

# **GENWORTH MI CANADA INC.**

**ANNUAL INFORMATION FORM  
For the year ended December 31, 2012**

**March 18, 2013**

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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**”) and PMI Mortgage Insurance Company Canada (“**PMI 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, 2013.

### Caution Regarding Forward-Looking Information and Statements

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

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

The Company’s actual results and performance could differ materially from those anticipated in these forward-looking statements as a result of both known and unknown risks, including the continued availability of the Canadian government’s guarantee of private mortgage insurance on terms satisfactory to the Company; the Company’s expectations regarding its revenues, expenses and operations; the Company’s plans to implement its strategy and operate its business; the Company’s expectations regarding the compensation of directors and officers; the Company’s anticipated cash needs and its estimates regarding its capital expenditures, capital requirements, reserves and its needs for additional financing; the Company’s plans for and timing of expansion of service and products; the Company’s ability to accurately assess and manage risks associated with the policies that are written; the Company’s

ability to accurately manage market, interest and credit risks; the Company's ability to maintain ratings; 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; a decline in the Company's regulatory capital or an increase in its regulatory capital requirements; loss of members of the Company's senior management team; potential legal, tax and regulatory investigations and actions; the failure of the Company's computer systems; and potential conflicts of interest between the Company and its majority shareholder, Genworth Financial, Inc.

This is not an exhaustive list of the factors that may affect any of the Company's forward-looking statements. Some of these and other factors are discussed in more detail 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.

### **IFRSs and Non-IFRSs Measures**

The Company's consolidated financial statements included in this AIF have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"). To supplement its financial statements, the Company uses select non-IFRSs measures to analyze performance. The Company's key performance indicators and certain other information included in this AIF include certain non-IFRSs measures. Non-IFRSs measures used by the Company to analyze performance include net operating income, operating earnings per common share (basic), operating earnings per common share (diluted), operating return on equity and underwriting ratios such as loss ratio, expense ratio and combined ratio, as well as other performance measures. Other non-IFRSs measures used by the Company to analyze performance include shareholders' equity excluding accumulated other comprehensive income ("**AOCI**"), insurance in-force, new insurance written, minimum capital test ratio, delinquency ratio, severity on claims paid, operating earnings per common share of the Company (basic and diluted), book value per common share (basic and diluted; including and excluding AOCI), dividends paid per common share of the Company, and portfolio duration. The Company believes that these non-IFRSs 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-IFRSs measures do not have standardized meanings and are unlikely to be comparable to any similar measures presented by other companies. In addition, where applicable, non-IFRS measures used by the Company have been adjusted to analyze the impact of the reversal of the government guarantee fund exit fee.

### **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, 2012, and
- (b) the Company's Consolidated Financial Statements and accompanying notes ("**Consolidated Financial Statements**") for the year ended December 31, 2012.

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

**“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 650 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 statement of financial position, with changes in the fair value of these investments included in AOI.

**“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.

**“Common Shares”** means the issued and outstanding common shares of the Company.

**“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 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 consecutive 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.

**“FVTPL”** means fair value through profit or loss.

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

**“government guarantee fund”** means the trust account that was in place under the terms of the Government Guarantee Agreement until January 1, 2013 and which was intended to provide the Canadian federal government with a source of funds in the event it was required to make a guarantee payment.

**“general portfolio”** means invested assets (including cash and cash equivalents, short-term investments, bonds or other fixed income securities and equity investments) and which excluded amounts held in the government guarantee fund prior to its termination on January 1, 2013, when such amounts were incorporated in the general portfolio.

**“gross debt service ratio”** or **“GDSR”** means the percentage of borrowers’ total monthly debt servicing costs, in respect of the debt in question, as a percentage of borrowers’ monthly gross income.

**“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 that were held in the government guarantee fund.

**“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 the reporting 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 the Minister and 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 FVTPL 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 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.

**“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, fees and other income, less losses on claims, 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.

**“NHA”** means the National Housing Act (Canada).

**“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.

**“PRMHIA”** means the *Protection of Residential Mortgage or Hypothecary Insurance Act* (Canada), which came into force on January 1, 2013.

**“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.

**“Shareholder Agreement”** means the agreement between Genworth Financial, Brookfield Life Assurance Company Limited (**“Brookfield”**), Genworth Mortgage Insurance Corporation (**“GMIC”**), Genworth Mortgage Insurance Corporation of North Carolina (**“GMIC-NC”**), Genworth Residential Mortgage Assurance Corporation (**“GRMAC”**) and Genworth Canada dated July 7, 2009 (as amended from time to time).

**“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 **“TDSR”** means the percentage of borrowers’ total monthly debt servicing costs (including mortgage and other debts) 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.

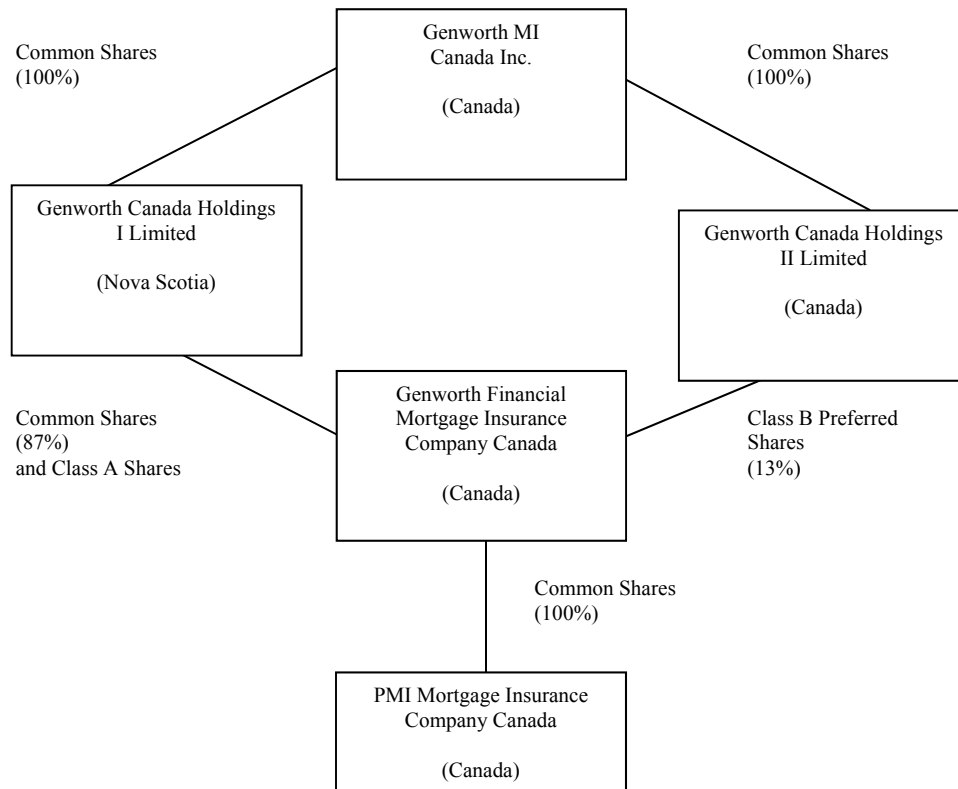
## CORPORATE STRUCTURE

### 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 current majority shareholder. 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. On November 15, 2012 Genworth Mortgage Insurance Canada acquired PMI Mortgage Insurance Company Canada ("**PMI 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) and the percentage of total voting rights associated with each entity.



## 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, 2012, Genworth Canada had \$5.7 billion in total assets and \$3 billion in shareholders' equity. For the full year ended December 31, 2012, the Company had net operating income of \$462 million and an operating return on equity of approximately 17% (including the one-time benefit from the reversal of the government guarantee fund exit fee due to the extinguishment of such liability). The Company employs approximately 260 people across Canada.

### Three Year History

In 2010, Genworth Canada filed a short form base shelf prospectus that allowed 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 2010, the Company also increased its quarterly dividends from \$0.22 per Common Share to \$0.26 per Common 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 internal MCT ratio requirements of 145%. For the year ended December 31, 2010, gross premiums written were \$564 million, net operating income was \$343 million, net premiums earned were \$621 million (including \$48 million from the change in the premium recognition curve) and an operating return on equity was approximately 14%.

In 2011, Genworth Canada completed a substantial issuer bid where it purchased for cancellation 6,153,846 of its Common Shares at an aggregate price of \$160 million, which represented 5.87% of the Common Shares then outstanding. During the year the Company also increased its quarterly dividends from \$0.26 per Common Share to \$0.29 per Common Share. The Company also declared and paid a special dividend of \$0.50 per Common Share, which in aggregate represented a payment of approximately \$50 million beyond the regular quarterly dividends. The Company maintained its strong financial position that resulted in an MCT ratio of 162%, which surpassed its internal MCT ratio requirements of 145%. For the year ended December 31, 2011, the Company generated gross premiums written of \$545 million, net operating income of \$318 million and an operating return on equity of approximately 13%. Also during 2011, the Canadian government tabled in Parliament "*An Act To Implement Certain Provisions Of The 2011 Budget As Updated On June 6, 2011*", which included the *Protection of Residential Mortgage or Hypothecary Insurance Act* and changes to the *National Housing Act*, and which formalized in legislation existing mortgage insurance arrangements with private mortgage insurers and CMHC, including the rules for government-backed insured mortgages and the terms of the Government Guarantee Agreement. These changes did not change the level of government guarantee provided on insured mortgages.

In 2012, the Company increased its quarterly dividends from \$0.29 per Common Share to \$0.32 per Common Share. Despite the dividend increase, the Company continued to build up its strong financial position that resulted in an MCT ratio of 170%, which comfortably surpassed its internal MCT ratio for 2012 of 145%. In June of 2012 the Government of Canada announced changes to the rules governing the issuance of residential mortgages backed by the Government Guarantee Agreement that would come into effect in July of 2012; these changes included, for high-ratio loans: decreasing the maximum amortization period from 30 years to 25 years; reducing the maximum refinance amounts from 85% to 80% of home property value; setting a maximum purchase price, or as-improved value for purchase plus improvement loans at less than \$1 million; and setting maximum GDSR and TDSR. For purposes of the MCT, the government guarantee fund (net of related tax impact) was deducted from capital available. When PRMHIA came into effect on January 1, 2013, the government guarantee fund was terminated and the amounts previously held in trust were incorporated into the general portfolio, without any exit fee deductions. Correspondingly, the Minister of Finance (Canada) (the “**Minister**”) established an MCT ratio of 175%. Accordingly, in December 2012, the Company’s Board of Directors (“the **Board**”), approved the increase of the internal MCT ratio to 185% effective January 1, 2013. The Company was operating at a 210% MCT on January 1, 2013. For the year ended December 31, 2012, the Company generated gross premiums written of \$560 million, net operating income of \$462 million and an operating return on equity of approximately 17% (including the one-time benefit of from the reversal of the government guarantee fund exit fee due to the extinguishment of such liability). New insurance written on low loan-to-value mortgages was \$20.4 billion in 2012 as compared to \$4.2 billion in the prior year’s period as a result of unique low loan-to-value mortgage insurance opportunities that became available in 2012.

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

On November 15, 2012 Genworth Mortgage Insurance Canada acquired PMI Canada. The acquisition was not deemed to be a significant acquisition under applicable securities laws based on its size. No significant acquisitions, disposals, reorganizations or other developments were completed by the Company during the year ended December 31, 2012. During such period the Company did not file a Form 51-102F4 – *Business Acquisition Reports* in respect of any transactions.

## **DESCRIPTION OF THE BUSINESS**

### **General**

Information about the Company’s business and its 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. The total Canadian residential mortgage and multi-family mortgage insurance industry gross premiums written were reported to be approximately \$2.0 billion in 2011 and \$1.7 billion for the nine months ended September 30, 2012.

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 pursuant to a premium recognition curve 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 premium recognition curve is reviewed on a quarterly basis based on the most current available historical loss data and economic assumptions and is updated as required. The Company will continue to assess its loss experience on a quarterly basis and make adjustments as appropriate to the premium recognition curve.

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. The mortgage insurance business is seasonal. Premiums written vary each quarter, while net premiums earned, investment income and sales, underwriting and administrative expenses tend to be relatively more stable from quarter to quarter. The variations in premiums written are driven by mortgage origination activity and associated mortgage insurance policies written, which typically peak in the spring and summer months. Losses on claims vary from quarter to quarter, primarily as the result of prevailing economic conditions and characteristics of the insurance in-force portfolio, such as size, age, seasonality and geographic mix of delinquencies. Typically, losses on claims increase during the winter months and decrease during the spring and summer months.

Pursuant to PRMHIA and the NHA, the Minister has the authority to regulate and limit product availability within the mortgage insurance market, such as by further limiting the maximum amortization period on mortgages or reducing the maximum loan-to-value ratio on refinance transactions further below the existing 80% limit.

## ***PRMHIA***

On June 26, 2011, PRMHIA was passed by the Canadian Parliament. The stated purposes of PRMHIA are (a) to authorize the Minister to provide protection in respect of certain mortgage or hypothecary insurance contracts in order to support the efficient functioning of the housing finance market and the stability of the financial system in Canada; and (b) to mitigate the risks arising from the provision of that protection. While the PRMHIA does not change the level of government guarantee provided on privately insured mortgages, it formalizes in legislation existing mortgage insurance arrangements with private mortgage insurers. The Government Guarantee Agreement was terminated on the date that PRMHIA became effective. During the year ended December 31, 2012, regulations were issued that prescribe the implementation of PRMHIA and establish an effective date of January 1, 2013. As specified in PRMHIA, upon termination of the Government Guarantee Agreement, all investments and monies held in the government guarantee fund revert to the Company. The annual risk premium is replaced by a risk fee equal to 2.25% of gross premiums written.

Contributions of assets to the government guarantee fund and the income on such assets have resulted in a tax deferral to the Company. Upon termination of the Government Guarantee Agreement on January 1, 2013, the withdrawal of these assets from the government guarantee fund resulted in a current tax obligation to the Company.

For purposes of the MCT, the government guarantee fund (net of related deferred tax impact) was deducted from capital available. Upon termination of the Government Guarantee Agreement, the assets in the government guarantee fund return to the Company and will no longer be deducted from capital available. Payment of exit fee under the Government Guarantee Agreement was required in the event that assets were withdrawn from the government guarantee fund. The Company did not withdraw any assets from the government guarantee fund at December 31, 2012, as the conditions for withdrawal were not met. Therefore, no exit fees were paid prior to the enactment of PRMHIA on January 1, 2013. Accordingly, in the year ended December 31, 2012, the Company reversed the cumulative exit fees which offset the guarantee fund in the consolidated statement of financial position.

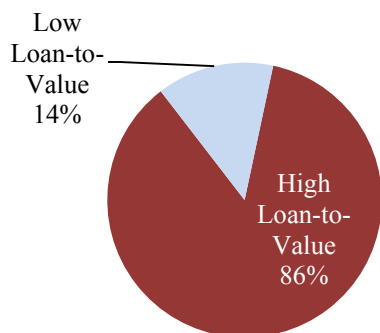
For further details on the mortgage insurance industry see “*Industry Overview*” below.

## **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, 2012, high loan-to-value mortgage insurance represented 86% of the Company’s gross premiums written and low loan-to-value mortgage insurance represented 14% of its gross premiums written. The chart on the right below demonstrates that, as of December 31, 2012, high loan-to-value mortgage insurance represented 77% of the Company’s aggregate insurance in-force, and low loan-to-value mortgage insurance represented 23%. The difference in the two charts below is a result of premiums on low loan-to-value mortgage insurance being significantly lower than those on high loan-to-value mortgage insurance, due to the lower risk profile associated with such loans.

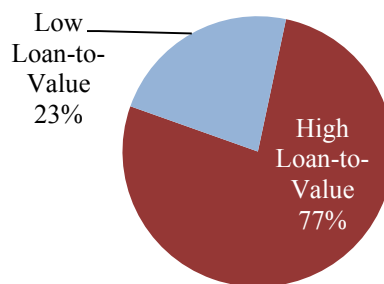


**2012 Gross Premiums Written by Product Type**



**Total: \$560 million**

**Insurance in-force by Product Type  
(as at December 31, 2012)**



**Total: \$301 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.

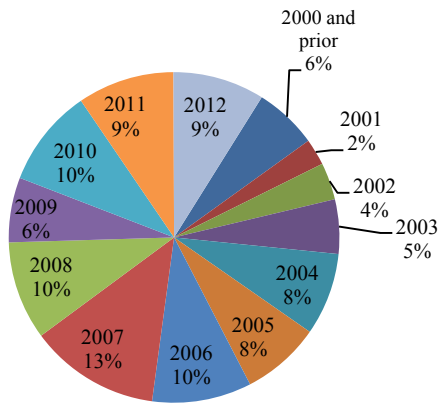
By offering insurance for high loan-to-value mortgages, the Company plays a significant role in increasing access to homeownership for Canadian residents. Homebuyers who can only afford to make a smaller down payment can, through the benefits provided by mortgage insurers such as Genworth Canada, obtain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

In July of 2012 rules governing the insurance of residential mortgages backed by the 90% Guarantee came into effect. These changes included, for high-ratio loans: decreasing the maximum amortization period from 30 years to 25 years; reducing the maximum refinance amounts from 85% to 80% of home property value; setting a maximum purchase price, or as-improved value for purchase plus improvement loans at less than \$1 million; and setting maximum GDSR and TDSR.

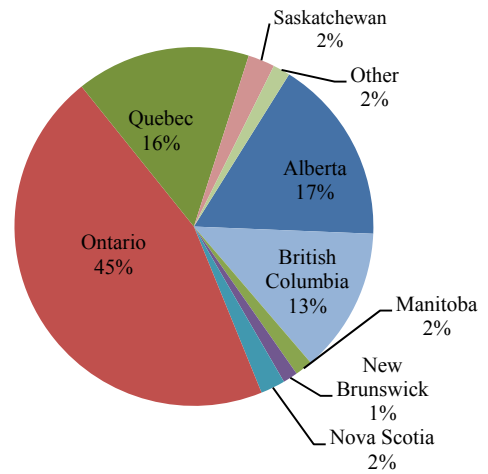
The Company's high loan-to-value mortgage insurance portfolio can be segmented by various classifications. The following charts display the segmentation of the Company's insurance in-force, as of December 31, 2012.

**Total high loan-to-value mortgage insurance portfolio: \$232 billion**

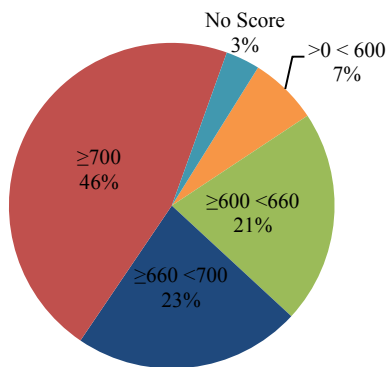
**Book Year**



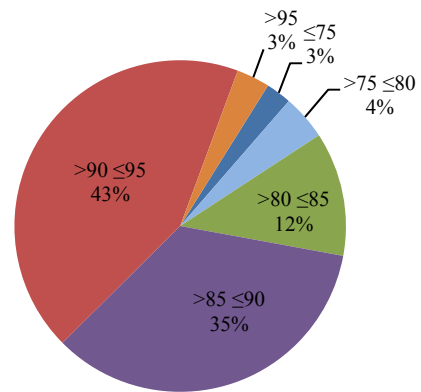
**Province**



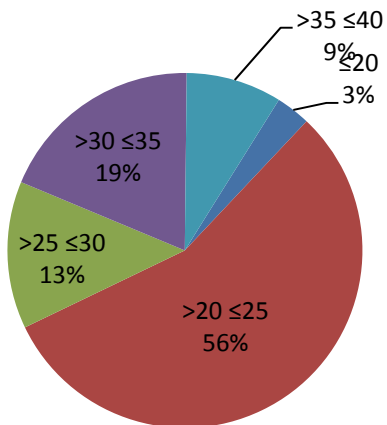
**Credit Score**



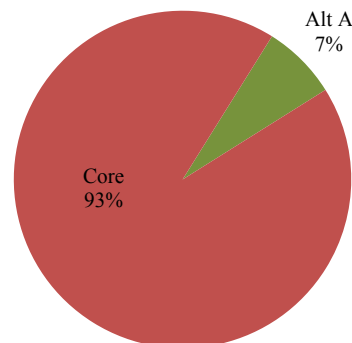
**Original Loan-to-Value**



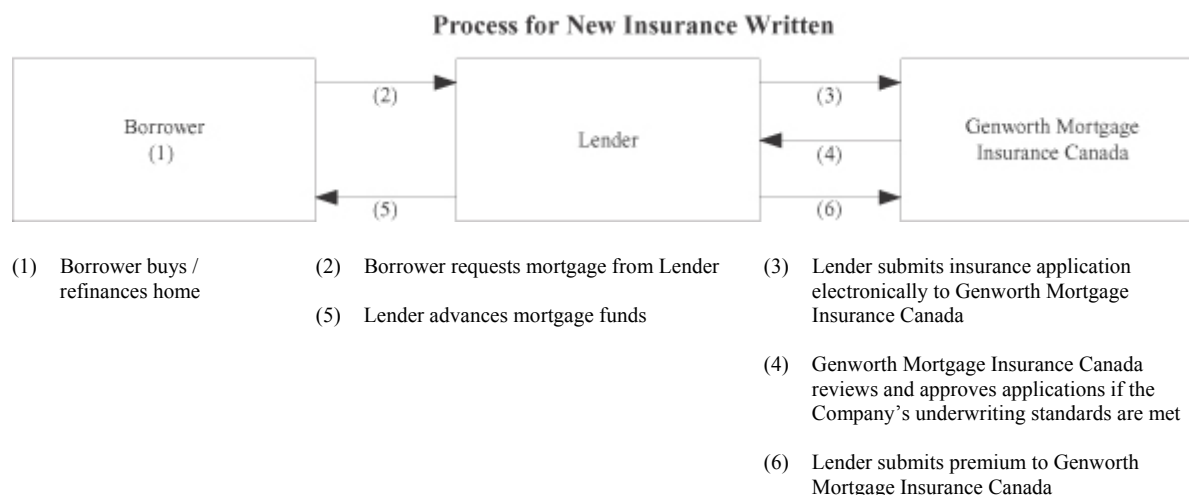
**Amortization (Years)**



**Product**



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



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

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

To the extent that home prices appreciate over time and/or the principal amount of the loan is paid down, the effective loan-to-value of the Company's insurance written in a given year decreases. The table below illustrates the original loan-to-value and estimated effective loan-to-value of the Company's 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 56% as of December 31, 2012.

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

Book Year	Insurance In-Force		Original Loan-to-Value	Effective Loan-to-Value
	\$ billions	% of total		
2006 and Prior.....	100	43%	90%	40%
2007.....	30	13%	91%	68%
2008.....	22	10%	92%	73%
2009.....	15	6%	91%	75%
2010.....	22	10%	91%	82%
2011.....	22	9%	90%	88%
2012.....	21	9%	90%	92%
	232	<u>100%</u>	<u>90%</u>	<u>56%</u> <sup>1</sup>

Note:

(1) Overall estimated effective loan-to-value is calculated by weighting the book year estimated effective loan-to-value percentages based on the number of 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 and for liquidity management purposes. 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.

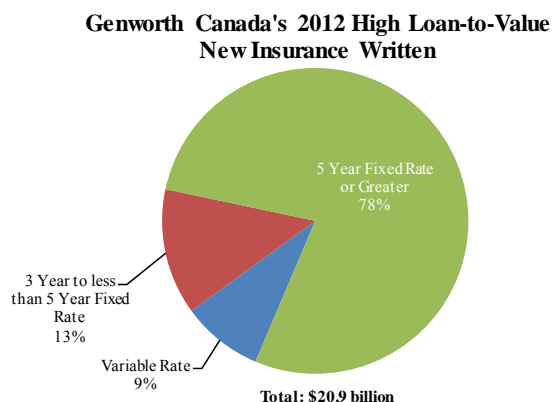
The Company’s new insurance written for low loan-to-value mortgages varies from period to period based on a number of factors including: the amount of low loan-to-value mortgages lenders seek to insure; the competitiveness of the Company’s pricing, underwriting guidelines and credit enhancement for low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

In 2012, the demand for the Company to provide low loan-to-value mortgages from lenders increased, due to the Company’s primary competitor being unable to continue to provide the same volume of low loan-to-value mortgages as it had historically provided.

***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 2012 between variable rate mortgages, three year to less than five year fixed rate mortgages and five year fixed rate or greater term mortgages.



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

Pursuant to the rules governing government guaranteed mortgages (more fully described in “*Description of the Business – Government Guarantee Agreement and PRMHIA*”), 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.

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

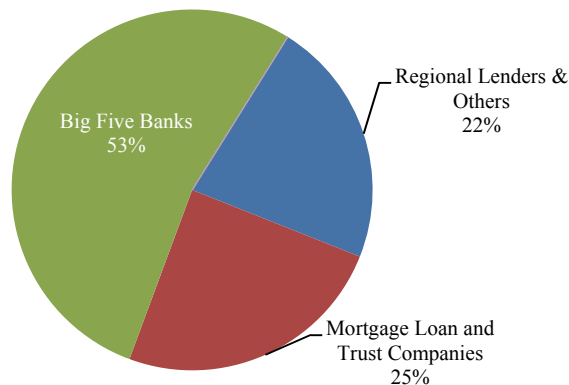
The Company works with lenders, mortgage brokers and real estate agents across Canada to make homeownership more affordable for first-time homebuyers. Mortgage insurance customers consist of originators of residential mortgage loans, such as banks, mortgage loan and trust companies, credit unions and 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, 2012.

### Genworth Canada's 2012 High Loan-to-Value New Insurance Written



**Total: \$20.9 billion**

By segmenting its customer base, the Company believes it is able to provide superior customer sales and underwriting support and technology solutions designed to meet the specific needs of lenders. The Company seeks to enhance customer satisfaction by achieving and sharing process efficiencies through risk management, automation and customized services that help lenders reduce costs 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 each Big Five Bank. 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 enhancement. By maintaining frequent communication, the Company stays attuned to the changing needs of the market and those of its customers. The Company endeavours to have an in-depth understanding of each bank’s strategy and align the Company’s capabilities to assist the lender to meet its objectives. The Company provides broad services to each lending institution as a whole, as well as delivering customized solutions and training where necessary on a more local level.

***Mortgage 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 to add 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, 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 five regional sales teams (British Columbia and the Yukon, the Prairie Provinces and the other Territories, Ontario, Quebec and the Atlantic Provinces). The Company's field sales team is comprised of five regional vice presidents who are responsible for all regional sales activities, including relationship management, education and customer training. 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.

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 February 2013, 96% of lender respondents rated Genworth Canada within the survey's two highest rating categories for overall customer service and industry expertise.

## **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 enhancement, regulatory compliance, general portfolio management and operational 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 housing market conditions in the Greater Vancouver Area in 2011 and 2012, 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, and a more comprehensive approach to assessing the collateral risk for properties in this region.

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.

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

### ***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 Canada in both official languages.

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; competitive dynamics within the marketplace between the Company and its competitors; and the Company's risk appetite for such mortgage insurance.

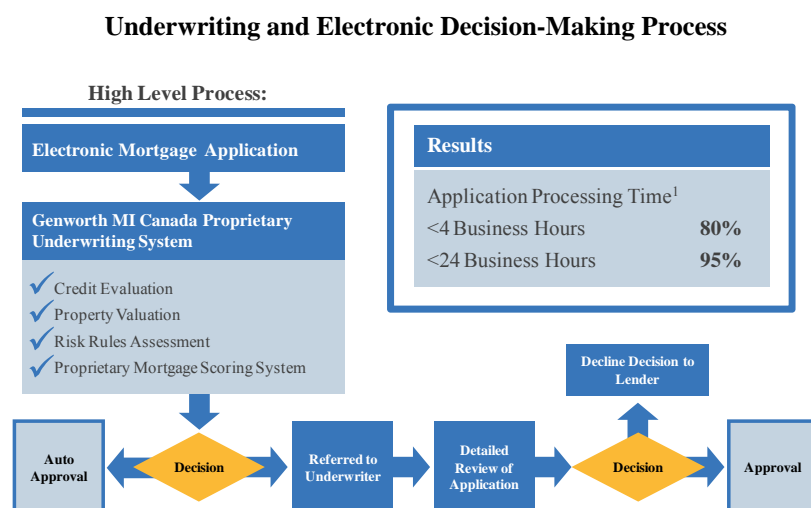
### ***Automation of Underwriting and the Risk Selection Process***

The Company uses its proprietary electronic underwriting system and mortgage scoring model to process mortgage insurance applications submitted by lenders. Insurance applications are submitted electronically through direct links from the lenders' own underwriting systems or web-enabled services. 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, 2012.

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

### ***Product Pricing and Management***

The Company has established a product development and customization process that specifies a series of required analyses, reviews and approvals for any new or customized product, including risk management, finance, legal, marketing and sales department reviews. For each proposed or customized 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 or customized product, the Company starts by building an expectation of frequency and severity of loss based on the specific features and characteristics of such product. The frequency and severity expectations may be developed from existing experience on very similar products,

or by applying adjustments to existing performance data to account for specific risk factors related to the product's features and characteristics. The derived frequency and severity factors are modeled together with expected premium rates to yield the expected operating return on equity, which is evaluated against the Company's benchmark for operating return on equity on such product.

Product performance 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. Case reserves are established by the Company when it considers it probable that defaults by borrowers will result in claims.

The Company's policies require the insured lender to file a claim when the equivalent of 90 days worth of default has accumulated on an insured mortgage. The claim amount is subject to 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.

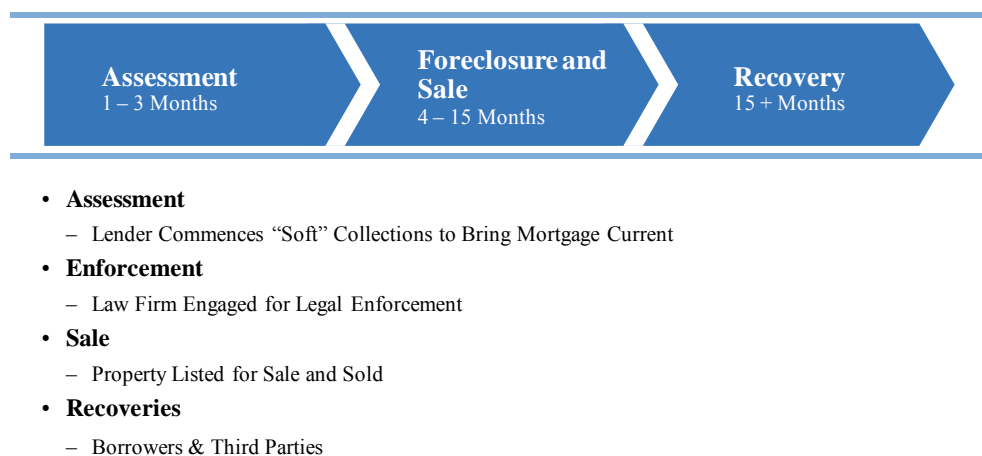
### **Mortgage Insurance Claim Illustration**

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).....	<u>\$ 232,500</u>
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**



### ***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 continued its initiative to accelerate and facilitate the conveyance of real estate to the Company, in order to reduce losses. Under the initiative, once a property has been vacated, the lender's claim is paid in full by the Company and the Company then takes over the marketing and sale of the property. In each instance, following discussions with the lenders, it is at the Company's discretion if it wishes to take advantage of this process. Benefits for the Company of this program include: (i) control of the marketing process; (ii) reducing accruing interest costs 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.

Where a claim has been paid, the Company seeks to obtain a legally enforceable judgement against the borrower(s) for the amount of the loss. A judgement allows the Company to pursue recovery from the borrower(s) through a number of means, including lump sum settlements, garnishing of wages and monthly payment arrangements. In such cases, the judgement typically expires seven years after it is obtained; however, the Company can seek its renewal prior to expiry. The Company employs a number of third party professionals to pursue recovery on the judgements obtained and has built a history of successful collection activities over the past three years. As a result, the Company believes that it can now reasonably estimate the expected recovery rate of approximately 3% of net claims paid and the longer term goal for the Company is 5% of net claims paid.

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 in the past few years due to economic conditions and intensified efforts by the Company to assist more borrowers to remain in their homes. During 2010, 2011 and 2012, the Company completed approximately 5,200, 4,599 and 5,153 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. Current technology enables 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 continuously updates its technology and proprietary software. It considers its own needs and those of its lenders in determining priorities for investment in technology. The Company's technology team is experienced in large-scale project delivery, including insurance administration systems and the development of 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, 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 and PRMHIA

PRMHIA became effective on January 1, 2013 and established a legislative framework that replaced the Government Guarantee Agreement. Under PRMHIA, all obligations related to the previous federal government guarantee fund and related exit fees were terminated.

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

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**”) and in 2011 (“**Basel III**”)). 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.

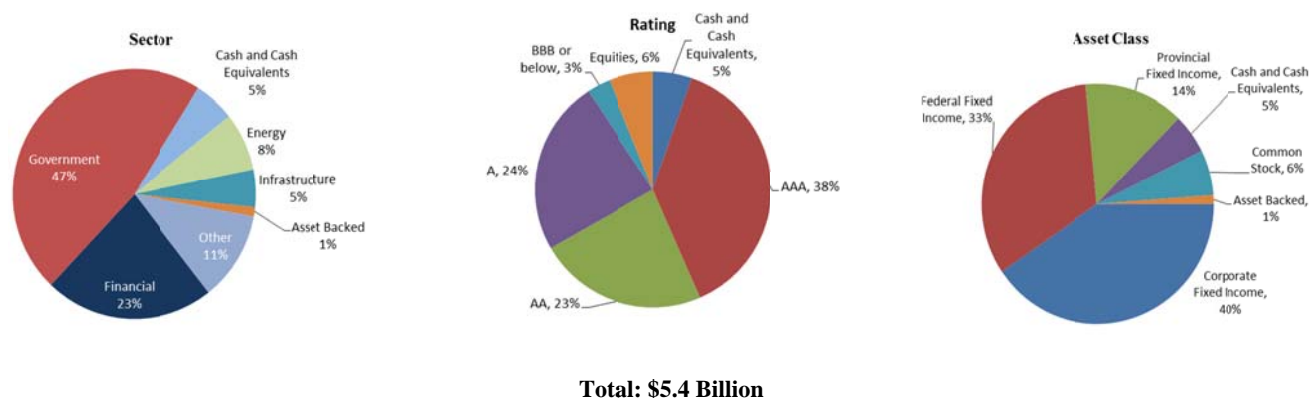
PRMHIA currently provides an aggregate cap of \$300 billion on the outstanding principal amount of mortgages insured by private mortgage insurers. The Company estimated (based on information reported to it from its lenders) that as of December 31, 2012, it had approximately \$150 billion in outstanding principal amount of mortgages that counted toward the cap set out in PRMHIA. In the past, as outstanding principal mortgage amounts have approached the legislative cap, the federal government has increased the cap to ensure seamless continuity for Genworth Canada and other private mortgage insurers, however there is no guarantee that such historical patterns will continue. See “*Overview of the Canadian Mortgage Insurance Industry – PRMHIA*” above for further details on PRMHIA.

## Investment Management

Genworth Canada has a conservatively managed, high quality general portfolio. As of December 31, 2012, Genworth Canada had total cash, cash equivalents and invested assets of \$4.4 billion in the general portfolio and \$979 million in the government guarantee fund. Including securities designated fair value through profit or loss, unrealized gains were approximately \$250 million in the general portfolio and \$61 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, NHA, MBS, other asset backed securities, preferred and common shares. Since 2010, Genworth Canada has recorded no impairments.

The following charts set forth a breakdown of the Company's combined portfolio based on market value as of December 31, 2012, by sector, rating and asset class.



Note: Includes all amounts in the government guarantee fund.

## Organization

During 2012, Genworth Canada relied on three external asset managers for investment and portfolio management, credit research 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 the 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 and security execution. 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 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 through a limited exposure to common and preferred shares with attractive dividend yields;
- regularly evaluating the Company's asset class mix;
- maintaining sufficient liquidity to meet unexpected financial obligations;



- mitigating interest rate risk through proactive management of asset duration;
- continuously monitoring investment quality and regulatory capital requirements; and
- restricting exposure to investments correlated to the residential mortgage market.

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

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 proactive 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. The Company attempts to mitigate equity market risk by having in place policies to limit and monitor exposures to individual investment issuers and its aggregate exposure to equities. The Company has also adopted a derivatives policy which provides the Company with the opportunity to use derivatives for hedging purposes. As of the date hereof, the Company does not have any derivative exposure. To mitigate liquidity risk the Company holds a portion of investment assets in liquid securities.

### ***Performance***

The Company continually evaluates its general portfolio and measures performance against a range of benchmarks. The Company's overall fixed income benchmark represents the universe of Canadian bonds, weighted among government bonds, corporate bonds and short term investments, customized based on the Company's composition of assets and duration. The Company's benchmark for Canadian common equities is the S&P/TSX. The performance of the Company's general portfolio (including interest and capital gains) for the period ended December 31, 2012 is summarized in the chart below.

### Annualized General Portfolio Performance

Assets as of December 31, 2012 (\$ million)	1 Year	3 Year	5 Year
\$4,400	4.0%	5.3%	5.7%

Note: Excludes all amounts in the government guarantee fund.

### Government Guarantee Fund

The Government Guarantee Agreement required Genworth Mortgage Insurance Canada to contribute a percentage of premiums written on eligible insured mortgages to the government guarantee fund, which was to be used in the event that the Canadian government was required to make a guarantee payment. The fair value of the Company's net interest in the government guarantee fund as of December 31, 2012 was \$979 million (see "Annualized Government Guarantee Fund Performance" chart below for an explanation of the Company's net entitlements in the fund). The Government Guarantee Agreement terminated when the provisions of PRMHIA came into force on January 1, 2013. Upon termination of the Government Guarantee Agreement, all investments and monies held in the government guarantee fund reverted to Genworth Mortgage Insurance Canada. The Company's taxable income will increase as a result of this reversion. The resulting increase in income taxes payable is expected to be approximately \$257 million.

The government guarantee fund was managed separately from the general portfolio and was invested in cash and securities issued by the Canadian government or agencies unconditionally guaranteed by the Canadian government. As of December 31, 2012, the government guarantee fund was \$990 million, comprised of \$949 million of AAA rated securities and \$41 million of cash or cash equivalents. See "*Material Contracts — Government Guarantee Agreement*".

In addition, the Company recognizes investment income on the government guarantee fund in its consolidated statement of income. Upon the termination of the government guarantee fund under PRMHIA, all investments and monies held in the government guarantee fund reverted to Genworth Mortgage Insurance Canada and the exit fee liability was extinguished. Accordingly, the Company reversed the cumulative exit fees which offset the Company's interest in the government guarantee fund in the consolidated statement of financial position and recorded a one-time benefit of \$186 million in its consolidated statement of income.

The fair value of the Company's interest in the government guarantee fund consisted of the fair value of the investments. The performance of the government guarantee fund for certain periods ended December 31, 2012 is summarized in the chart below.

### Annualized Government Guarantee Fund Performance

Assets as of December 31, 2012 (\$ million)	1 Year	3 Year	5 Year
\$990	2.3%	4.8%	5.1%

Note: Net guarantee fund assets comprised of invested assets and cash \$990, accrued income and contributions \$3 and due to others \$(14).

The Company does not anticipate any significant changes to its current or future business prospects as a result of the termination of the Government Guarantee Agreement.

## **Competition**

The Company's primary mortgage insurance competitor in Canada is CMHC, a Canadian crown corporation, which became subject to OSFI oversight in June 2012. 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. The Company's ability to write new business is also impacted by the limits set out in legislation on the total amount of insurance that may be written by private insurers and by CMHC. See "*Material Contracts - Government Guarantee Agreement*" for details on the private company limits on mortgage insurance that may be written.

The Company's only private mortgage insurance competitor is Canada Guaranty Mortgage Insurance Company ("**Canada Guaranty**"). In 2010, a consortium led by the Ontario Teacher's Pension Plan acquired AIG United Guaranty Mortgage Insurance Canada (the former name of Canada Guaranty) from American International Group, Inc. Canada Guaranty originally entered the Canadian private mortgage insurance market in 2006.

## **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 190 people. The Company also has a regional office in Montreal, Quebec, which employs approximately 25 people, including the Company's French language team. The Company also employs field sales teams of approximately 45 people, located across Canada and operating out of personal residences.

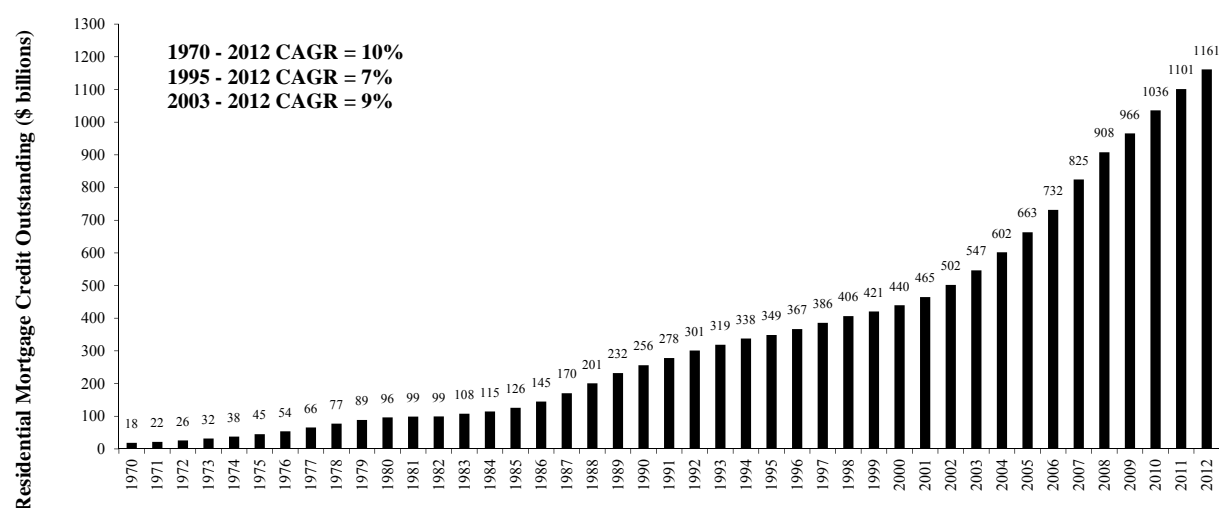
## **INDUSTRY OVERVIEW**

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. The total Canadian residential mortgage and multi-family mortgage insurance industry gross premiums written were reported to be approximately \$2.0 billion for the full year in 2011 and \$1.7 billion at the nine months ended September 31, 2012.

In its 2006 Census, Statistics Canada found that 65% of Canadian households owned their own dwelling in 2006, the highest rate of homeownership in Canada since 1971. Statistics Canada further reported that about five out of every ten households that owned their home had a mortgage in 2009. In addition, from 1995 to December 2012, mortgage loans outstanding grew at a CAGR of 7%. The following chart depicts the increase in the amount of residential mortgage credit outstanding in Canada since 1970.



Source: Statistics Canada

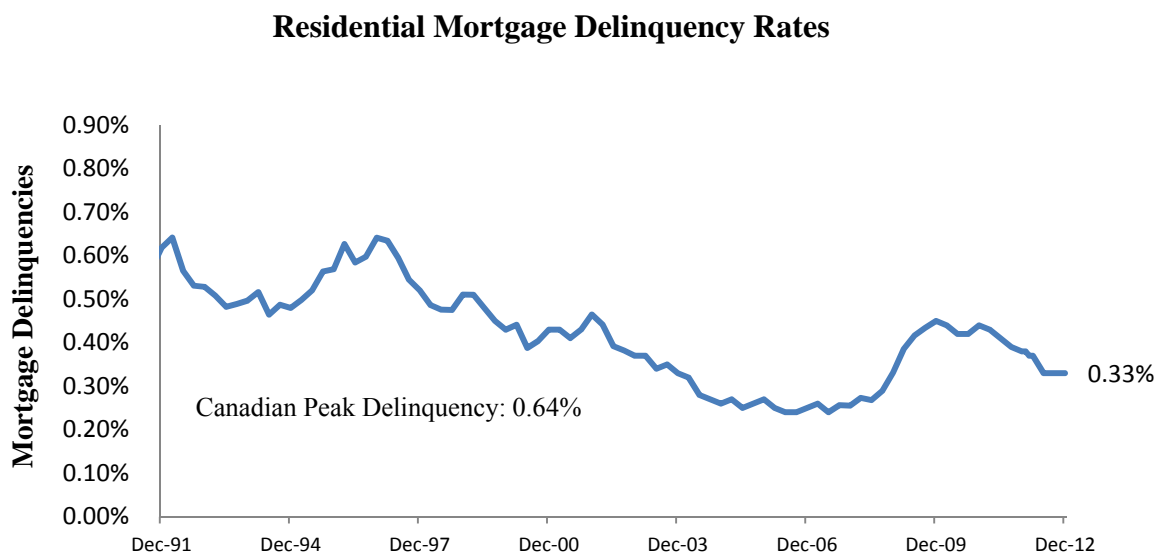
Several factors contribute to the stable nature of Canada's residential mortgage insurance environment:

- ***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 mortgage 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 Statistics Canada,

approximately 75% of outstanding residential mortgage loans made in Canada in 2012 were serviced 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 from 1990 to 2012.



Source: Canadian Bankers Association as of March 2013.

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 services/features for mortgage insurance customers; and
- increased diligence and review of loan quality standards through an additional review of mortgage loan applications by a mortgage insurer and ongoing quality assurance audits.

Mortgage insurance is purchased by lenders for a variety of reasons. In Canada, federally regulated lenders are required to purchase mortgage insurance whenever the loan-to-value ratio for a mortgage exceeds 80%. In addition to purchasing insurance for such high loan-to-value mortgages, lenders also purchase mortgage insurance for their other mortgage loans to achieve maximum funding flexibility by enabling them to access low-cost funds through securitization programs, such as the CMHC-sponsored 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.

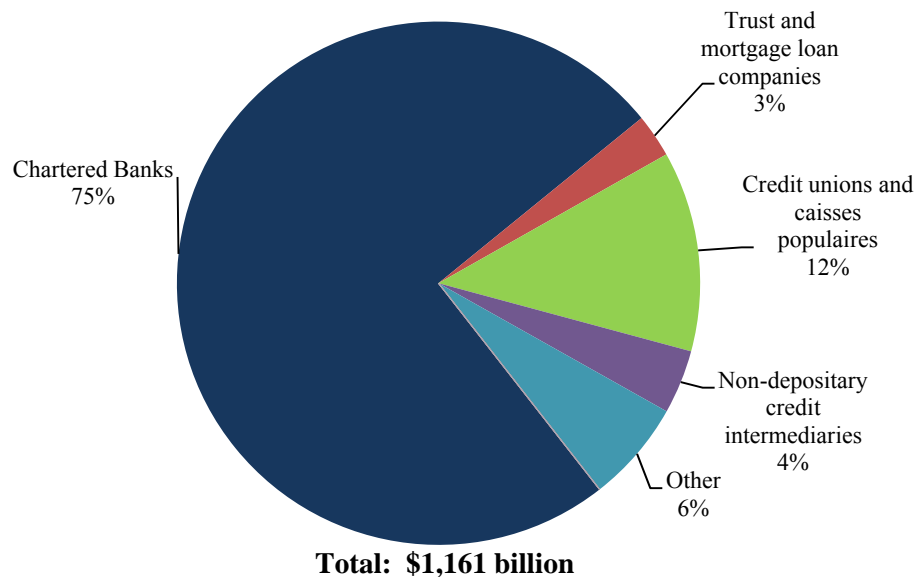
Mortgage insurance is available both for home purchases, as well as the refinancing (within certain prescribed limits) of existing home mortgages, and is generally transferable between lenders. Mortgage insurance remains in force for the entire amortization period of an insured mortgage loan and, in 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, 2012, chartered banks serviced approximately 75% 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 loans outstanding in 2012 by type of mortgage lending institution.

## 2012 Canadian Residential Credit by Lender Type

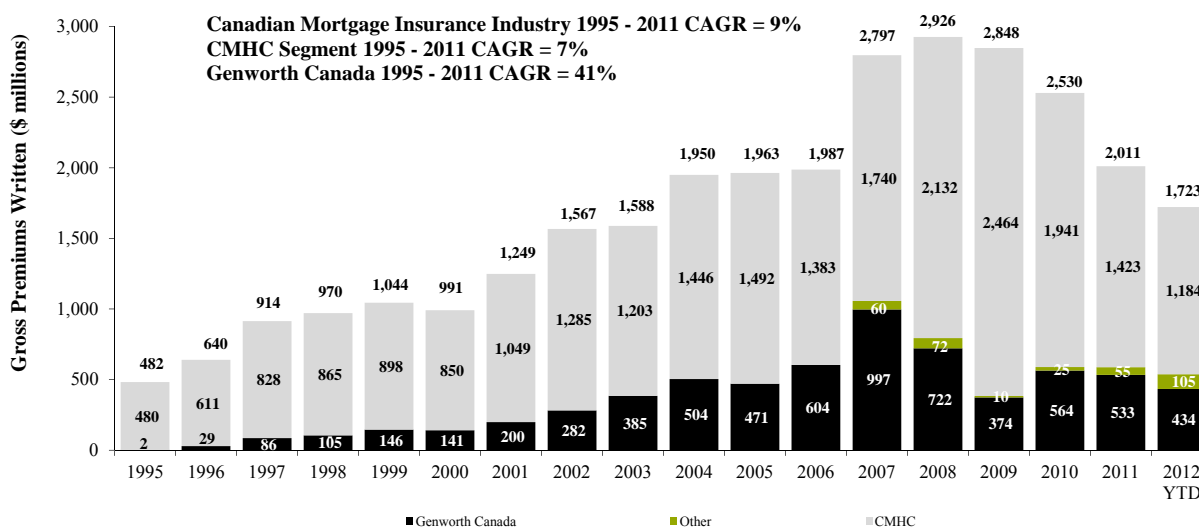


Source: Statistics Canada

## Industry Performance

In a given year, the size of the Canadian mortgage insurance market is primarily driven by the number and dollar value of 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 general 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 9% from 1995 to 2011. From 1995 to 2011, Genworth Canada produced a CAGR of 41% compared to 9% 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 has not historically participated. 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 27% share of the total Canadian residential mortgage and multi-family mortgage insurance market in 2011. The Company estimates that its current market share of the high loan-to-value residential mortgage insurance market is in excess of thirty percent.



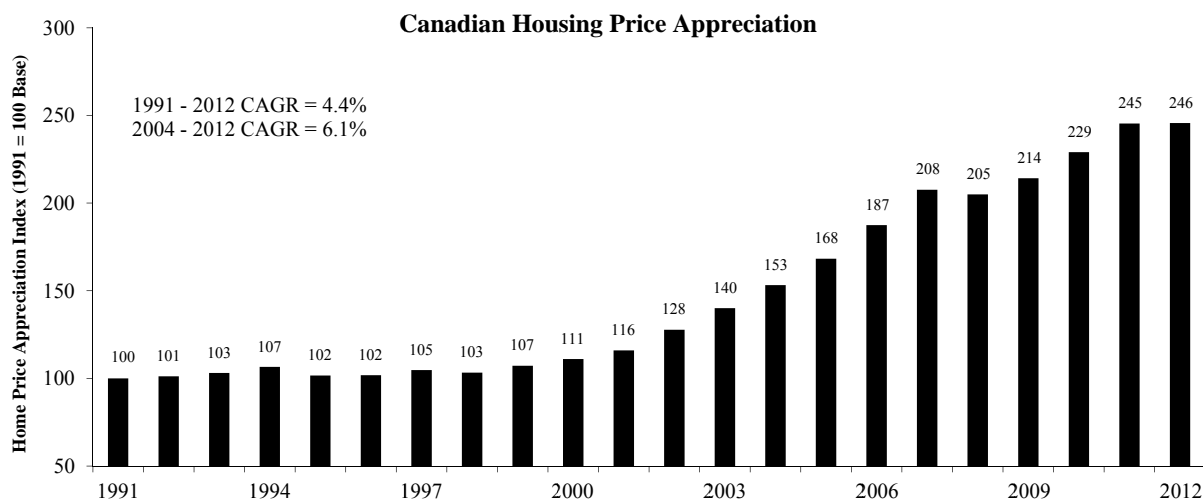
Source: CMHC, MSA Research Inc.

Note: Gross premiums written for CMHC represents premiums and fees received. CAGR calculated using 2011 data, which is the latest full year data available. "2012 YTD" refers to data available to September 30, 2012.

The rate of growth of the Canadian mortgage insurance industry is highly dependent on the prevailing state of the Canadian economy, housing market and government policy. Sales activity in the Canadian housing market influences mortgage origination, which in turn affects the volume of premiums written. In addition, rising housing prices reduce loan-to-value on in-force mortgages insured and thereby reduce the likelihood of a shortfall and claims payout in the event of a mortgage borrower default. On June 20, 2012, the Department of Finance of the Government of Canada announced several changes to the government guarantee mortgage insurance eligibility rules. The changes went into effect July 9, 2012 and include: reducing the maximum mortgage amortization from 30 years to 25 years; reducing mortgage refinances from 85% loan-to-value to 80% loan-to-value of a home property; capping the maximum gross debt service ratios at 39% and total debt service ratios at 44%; and capping home purchase price to less than \$1 million. Going forward, the Company believes that the rule changes will likely reduce the annual residential mortgage insurance premium opportunity for high loan-to-value mortgages by approximately 15%, as compared to the 2012 market size, which was partially impacted by these changes.

The Canadian housing market has experienced strong historical growth. The chart below shows Canadian home price appreciation from 1991 to 2012. Over the last 21 years, through a variety of economic conditions, Canadian housing prices produced a CAGR of 4.4% and experienced one-year declines in only three of those years. From 2004 to 2012, Canadian housing prices produced a CAGR of 6.1%.



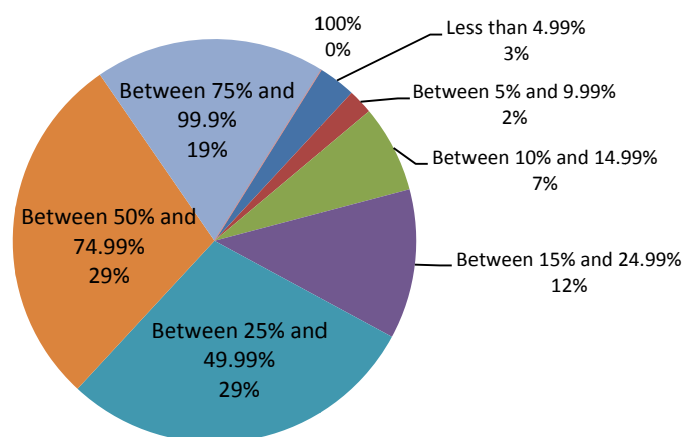


Source: Canadian Real Estate Association.

A key performance measure of the Canadian mortgage insurance industry is the loss ratio. Genworth Canada's average loss ratio for the period of 1995 to 2012 was 27% (excluding the impact of the earnings curve adjustment in the first quarter of 2009, the average loss ratio for the period of 1995 to 2012 was 28%).

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 2012, approximately 77% of Canadian mortgage holders had greater than 25% equity positions and only 3% of Canadian mortgage holders had equity positions of less than 5%. The following chart displays the equity positions that Canadian mortgage holders had in their homes as of November 2012.

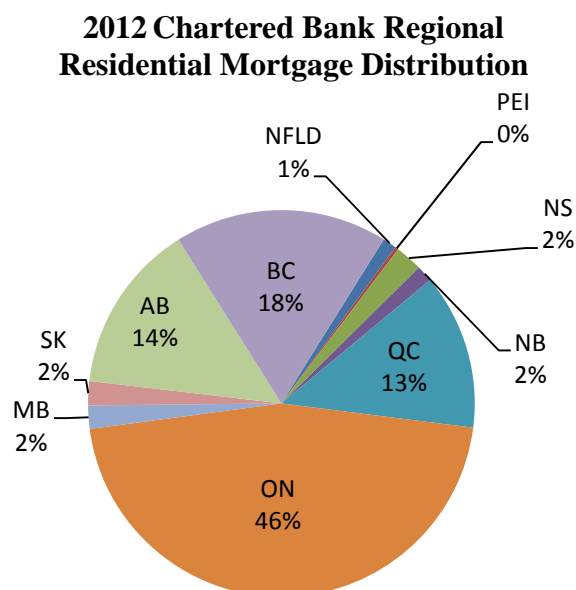
### Canadian Mortgage Holder Equity Positions



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 65% 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 2012, approximately 79% 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 dollar value distribution of the Canadian mortgage market for chartered banks by geography as of November 2012.



Source: Statistics Canada

## 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 responsible to the Minister for the supervision of federal insurance companies and other federal financial institutions. In June of 2012, the federal government passed the “*Job, Growth and Long Term Prosperity Act*”, which included amendments to the legislation governing CMHC. Among other things, the amendments grant OSFI supervisory powers to monitor CMHC’s commercial activities to ensure that they are being carried on in a safe and sound manner with due regard to CMHC’s exposure to loss.

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

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, the Minister and OSFI has established a minimum capital target ratio of 175% for the Company, effective January 1, 2013. In order to maintain an adequate margin above this supervisory minimum, the Company maintains an internal MCT ratio of 185%. This MCT level was implemented on January 1, 2013 when PRMHIA came into force and recognized that the amounts held in the guarantee fund that were previously excluded from capital available to determine the MCT ratio would now be included in capital available.

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

## **Dynamic Capital Adequacy Testing**

The Standards of Practice of the Canadian Institute of Actuaries and OSFI require that the appointed actuary review annually 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. See "*Description of the Business – Investment Management*" for details on the Company's investment policies and philosophies.

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

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

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

The ICA prohibits directors from declaring or paying any dividend on shares of an insurance company if there are reasonable grounds for believing a company is, or the payment of the dividend would cause the company to be, in contravention of applicable requirements to maintain adequate capital,

liquidity and assets. The ICA also requires an insurance company to notify the Superintendent of the declaration of a dividend at least 15 days prior to the date fixed for its payment. Similarly, the ICA prohibits the purchase for cancellation of any shares issued by an insurance company, or the redemption of any redeemable shares or other similar capital transactions, if there are reasonable grounds for believing that the company is, or the payment would cause the company to be, in contravention of applicable requirements to maintain adequate capital, liquidity and assets. Share cancellation or redemption would also require the prior approval of the Superintendent. Finally, the Superintendent has broad authority to take actions that could restrict the 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. Pursuant to federal legislation, such mortgage lenders are prohibited from charging customers amounts for mortgage insurance that exceeds the lender's actual costs, and have disclosure obligations in respect of the actual mortgage insurance costs.

## **Privacy of Personal Information**

Federal and 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:

- restrictions on the insurance that may be written by the Company;
- regulatory capital and solvency standards;
- the distribution of the Company's products;
- restrictions on types of invested assets;
- the maintenance of adequate margins for unearned premium reserves and unpaid claims;

- the examination of insurance companies by regulatory authorities, including periodic financial and market conduct examinations; and
- limitations on dividends and transactions with affiliates.

It is not possible to predict the future impact of changing federal, provincial and territorial laws, regulations and guidelines 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. For example, in the 2013 budget announcement by the government of Canada it was indicated that new restrictions on the insurance of low-ratio mortgages for securitization purposes would be forthcoming. The final impact of these laws, regulators or guidelines on the business of the Company cannot be assessed or known at this time.

The laws and regulations governing the Company also typically require it to periodically file financial statements and annual reports, prepared in accordance with IFRSs, 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 currently derived from international standards adopted by Basel II and Basel III. Any changes to these international standards or the way in which they are applied in Canada could impact upon the risk weightings assigned to insured residential mortgages and could impact upon the attractiveness of insured residential mortgages as an asset class for lenders which could alter the competitive positions and financial performance of mortgage insurers. There can be no assurance that such changes will not be introduced or that if introduced, will not have an adverse effect on the Company's business, results of operations and financial condition.

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

The Canadian government has a policy of supporting home ownership in Canada by providing mortgage insurance through CMHC and by supporting private sector competition to CMHC by guaranteeing the insurance provided by private mortgage insurance providers, subject to an aggregate cap of \$300 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 of the policies of private mortgage insurance providers, including those 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 and 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. An example of this risk can be seen in the changes made in June 2012 to the government guarantee mortgage insurance eligibility rules, which the Company believes will likely reduce the annual residential mortgage insurance premium opportunity for high loan-to-value mortgages by approximately 15%, as compared to the 2012 market size. See “*Material Contracts – Government Guarantee Agreement*” for a discussion of changes to the rules governing government guaranteed mortgages and the potential impact of the coming into force of PRMHIA.

***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 and PRMHIA*”. This difference in capital relief inherently puts the Company at a competitive disadvantage vis-à-vis CMHC. CMHC also operates the CMB program, which provides lenders the ability to efficiently securitize their mortgage loan portfolios. Accordingly, if the Company is unable to effectively distinguish itself from CMHC with Canadian mortgage lenders in other ways, under current market conditions or in the future, the Company may be unable to compete effectively with CMHC. In addition, because CMHC is a sovereign entity, lenders may have lower funding costs for CMHC insured mortgages, which could make it more difficult for the Company to compete with CMHC.

The mortgage securitization programs administered by CMHC, including the CMB program, enable lenders to achieve maximum funding flexibility through access to low-cost funds for mortgage lending. As currently administered by CMHC, such programs accept mortgage loans insured by private 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 is endeavouring to expand its business, and other competitors may choose to 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 actual premium rates may not be sufficient to compensate the Company for the enhanced risks associated with mortgage loans bearing higher loan-to-values. This could have an adverse effect on the Company's financial condition and results of operations.

Under IFRSs, goodwill is tested for impairment on an annual basis regardless of whether an indication of impairment exists. Goodwill is considered impaired to the extent that its carrying amount exceeds its recoverable amount. The recoverable amount of the Company's single Cash Generating Unit ("CGU") was determined based on its value in use. Value in use was calculated by discounting the future cash flows generated from continuing use of the CGU. 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, 2012 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 IFRSs 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 precluding the Company from writing new business, distributing capital to shareholders and utilizing capital for business needs and could have an adverse impact on the Company's financial condition, results of operations and prospects.***

Genworth Mortgage Insurance Canada is subject to capital requirements imposed under Canadian law, including the ICA and PRMHIA. 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.

The Minister 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, for any number of reasons, including adverse capital allocation requirements associated with choosing a private mortgage insurer or adverse funding options for the lender associated with private mortgage insurers. 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, 2012, approximately 91% 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 45%). 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 and due to lower oil and natural gas prices in 2008 and 2009.

***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 claim 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, a downgrade in the Company's financial strength ratings or 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 68% of the Company's insurance in-force as of December 31, 2012 was written after January 1, 2006. Loss experience could increase as its policies age, 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, 2012, fixed income securities of \$4,773 million in the Company's combined portfolio represented 89% of the Company's total cash, cash equivalents and invested assets. With downgrades in the credit quality of certain issuers or guarantors, certain investments could become impaired, and, therefore, the Company's results of operations and financial position could be adversely affected. The Company 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, 2012, equity securities of \$328 million in the Company's general portfolio represented 6% of the Company's total invested assets.

Events reducing the value of the Company's general portfolio could have an adverse effect on its business, results of operations and financial condition. Levels of write-downs or impairments are impacted by the Company's assessment of the financial condition of the issuer, whether or not the issuer is paying its principal and interest obligations and the Company's intent and ability to hold securities which have declined in value until recovery. If the Company 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 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, the incurrence of additional debt or the refinancing of existing 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 by 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 counterparties 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 counterparty financial institution could result in the Company being unable to seize upon, or being delayed in its ability to foreclose on, its collateral either of which may impact 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 fact that Genworth Financial continues to own a majority of the outstanding Common Shares effectively requires the consent of Genworth Financial for any change of control transaction. Genworth Financial may decide for strategic or other reasons not to sell its Common Shares in a change of control transaction even in circumstances where the Board or other shareholders may consider such transaction to be in the best interests of the Company and such shareholders. These restrictions may delay, deter or prevent a potential merger or sale of the Company, even if the Board decides that it is in the best interests of shareholders for the Company to merge or be sold.

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

***The 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 affect the business operations of lenders. The continued threat of terrorism and ongoing military actions may cause significant volatility in global financial markets, and a natural or man-made disaster or a pandemic could trigger an economic downturn in the areas directly or indirectly affected by the disaster. These consequences could, among other things, result in a decline in business and increased claims from those areas, as well as an adverse effect on home prices in those areas, which could result in increased loss experience in the Company's business. Disasters or a pandemic also could disrupt public and private infrastructure, including communications and financial services, which could disrupt the Company's normal business operations.

A natural or man-made disaster or a pandemic could also disrupt the operations of the Company's counterparties or result in increased prices for the products and services they provide to the Company. In addition, a disaster or a pandemic could adversely affect the value of the assets in the Company's 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 its initial public offering in July 2009 (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, 2012, more than \$100 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 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, the Offering and to meet 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-subsidiary 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 (such as Genworth Financial ceasing to own 50% of the outstanding Common Shares of the Company or declaring bankruptcy), 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 specified periods of time beyond the triggering events. The Company has no control over such triggering events or Genworth Financial's ability to perform such services after the occurrence of such a triggering event. If Genworth Financial is not able to provide the services during a transition period or the Company is not able to find appropriate replacement service providers in a timely manner thereafter, it could have an adverse effect on the Company's business, results of operations and financial condition.

***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.

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

The Company may use derivatives principally to mitigate certain market risks. Market risk may arise from positions in currencies, securities and derivatives arising from investment activities and in respect of the Company's outstanding debt. Market risk is defined as the potential for financial loss from adverse changes in underlying market factors, including interest and foreign exchange rates, credit

spreads, and equity and commodity prices. The Company's potential use of derivatives may expose it to a number of risks, including credit risk in respect of the potential failure of derivatives counterparties to perform their contractual obligations under the derivatives transactions (and any collateral and/or guarantees received in respect of such obligations not providing sufficient protection against such exposures). The hedging of market risks with derivatives may also result in basis risk. Basis risk is the risk that payment obligations under a hedging transaction will not exactly off-set price changes in the transaction or investment that was intended to be hedged, including due to the use of a reference value or price in the hedging derivative that is expected to, but ultimately does not, directly correlate to the value or price for the investment or derivative that is being hedged. This imperfect correlation between the two investments creates the potential for excess gains or losses in a hedging strategy, thus adding risk to the position. The Company has procedures in place to monitor the effectiveness of its hedges and compliance with its derivatives policy on a regular basis. As of the date hereof, the Company does not have any derivative risk exposure.

## DIVIDENDS

In the fourth quarter of 2012 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 \$0.32 per Common Share. Prior to this increase, the dividend amount paid increased each successive year since the Offering, from \$0.22 to \$0.26 to \$0.29 per Common Share. The first dividend declared and paid out by the Company at a rate of \$0.32 per Common Share was in the fourth quarter of 2012. The Board may alter or terminate the Dividend Policy at any time in its sole discretion, after taking into account such factors as the Company's financial condition, results of operations, current and anticipated cash needs, regulatory capital requirements, the requirements of any future financing agreements and other factors that the Board may deem relevant, with a view to paying dividends whenever operational circumstances permit. See “*Risk Factors – As a holding company, Genworth Canada depends on the ability of its direct and indirect subsidiaries to make distributions in order to allow Genworth Canada to pay dividends, if declared, and to meet its obligations.*”

## DESCRIPTION OF CAPITAL STRUCTURE

### General Description of Capital Structure

Genworth Canada's authorized share capital consists of an unlimited number of Common Shares, an unlimited number of preferred shares (the “**Preferred Shares**”) issuable in series, and one Special Share. As of the date of this AIF, 98,729,06 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.

## **Ratings**

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

	<b><u>Rating</u></b>	
	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.

During 2012 the Company made payments to S&P and DBRS of approximately US\$89,000 and US\$72,000, respectively, in connection with the ratings services provided by such agencies. No other payments were made to these rating organizations in respect of any other service provided to the Company during the last two years as no other such services were provided.

## **MARKET FOR SECURITIES**

The Common Shares are listed and posted for trading on the Toronto Stock Exchange under the symbol "MIC". The closing price ranges and trading volume (in millions) of the Common Shares on the Toronto Stock Exchange from the first day to the last day of public trading during 2012 were as follows (share price is stated in Canadian dollars per share):

<b>2012</b>	<b>High</b>	<b>Low</b>	<b>Volume</b>
January	\$23.35	\$21.28	2.86
February	\$23.14	\$21.30	3.56
March	\$22.13	\$21.42	3.81
April	\$22.24	\$20.53	2.44
May	\$20.61	\$18.55	3.80
June	\$19.00	\$17.58	2.33
July	\$18.62	\$16.84	3.91
August	\$20.00	\$16.90	4.40
September	\$21.13	\$19.62	2.80
October	\$20.56	\$19.81	4.64
November	\$21.12	\$19.83	2.77
December	\$23.20	\$20.41	2.66

Source: Bloomberg.

## Prior Sales

Other than issuances shares under the Company employee equity plans, no outstanding securities of the Company were issued during the 2012 financial year.

## 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, 150,700 Common Shares (or DSUs immediately convertible into Common Shares) representing less than 1% of the issued and outstanding Common Shares and DSUs 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 46,513 Options 484,100 Performance Share Units 32,489 Restricted Share Units 28,465	Chairman and Chief Executive Officer, 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 9,484	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 5,000 Deferred Share Units 11,444	Partner, Stikeman Elliott LLP (law firm)	June 30, 2009
Brian Kelly <sup>(1)(3)</sup> Director, Audit Committee Chair	Ontario, Canada	Common Shares 2,750 Deferred Share Units 9,095	Corporate Director	June 30, 2009



<b><u>Name</u></b>	<b><u>Residence</u></b>	<b><u>Equity Ownership</u></b>	<b><u>Principal Occupation</u></b>	<b><u>Director of the Company Since</u></b>
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, Global Mortgage Insurance	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 Financial Officer and Chief Operations Officer for Global Mortgage Insurance, Genworth Financial	June 30, 2009
John Walker Director	Ontario, Canada	Common Shares 5,000 Deferred Share Units 4,822	Partner, Walker Sorensen LLP (law firm)	May 6, 2011
Stuart Levings Senior Vice President, Chief Operations Officer	Ontario, Canada	Common Shares 8,927 Options 113,100 Performance Share Units 8,741 Restricted Share Units 4,512	Senior Vice President and Chief Operations Officer, Genworth Mortgage Insurance Canada	-
Philip Mayers Senior Vice President and Chief Financial Officer	Ontario, Canada	Common Shares 14,849 Options 137,300 Performance Share Units 10,121 Restricted Share Units 6,763	Senior Vice President and Chief Financial Officer, Genworth Mortgage Insurance Canada	-
Deborah McPherson Senior Vice President, Sales and Marketing	Ontario, Canada	Common Shares 12,844 Options 95,800 Performance Share Units 6,863 Restricted Share Units 5,201	Senior Vice President, Sales and Marketing, Genworth Mortgage Insurance Canada	-
Winsor Macdonell Senior Vice President, General Counsel and Secretary	Ontario, Canada	Common Shares 9,254 Options 72,600 Performance Share Units 5,224 Restricted Share Units 2,641	Senior Vice President, General Counsel and Secretary, Genworth Mortgage Insurance Canada	-
Craig Sweeney Senior Vice President, Chief Risk Officer	Ontario, Canada	Common Shares 2,168 Options 2,500 Performance Share Units 911 Restricted Share Units 1,919	Senior Vice President and Chief Risk Officer	-

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, Massachusetts with a Bachelor of Science degree in Economics.

**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. Mr. Horn received his LL.B., B.C.L. and B.A. degrees from McGill University in Montreal, Québec and his MBA from Columbia University, New York. Mr. Horn is a member of the Alberta and Québec Bars.

**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, Global Mortgage Insurance 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 Coopers 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. Before joining General Electric, he was a partner at LeBoeuf, Lamb, Greene, and McRae for 14 years. Mr. Roday earned his BA degree from the University of California at Santa Barbara and his Juris Doctor from Brooklyn Law School. He is a member of the New York State and Virginia Bar Associations.

**Jerome Upton, Director.** Prior to his current position as Chief Financial Officer and Chief Operations Officer for Global Mortgage Insurance of Genworth Financial, which he has held since 2012, Mr. Upton served as Senior Vice President and Chief Operating Officer for International Mortgage Insurance of Genworth Financial, beginning in October 2009. Mr. Upton served as Senior Vice President and Chief Financial Officer, Genworth Financial International – Asia Pacific, Canada and Latin America from November 2007 to September 2009. His previous roles also included responsibility for Global Financial Planning & Analysis from 2004 to 2007, International Finance Manager from 2002 to 2004 and Mortgage Insurance Global Controller from 1998 to 2002. Mr. Upton joined General Electric in July 1998 from KPMG Peat Marwick, where he served in accounting positions of increasing authority before attaining the position of Senior Manager – Insurance in Raleigh, North Carolina. Prior to that, Mr. Upton was the Controller and Director of Financial Reporting for Century American Insurance Company in Durham, North Carolina, and obtained the status of Certified Public Accountant. 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.

**John Walker, Director.** Prior to serving on the Board of the Company, Mr. Walker served on the board of directors of Genworth Mortgage Insurance Canada since June 1996. Mr. Walker is currently a partner in the law firm Walker Sorensen LLP, specializing in advising insurance and reinsurance companies. Prior to founding Walker Sorensen LLP in 2007, he was a sole practitioner, focusing on providing opinion advice to clients on business and insurance matters. From 1987 to 2004, Mr. Walker practiced in the Financial Services Group of McCarthy Tétrault LLP, a national law firm. Prior to his time at McCarthy Tétrault LLP, Mr. Walker spent eight years in the insurance and reinsurance industry as a property and casualty insurance broker, a reinsurance broker and a treaty and facultative reinsurance underwriter. He has previously served as a member of the board of directors of a number of financial institutions, including TD Trust Company and Concordia Life Insurance Company.

**Stuart Levings, Senior Vice President, Chief Operations Officer.** Mr. Levings assumed his current role as Senior Vice President, Chief Operations Officer in September 2011. Prior to that Mr. Levings served as Senior Vice President and Chief Risk Officer since January 2008. Since joining the Company in July 2000 as the Financial Controller, he has held positions in finance and product development, including five years as Chief Financial Officer. Mr. Levings is a qualified Chartered Accountant with over 18 years of professional experience in a variety of industry sectors. Before joining the Company, 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.

**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 22 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.

**Deborah McPherson, Senior Vice President, Sales and Marketing, Genworth Canada.** Ms. McPherson has more than 17 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. He was called to the Bar in Ontario in 1994. Prior to joining the Company, he spent three years in the life and property and casualty industry, and prior to that was in private practice. Mr. Macdonell received an honours Bachelor of Commerce degree from Queens University in 1988 and his LL.B. from Dalhousie University in 1992.

**Craig Sweeney, Senior Vice President, Chief Risk Officer, Genworth Canada.** Mr. Sweeney has more than 17 years of professional experience in the mortgage and banking industry. Since joining the Company in 1998, Mr. Sweeney has held senior positions in Operations and Business Development, including Director of Risk Operations and Director of Product Development. Mr. Sweeney received an honours Bachelor of Arts degree in Economics from Carleton University in 1994 and is a member of the Canadian Association of Accredited Mortgage Professionals.

#### **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 Canadian Stock Transfer Company Inc. as administrative agent for 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, and which was terminated on January 1, 2013 pursuant to the provisions of PRMHIA. This agreement is referred to under “*Description of the Business – Government Guarantee Agreement and PRMHIA*” and is further 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, as amended (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 and any amendments thereto may be viewed on SEDAR at [www.sedar.com](http://www.sedar.com). Details of the material terms of these contracts are outlined below.

### Government Guarantee Agreement

See *Description of the Business – Government Guarantee Agreement and PRMHIA* above for a discussion of the terms of the Government Guarantee Agreement that were in place prior to PRMHIA coming into effect on January 1, 2013. A copy of the Government Guarantee Agreement and its 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 “*Master Agreement — Non-competition and Non-solicitation*” and with the exception of Genworth Financial’s rights as a shareholder of Genworth Canada and certain other limited circumstances under which interim or injunctive relief may be sought from a court, any dispute under an IPO Agreement is subject to the arbitration procedure set out in the Master Agreement.

### ***Assignment***

Except as set out below, neither party will have the right to assign the Master Agreement or any other IPO Agreement without the prior consent of the other party, not to be unreasonably withheld. The Master Agreement (and certain other IPO Agreements) contains specific provisions to address divestitures and acquisitions of business units by either party having an impact on either the reduction of ownership or the continued relationship between the parties post-closing. The IPO Agreements (other than the Shareholder Agreement, the Registration Rights Agreement and the Transitional Trade-Mark License Agreement) are assignable (i) to the extent that, in the case of Genworth Canada, substantially all of the Business 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. GMIC, GMIC-NC and GRMAC became parties to the Shareholders Agreement in 2011 when Brookfield transferred a portion of its Common Shares to these entities.

### ***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.

<b>Common Share Ownership</b>	<b>Number of Directors</b>
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.

In April 2011, the Transition Services Agreement was amended to update the current servicing requirements of the Company and the pricing provisions of the agreement.

### **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 therefore, 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 therefore 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 are the auditors of the Company and have confirmed that they are 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 to be filed in connection with the Company’s annual general meeting of shareholders in June, 2013. 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 BA 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

In 2011 and 2012, KPMG charged the Company and its subsidiaries \$626,938 and \$778,577 respectively, for audit services in connection with the audit of the annual financial statements of the Company and its subsidiaries and services provided in connection with the statutory and regulatory filings or engagements.

### Audit Related Fees

In 2011 and 2012, KPMG charged the Company and its subsidiaries \$93,789 and \$100,213 respectively, for audit related services for assurance and services related to the performance of the audit of the annual statements not reported under “*Audit Fees*” above.

### Tax Fees

In 2011 and 2012, KPMG charged the Company and its subsidiaries \$61,156 and \$45,650 respectively, for tax services in connection with tax planning and compliance.

### All Other Fees

In 2011 and 2012, KPMG did not charge the Company or its subsidiaries any fees for services incurred other than those described above.

Note: The 2011 external audit fees are restated to conform to the current year’s allocation method and to include an additional billing of \$27,633 related to IFRS conversion.

## SCHEDULE 1

### GENWORTH MI CANADA INC.

#### AUDIT COMMITTEE MANDATE

##### 1. Introduction

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

##### 2. Membership

###### *Number of Members*

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

###### *Independence of Members*

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

###### *Chair*

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

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

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

###### *Term of Members*

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

### **3. Meetings**

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

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

#### ***Quorum***

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

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

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

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

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

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

The external auditors are entitled to attend and be heard at each Audit Committee meeting. In addition, the Committee may invite to a meeting any 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 IFRSs;
  - (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 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.