number of high loan-to-value mortgage insurance policies in force by book year.

***Low Loan-to-Value Mortgage Insurance***

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

Lenders choose to acquire low loan-to-value mortgage insurance to achieve maximum funding flexibility, as it enables them to access low-cost funds through securitization programs, such as the CMHC-sponsored National Housing Act Mortgage-Backed Securities (“MBS”) program, which requires that a mortgage be insured in order to be eligible for the program. Participation in the MBS program also enables lenders to access the Canada Mortgage Bonds (“CMB”) program. Lenders also purchase low loan-to-value mortgage insurance to obtain immediate capital relief from applicable regulatory capital requirements. Because the benefits payable under the Company’s mortgage insurance policies are subject to the 90% Guarantee, lenders that purchase insurance for a mortgage can reduce their risk-weighted regulatory capital charges for credit risks on mortgages insured by the Company.

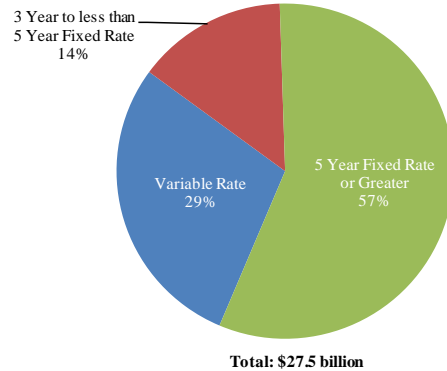
The Company’s new insurance written for low loan-to-value mortgages varies from period to period based on a number of factors including: the amount of low loan-to-value mortgages lenders seek to insure; the competitiveness of the Company’s pricing, underwriting guidelines and credit enhancement for low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

***Fixed and Variable Rate Mortgages***

The Company’s high loan-to-value new insurance written tends to be predominantly five year fixed rate mortgages or terms of longer duration. The graph below sets out a breakdown of the high loan-to-value new insurance written for 2010 between variable rate mortgages, three to five year fixed rate mortgages and five year fixed rate or greater term mortgages.



### Genworth Canada's 2010 High Loan-to-Value New Insurance Written



Note: Variable includes mortgages with a fixed rate of less than 3 years.

In connection with amendments made by the government of Canada effective April of 2010 to the rules governing government guaranteed mortgages (more fully described in “*Material Contracts – Government Guarantee Agreement*” below), the underwriting process used by the Company associated with the approval of high loan-to-value mortgages includes the following standards to evaluate loans: for loans with a fixed rate term of five years or more, the qualifying interest rate used to evaluate the loan is the contract rate; for loans with a fixed rate term of less than five years and for all variable rate mortgages, the qualifying interest rate used to evaluate the loan is the greater of the contract rate; or the benchmark rate (five year conventional mortgage rate) published weekly by the Bank of Canada. The implementation of these evaluation procedures have not had a material impact on the business of the Company, as prior to the implementation of these procedures the qualifying interest rate used by the Company to evaluate all loans was the greater of the contract rate or the prevailing three year fixed rate.

### ***Distribution and Marketing***

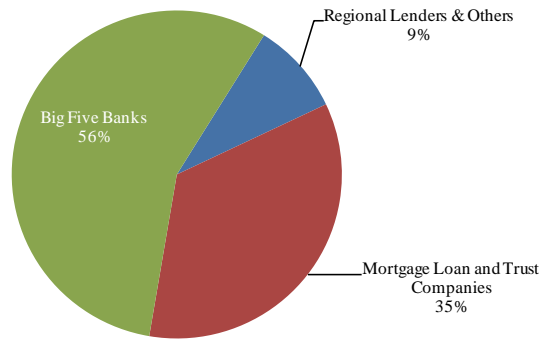
The Company works with lenders, mortgage brokers, real estate agents and homebuilders to assist Canadians with the purchase or refinancing of their homes. Mortgage insurance customers consist of originators of residential mortgage loans, such as banks, mortgage loan and trust companies, credit unions 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 (the “**Big Five Banks**”) are the largest mortgage originators in Canada and provide the majority of financing for residential mortgages.

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

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

The following chart displays the approximate share of the Company’s new insurance written that each of the mortgage lender segments represented for the year ended December 31, 2010.

### Genworth Canada's 2010 New Insurance Written



Total: \$27.5 billion

By segmenting its customer base, the Company believes it is able to provide superior customer sales support, innovative product offerings and technology solutions designed to meet the specific needs of lenders. The Company seeks to enhance customer satisfaction by achieving and sharing process efficiencies through risk management, automation and development of unique products that help lenders reduce costs as well as originate and fund better quality loans. Genworth Canada has developed sophisticated technological tools that enhance performance by automating key processes and reducing response times and process variations. See “– *Risk Management – Underwriting*”.

Based on customer input, the Company has developed customized distribution and marketing approaches for each of the mortgage insurance industry segments it serves.

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

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

***Regional lenders and other originators*** – The Company emphasizes the development of strong relationships with regional lenders and other originators. These relationships are characterized by frequent contact and the provision of training, market updates and intelligence, and information about industry best practices. Credit unions, in particular, are highly customer-focused, as they are owned by their customers. The Company works collaboratively with lenders

in this segment on product development and marketing campaigns, with an emphasis on adding value for their borrower customers.

The Company's collaborative approach with key lenders includes educational offerings and dedicated customer service teams. Genworth Canada seeks to distinguish itself by exploiting the capabilities of its teams and highlighting their operating, quality assurance, pricing, administrative and service competencies. The following value-added services allow the Company to maintain its strong relationships across the industry.

***Dedicated Business Development Leaders and Underwriting Teams*** – The Company has appointed experienced business development leaders to work as project managers and customer advocates to ensure each lender's needs are understood and incorporated within the Company as they relate to marketing, product development, program launches and technology. These leaders are responsible for the development and execution of sales and marketing strategies aimed at growing lender volumes as well as providing a focal point for open communication with lenders. In addition, lender-dedicated teams of underwriters and mortgage information specialists are assigned to particular lenders, which provides each lender with the benefit of consistency of service and decision-making which aligns with the lender's policies and guidelines.

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

***Regional Field Support and Customized Training*** – The Company provides local sales support through six regional sales teams (British Columbia and the Yukon, the Prairie Provinces and the other Territories, Ontario, the Greater Toronto Area, Quebec and the Atlantic Provinces). The Company's field sales team is comprised of six regional vice presidents who are responsible for all regional sales activities, including relationship management, education and customer training. Genworth Canada places considerable value on customer and consumer education programs and allocates significant resources to them. The Company's interactive training program includes modules on technical product information and skills development.

***Joint Product Development and Marketing Initiatives*** – Genworth Canada prioritizes the development of specialized products and programs that provide increased opportunities for lenders and address under-served segments of the market. The Company recognizes the value in developing new products collaboratively with its customers. The Company also works closely with lenders to understand their strategic priorities and business objectives while identifying opportunities that will enhance and complement the lenders' marketing activities.

The Company monitors customer satisfaction and makes changes to its distribution and marketing approaches based on the results of regular customer surveys. These independently administered surveys capture customer feedback and stratify results regionally and by origination channel. Based on recent surveys, the Company believes that its overall lender satisfaction levels are consistently higher than its competition. The Company believes that its historic growth in its business has been a direct result of its focus on customer satisfaction. In the Company's most recent customer satisfaction survey from November 2010, 97% of lender respondents rated the overall quality of Genworth Canada's customer service in the survey's two highest rating categories.

## **Risk Management**

Risk management is a critical part of Genworth Canada's business. The Company has an enterprise risk management framework that encompasses mortgage portfolio risk management, underwriting policies and guidelines, product development, regulatory compliance, general portfolio management and liquidity risk. The Company's risk management framework facilitates the assessment of risk by acting as a proactive decision-making tool to determine which risks are acceptable and to monitor and manage Genworth Canada's risks in an ongoing manner. The Company's risk management framework and internal control procedures are designed to reduce the level of volatility in its financial results.

### ***Mortgage Portfolio Risk Management***

Genworth Canada's mortgage portfolio 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's underwriting policies and guidelines are reviewed and updated regularly to manage the Company's exposures and to address emerging trends in the housing market and economic environment. For example, in view of economic conditions in 2009 and 2010, the Company took a number of actions focusing on its new insurance written to reduce the overall risk profile of its mortgage portfolio including more stringent requirements on borrowers' total debt service ratios, credit scores and loan-to-value ratios in assessing insurance applications in economically stressed regions.

Genworth Canada's extensive historical database and innovative information technology systems are important tools in its approach to risk management. The Company utilizes components of its proprietary high loan-to-value mortgage 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 and predict 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's mortgage portfolio risk management function is organized into three primary groups: portfolio analysis, underwriting policies and guidelines, and risk technology and models. The risk management team analyzes and summarizes mortgage portfolio performance, risk concentrations, emerging trends and remedial actions which are reviewed with the Company's management-level risk committee on a monthly basis.

## ***Underwriting***

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

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

Genworth Canada's underwriting group is divided into lender-dedicated teams. Each team is led by a senior underwriter. The lender-dedicated nature of these teams facilitates a deep understanding of the processes and systems applicable to each lender, thus enabling the underwriters to provide superior customer service as they assist lenders with mortgage insurance applications. The teams work to provide full coverage across the country, and include a French language team based in Montreal.

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

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

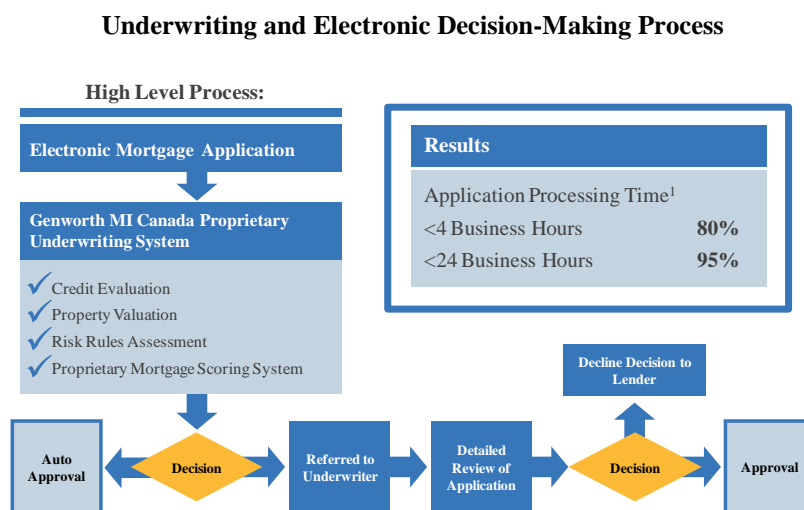
### ***Automation of Underwriting and the Risk Selection Process***

The Company uses its proprietary electronic underwriting system and mortgage scoring model to process mortgage insurance applications submitted by lenders. Insurance applications are submitted electronically through direct links from the lenders' own underwriting systems or web-enabled services. Genworth Canada's proprietary system captures details relevant to the application, including, but not limited to, loan amount, property address, purchase price, borrower income and employment. The system calculates the premium due based on the loan-to-value, amortization period and product type using the Company's pre-established premium rates. The system collects additional data from third-party suppliers, including credit scores and estimated property values when available. It then evaluates the application against a set of risk rules and guidelines, which include fraud screens, and generates an automated response of either "Approved" or "Referred To Underwriter". These rules and guidelines are recalibrated as required to align the electronic underwriting process with changes made under the Company's risk

management framework. In addition, the Company continues to seek out and add third party risk processes that assist in the improvement of operational efficiencies or improve the quality of risk management decisions.

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

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



Note:

(1) Represents high loan-to-value applications processing time for the three months ended December 31, 2010.

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

***Product Pricing and Management***

The Company has established a product development and customization process that specifies a series of required analyses, reviews and approvals for any new product, including risk management, finance, legal, marketing and sales department reviews. For each proposed product, this process includes a review of the market opportunity and competitive landscape, major pricing assumptions and methodologies, return expectations, underwriting criteria, business risks and potential mitigating factors. Before Genworth Canada introduces a new product or a product modification, it establishes a monitoring program with specific performance targets, including delinquency rates and loss ratios, which the

Company monitors frequently to identify any deviations from expected performance so that it can take corrective action when necessary.

When pricing a new product, the Company starts by building an expectation of frequency and severity of loss based on the specific features and characteristics of the new product. The frequency and severity expectations may be developed from existing experience on very similar products, or by applying adjustments to existing performance data to account for specific risk factors related to the new product's features and characteristics. The derived frequency and severity factors are modeled together with expected premium rates to yield the expected operating return on equity, which is evaluated against the Company's new product benchmark for operating return on equity.

Product performance reviews include an analysis of the major drivers of profitability, underwriting performance and variations from expected results, including an in-depth experience analysis of the product's major risk factors. Other areas of focus include the regulatory and competitive environments and other emerging factors that may affect product performance.

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

### ***Claims Management***

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

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

### Mortgage Insurance Claim Illustration

Purchase Value .....	\$ 275,000
Original Loan.....	\$ 260,000
Premium Amount.....	7,150
Insured Amount .....	267,150
Unpaid Balance (at time of default).....	261,000
Accrued Loan Interest.....	16,500
Foreclosure Fees .....	10,500
Gross Claim (A).....	288,000
Property Value .....	250,000
Real Estate Fees and Taxes.....	(17,500)
Net Proceeds (B).....	\$ 232,500
Net Claim Amount to Company (A-B).....	\$ 55,500
Severity Ratio .....	21%

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

### Delinquency Management Process



- **Assessment**
  - Lender Commences “Soft” Collections to Bring Mortgage Current
- **Enforcement**
  - Law Firm Engaged for Legal Enforcement
- **Sale**
  - Property Listed for Sale and Sold
- **Recoveries**
  - Borrowers & Third Parties

### *Loss Mitigation and Loan Modification Initiatives*

The Company’s loss mitigation function is comprised of personnel that focus on specific lenders. This allows loss mitigation personnel to become familiar with the lenders’ processes and systems, enabling them to assist lenders for which they are responsible with the claim submission, update and review process. Lenders report delinquent loans to the Company on a monthly basis. The delinquent loan details, including outstanding balance, current interest rate, amount in arrears and estimated property value, are entered into the Company’s default management system by a claims administrator. The default management system references the Company’s in-force database to populate other pertinent details such



as original insured amount, purchase price, property address and borrower details. The system uses the various inputs to calculate the estimated loss, representing the total claim less the net recoverable amount from the property.

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

The Company has commenced an initiative to accelerate and facilitate the conveyance of real estate to the Company, in order to reduce losses. Under the initiative, once a property has been vacated, the lender's claim is paid in full by the Company and the Company then takes over the marketing and sale of the property. In each instance, following discussions with the lenders, it is at the Company's discretion if it wishes to take advantage of this process. Benefits for the Company of this program include: (i) control of the marketing process; (ii) reducing accruing interest costs and property management fees by generally shortening the time that such properties are on the market; (iii) reduced real estate agent commissions; and (iv) the potential realization of a higher sale price. The benefits to the lenders include: (i) faster claim payments; (ii) productivity improvements; and (iii) reduced administration costs.

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

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

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

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

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

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

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

Virtually all of the Company's lender customers participate in the Homeowner Assistance Program. Although the Homeowner Assistance Program or similar workout programs have been in existence since 1995, the volume of workouts has increased over the past few years due to economic conditions and intensified efforts by the Company to assist more borrowers to remain in their homes. During 2008, 2009 and 2010 the Company completed approximately 700, 4,600 and 5,200 workouts, respectively. The Company believes the Homeowner Assistance Program benefits: (i) borrowers, by enabling them to remain in their homes; (ii) lenders, by allowing them to maintain strong relationships with their customers; and (iii) the Company, by avoiding or mitigating claims under its policies.

## **Operations and Technology**

### ***Service and Support***

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

### ***Technology Capabilities and Process Improvement***

Genworth Canada considers its own needs and those of its lenders in determining priorities for investment in technology. The Company's technology team is experienced in large-scale project delivery, including insurance administration systems and the development of web-enabled servicing capabilities. The Company manages technology costs by standardizing its technology infrastructure, consolidating application systems and managing project execution risks. The Company believes its proprietary underwriting system, introduced in 2005, has increased its underwriting efficiency and enabled the Company to be more responsive to lenders' needs.

The Company continuously monitors and attempts to enhance its operating efficiency and competitive advantages by using a variety of process tools designed to address all aspects of process management. These tools enable the Company to more effectively operate processes, improve its process performance and build new processes.

## Government Guarantee Agreement

Genworth Mortgage Insurance Canada has an agreement with the Canadian government pursuant to which the Canadian government guarantees that lenders will receive the benefits payable under eligible mortgage insurance policies issued by Genworth Mortgage Insurance Canada, less 10% of the original principal amount of an insured loan, in the event that Genworth Mortgage Insurance Canada fails to make claim payments with respect to that loan due to its bankruptcy or insolvency (the “**Government Guarantee Agreement**”).

The Government Guarantee Agreement was originally made as of January 1, 1991 between the Canadian government and The Mortgage Insurance Company of Canada (“MICC”) to facilitate effective private sector competition, in response to changes to the capital rules applied to federally regulated Canadian financial institutions brought about by the adoption in 1988 by the Basel Committee on Bank Supervision (“**Basel I**”) of a set of international standards for bank regulatory capital (which have also been updated in 2004 (“**Basel II**”). These changes gave lenders capital relief for obligations guaranteed by the federal government. Genworth Mortgage Insurance Canada assumed the benefit of the Government Guarantee Agreement when it acquired certain assets and hired certain employees from MICC in 1995.

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

Legislation authorizes the Canadian government to enter into contracts providing the type and degree of guarantee benefit provided under the Government Guarantee Agreement, and further provides an aggregate cap of \$250 billion on the outstanding principal amount of mortgages insured by private mortgage insurers with such agreements. The Company believes that, as of December 31, 2010, it had approximately \$196 billion in outstanding principal amount of mortgages that counted toward this cap. Historically, as outstanding principal mortgage amounts approach the legislative cap, the federal government has increased the cap to ensure seamless continuity for Genworth Canada, CMHC and the industry.

At the time of its introduction in 1991, the Government Guarantee Agreement was expected to continue in effect indefinitely. Recognizing the difficulty in anticipating contingencies that might arise during the course of the Government Guarantee Agreement’s term, the Government Guarantee Agreement provides for a review of its terms in certain circumstances, and for its termination in certain other circumstances. The Government Guarantee Agreement also provides that Genworth Mortgage Insurance Canada is obligated to pay a risk premium to the federal government for this guarantee and to make other payments to the government guarantee fund. See “*Material Contracts — Government Guarantee Agreement*” for a further discussion of amendments that have been made to the Government Guarantee Agreement since its original execution.

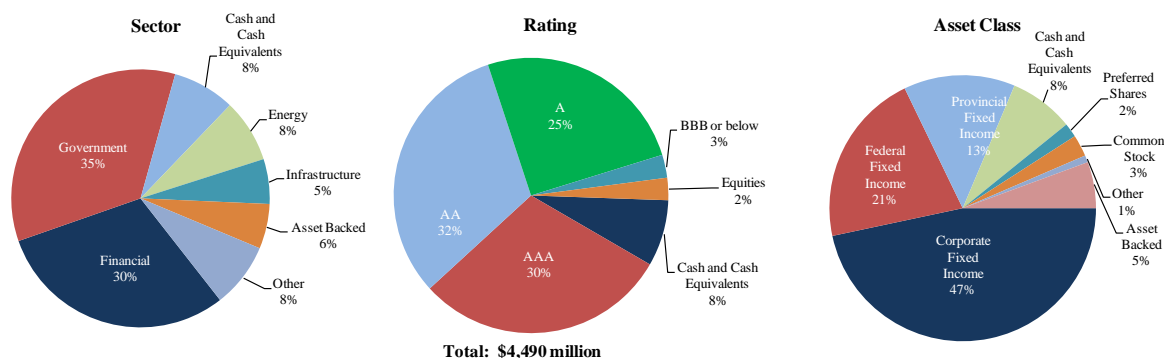
The Canadian government confirmed to the Company that it supports competition in the mortgage insurance market among public and private mortgage insurance providers and has no current plans to change the percentage of Genworth Mortgage Insurance Canada’s obligations covered by the

90% Guarantee or to place restrictions on any mortgage insurance provider that would not similarly apply to all providers.

## Investment Management

Genworth Canada has a conservatively managed, high quality general portfolio. As of December 31, 2010, Genworth Canada had total cash, cash equivalents and invested assets of \$4.5 billion in the general portfolio and \$646 million in the government guarantee fund. Including securities designated as held for trading, unrealized gains were approximately \$139 million in the general portfolio and \$34 million in the government guarantee fund. The Company manages its assets to meet liquidity, credit quality, diversification and yield requirements by investing primarily in fixed income securities, including federal, provincial and corporate bonds, MBS, other asset backed securities, mortgage loans on commercial real estate and preferred and common shares. Since 2007, Genworth Canada has recorded impairments of only \$2 million, representing less than 0.1% of total assets.

The following charts set forth a breakdown of the Company's general portfolio based on market value as of December 31, 2010, by sector, rating and asset class.



Note: Excludes all amounts in the government guarantee fund.

## Organization

Genworth Canada relies on three external asset managers for the trading, credit research, portfolio management and risk management functions related to its general portfolio and the government guarantee fund. Almost all of the Company's investment assets are managed by these external managers.

On a regular basis, under the direction of the Company's management-level investment committee, the Company establishes investment policies and strategies, reviews asset and liability management, and monitors asset allocation. In addition, the Company's Risk, Capital and Investment Committee has a mandate to review the investment of the Company's assets and to monitor adherence to the investing policies, standards, procedures and guidelines that have been approved by the Company's Board of Directors (the "**Board**") or by such committee.

## Investment philosophy and strategies

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

- selecting investments based on fundamental, research-driven strategies;
- emphasizing fixed income, low-volatility investments while actively pursuing strategies to enhance yield, as well as a limited exposure to common and preferred shares with attractive dividend yields and alternative assets;
- regularly evaluating the Company's asset class mix;
- maintaining sufficient liquidity to meet unexpected financial obligations;
- mitigating interest rate risk through management of asset durations;
- continuously monitoring investment quality and regulatory capital requirements; and
- restricting exposure to investments correlated to the residential mortgage market.

The Company is exposed to three primary sources of investment risk:

- credit and credit spread risk, relating to the uncertainty associated with the continued ability of a given issuer to make timely payments of principal and interest and changes in the market value of its fixed income securities and preferred shares;
- interest rate risk, relating to the market price of its fixed income securities and preferred shares and cash flow variability associated with changes in market interest rates; and
- equity market risk, relating to the uncertainty associated with the risk of gain or loss due to the changes in the prices and the volatility of individual equity instruments and equity indices.

Genworth Canada, working with its external asset managers and advisors, manages credit risk by analyzing issuers, transaction structures and any associated collateral. The Company monitors credit risk and continually measures the probability of credit default and estimated loss in the event of such a default, which provides the Company with early notification of worsening credits. The Company also manages credit risk through industry and issuer diversification and prudent asset allocation practices.

The Company mitigates interest rate risk through rigorous management of the duration of its general portfolio, seeking to minimize volatility in unrealized gains and losses in its general portfolio in both rising and falling interest rate environments. The Company also periodically evaluates alternative strategies to manage interest rate, credit and credit spread risks primarily in its fixed income portfolio, including hedging programs that may involve the use of futures contracts, options and other derivatives.

### ***Performance***

The Company continually evaluates its general portfolio and measures performance against a range of benchmarks. The Company's overall benchmark represents the universe of Canadian bonds, weighted among government bonds, corporate bonds and short term investments, customized based on the Company's composition of assets and duration. The performance of the Company's general portfolio (including interest and capital gains) for the period ended December 31, 2010 is summarized in the chart below.

## Annualized General Portfolio Performance

Assets as of December 31, 2010 (\$ million)	1 Year	3 Year	5 Year
\$4,490	4.6%	5.4%	5.1%

### *Guarantee Fund*

The Government Guarantee Agreement requires Genworth Mortgage Insurance Canada to contribute a percentage of premiums written on eligible insured mortgages to the government guarantee fund, which would be used in the event that the Canadian government is required to make a guarantee payment. The fair value of the Company's interest in the government guarantee fund as of December 31, 2010 was \$646 million.

The government guarantee fund is managed separately from the general portfolio and is permitted to invest in cash and securities issued by the Canadian government or agencies unconditionally guaranteed by the Canadian government. Genworth Mortgage Insurance Canada has a proportionate interest in the assets held in the government guarantee fund. As of December 31, 2010, the government guarantee fund was comprised of "AAA" rated securities and cash. See "*Material Contracts — Government Guarantee Agreement*".

In addition, the Company recognizes investment income on the government guarantee fund in its consolidated statement of income. Money can be withdrawn from the government guarantee fund, subject to an exit fee, if the dollar value of the government guarantee fund is at least equal to the sum of the estimated Canadian government's gross exposure on the 90% Guarantee plus the greater of 15% of the Canadian government's estimated gross exposure or \$10 million. Upon withdrawal of money from the government guarantee fund, an exit fee equal to a specified percentage of the amount of the fund for each year from the effective date of the Government Guarantee Agreement to the date of the withdrawal, up to a maximum of 25%, must be paid to the Canadian government. The Company does not expect to be in a position to make any withdrawals from the government guarantee fund for the foreseeable future.

The fair value of the Company's interest in the guarantee fund consists of the fair value of the investments net of the fair value of the accumulated exit fees. The performance of the government guarantee fund for certain periods ended December 31, 2010 is summarized in the chart below.

## Annualized Government Guarantee Fund Performance

Assets as of December 31, 2010 (\$ million)	1 Year	3 Year	5 Year
\$790	5.1%	5.3%	4.8%

Note: Net guarantee fund assets are comprised of invested assets and cash of \$790, less MICC's interest in the guarantee fund of \$10, and accrued exit fee \$152, plus accrued income and contributions of \$18.

### **Competition**

The Company's primary mortgage insurance competitor in Canada is CMHC, a Canadian crown corporation, although other competitors have entered or attempted to enter the Canadian market from time to time. The Company competes with CMHC primarily based upon the Company's reputation for

product flexibility, high quality customer service, quick decision-making on insurance applications and strong underwriting expertise.

AIG United Guaranty Mortgage Insurance Canada (“**AIG Canada**”), a subsidiary of American International Group, Inc., entered the Canadian private mortgage insurance market in 2006. In April 2010, it was announced that a consortium, led by Ontario Teacher’s Pension Plan acquired the AIG Canada business and renamed such entity “Canada Guaranty Mortgage Insurance Company”. Ontario Teacher’s Pension Plan is one of Canada’s largest and most influential investors in the marketplace with approximately \$96 billion net assets.

### **Employees, Facilities and Organizational Structure**

The Company’s head office is located in leased premises in Oakville, Ontario. The Company’s head office and primary business functions, including Finance, Legal, Risk Management, Loss Mitigation, Information Technology and Underwriting, are based in Oakville, where the Company employs approximately 186 people. The Company also has a regional office in Montreal, Quebec, which employs approximately 25 people, including the Company’s French language underwriting and loss mitigation teams. The Company also employs field sales teams of approximately 52 people, located across Canada and operating out of personal residences.

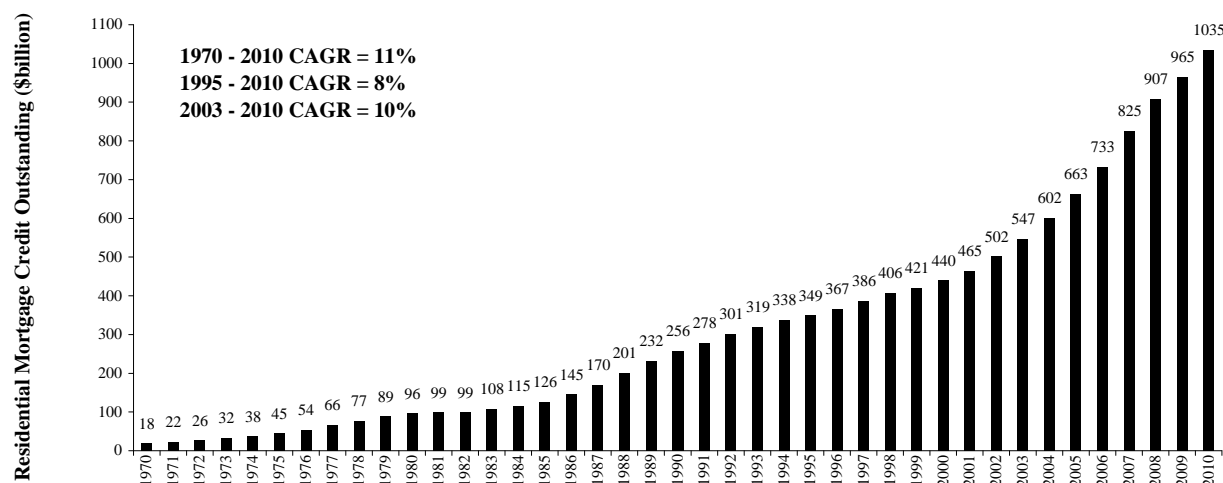
In conjunction with the Company’s continuing efforts to seek out further corporate development opportunities, effective March 1, 2011, Peter Vukanovich assumed the role of Executive Vice President, Corporate Development and ceased to hold the position of President and Chief Operating Officer of the Company. At such time the duties and responsibilities previously managed by the President and Chief Operating Officer became the responsibility of the Chief Executive Officer of the Company.

### **INDUSTRY OVERVIEW**

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

The success of Canada’s housing finance system is made possible, in part, by government policies that rely on mortgage insurance to promote sustainable homeownership. The important role of mortgage insurance in Canada’s housing finance system is evidenced by the requirement that all financial institutions that are federally regulated by OSFI must purchase mortgage insurance in respect of a residential mortgage loan whenever the loan-to-value exceeds 80%. Moreover, the federal government provides an explicit guarantee of the benefits payable to approved mortgage lenders under eligible private mortgage insurance policies, less 10% of the original principal amount of an insured loan, in the event that the private mortgage insurer is unable to meet its obligations to the beneficiaries of its policies upon bankruptcy or insolvency. In accordance with regulatory capital requirements, lenders are permitted to hold reduced capital for credit risks on eligible mortgages insured under the guarantee by approved and regulated private mortgage insurers, including Genworth Mortgage Insurance Canada. The federal government helps to maintain sound underwriting standards in the market by establishing, in conjunction with mortgage insurance providers, the types of mortgage products that are eligible for coverage under the guarantee. In 2009, the total Canadian residential mortgage and multi-family mortgage insurance industry gross premiums written were reported to be approximately \$2.9 billion.

In its 2006 Census, Statistics Canada found that 68% of Canadian households owned their own dwelling in 2006, the highest rate of homeownership in Canada since 1971. Statistics Canada further reported that nearly six out of every 10 households that owned their home had a mortgage in 2006. This was the highest level since 1981, when baby boomers began to enter the housing market. In addition, from 1995 to November 2009, mortgage loans outstanding grew at a CAGR of 8%. The following chart depicts the increase in the amount of residential mortgage credit outstanding in Canada since 1970.



Source: Statistics Canada

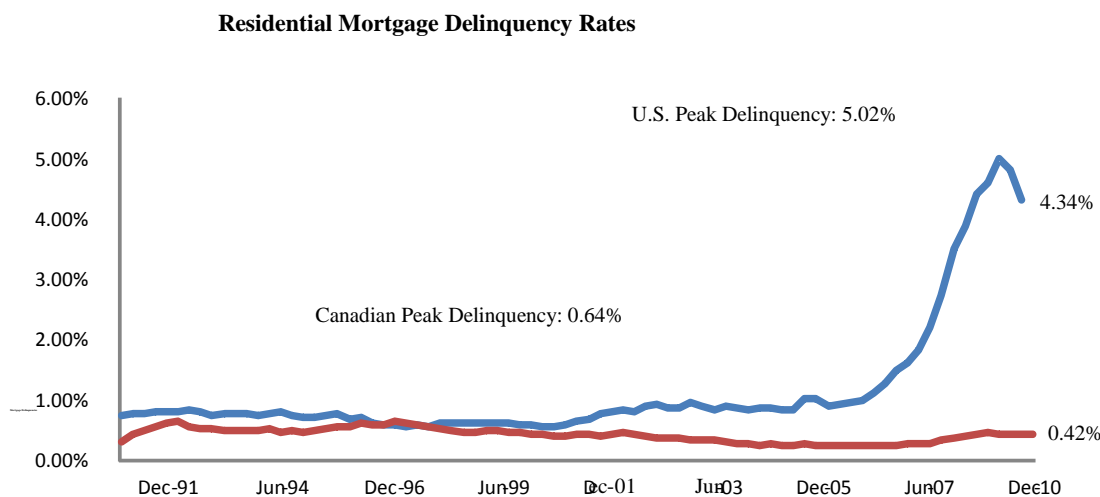
Several factors contribute to the stable nature of Canada's residential mortgage insurance environment:

- **Lenders' Recourse** – Lenders in all provinces and territories in Canada, except Saskatchewan and, in the case of low loan-to-value mortgages, Alberta, have the ability to attach personal assets and garnish wages in the event of any loan deficiency after the sale of a property.
- **Prepayment Restrictions** – In Canada, mortgages tend to have a prepayment penalty for prepayments in excess of specified limits (typically 10% to 20% a year). This allows lenders to recover some of the costs and lost interest associated with early repayment and discourages borrowers from aggressively refinancing on a more frequent basis.
- **Lack of Interest Deductibility** – Interest payments arising from mortgages in Canada are generally not tax deductible. As a result, there is generally no tax incentive to have a large mortgage outstanding. Canadian residents tend to pay down mortgages quickly and build equity in their homes, lowering the probability of default.
- **Large Proportion of Chartered Bank Origination** – The majority of Canadian mortgage loans are made by major Canadian chartered banks. According to CMHC, approximately 74% of Canadian residential mortgage loans made in 2009 were approved by chartered banks. The major Canadian banks keep a large percentage of mortgages they originate on their balance sheets and therefore tend to employ a more cautious underwriting philosophy in comparison to other origination channels.



- **Canadian Government Oversight** – The Canadian Government provides oversight and liquidity to the mortgage market through various measures including the regulation of lenders, its operation of the Canadian Mortgage Bond program and its control of the rules for government-backed insured mortgages.
- **Small Subprime Market** – Canadian lenders have remained averse to credit risk and have limited their exposure to higher risk subprime market, low documentation and other mortgage products. Residential mortgages in Canada are mostly conventional, and there is a very small market for subprime loans.

There are a number of factors and differences in practices, including some of the items noted above, that may account for the difference in rates of delinquency performance of mortgages in certain other markets relative to those for Canadian mortgages. The following chart illustrates the overall historical levels of delinquency in residential mortgage loans outstanding in Canada and the United States from 1990 to 2010.



Source: Mortgage Bankers Association as of September 2010 and Canadian Bankers Association as of November 2010.

Note: Delinquencies reflect mortgage arrears of three or more months as of the end of each quarter.

Canadian government policy is to support competition in the residential mortgage insurance market in order to improve choices available to lenders and homebuyers. Private mortgage insurers, such as Genworth Canada, provide incremental private capital and financial strength to the Canadian housing market. The Company believes that there are a number of additional benefits related to the presence of private mortgage insurance providers in Canada, including:

- increased competition in the mortgage lending market between large and small lenders through the transfer of mortgage default risk to a mortgage insurer;
- increased competition and efficiency in the overall mortgage insurance market;
- increased choice of products for mortgage insurance customers; and
- increased diligence and review of loan quality standards through an additional review of mortgage loan applications by a mortgage insurer.

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

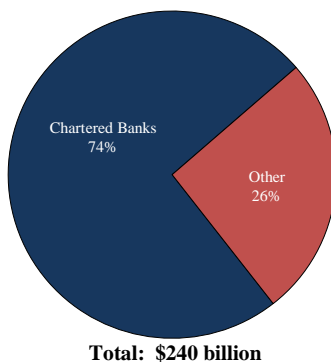
Mortgage insurance is available both for home purchases, as well as the refinancing of existing home mortgages, and is generally transferable between lenders. Mortgage insurance remains in force for the entire amortization period of an insured mortgage loan and, in the event of default, it provides lenders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

In almost all cases, lenders pay the insurance premiums for mortgage insurance to the mortgage insurer and for high loan-to-value mortgages the cost is directly borne by the borrower. The Canadian market convention is that mortgage insurance premiums are paid in full on an upfront, single premium basis by the lender at the time that the mortgage is advanced. The cost is then passed on to the borrower by adding the mortgage insurance premiums to the principal amount of the mortgage, blending and amortizing the amount within the monthly mortgage payments. There is typically no requirement for a mortgage loan customer to re-apply or pay for mortgage insurance if refinancing occurs as long as neither the gross loan amount nor amortization increases at the refinance period.

### Customers and Distribution

Although the cost of mortgage insurance is generally borne by the borrower, the insurance is purchased by the mortgage lender. Consequently, mortgage insurers endeavour to forge strong relationships with lenders. For the year ended December 31, 2009, chartered banks approved approximately 74% of Canadian residential mortgage loans, making them the largest and most important customers to Canadian mortgage insurance participants. The following chart displays Canadian residential mortgage loan approvals in 2009 (the most recent available industry data) by type of mortgage lending institution.

**2009 Canadian Residential Mortgage Loan Approvals By Lender Type**

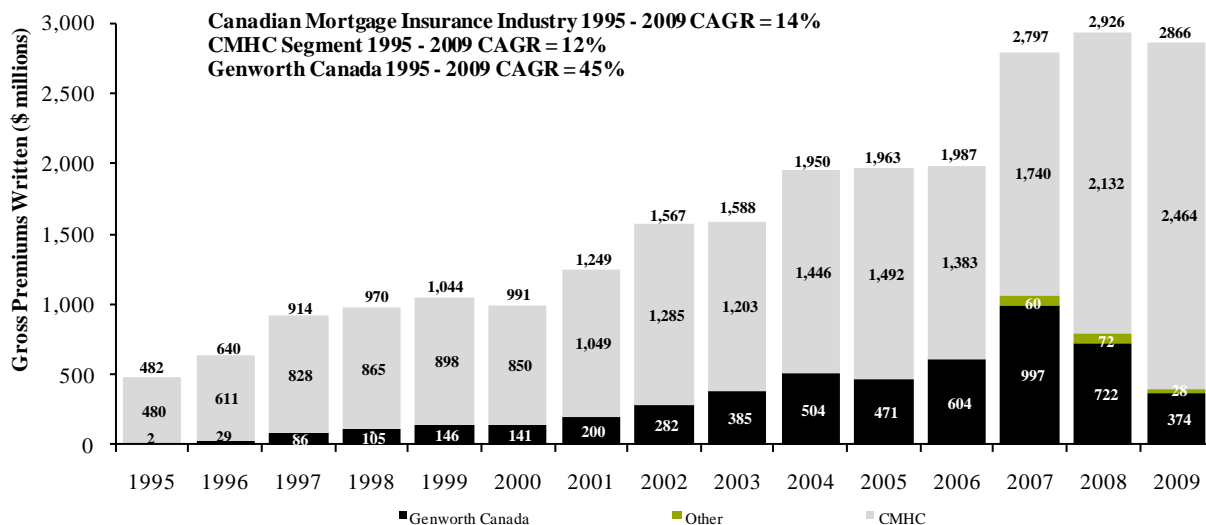


Source: CMHC.

## Industry Performance

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

The chart below displays the growth of the Canadian mortgage insurance industry since 1995, measured by gross premiums written and segmented by industry participant. The mortgage insurance industry overall has exhibited strong, long-term growth characteristics, generating a CAGR of 14% from 1995 to 2009 and a CAGR of 10% from 2003 to 2009. From 1995 to 2009, Genworth Canada produced a CAGR of 45% compared to 12% for CMHC. The gross premiums written figures published by CMHC include gross premiums written on multi-family mortgage insurance such as apartment buildings and long-term care facilities, a market in which Genworth Canada does not participate. In addition, the CMHC figures include application and underwriting fees, while the Genworth Canada figures do not. As a result, as depicted in the chart below, the Company had a 13% share of the total Canadian residential mortgage and multi-family mortgage insurance market in 2009. The Company estimates that its current market share of the high loan-to-value residential mortgage insurance market is in the high-twenties up from the Company's estimated market share of the residential mortgage insurance market of 25% in 2009.

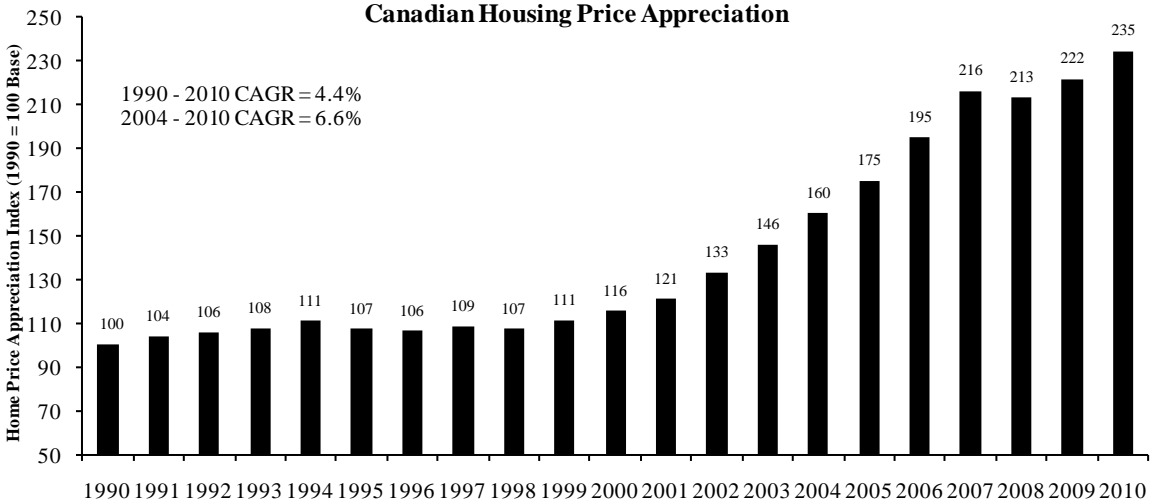


Source: CMHC, MSA Research Inc.

Note: Gross premiums written for CMHC represents premiums and fees received.

The rate of growth of the Canadian mortgage insurance industry is highly dependent on the prevailing state of the Canadian economy and housing market. Sales activity in the Canadian housing market influences mortgage origination, which in turn affects the volume of premiums written. In addition, rising housing prices reduce loan-to-value on in-force mortgages insured and thereby reduce the likelihood of a shortfall and claims payout in the event of a mortgage borrower default.

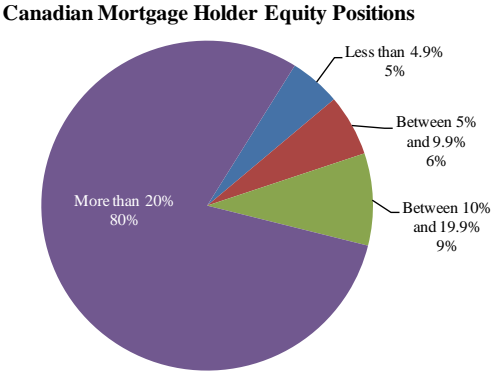
The Canadian housing market has experienced strong historical growth. The chart below shows Canadian home price appreciation from 1990 to 2010. Over the last 20 years, through a variety of economic conditions, Canadian housing prices produced a CAGR of 4.4% and experienced one-year declines in only four of those years. From 2004 to 2010, Canadian housing prices produced a CAGR of 6.6%; from 1995 to 2010, Canadian housing prices produced a CAGR of 5.3%.



Source: Canadian Real Estate Association.

A key performance measure of the Canadian mortgage insurance industry is the loss ratio. The Canadian mortgage insurance industry has historically experienced low loss ratios. Genworth Canada’s average loss ratio for the period of 1995 to 2010 was 25% (excluding the impact of the earnings curve adjustment in the first quarter of 2010, the average loss ratio for the period of 1995 to 2010 was 26%).

Canada’s mortgage insurance industry has benefited from a historically conservative mortgage lending environment. Most Canadian homeowners who have mortgages on their homes have considerable amounts of equity in their homes. According to the Maritz survey for the Canadian Association of Accredited Mortgage Professionals, as of November 2010, approximately 80% of Canadian mortgage holders had greater than 20% equity positions and only 11% of Canadian mortgage holders had equity positions of less than 10%. The following chart displays the equity positions that Canadian mortgage holders had in their homes as of November 2010.

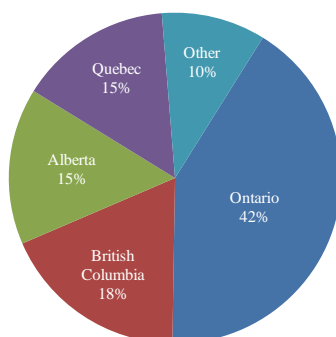


Source: Canadian Association of Accredited Mortgage Professionals.

In addition, the terms and conditions of the majority of Canadian mortgages have led to a relatively consistent and stable operating environment for mortgage insurance companies. For example, approximately 66% of Canadian mortgages are fixed-rate (generally for up to five years), meaning that borrowers are less susceptible to sharp increases in interest rates, which can lead to higher default rates. In addition, as of November 2010, approximately 78% of Canadian mortgages had amortization periods of 25 years or less. This has tended to lead to a gradual repayment of mortgage debt, implying reduced risk over time for Canadian mortgage lenders and Canadian mortgage insurers.

The following chart displays the distribution of the Canadian mortgage market by geography as of December 2009.

**2009 Canadian Mortgage Distribution by Geography**



Source: CMHC.

## REGULATORY OVERVIEW

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

The ICA is administered by and Genworth Mortgage Insurance Canada is supervised by, OSFI. The Superintendent of Financial Institutions (Canada) (the “**Superintendent**”) is the deputy head of OSFI and is responsible to the Minister of Finance (Canada) (the “**Minister**”) for the supervision of federal insurance companies and other federal financial institutions. The Superintendent must periodically examine the business and financial condition of Genworth Mortgage Insurance Canada for the purpose of determining whether it is in sound financial condition, and report to the Minister. The Superintendent has a broad range of remedial powers and, for example, where the Superintendent is concerned about an unsafe course of conduct or an unsound practice in conducting the business of a federal insurance company, he or she may direct such company to refrain from a course of action or to perform acts necessary to remedy the situation. The Superintendent may, in certain circumstances, take control of the assets of a company or take control of a company.

The ICA and provincial and territorial insurance legislation requires insurers to file annual and other reports on its financial condition, and establishes requirements governing margins for insurance liabilities and the safekeeping of assets and other matters. The ICA generally prohibits transactions among related parties other than specifically permitted types of transactions. Permitted transactions include, without limitation, buying and providing services from and to related parties and reinsurance transactions with related parties. Generally, permitted transactions must be on terms and conditions that

are at least as favourable to the insurer as market terms and conditions. Genworth Canada and Genworth Financial, among others, are related parties of Genworth Mortgage Insurance Canada under the ICA.

### **Capital Requirements**

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

Under the MCT, an insurer’s capital available is compared to its capital required to determine the insurer’s MCT ratio. Mortgage insurers are expected to maintain a ratio of core capital (capital available as defined for MCT purposes, but excluding subordinated debt) to required capital of 100%. As a result of the distinct methodology applied to the policy liabilities of mortgage insurers and the risk profile of Genworth Mortgage Insurance Canada, OSFI has established a minimum supervisory capital target ratio of 120% for the Company. In order to maintain an adequate cushion above this supervisory minimum, in July 2010 the Company established a revised internal MCT ratio of 145%.

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

### **Dynamic Capital Adequacy Testing**

The Standards of Practice of the Canadian Institute of Actuaries and OSFI require that the appointed actuary review annually Genworth Mortgage Insurance Canada’s capital adequacy by conducting dynamic capital adequacy testing (“**DCAT**”) which examines the effect of various plausible adverse scenarios on the insurer’s forecasted capital adequacy. This is the primary tool used by the Company’s appointed actuary for the investigation of the Company’s financial condition.

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

For Genworth Mortgage Insurance Canada, its appointed actuary would consider threats to capital adequacy under plausible adverse scenarios that include, but are not limited to changes in unemployment levels, interest rates and housing prices.

The appointed actuary reports DCAT results annually to the board of directors of Genworth Mortgage Insurance Canada and files a copy of its report with OSFI.

### **Investment Powers**

Under the ICA, the directors of Genworth Mortgage Insurance Canada must establish prudent investment and lending policies, standards and procedures, and must maintain a prudent portfolio of investments and loans, subject to overall portfolio limits on the amounts it may invest in certain classes of investments, such as corporate bonds, real property and equities.

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

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

### **Restrictions on Dividends and Capital Transactions**

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

### **Constraints on the Transfer of Shares or Assets**

The ICA contains certain restrictions on the purchase or other acquisition, issue, transfer and voting of any shares of an insurance company, including Genworth Mortgage Insurance Canada. In general, no person is permitted to acquire shares of an insurance company, or to acquire control of an entity that holds such an interest, if the acquisition would cause the person to have a "significant interest" in any class of shares of the company or acquire control, including control in fact, of the company, unless the prior written approval of the Minister is obtained. A person has a significant interest in a class of shares of a federal insurance company where the aggregate of any shares of that class beneficially owned by that person, or an entity controlled by that person and by any person acting jointly or in concert with that person, exceeds 10% of all outstanding shares of that class. The Company and each entity that controls the Company control Genworth Mortgage Insurance Canada. Accordingly, an approval would

be required under the ICA for a person to acquire more than 50% of the voting securities of, or control in fact over, the Company or any other entity that controls the Company. In addition, a federal insurance company is not permitted to record any transfer or issue of shares to a person if the transfer or issue would cause the person to have or increase a significant interest in the company unless regulatory approval has been obtained.

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

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

### **Provincial Regulation**

Genworth Mortgage Insurance Canada is subject to provincial and territorial regulation and supervision in each of the provinces and territories of Canada in which it conducts business. Provincial insurance regulation deals primarily with the sale, marketing and content of insurance products, including licensing and supervision of insurance distributors. To date, the provincial and territorial insurance regulators have not required Genworth Mortgage Insurance Canada to use licensed individuals to sell its products.

### **Federal Market Conduct Regulation of Mortgage Lenders**

Federally-regulated financial institutions are subject to consumer protection-oriented regulation in the making of mortgage loans generally and in purchasing mortgage insurance for those loans, particularly where the cost of the mortgage insurance is passed on to the borrower. As such, these regulations can affect the Company's business. In July 2010, Canadian federal legislation came into force, that among other things, amend these statutes to prohibit such lenders from charging customers amounts for mortgage insurance that exceeds the lender's actual costs and imposes new disclosure obligations in respect of mortgage insurance.

### **Privacy of Personal Information**

Federal and some provincial laws and regulations require financial institutions to protect the security and confidentiality of personal information and to notify customers about their policies and practices relating to their collection, use and disclosure of personal information and their policies relating to protecting the security and confidentiality of that information.

### **Financial Consumer Agency of Canada**

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



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

## **RISK FACTORS**

***The Company’s business is heavily regulated, and changes in regulation may reduce the Company’s profitability and limit the Company’s growth.***

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

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

It is not possible to predict the future impact of changing federal, provincial and territorial laws and regulations on the Company’s operations, and the Company cannot assure investors that laws and regulations enacted in the future will not be more restrictive than existing laws.

The laws and regulations governing the Company also typically require it to periodically file financial statements and annual reports, prepared in accordance with GAAP, and other information and analyses with insurance regulatory authorities, including information and analysis concerning the Company’s capital structure, ownership, financial condition and general business operations. The Company could be subject to regulatory actions, sanctions and fines if a regulatory authority believed the Company had failed to comply with any applicable law or regulation. Any such failure to comply with applicable laws and regulations could result in the imposition of significant restrictions on the Company’s ability to do business or significant penalties, which could adversely affect the Company’s growth prospects and its results of operations, financial condition and cash flow.

The provincial and territorial insurance regulators have not required the Company to use licensed individuals to sell its products. If such regulators decide to require licensing of individuals, or if future regulations affecting the sale or distribution of the Company’s products or services contribute to increased costs for training and licensing, or contribute to reduced sales of the Company’s products, the Company’s results of operations and financial condition may be adversely affected.

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

***Changes in the Government's policies respecting residential mortgages could significantly reduce the demand for private mortgage insurance.***

The Canadian government has a policy of supporting home ownership in Canada by providing mortgage insurance through CMHC and by supporting private sector competition to CMHC by guaranteeing the insurance provided by private mortgage insurance providers, subject to an aggregate cap of \$250 billion, and by recognizing these guarantees in the capital rules that it has established for federally regulated mortgage lenders. If the Canadian government were to alter its policy in any manner adverse to the Company, including by not revising the cap to take into account growth in value of outstanding mortgages, altering the terms of or terminating its guarantee agreements with private mortgage insurance providers, including the one it has with Genworth Canada, or varying the treatment of private mortgage insurance in the capital rules, Genworth Canada could lose its ability to compete effectively with CMHC. This would have an adverse effect on the business, financial condition and results of operations of the Company. There are a number of circumstances where the Government Guarantee Agreement may be terminated or amended. If the Government Guarantee Agreement were terminated or amended in a manner adverse to the Company, Genworth Canada could effectively be unable to write new business as a private mortgage insurer in Canada. This could have an adverse effect on the business, financial condition and results of operations of the Company. See "*Material Contracts – Government Guarantee Agreement*" for a discussion of changes to the rules governing government guaranteed mortgages.

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

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

CMHC is a sovereign entity that provides mortgage lenders with 100% capital relief from bank regulatory capital requirements on loans that it insures. In contrast, lenders receive less than 100% capital relief on loans the Company insures. See "*Description of the Business – Government Guarantee Agreement*". This difference in capital relief inherently puts the Company at a competitive disadvantage vis-à-vis CMHC. CMHC also operates the CMB program, which provides lenders the ability to

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

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

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

***A significant downturn in the global and Canadian economies could adversely affect the Company's business and results of operations.***

Factors such as unemployment, the amount of consumer spending, business investment, government spending, the volatility and strength of the global and Canadian capital markets, and inflation all affect the business and economic environment and, ultimately, the amount and profitability of the Company's business. In an economic downturn, which is characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, the demand for homes in Canada may be adversely affected. This could negatively impact the size of the Canadian mortgage insurance market.

A deterioration in Canadian economic conditions may also increase the likelihood that borrowers will lose their jobs or have insufficient income to pay their mortgages. This would result in increased claims which would adversely affect the Company's business and results of operations.

A decline in home prices, whether or not in conjunction with deteriorating economic conditions, would also increase the Company's risk of loss. A substantial economic downturn or decline in home price appreciation or a decline in home prices could have a significant adverse effect on the Company's financial condition and results of operations.

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

Under GAAP, the Company tests the carrying value of goodwill for impairment at least annually. Goodwill is impaired if the fair value of the Company as a whole is less than the fair value of the identifiable assets and liabilities, plus the carrying value of goodwill, at the date of the test. An impairment may occur for various reasons, including as a result of changes in actual or expected income or cash flows. The Company's goodwill balance as of December 31, 2010 was \$11 million. Any portion of the goodwill that becomes impaired is recognized as a non-cash expense in the current period, increasing the Company's expenses and reducing the Company's GAAP profitability.

***A decline in the Company's regulatory capital or an increase in its regulatory capital requirements could result in a decline in the Company's ratings, increased scrutiny by OSFI and have an adverse impact on the Company's financial condition, results of operations and prospects.***

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

OSFI determines the minimum capital required by Genworth Mortgage Insurance Canada and could decide to increase the amount of capital required, in which event the Company would be required to obtain capital from other sources. The failure of the Company to meet applicable regulatory capital requirements could subject it to further examination or corrective action imposed by OSFI, including limitations on its ability to write additional business, a restriction on the payment of dividends or interest, heightened supervision or seizure or liquidation. Any of these actions by OSFI could have an adverse effect on the Company's business, financial condition or results of operations.

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

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

***The Canadian mortgage origination market is highly concentrated, which may expose the Company to reduced sales in the future should a key lender terminate or reduce its relationship with the Company.***

Canada's residential mortgage lending market is highly concentrated, with the five largest mortgage originators providing the majority of the residential mortgage financing in the country. The

Company maintains relationships with each of these key lenders. The Company is at risk that key lenders, particularly the Big Five Banks, may change the level of business that they write with the Company. These or other lenders may reduce the amount of business written with the Company in light of adverse developments in financial or capital markets, adverse rating agency actions, concerns about market-related or counterparty risks or adverse developments in the Company's or Genworth Financial's business. A reduction in business with a key lender could have an adverse effect on the Company's level of new insurance written which could have an adverse effect on the Company's financial condition and results of operations.

***A decrease in the volume of high loan-to-value home mortgage originations could result in a decline in the Company's revenue.***

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

- a change in the level of mortgage interest rates;
- a decline in economic conditions generally, or in conditions in regional and local economies;
- the level of consumer confidence, which may be adversely affected by economic instability, war or terrorist events;
- declines in the price of homes;
- adverse population trends, including lower homeownership rates;
- high rates of home price appreciation, which in times of heavy refinancing affect whether refinanced loans have loan-to-value ratios that require mortgage insurance; and
- changes in government housing policy encouraging loans to first-time homebuyers.

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

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

Although generally consistent with the geographic distribution of the Canadian population and mortgage origination market, much of the Company's business is concentrated in a relatively few number of provinces, which increases the Company's vulnerability to economic downturns, catastrophic events or acts of terrorism in those provinces. As of December 31, 2010, approximately 92% of the Company's primary mortgage insurance in-force was concentrated in Ontario, British Columbia, Alberta and Quebec, with the highest percentage being in Ontario (approximately 47%). An economic downturn, a catastrophic event or an act of terrorism in any of these provinces that is more severe than the rest of Canada, could result in greater defaults and losses on claims from loans originated in those provinces and result in lower demand for new insurance. Any of these events could result in an adverse effect on the Company's business, results of operations and financial condition. For example, the Company's default

rates in Alberta have increased since 2008 primarily due to a correction of home prices, higher unemployment and reduced household income, due to lower oil and natural gas prices.

***If the Company's risk management standards are ineffective or are not implemented successfully through its underwriting practices, the Company's financial condition, results of operations and regulatory capital may be adversely affected.***

The Company's success depends upon its ability to accurately assess the risks associated with the insurance policies that the Company writes. Mortgage loans with higher loan-to-value typically have claim incidence rates substantially higher than mortgage loans with lower loan-to-value. Given the enhanced risks associated with mortgage loans bearing higher loan-to-value ratios and the Company's significant concentration of high loan-to-value loans, the Company's business and results of operation would be significantly impacted by defaults on the mortgage loans it insures.

In order to manage the risk profile of Genworth Canada's mortgage insurance portfolio and minimize the impact of claims, the Company places significant emphasis on the quality of its risk management framework. This framework includes the assessment of risk, a proactive decision-making process to determine which risks are acceptable and the ongoing monitoring and management of those risks. If the Company's standards are inadequate or ineffective it may lead to claims being more prevalent than expected and the insurance written may be mispriced as premiums may be insufficient to cover increased claims. The premiums charged, and the associated investment income, may not be adequate to compensate the Company for the risks and costs associated with the insurance coverage provided to lenders. An increase in the number or size of claims, compared to what the Company anticipates, could adversely affect Genworth Canada's results of operations or financial condition.

The Company establishes reserves to cover the Company's estimated liability for the payment of all losses on claims and loss adjustment expenses incurred. Reserves do not represent an exact calculation of liability. Rather, reserves are the Company's estimates of what the Company expects to be the ultimate cost of resolution and administration of claims for notices of delinquencies reported to the Company by lenders. The Company continually refines its reserve estimates in an ongoing process as claims are adjusted and settled. Establishing an appropriate level of reserves is an inherently uncertain process. The following are some of the factors that may have a substantial impact on the Company's future actual losses on claims and loss adjustment expenses experience: (a) the amounts of claims payments; (b) the expenses that the Company incurs in resolving claims; (c) legislative and judicial developments; and (d) changes in economic conditions, including inflation. Therefore, although reserve estimates may be appropriate initially, such factors may render them inaccurate in the future. In the event that actual losses on claims and loss adjustment expenses exceed the amount of reserves the Company has established, the Company may be required to increase its reserves which could result in the Company taking unexpected charges to income, result in a downgrade in the Company's financial strength ratings or result in the Company failing to meet minimum regulatory capital tests. The failure to accurately estimate and establish adequate reserves or a requirement that the Company increase its reserves could have an adverse effect on the Company's business, results of operations and financial condition.

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

The Company expects the majority of claims on insured loans in the Company's current portfolio to occur between the second and fifth years after loan origination. Approximately 69% of the Company's insurance in-force as of December 31, 2010 was written after January 1, 2005. Loss experience could increase as its policies age, particularly given current economic conditions, which could adversely affect the Company's results of operations and financial condition.

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

***Defaults, downgrades or other events impairing the value of the Company's fixed income and equity securities portfolio may reduce the Company's income.***

Genworth Canada is subject to the risk that the issuers or guarantors of fixed income securities that the Company owns may default on principal and interest payments on such securities. As of December 31, 2010, fixed income securities of \$3,926 million in the Company's general portfolio represented 88% of the Company's total cash, cash equivalents and invested assets. With downgrades in the credit quality of certain issuers or guarantors, certain investments could become other-than-temporarily impaired, and, therefore, the Company's results of operations and financial position could be adversely affected. The Company also invests in equity securities, which are valued based on the market price of those securities. The securities business is speculative, prices are volatile and market movements are difficult to predict. The price of a security is affected by individual company developments and by general economic and financial conditions in those countries where the issuer of the security is located or where the stock is listed for trading. As of December 31, 2010, equity securities of \$195 million in the Company's general portfolio represented 4% of the Company's total invested assets.

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

***A downgrade or a potential downgrade in the Company's financial strength ratings could result in a loss of business and adversely affect the Company's financial condition and results of operations.***

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

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

could adversely affect the Company's relationships with key lenders and industry participants, which may reduce new sales of mortgage insurance and which would have an adverse effect on the Company's business, financial condition and results of operations.

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

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

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

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

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

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



***Adverse capital and credit market conditions and the MCT requirements of Genworth Mortgage Insurance Canada may significantly affect the Company's access to capital and may affect the Company's ability to meet capital funding requirements in the future.***

In the event market or other conditions have an adverse impact on the Company's capital funding needs and the capital the Company generates from net income and capital released from maturing books of business do not satisfy its needs, the Company would have to seek additional funding. Funding sources could potentially include the generation of proceeds from the incurrence of debt or the issuance of equity. All such funding sources can have various impacts on income, book value and shareholders' equity.

The availability of additional funding will depend on a variety of factors such as market conditions, regulatory considerations, the general availability of credit, the overall availability of credit to the financial services industry, the level of activity and availability of reinsurers or acquirers of assets, the Company's credit ratings, the Company's credit capacity and the performance of and outlook for the Company's business (including investor perceptions of the likelihood that the Company will incur material investment losses in the future). Market conditions may make it difficult to obtain funding to generate additional liquidity, especially on short notice. The Company's access to funding may be further impaired if the Company's financial strength ratings or credit ratings, are negatively impacted. The failure to obtain necessary capital at times and on terms favourable to the Company could have an adverse impact on the Company's business, results of operations and financial condition.

***The Company's business could be harmed if members of the Company's senior management team or other key personnel terminate their employment with the Company.***

The Company's future success depends, to a significant extent, upon the continued services of its senior management team and other key employees. There can be no assurance that the Company will be able to retain members of its senior management team and key employees or, in the event their employment with the Company is terminated, be able to replace them in a timely manner with qualified individuals with the necessary skills and expertise. The loss of one or more members of the Company's senior management team or other key personnel could have an adverse effect on the Company's business and prospects.

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

Genworth Canada acts as an indirect holding company for Genworth Mortgage Insurance Canada and does not have any significant operations of its own. Dividends or other distributions from Genworth Mortgage Insurance Canada and, in turn, Genworth Canada's other subsidiaries are Genworth Canada's principal source of cash to pay shareholder dividends, if declared, and to meet its obligations. These obligations include Genworth Canada's operating expenses, taxes and interest and principal on its borrowings, including the Debentures. There are or may be statutory, contractual, tax or other limitations on the ability of Genworth Mortgage Insurance Canada to make distributions to Genworth Canada's direct subsidiaries and on the ability of these direct subsidiaries to make distributions to Genworth Canada. If the cash Genworth Canada receives from its subsidiaries pursuant to these distributions is insufficient for it to fund its obligations, or if Genworth Mortgage Insurance Canada or its other subsidiaries are unable to make such distributions, Genworth Canada may be required to raise cash through the incurrence of debt, the issuance of additional equity or the sale of assets. However, there can be no assurance that Genworth Canada would be able to raise cash by any of these means in a timely manner or on terms that may be beneficial to the Company.

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

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

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

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

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

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

***The soundness of other financial institutions that are counter-parties pursuant to the Company's securities lending program could adversely affect the Company.***

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

***Applicable laws and the Company's relationship with Genworth Financial may discourage take-over attempts and business combinations that shareholders might consider in their best interests.***

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

For example, under the ICA no person may, without the approval of the Minister, acquire any share of an insurance company such as Genworth Mortgage Insurance Canada, or control any entity that holds a share of an insurance company, if as a result the person would control the insurance company or the aggregate of the shares held by the person and by entities controlled by the person would exceed 10% of any class of shares of the insurance company. In addition, the provisions of the Government Guarantee Agreement effectively require the consent of the Minister to any change of control of the Company. These regulatory and contractual restrictions may delay, deter or prevent a potential merger or sale of the Company, even if the Board decides that it is in the best interests of shareholders for the Company to merge or be sold.

In addition, the fact that Genworth Financial continues to own a majority of the outstanding Common Shares effectively requires the consent of Genworth Financial for any change of control transaction. Genworth Financial may decide for strategic or other reasons not to sell its Common Shares in a change of control transaction even in circumstances where the Board or other shareholders may consider such transaction to be in the best interests of the Company and such shareholders.

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

***The Company's computer systems may fail or their security may be compromised, which could damage the Company's business and adversely affect its financial condition and results of operations.***

Genworth Canada's business is highly dependent upon the effective operation of its computer systems. The Company relies on these systems throughout its business for a variety of functions, including underwriting new insurance, processing applications and claims, providing information to lenders, performing portfolio analyses and maintaining financial records. Despite the implementation of security and back-up measures, the Company's computer systems may be vulnerable to physical or electronic intrusions, computer viruses or other attacks, programming errors and similar disruptive

problems. The failure of these systems for any reason could cause significant interruptions to the Company's operations, which could result in an adverse effect on its business, financial condition or results of operations.

The Company retains confidential information in its computer systems, and the Company relies on sophisticated commercial technologies to maintain the security of those systems. Anyone who is able to circumvent the Company's security measures and penetrate its computer systems could access, view, misappropriate, alter, or delete any information in the systems, including personally identifiable customer information and proprietary business information. Any compromise of the security of the Company's computer systems that results in inappropriate disclosure of personally identifiable customer information could damage the Company's reputation in the marketplace, deter lenders from purchasing the Company's products, subject the Company to significant civil and criminal liability and require the Company to incur significant technical, legal and other expenses. Any of these events could have an adverse effect on the Company's business, results of operations and financial condition.

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

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

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

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

***Genworth Financial's interest in the Company could adversely affect the Company's business and profitability.***

Prior to the Offering, Genworth Canada was an indirect wholly-owned subsidiary of Genworth Financial. Genworth Financial is a Fortune 500 global financial security company with, as of December 31, 2010, more than \$112 billion in assets and a presence in more than 25 countries. In addition, to the extent Genworth Financial continues to own a significant percentage of the Company's outstanding Common Shares, any adverse developments affecting Genworth Financial may be harmful to the Company's business and prospects. In particular, in such a circumstance, lenders could become less likely to do business with the Company even though the Company may be financially sound.

***The Company's historical financial information is not necessarily representative of the results the Company would have achieved as a stand-alone company and may not be a reliable indicator of its future results.***

The historical financial information included in the Company public disclosure documents may not necessarily reflect the financial condition, results of operations or cash flows the Company would have achieved as a stand-alone company during the periods presented. This is primarily a result of the following factors:

- Genworth Canada's historical financial results reflect allocations of corporate expenses from Genworth Financial. Those allocations may be different from the comparable expenses the Company would have incurred had the Company operated as a stand-alone company;
- changes in the Company's cost structure, management, financing and business operations have occurred and are further expected to occur as a result of Genworth Financial's reduced ownership of the Company. As a result, the costs reflected in the Company's historical financial statements may not represent its costs in future periods with respect to reduced economies of scale; stand-alone costs for services currently provided by Genworth Financial; the need for additional personnel to perform services previously provided by Genworth Financial; and the legal, accounting, compliance and other costs associated with being a public company with listed equity; and
- Genworth Financial's reduced ownership of the Company may have an adverse effect on the Company's relationships with lenders and other industry participants, employees and regulators and government officials, which could result in reduced sales, increased regulatory scrutiny and disruption to its business operations.

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

The Company and Genworth Financial entered into a Transition Services Agreement (as defined in "Material Contracts – Transition Services Agreement") and other agreements in connection with the Reorganization, and the Offering and the business needs of the Company. Pursuant to these arrangements, Genworth Financial and its affiliates have agreed to provide the Company with a variety of services.

The Company negotiated these arrangements with Genworth Financial in the context of a parent-subsidary relationship. Although Genworth Financial is contractually obligated to provide the Company with services during the terms of these arrangements and for a period of time following certain triggering events, there can be no assurance that these services will be sustained at the same level after the completion of the agreed duration of the arrangements, or that the Company will be able to replace these services in a timely manner or on comparable terms. In addition, under the Transition Services Agreement and other agreements, Genworth Financial is obligated to provide the Company with certain services only for 12 months beyond when Genworth Financial ceases to own more than 50% of the outstanding Common Shares. The Company has no control over when Genworth Financial's ownership falls below 50%. If the Company does not complete the transition of these services before the expiry of the 12 month transition period, it could have an adverse effect on the Company's business, results of operations and financial condition.

***Genworth Financial has significant control over the Company and may not exercise its control in a way that benefits its public shareholders.***

Genworth Financial beneficially owns approximately 57.5% of the Company's outstanding Common Shares. Genworth Financial has not indicated if or when it might reduce its ownership in the future. So long as Genworth Financial continues to beneficially own more than 50% of the Company's outstanding Common Shares, Genworth Financial generally will be able to determine the outcome of most corporate actions requiring shareholder approval. In addition, until the first date on which Genworth Financial owns not less than one-third of the outstanding Common Shares, the prior affirmative vote or written consent of Genworth Financial is required for certain corporate actions. See "*Material Contracts – Shareholder Agreement*". Genworth Financial also has the right, through ownership of the Special Share (as defined in "*Description of Capital Structure – Special Share*"), to elect a portion of the Board.

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

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

Questions relating to conflicts of interest may arise between the Company and Genworth Financial in a number of areas relating to its past and ongoing relationships. A majority of the Company's current directors have been designated by Genworth Financial. Four of these directors are employees of Genworth Financial. These directors and a number of the Company's officers own Genworth Financial shares and options to purchase Genworth Financial shares, and all of them participate in Genworth Financial pension plans. Ownership interests of the Company's directors or officers in Genworth Financial shares, or service as a director or officer of both the Company and Genworth Financial, could give rise to potential conflicts of interest when a director or officer is faced with a decision that could have different implications for the two companies. These potential conflicts could arise, for example, over matters such as the desirability of an acquisition opportunity, employee retention or recruiting, or the Company's dividend policy. There can be no assurance that any conflicts will be so resolved or resolved in a manner that is not in the best interests of the Company and its other shareholders.

## **DIVIDENDS**

In the fourth quarter of 2010 the Board amended its dividend policy (the "**Dividend Policy**") pursuant to which, following quarterly Board review and approval, Genworth Canada will endeavour to declare and pay to holders of Common Shares a quarterly dividend of \$0.26 per Common Share. Prior to such amendment and since the Offering, the dividend amount paid out was \$0.22 per Common Share. The first dividend declared and paid out at \$0.26 by the Company was in the fourth quarter of 2010. The Board may alter or terminate the Dividend Policy at any time in its sole discretion, after taking into account such factors as the Company's financial condition, results of operations, current and anticipated cash needs, regulatory capital requirements, the requirements of any future financing agreements and other factors that the Board may deem relevant, with a view to paying dividends whenever operational circumstances permit. See "*Risk Factors – As a holding company, Genworth Canada depends on the ability of its direct and indirect subsidiaries to make distributions in order to allow Genworth Canada to pay dividends, if declared, and to meet Genworth Canada's obligations.*"

## DESCRIPTION OF CAPITAL STRUCTURE

### General Description of Capital Structure

Genworth Canada's authorized share capital consists of an unlimited number of Common Shares, an unlimited number of preferred shares (the "**Preferred Shares**") issuable in series, and one Special Share. As of the date of this AIF, 104,795,681 Common Shares, no Preferred Shares and 1 Special Share have been issued and are outstanding.

### Common Shares

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

### Preferred Shares

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

### Special Share

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

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

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

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

### Constraints

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

### Ratings

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

	<u>Rating</u>	
	Standard & Poor’s Ratings Services	DBRS Limited
Genworth Canada - Debentures	A-	AA (low)
Genworth Mortgage Insurance Canada	AA-	AA

### Debt Ratings

The Debenture rating of AA (low) by DBRS Limited (“**DBRS**”) represents the second highest of the ten rating categories available from DBRS for long-term debt. According to DBRS, debt securities rated AA are of superior credit quality, and protection of interest and principal is considered high. Entities rated AA are also considered to be strong credits, typically exemplifying above-average strength in key areas of consideration and unlikely to be significantly affected by reasonably foreseeable events. A reference to “high” or “low” reflects the relative strength within the rating category, while the absence of either a “high” or “low” designation indicates the rating is placed in the middle category.

The Debenture rating of A- by Standard & Poor’s Ratings Services (“**S&P**”) is the third highest of the 10 major rating categories for long-term debt and indicates S&P’s view that Genworth Canada’s capacity to meet its financial commitment on the obligations is still strong, but the obligations are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions



than obligations in higher rated categories. The ratings from “AA” to “CCC” may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

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

### *Financial Strength Ratings*

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

Genworth Mortgage Insurance Canada’s ratings are determined on a stand-alone basis separate from Genworth Financial and do not take into account the 90% Guarantee. The financial strength ratings of Genworth Mortgage Insurance Canada reflect each rating agency’s opinion of Genworth Mortgage Insurance Canada’s financial strength, operating performance and ability to meet obligations to policyholders. These factors are important to lenders. Ratings are not evaluations directed to the protection of investors in the Common Shares. They are not ratings of the Common Shares, do not represent a recommendation to buy, hold or sell the Common Shares and should not be relied upon when making a decision to buy, hold or sell the Common Shares or any other security of the Company.

As lenders benefit from the 90% Guarantee, the financial strength rating is primarily relevant to lenders in respect of the unguaranteed portions of Genworth Mortgage Insurance Canada’s policies. In that respect, Genworth Mortgage Insurance Canada’s ratings serve as an independent affirmation to lenders of Genworth Mortgage Insurance Canada’s financial strength. This should provide lenders with additional comfort as to Genworth Mortgage Insurance Canada’s ability to pay outstanding claims and provide credit enhancement for securitization purposes.

S&P states that an insurer rated “AA-” (Very Strong) has very strong capacity to meet its financial commitments. It differs from the highest-rating only to a small degree. The “AA” rating is the second-highest of nine financial strength ratings assigned by S&P, which range from “AAA” to “R”. A plus (+) or minus (-) shows relative standing in a rating category. Accordingly, the “AA-” rating is the fourth-highest of S&P’s 21 ratings categories.

DBRS states that long-term obligations rated “AA” are of superior credit quality. Given the extremely restrictive definition DBRS has for the “AAA” category, entities rated “AA” are also considered to be strong credits, typically exemplifying above-average strength in key areas of consideration and unlikely to be significantly affected by reasonably foreseeable events.

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

## MARKET FOR SECURITIES

The Common Shares are listed and posted for trading on the Toronto Stock Exchange under the symbol “MIC”. The closing price ranges and average daily trading volume of the Common Shares on the Toronto Stock Exchange from the first day to the last day of public trading during 2010 were as follows (share price is stated in Canadian dollars per share):

<b>2010</b>	<b>High</b>	<b>Low</b>	<b>Average Daily Volume</b>
January	\$27.05	\$25.56	131,866
February	\$28.19	\$26.38	66,867
March	\$27.75	\$26.65	51,725
April	\$28.74	\$27.21	222,329
May	\$28.40	\$24.01	262,778
June	\$24.97	\$22.98	127,631
July	\$26.24	\$22.49	148,820
August	\$26.98	\$24.97	187,049
September	\$26.50	\$25.45	423,650
October	\$27.25	\$25.78	179,066
November	\$27.08	\$25.19	119,258
December	\$27.65	\$26.20	74,055

Source: Toronto Stock Exchange

### Prior Sales

On June 29, 2010 the Company completed an offering of \$275 million principal amount of 2020 Debentures. 275,000 of the 2020 Debentures were issued at a price of approximately \$1,000 per debenture. On December 16, 2010 the Company completed another offering of \$150 million principal amount of 2015 Debentures. 150,000 of the 2015 Debentures were issued at a price of approximately \$1,000 per debenture.

## DIRECTORS AND OFFICERS

### Directors and Executive Officers

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

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

As a group, the directors and executive officers of the Company listed below beneficially own, or control or direct, directly or indirectly, 68,224 Common Shares representing less than 1% of the issued and outstanding Common Shares outstanding as of the date of this AIF.

<u>Name</u>	<u>Residence</u>	<u>Equity Ownership</u>	<u>Principal Occupation</u>	<u>Director of the Company Since</u>
Brian Hurley Chairman & Chief Executive Officer, Director	Ontario, Canada	Common Shares 19,594 Options 372,200 Performance Share Units 13,041 Restricted Share Units 21,399	Chairman and Chief Executive Officer, Genworth Mortgage Insurance Canada	May 25, 2009
Peter Vukanovich Executive Vice President, Corporate Development, Director	Ontario, Canada	Common Shares 16,958 Options 272,400 Performance Share Units 10,392 Restricted Share Units 19,195	Executive Vice President, Corporate Development, Genworth Mortgage Insurance Canada	May 25, 2009
Robert Brannock Director	County Clare, Ireland	-	President and Chief Executive Officer, Genworth Financial – Europe	May 25, 2009
Robert Gillespie <sup>(1)(2)</sup> Director	Ontario, Canada	Common Shares 1,000 Deferred Share Units 3,309	Corporate Director President, Gilvest Inc. (private holding company), Former Chairman and Chief Executive Officer, General Electric Canada	June 30, 2009
Sidney Horn <sup>(1)(2)</sup> Lead Director, Compensation & Nominating Committee Chair	Quebec, Canada	Common Shares 4,000 Deferred Share Units 3,309	Partner, Stikeman Elliott LLP (law firm)	June 30, 2009
Brian Kelly <sup>(1)(3)</sup> Director, Audit Committee Chair	Ontario, Canada	Common Shares 1,000 Deferred Share Units 3,309	Corporate Director	June 30, 2009
Samuel Marsico <sup>(3)</sup> Director, Risk, Capital & Investment Committee Chair	North Carolina, USA	Common Shares 3,624	Senior Vice President and Chief Risk Officer, Genworth Financial, US Mortgage Insurance and International	June 30, 2009
Leon Roday <sup>(2)</sup> Director	Virginia, USA	Common Shares 3,020	Senior Vice President – General Counsel and Secretary, Genworth Financial	June 30, 2009
Jerome Upton <sup>(3)</sup> Director	North Carolina, USA	Common Shares 906	Chief Operating Officer for International Mortgage Insurance, Genworth Financial	June 30, 2009

<u>Name</u>	<u>Residence</u>	<u>Equity Ownership</u>	<u>Principal Occupation</u>	<u>Director of the Company Since</u>
Philip Mayers Senior Vice President and Chief Financial Officer	Ontario, Canada	Common Shares 5,973 Options 102,200 Performance Share Units 3,972 Restricted Share Units 8,596	Senior Vice President and Chief Financial Officer, Genworth Mortgage Insurance Canada	-
Stuart Levings Senior Vice President and Chief Risk Officer	Ontario, Canada	Common Shares 3,093 Options 81,000 Performance Share Units 3,259 Restricted Share Units 7,988	Senior Vice President and Chief Risk Officer, Genworth Mortgage Insurance Canada	-
Deborah McPherson Senior Vice President, Sales and Marketing	Ontario, Canada	Common Shares 4,823 Options 71,900 Performance Share Units 2,852 Restricted Share Units 5,539	Senior Vice President, Sales and Marketing, Genworth Mortgage Insurance Canada	-
Winsor Macdonell Senior Vice President, General Counsel and Secretary	Ontario, Canada	Common Shares 4,233 Options 55,300 Performance Share Units 1,630 Restricted Share Units 3,994	Senior Vice President, General Counsel and Secretary, Genworth Mortgage Insurance Canada	-

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Compensation and Nominating Committee.
- (3) Member of the Risk, Capital and Investment Committee.

## Biographies

**Brian Hurley, Chairman, Chief Executive Officer and Director, Genworth Canada.** Prior to his current role, Mr. Hurley acted as President, Genworth International – Asia Pacific, Canada & Latin America from September 2004 to May 2009, with responsibility for Genworth Financial’s activities in key markets around the world. Before that, Mr. Hurley was Senior Vice President, International of General Electric’s U.S. mortgage insurance business from February 2000 to September 2004, prior to which he was Senior Vice President of Sales and Operations between October 1996 and February 2000. Between August 1994 and October 1996, Mr. Hurley served as President and Chief Executive Officer General Electric Mortgage Insurance Canada. Before that, Mr. Hurley was Chief Financial Officer of General Electric Mortgage Insurance from 1991 until August 1994. Prior to that, Mr. Hurley joined the NBC Corporate Staff as Manager of Capital Planning, continuing in roles including Director of International Finance and Enterprise Operations. In 1984 Mr. Hurley joined General Electric Aircraft Engines, spending three years in various financial positions, including Manager Finance – Engineering. Between 1981 and 1984, Mr. Hurley was a member of the General Electric Financial Management Program. Mr. Hurley graduated from Assumption College in Worcester, MA with a Bachelor of Science degree in Economics.

**Peter Vukanovich, Executive Vice President, Corporate Development and Director, Genworth Canada.** Prior to assuming his current role on March 1, 2011, Mr. Vukanovich was the President and Chief Operating Officer of Genworth Canada since July 2009, and served as business leader from 1997 to July 2009. Before that, Mr. Vukanovich served as Manager, Finance of General Electric Power Systems from May 1996. Prior to that, Mr. Vukanovich was a member of General Electric

Canada's Corporate Finance team. Between 1984 and 1989, Mr. Vukanovich held various financial roles with Camco Inc. in Mississauga, Ontario. Before joining the General Electric group, Mr. Vukanovich was a Staff Accountant with Deloitte Haskins & Sells from 1981 to 1984, where he obtained a Chartered Accountant's designation. Mr. Vukanovich is also the Past President (2005-06) of the Canadian Association of Accredited Mortgage Professionals ("CAAMP"). CAAMP is a national association of more than 11,000 mortgage brokers, lenders and mortgage insurers dedicated to professionalism in the mortgage industry. Mr. Vukanovich graduated from the University of Toronto with a Bachelor of Commerce.

**Robert Brannock, Director.** Prior to his current role as President and Chief Executive Officer at Genworth Financial – Europe which he has held since January 2007, Mr. Brannock was President and Chief Executive Officer of Genworth Financial's Lifestyle Protection business, a position which he held from August 2005. In addition, Mr. Brannock was a director of Genworth Mortgage Insurance Canada from February 2007 to July 2008. Between August 2002 and August 2005, Mr. Brannock was Managing Director, Sales & Marketing for Lifestyle Protection. Before that, Mr. Brannock was Chief Information Officer of General Electric Insurance Holdings from 1995 until August 2002 and was IT Development Director with General Electric Capital Aviation Services from 1993 to 1995. Mr. Brannock joined General Electric in 1993 following its acquisition of Irish commercial aircraft sales and leasing company, Guinness Peat Aviation. Mr. Brannock was educated at Greenhills College, Rathmines College of Commerce and Trinity College Dublin. He graduated from and was accepted for membership by the Institute of Chartered Secretaries and Administrators. He is also a Fellow of the Irish Computer Society.

**Robert Gillespie, Director.** Mr. Gillespie has been a director of Genworth Mortgage Insurance Canada since 1995. Between 1992 and 2005 Mr. Gillespie acted as Chairman and Chief Executive Officer of General Electric Canada Inc. Prior to holding that position, Mr. Gillespie held various management positions at General Electric Canada Inc., including Vice-President, Strategic Planning and Review, Vice-President, Consumer Products Business Division and Vice-President, Consumer and Construction Products. In the past, Mr. Gillespie has acted as a director of companies such as AT&T Canada, Hollinger Inc. and Husky Injection Molding Systems Ltd. Mr. Gillespie was educated at Harvard Business School and at Heriot-Watt University in Edinburgh, Scotland, from which he also holds an Honorary Doctorate.

**Sidney Horn, Lead Director.** Mr. Horn has been a director of Genworth Mortgage Insurance Canada since 1995. Mr. Horn is a partner at the law firm of Stikeman Elliott LLP and specializes in commercial, corporate and securities law. Mr. Horn has been recognized in several legal publications. Mr. Horn is a director of Astral Media Inc., The Wet Seal Inc., as well as Prime Restaurants Inc. (a subsidiary of Prime Restaurants Royalty Income Fund). Mr. Horn received his LL.B., B.C.L. and B.A. in Economics from McGill University in Montreal, Québec and his MBA, Finance and Accounting from Columbia University, New York. Mr. Horn is a member of the Alberta and Québec Bars.

**Brian Kelly, Director.** Mr. Kelly has been a member of Genworth Mortgage Insurance Canada's board of directors since 2004 and Chairman of its audit committee since November 2005. Prior to his retirement in 1998, Mr. Kelly was General Manager of General Electric Hydro Business operations in China. Between 1972 and 1993, Mr. Kelly held various financial management positions with several General Electric businesses, including Chief Financial Officer of General Electric Canada Motors and General Electric Power Systems Canada. Mr. Kelly also served on the Prime Minister of Canada's Executive Exchange Program for two years. Mr. Kelly received a Bachelor of Business Administration from St. Francis Xavier University in Antigonish, Nova Scotia.

**Samuel Marsico, Director.** Mr. Marsico has been in his current role as Senior Vice President and Chief Risk Officer, Genworth Financial, US Mortgage Insurance and International since July 2008.

Between January 2006 and July 2008, Mr. Marsico served as Genworth Financial's Chief Risk Officer. Before that, Mr. Marsico was Senior Vice President and Chief Risk Officer for General Electric Mortgage Insurance, a role he assumed in April 2001. Mr. Marsico joined General Electric Mortgage Insurance in August 1997 as Chief Financial Officer, with responsibility for all of the company's financial operations, and subsequently held leadership positions in the division's New Markets and Marketing departments. Before that, Mr. Marsico held leadership positions at both General Electric Transportation Systems and General Electric Corporate Finance. Prior to joining General Electric, Mr. Marsico was a senior executive at Price Waterhouse in New York, where he managed audit and consulting engagements. Mr. Marsico is a graduate of Fairfield University with a BS in Accounting and is a member of the American Institute of Certified Public Accountants.

**Leon Roday, Director.** Prior to his current position as Senior Vice President, General Counsel and Secretary of Genworth Financial, which he has held since 2004, Mr. Roday held the same position for General Electric Financial from 1996. Mr. Roday is a member of the board of the Insurance Marketplace Standards Association ("IMSA") and recently served a one-year term as the chair of the IMSA board. Before joining General Electric, he was a partner at LeBoeuf, Lamb, Greene, and McRae for 14 years. Mr. Roday earned his BA degree from the University of California at Santa Barbara and his Juris Doctor from Brooklyn Law School. He is a member of the New York State and Virginia Bar Associations.

**Jerome Upton, Director.** Prior to his current position as Senior Vice President and Chief Operating Officer for International Mortgage Insurance of Genworth Financial, which he has held since October 2009, Mr. Upton served as Senior Vice President and Chief Financial Officer, Genworth Financial International – Asia Pacific, Canada and Latin America from November 2007 to September 2009. His previous roles also included responsibility for Global Financial Planning & Analysis from 2004 to 2007, International Finance Manager from 2002 to 2004 and Mortgage Insurance Global Controller from 1998 to 2002. Mr. Upton joined General Electric in July 1998 from KPMG Peat Marwick, where he served in accounting positions of increasing authority before attaining the position of Senior Manager – Insurance in Raleigh, North Carolina. Prior to that Mr. Upton was the Controller and Director of Financial Reporting for Century American Insurance Company in Durham, North Carolina, and obtained the status of Certified Public Accountant. He began his career as a Financial Analyst with Coastal Group, Inc. Mr. Upton obtained his Bachelors of Science, Accounting from the University of North Carolina at Pembroke.

**Philip Mayers, Senior Vice President and Chief Financial Officer, Genworth Canada.** Mr. Mayers became Chief Financial Officer of the Company in 2009. He has over 20 years of finance and general management experience in financial services businesses. Since joining the Company in 1995, Mr. Mayers has held several senior positions, including Vice President, Finance, Vice President, Operations, and Senior Vice President, Business Development. Prior to joining the Company, he held finance positions with MICC, Esso Petroleum Canada and Deloitte & Touche. He holds AMP, CA and CMA professional designations and has a Master of Accounting degree from the University of Waterloo.

**Stuart Levings, Senior Vice President and Chief Risk Officer, Genworth Canada.** Mr. Levings is a qualified Chartered Accountant with over 15 years of professional experience in a variety of industry sectors. Since joining the Company in July 2000 as the Financial Controller, Mr. Levings has held positions in finance and product development, including five years as Chief Financial Officer prior to becoming the Chief Risk Officer in January 2008. Before that, Mr. Levings spent seven years with Deloitte & Touche. Mr. Levings holds a Bachelor of Accounting Science degree from the University of South Africa and is a member of both the South African and Canadian Institutes of Chartered Accountants.

**Deborah McPherson, Senior Vice President, Sales and Marketing, Genworth Canada.** Ms. McPherson has more than 15 years of experience and success in sales and quality management with the Company. Prior to her current position, Ms. McPherson was the Company's Ontario Regional Sales Director. Ms. McPherson plays an active role in many industry organizations, including the Canadian Association of Accredited Mortgage Professionals, the Canadian Homebuilders Association and the Canadian Real Estate Association. Ms. McPherson graduated from the University of Toronto with a Bachelor of Arts degree.

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

### **Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

Other than as specified below, no director or executive officer of the Company is, or within the 10 years prior to the date hereof has been, a director, chief executive officer or chief financial officer of any company that (i) was subject to a cease trade order or similar order or an order that denied the company access to any exemption under securities legislation, in each case in effect for a period of more than 30 consecutive days, that was issued while that person was acting in the capacity of a director, chief executive officer or chief financial officer of that company, or (ii) was subject to such an order that was issued after that person ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while the person was acting in that capacity. Robert Gillespie, a director of the Company, was a director of Atlas Cold Storage Holdings Inc. ("Atlas") at a time when all directors of Atlas were subject to a cease trade order as a result of a failure by Atlas to file quarterly financial statements within the time required under Canadian securities law. The cease trade order was lifted on May 11, 2004.

No director or executive officer of the Company or shareholder holding sufficient securities of the Company to affect materially the control of the Company is, or within the 10 years prior to the date hereof has been, a director or executive officer of any company that, while that person was acting in that capacity or within a year of ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. In addition, no director or executive officer of the Company or shareholder holding sufficient securities of the Company to affect materially the control of the Company has, within the 10 years prior to the date hereof become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

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

## **Conflicts of Interest**

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

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

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

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

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

## **TRANSFER AGENT AND REGISTRARS**

The transfer agent and registrar for the Common Shares is CIBC Mellon Trust Company at its principal offices in Toronto, Ontario. The indenture trustee, paying agent and registrar of the 2020 Debentures and the 2015 Debentures is BNY Trust Company of Canada at its principal offices in Toronto, Ontario.

## **MATERIAL CONTRACTS**

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

1. The Government Guarantee Agreement, dated as of January 1, 1991, between the Canadian government and MICC, referred to under "*Description of the Business – Government Guarantee Agreement*" and as described below.
2. The underwriting agreement, dated as of June 29, 2009, among the Company, Genworth Financial, Brookfield, CIBC World Markets Inc., Goldman Sachs Canada Inc., Scotia Capital Inc., TD Securities Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., National Bank Financial Inc., Cormark Securities Inc., Desjardins Securities Inc., Dowling & Partners Securities, LLC, Genuity Capital Markets and Macquarie Capital Markets Canada Ltd. (the "**Underwriting Agreement**").
3. The following agreements dated July 7, 2009, among the Company and Genworth Financial and/or its affiliates (collectively, the "**IPO Agreements**"):
  - Master Agreement;
  - Shareholder Agreement;



- Intellectual Property Cross License;
- Transitional Trade-Mark License Agreement;
- Transition Services Agreement; and
- Registration Rights Agreement.

Copies of the above material agreements may be viewed at the website maintained by the Canadian Securities Administrators at <http://www.sedar.com>. Details of the material terms of these contracts are outlined below.

### **Government Guarantee Agreement**

Certain of the principal provisions of the Government Guarantee Agreement are discussed below. The summary description of the principal provisions is not complete and is qualified by reference to the terms of the Government Guarantee Agreement and its amendments. Investors are encouraged to read the full text of the agreement and its amendments.

The Government Guarantee Agreement was originally made as of January 1, 1991 between the Canadian government and MICC. The Company assumed the benefit of the Government Guarantee Agreement when it acquired certain assets and hired certain employees from MICC in 1995. The government of Canada and General Electric amended the Government Guarantee Agreement as of January 13, 1995 to clarify certain provisions and to reflect the 1995 assumption (“**Amendment No. 1**”). Pursuant to the Government Guarantee Agreement, the Canadian government guarantees that lenders will receive the benefits payable under eligible mortgage insurance policies issued by Genworth Mortgage Insurance Canada, less 10% of the original principal amount of an insured loan, in the event that Genworth Mortgage Insurance Canada fails to make claim payments with respect to that loan due to its bankruptcy or insolvency. Genworth Mortgage Insurance Canada is obligated to pay the Canadian government a risk premium for this guarantee and to make other payments to the government guarantee fund, a revenue trust account of the Canadian government the purpose of which is to provide the federal government a source of funds in the event that it has to make a guarantee payment. The risk premium is paid quarterly in an amount equal to a specified percentage of the estimated net exposure of the Canadian government under the agreement.

Under the Government Guarantee Agreement, for so long as the dollar value of the government guarantee fund is below the estimated gross exposure of the Canadian government, Genworth Mortgage Insurance Canada must make a quarterly deposit in the government guarantee fund. The amount of the deposit is equal to 10.5% of the premiums written on policies issued during the preceding three months. Conversely, if at any time the dollar value of the government guarantee fund is at least equal to the estimated gross exposure of the Canadian government, plus the greater of an amount equal to 15% of such estimated gross exposure and \$10 million, Genworth Mortgage Insurance Canada is entitled to withdraw funds from the government guarantee fund, subject to the payment of an exit fee. The Company does not expect to be in a position to make any withdrawals from the government guarantee fund for the foreseeable future. Approximately 2% of the government guarantee fund relates to mortgages insured by MICC.

At the time it was made effective in 1991, the Government Guarantee Agreement was expected to continue in effect indefinitely. Recognizing the difficulty in anticipating contingencies that might arise during the course of the Government Guarantee Agreement’s term, the Government Guarantee Agreement provides the parties with certain review rights both at fixed intervals or in the event of certain

triggering events. The parties are to review the terms of the guarantee every three years and to notify one another if they desire to suggest changes to the Government Guarantee Agreement. The parties are to discuss in good faith any matter covered by the Government Guarantee Agreement in respect of which an amendment or modification is necessary or desirable.

With respect to an event-triggered review, the nature and possible implications of the review vary depending upon the event that triggers the review. If at any time either Genworth Mortgage Insurance Canada or the Canadian government believes that in the course of the performance of the Government Guarantee Agreement unfairness, prejudice or obvious hardship to either party is expected or disclosed, then the parties are to use their best endeavours and negotiate in good faith to agree upon such action as may be necessary to take action to remove or modify such unfairness, prejudice or hardship.

In addition, in the event that: the weighted average premium charged by Genworth Mortgage Insurance Canada for mortgage insurance subject to the guarantee decreases by more than 25% over six consecutive months; more than one-third of all mortgages insured by Genworth Mortgage Insurance Canada relate to conventional residential mortgage loans; any other change occurs that significantly affects certain assumptions specified in the agreement used in determining the estimated exposure of the Canadian government or calculating the risk premium and government guarantee fund payments; or the existing level of guarantee has the effect of providing Genworth Mortgage Insurance Canada with a competitive advantage or results in a competitive disadvantage and such event results in unfairness, prejudice or obvious hardship to either party, the parties are to negotiate in good faith modifications to remove or modify the unfairness, prejudice or hardship. If no agreement is reached by the parties within six months, the Government Guarantee Agreement provides that the matter be referred to arbitration.

The Government Guarantee Agreement further provides that if: Genworth Financial ceases to control Genworth Mortgage Insurance Canada; the gross or net premiums in classes of insurance that do not involve eligible mortgages (for the purposes of the Government Guarantee Agreement) exceed 30% of total gross or net premiums of Genworth Mortgage Insurance Canada; there is any change to the rules of the Bank for International Settlements (“**BIS**”) capital measurement and capital standards as implemented in Canada having a significant effect on the risk weighting factors applied to residential mortgages; or there is any other change having a significant impact on the Canadian government’s economic risk or exposure under the agreement, the parties must determine whether the event has a significant impact on the basic principles that the guarantee was based upon, and results in unfairness, prejudice or obvious hardship to either party. Where such significant impact exists, the parties are to negotiate in good faith modifications to remove or modify such unfairness, prejudice or hardship (a “**Full Review**”).

The Government Guarantee Agreement may be terminated where an event of default occurs. The following are events of default for the purposes of the Government Guarantee Agreement: failure by Genworth Mortgage Insurance Canada to make payments or comply with any other obligation under the agreement following the expiry of applicable cure periods; the loss by Genworth Mortgage Insurance Canada of its license or legal authorization to write mortgage insurance; and failure by Genworth Mortgage Insurance Canada to comply with regulatory requirements of OSFI or the Minister. The other two circumstances that can lead to termination of the Government Guarantee Agreement are failure by the parties to agree, within six months of notification of an event triggering a Full Review, on appropriate modifications to the agreement to address any unfairness, prejudice or hardship, or where mortgage insurance policies are no longer issued by an agent of the Crown such as CMHC and the Canadian government does not guarantee any such policies issued by any other corporation.

In December 2006, at the time that the Canadian government had authorized new participants to enter into the Canadian mortgage insurance market, the Canadian Department of Finance informed Genworth Mortgage Insurance Canada that it intended to review the Government Guarantee Agreement, although it did not specifically link this review to any particular provision of the Government Guarantee Agreement. The Department of Finance originally targeted completion of such review by the end of 2007. In November 2007, Genworth Mortgage Insurance Canada received notification under the Full Review provisions of the Government Guarantee Agreement that there had been a change to the BIS rules. This coincided with the implementation of the latest capital rules established by Basel II. In February 2008, the Department of Finance and Genworth Mortgage Insurance Canada mutually agreed to suspend the BIS-related review, deferring to the broader review of the Canadian government guarantee framework that Genworth Mortgage Insurance Canada had been informed of in December 2006. Genworth Mortgage Insurance Canada continues to discuss this review with Department of Finance officials, but to the knowledge of Genworth Mortgage Insurance Canada, no target completion date has been established.

Additionally, in July 2008, the Canadian government publicly announced adjustments to the rules for government guaranteed mortgages, including reducing the maximum amortization period to 35 years, requiring a minimum down payment of five percent and establishing a consistent minimum credit score. The Company incorporated these adjustments into its underwriting guidelines effective October 15, 2008. At the same time, the Canadian government sought changes to the Government Guarantee Agreement to incorporate the adjustments announced in July 2008 and to introduce other changes to modernize the Government Guarantee Agreement. The foregoing revisions to the Government Guarantee Agreement were formalized in an amendment to the Government Guarantee Agreement, which is dated January 22, 2010 (“**Amendment No. 2**”). Additionally, a provision was included in Amendment No. 2 that allows the government to implement industry wide policy changes to mortgages that benefit from a government guarantee.

In February 2010, the Canadian government publicly announced adjustments to the rules for government guaranteed mortgages which (i) require that all borrowers seeking mortgages of a term less than five years or seeking a variable rate mortgage must qualify for the five-year fixed rate mortgage posted by the Bank of Canada (see “*Description of the Business – Fixed and Variable Rate Mortgages*” for greater detail on the rates being used to qualify mortgages), (ii) lower the maximum amount borrowers can withdraw in refinancing their mortgages to 90 per cent from 95 per cent of the value of their homes, and (iii) require a minimum down payment of 20 per cent on non-owner-occupied properties purchased for speculation. These rules came into force in April 2010 and were formalized in an amendment to the Government Guarantee Agreement (“**Amendment No. 3**”).

In January 2011 the Department of Finance announced several changes to the mortgage insurance eligibility rules pursuant to the government guarantee to be implemented on March 18, 2011, namely reducing the maximum mortgage amortization to 30 years, from 35 years, and limiting the refinances to 85% loan-to-value, down from the previous maximum 90% loan-to-value. Effective April 18, 2011, home equity lines of credit will no longer qualify under the mortgage insurance eligibility rules pursuant to the government guarantee. These rules were formalized in an amendment to the Government Guarantee Agreement (“**Amendment No. 4**”, and together with Amendment No. 1, Amendment No. 2 and Amendment No. 3, the “**Amendments**”).

A copy of the Government Guarantee Agreement and the Amendments are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Underwriting Agreement**

The Underwriting Agreement governed the term of the relationship between the Company, Genworth Financial, Brookfield and the underwriters for the purposes of the completion of the Offering. Substantially all of the terms, responsibilities and obligations set out in the Underwriting Agreement have been fulfilled or have expired, however a provision that remains in effect is the obligation of the Company upon the determination that it is a passive foreign investment company (a “**PFIC**”) within the meaning of Section 1297 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”). If the Company should come to such a determination in any taxable year, then the Company (or any direct or indirect subsidiary that has been or may become a PFIC), will provide its U.S. shareholders, at the Company’s expense, with all information reasonably available to the Company or any of the subsidiaries to permit the U.S. shareholder and/or its direct and indirect owners to: (i) accurately prepare all tax returns and comply with any reporting requirements as a result of such determination; and (ii) make any election (including, without limitation, a “qualified electing fund” election under Section 1295 of the Code), with respect to the Company and/or any of its direct or indirect subsidiaries, and comply with any reporting or other requirements incident to such election. If a determination is made by the Company or any governmental authority that the Company or any of the subsidiaries has become a PFIC for a particular year, then for such year and for each year thereafter that the Company remains a PFIC, the Company, at the Company’s expense, will provide the U.S. shareholder with a completed “PFIC Annual Information Statement” as required by Treasury Regulation Section 1.1295-1(g) (including the information set forth in Treasury Regulation Section 1.1295-1(g)(1)(ii)(A)), otherwise comply with applicable Treasury Regulation requirements, and comply with any reasonable request of its U.S. shareholders relating to the preparation of such statement. The Company will promptly notify its U.S. shareholders in writing of any written assertion by the United States Internal Revenue Service that the Company or any of the Subsidiaries is a PFIC.

## **Master Agreement**

Genworth Financial, Brookfield, Genworth Canada and Genworth Mortgage Insurance Canada, concurrently with the completion of the Offering, entered into a master agreement (the “**Master Agreement**”), which provides the key arrangements for Genworth Financial’s reduced ownership interest in Genworth Mortgage Insurance Canada’s business (the “**Business**”). The Master Agreement contemplates that the reduction in Genworth Financial’s interest in the Business and various interim and ongoing relationships between Genworth Financial and the Company will be governed by the Master Agreement and the other IPO Agreements. Except as otherwise expressly set out in the Master Agreement, all of the covenants and agreements in the such agreement will survive indefinitely, subject to applicable laws. Certain of the principal provisions of the Master Agreement are discussed below.

## ***Indemnification and Release***

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

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

- any breach by Genworth Canada or any of its subsidiaries of any IPO Agreement.

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

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

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

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

### ***Non-competition and Non-solicitation***

The Master Agreement contains non-competition covenants that prohibit competition between Genworth Canada and its subsidiaries, on the one hand, and Genworth Financial and its subsidiaries, on the other hand, in certain businesses and geographic areas during the period beginning on the date of such agreement and ending on the date that is two years after the date on which Genworth Financial ceases to beneficially own, directly or indirectly, at least one-third of the outstanding Common Shares (the "**Restricted Period**").

The Master Agreement provides that Genworth Canada and its subsidiaries will not, during the Restricted Period, directly or indirectly, engage in any line of business (other than the mortgage insurance business in Canada) in a jurisdiction where Genworth Financial or any of its subsidiaries is licensed to conduct, or has local employees dedicated to, such line of business (each such business line so conducted by Genworth Financial or an applicable subsidiary of Genworth Financial is referred to as a "**Genworth Financial Business Line**") at the time Genworth Canada wishes to commence or engage in such line of business in such jurisdiction. The foregoing non-competition agreement is subject to a limited exception in the case of certain acquisitions by the Company that involve or would include the acquisition of a line of business that competes with a Genworth Financial Business Line (a "**Genworth Financial-Competitive Business**"), so long as (i) the Genworth Financial-Competitive Business comprises less than 15% of the total assets and revenues of the business to be acquired by Genworth Canada, and (ii)

Genworth Financial is given a right of first refusal to acquire the Genworth Financial-Competitive Business on terms specified in the Master Agreement. If Genworth Financial does not exercise its right of first refusal, then Genworth Canada will be permitted to complete the larger acquisition, and thereafter to carry on the Genworth Financial-Competitive Business, provided that Genworth Canada will be required to divest the Genworth Financial-Competitive Business within two years and to hold the Genworth Financial-Competitive Business separate from Genworth Canada's other businesses until such time as it is sold.

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

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

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

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

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

### ***Confidentiality and Records Retention***

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

### ***Disputes***

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

### ***Assignment***

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

### ***Shareholder Agreement***

Genworth Financial, Brookfield and Genworth Canada entered into a Shareholder Agreement in connection with the closing of the Offering.

### ***Special Approval Rights of Genworth Financial***

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

- (a) entering into any merger, amalgamation, consolidation or similar business combination;
- (b) acquiring any assets, business or operations (in a single transaction or a series of related transactions) in the aggregate with a value of more than \$50 million;

- (c) adopting any plan or proposal for a complete or partial liquidation, dissolution or winding up of the Company or any of its subsidiaries or any reorganization or recapitalization of the Company or any of its subsidiaries or commencing any case, proceeding or action seeking relief under any existing or future laws relating to bankruptcy, insolvency, conservatorship or relief of debtors;
- (d) selling, transferring, leasing, pledging or otherwise disposing of any of the Company's assets, business or operations or any of its subsidiaries' assets, business or operations (in a single transaction or a series of related transactions) in the aggregate with a value of more than \$100 million;
- (e) making any reductions in the dividend policy of the Company or its subsidiaries (other than those required by law or by OSFI); and
- (f) issuing new debt securities or incurring indebtedness or guarantees in an amount which, at the time of incurrence or issuance, would result in the Company having a debt-to-capital ratio greater than 20%.

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

- (a) approval of any annual business plan of the Company and its subsidiaries on a consolidated basis and any material amendments to, or departure from, such business plan;
- (b) appointment or removal of the Chief Executive Officer of the Company; and
- (c) issuing Common Shares or other equity securities or securities convertible into or exercisable or exchangeable for Common Shares or other equity securities of the Company (other than pursuant to incentive plans approved by the Board).

If Genworth Financial beneficially owns less than 50% of the outstanding Common Shares, then, for so long as Genworth Financial beneficially owns not less than one-third of the Common Shares, the Company will be required to consult with Genworth Financial with respect to the foregoing matters; however, Genworth Financial will no longer have the right to approve or deny approval of such matters.

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

### ***Information Sharing***

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



- (a) maintenance of and certification of controls over financial reporting;
- (b) access to the books and records and personnel of the Company so that Genworth Financial may conduct audits of the Company's financial statements;
- (c) maintenance of monthly closing routines and continued monthly financial and other operating reviews;
- (d) provision of advance notice of, and consultation with Genworth Financial regarding, any proposed material change in accounting estimates or discretionary accounting principles;
- (e) certification by the Chief Executive Officer and Chief Financial Officer of the Company of the accuracy and completeness of financial and accounting records; and
- (f) provision of copies of correspondence with and reports submitted by accountants of the Company.

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

- (a) provision of quarterly and annual financial statements and other financial information by the Company required for Genworth Financial's quarterly and annual financial statements, MD&A and other public filings, including certification by the Chief Executive Officer and Chief Financial Officer of the accuracy and completeness of such information;
- (b) coordination of auditors and audit and review of financial statements;
- (c) release of financial results by the Company concurrently with or immediately following release of financial results by Genworth Financial;
- (d) provision of advance notice to Genworth Financial of, and consultation with Genworth Financial regarding, any proposed meetings by Genworth Canada with financial analysts;
- (e) provision of other specified risk, risk management, capital, investment and compliance information and material regulatory correspondence, including information provided to or reviewed by the Risk, Capital and Investment Committee; and
- (f) access to personnel and working papers.

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

### ***Pre-emptive Right***

Genworth Financial has the right (the "**Pre-emptive Right**"), subject to applicable law, exercisable for so long as Genworth Financial beneficially owns not less than one-third of the outstanding Common Shares, to participate in future offerings and other issuances of Common Shares or securities convertible into Common Shares (subject to certain exceptions, including any grant of incentive options

under an incentive plan approved by the Board, or the issue of Common Shares on the exercise of such options) by purchasing that number of securities in the offering or issuance necessary for Genworth Financial to maintain its relative beneficial ownership interest of Common Shares (on a fully diluted basis in the case of an offering of convertible securities). In respect of each exercise of the Pre-emptive Right for any issuance, Genworth Financial will acquire its securities on the same terms and conditions, including with respect to the price per security, subject to any requirements of stock exchange rules or applicable securities regulators, as is provided in the issuance in respect of which the Pre-emptive Right is exercised.

### ***Committee Representation***

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

### ***Director Elections and Nominations***

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

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

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

### ***Genworth Financial Nominees***

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

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

### ***Transfer and Automatic Redemption of Special Share***

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

### **Intellectual Property Cross License**

Genworth Financial, Genworth Canada and Genworth Mortgage Insurance Canada entered into an agreement (the “**Intellectual Property Cross License**”) pursuant to which each party has licensed to the other certain intellectual property, other than trade-marks, for use in connection with the provision of transition services and otherwise in connection with the conduct of their respective businesses following the completion of the Offering. The Intellectual Property Cross License is terminable only upon the agreement of the parties. In addition to the permitted assignments set forth in the Master Agreement, any party may assign the Intellectual Property Cross License to any of its subsidiaries without any other party’s consent (provided that the assigning party shall continue to remain liable for the performance by such assignee).

### **Transitional Trade-Mark License Agreement**

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

### **Transition Services Agreement**

Genworth Financial, Genworth Canada and Genworth Mortgage Insurance Canada agreed to provide certain services to one another (and to certain of their respective affiliates) following closing of the Offering in accordance with a transition services agreement (the “**Transition Services Agreement**”).

Such services are provided on a temporary, transitional basis, with the time period for the provision of each specific service determined on the basis of anticipated need, with most services being terminated not later than the date on which Genworth Financial ceases to beneficially own more than 50% of the Common Shares, subject, in some cases, to a short transition period thereafter. The continued provision of each service is further subject to periodic review by the parties.

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

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

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

The Transition Services Agreement requires each party to perform its services to a standard that is consistent with its most recent past practices, and all services will generally be provided at the lesser of the provider's actual cost and fair market value, subject in each case to volume and price adjustments which may be made in the event of acquisitions or dispositions of relevant business units by either party.

Neither Genworth Canada nor Genworth Financial will be liable to the other in respect of the services it provides, except where, in providing such services, it has been grossly negligent, engaged in wilful misconduct, improperly used or disclosed customer information or violated applicable law. The liability of each of Genworth Canada and Genworth Financial is limited in respect of their indemnification obligations under the Transition Services Agreement.

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

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

### **Registration Rights Agreement**

Concurrently with the execution and delivery of the Master Agreement, Brookfield and Genworth Canada entered into an agreement (the "**Registration Rights Agreement**") which provides Brookfield (or its assignee) with the right to require the Company to qualify by prospectus Common Shares beneficially owned by Brookfield (or its assignee) for distribution to the public in Canada.

During such time that Brookfield (or its assignee) is unable to sell all or any of the Common Shares it beneficially owns without such sale being considered a “control distribution”, requiring that the Company, absent an exemption from such requirement, file a prospectus and obtain a receipt therefor, Brookfield (or its assignee) may demand twice during each 12-month period, commencing 180 days after the closing of the Offering, that the Company file a prospectus and obtain a receipt therefor provided such demand relates to all of the Common Shares that it beneficially owns or, alternatively, such demand will result in a minimum offering size of \$50 million. The Company is entitled to defer any such demand in certain circumstances for a limited period.

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

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

#### **INTERESTS OF EXPERTS**

The Company’s external auditors are KPMG LLP (“**KPMG**”). KPMG has audited the consolidated financial statements of the Company for the financial year ended December 31, 2010. KPMG is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

#### **ADDITIONAL INFORMATION**

Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including directors’ and officers’ remuneration and indebtedness and principal holders of the Company’s securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Company’s Management Information Circular dated March 18, 2010. Additional financial information is provided in the Consolidated Financial Statements and MD&A.

## APPENDIX “A”

### AUDIT COMMITTEE INFORMATION

#### 1. Audit Committee Charter

See Schedule 1 attached hereto.

#### 2. Composition of the Audit Committee

The Audit Committee of the Company is currently comprised of Brian Kelly, Sidney Horn and Robert Gillespie. Each member of the Audit Committee is independent and financially literate within the meaning of National Instrument 52-110 – *Audit Committees*.

#### 3. Relevant Education and Experience

All members of the Audit Committee have experience reviewing financial statements and dealing with related accounting and auditing issues. The following sets out the education and experience of each member of the Audit Committee relevant to the performance of his responsibilities as an audit committee member:

- *Brian Kelly*: Mr. Kelly has a B.A. in Business Administration from St. Francis Xavier University and has over 20 years experience in finance positions with General Electric. Mr. Kelly has been the Chair of the Audit Committee of Genworth Mortgage Insurance Canada since 2005.
- *Sidney Horn*: Mr. Horn has an MBA in Finance and Accounting from Columbia University and, as a partner with Stikeman Elliott LLP, is regularly involved in complex corporate, commercial and securities transactions.
- *Robert Gillespie*: Mr. Gillespie has held senior management positions, including Chief Executive Officer of General Electric Canada, and has served as a director of a number of Canadian public companies.

#### 4. Pre-Approval Policy

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

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

## **5. External Auditor Service Fees**

### Audit Fees

KPMG charged the Company and its subsidiaries \$783,982 for audit services in connection with the audit of the annual financial statements of the Company and its subsidiaries and services provided in connection with the statutory and regulatory filings or engagements.

### Audit Related Fees

KPMG charged the Company and its subsidiaries \$159,270 for audit related services for assurance and services related to the performance of the audit of the annual statements not reported under “*Audit Fees*” above.

### Tax Fees

KPMG charged the Company and its subsidiaries \$194,050 for tax services in connection with tax planning and compliance.

### All Other Fees

KPMG did not charge the Company or its subsidiaries any fees for services incurred other than those described above.

## SCHEDULE 1

### GENWORTH MI CANADA INC.

#### AUDIT COMMITTEE MANDATE

##### 1. Introduction

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

##### 2. Membership

###### *Number of Members*

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

###### *Independence of Members*

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

###### *Chair*

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

###### *Financial Literacy of Members*

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

###### *Term of Members*

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



### **3. Meetings**

#### ***Number of Meetings***

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

#### ***Quorum***

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

#### ***Calling of Meetings***

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

#### ***Minutes; Reporting to the Board***

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

#### ***Attendance of Non-Members***

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

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

#### ***Meetings without Management***

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

#### ***Procedure***

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

### ***Access to Management***

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

#### **4. Duties and Responsibilities**

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

### ***Financial Reports***

#### **(a) General**

The Audit Committee is responsible for overseeing the Company's financial statements and financial disclosures. Management is responsible for the preparation, presentation and integrity of the Company's financial statements and financial disclosures and for the appropriateness of the accounting principles and the reporting policies used by the Company. The auditors are responsible for auditing the Company's annual consolidated financial statements and for reviewing the Company's unaudited interim financial statements.

#### **(b) Review of Annual Financial Reports**

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

#### **(c) Review of Interim Financial Reports**

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

#### **(d) Review Considerations**

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

- (i) meet with management and the auditors to discuss the financial statements and MD&A;
- (ii) review the disclosures in the financial statements;
- (iii) review the audit report or review report prepared by the auditors;

- (iv) discuss with management, the auditors, the actuary and internal legal counsel, as requested, any litigation claim or other contingency that could have a material effect on the financial statements;
  - (v) review the accounting policies followed and critical accounting and other significant estimates and judgements underlying the financial statements as presented by management;
  - (vi) review any material effects of regulatory accounting initiatives or off-balance sheet structures on the financial statements as presented by management, including requirements relating to complex or unusual transactions, significant changes to accounting principles and alternative treatments under Canadian GAAP;
  - (vii) review any material changes in accounting policies and any significant changes in accounting practices and their impact on the financial statements as presented by management;
  - (viii) review management's report on the effectiveness of internal controls over financial reporting;
  - (ix) review the factors identified by management as factors that may affect future financial results;
  - (x) review results of the Company's audit committee whistleblower hotline program; and
  - (xi) review any other matters, related to the financial statements, that are brought forward by the auditors, management or which are required to be communicated to the Audit Committee under accounting policies, auditing standards or Applicable Requirements.
- (e) **Approval of Other Financial Disclosures**

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

### ***Auditors***

(a) **General**

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

(b) **Appointment and Compensation**

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

(c) **Resolution of Disagreements**

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

(d) **Discussions with Auditors**

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

(e) **Audit Plan**

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

(f) **Quarterly Review Report**

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

(g) **Independence of Auditors**

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

(h) **Evaluation and Rotation of Lead Partner**

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

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

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

(j) **Approval of Hiring Policies**

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

(k) **Financial Executives**

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

***Internal Controls***

(a) **General**

The Audit Committee shall review the Company's system of internal controls.

(b) **Establishment, Review and Approval**

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

- (i) the effectiveness of, or weaknesses or deficiencies in: the design or operation of the Company's internal controls (including computerized information system controls and security); the overall control environment for managing business risks; and accounting, financial and disclosure controls (including, without limitation, controls over financial reporting), non-financial controls, and legal and regulatory controls and the impact of any identified weaknesses in internal controls on management's conclusions;
- (ii) any significant changes in internal controls over financial reporting that are disclosed, or considered for disclosure, including those in the Company's periodic regulatory filings;
- (iii) any material issues raised by any inquiry or investigation by the Company's regulators;
- (iv) the Company's fraud prevention and detection program, including deficiencies in internal controls that may impact the integrity of financial information, or may expose the Company to other significant internal or external fraud losses and the extent of those losses and any disciplinary action in respect of fraud taken against management or other employees who have a significant role in financial reporting; and
- (v) any related significant issues and recommendations of the auditors together with management's responses thereto, including the timetable for implementation of recommendations to correct weaknesses in internal controls over financial reporting and disclosure controls.

***Compliance with Legal and Regulatory Requirements***

The Audit Committee shall review reports from the Company's Corporate Secretary and other management members on: legal or compliance matters that may have a material impact on the Company;

the effectiveness of the Company's compliance policies; and any material communications received from regulators. The Audit Committee shall review management's evaluation of and representations relating to compliance with specific applicable law and guidance, and management's plans to remediate any deficiencies identified.

#### ***Audit Committee Hotline Whistleblower Procedures***

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

#### ***Audit Committee Disclosure***

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

#### ***Delegation***

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

### **5. Access to Management and Outside Advisors**

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

### **6. No Rights Created**

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

### **7. Mandate Review**

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