

Genworth MI Canada Inc.

Management's Discussion and Analysis
For the first quarter ended March 31, 2012

May 01, 2012

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

Management’s Discussion and Analysis

The following Management’s Discussion and Analysis (“MD&A”) of the financial condition and results of operations as approved by the Company’s board of directors (the “Board”) is prepared for the three months ended March 31, 2012 and 2011.

The condensed consolidated interim financial statements of the Company were prepared in accordance with International Financial Reporting Standards (“IFRSs”). This MD&A should be read in conjunction with these financial statements.

Interpretation

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

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

Forward-looking statements

This document contains forward-looking statements that involve certain risks. The Company’s actual results could differ materially from these forward-looking statements. For more information, please read “Special note regarding forward-looking statements” at the end of this document.

Non-IFRSs financial measures

To supplement the Company’s consolidated financial statements, which are prepared in accordance with IFRSs, the Company uses non-IFRSs financial measures to analyze performance. 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), shareholders’ equity excluding accumulated other comprehensive income (“AOCI”), operating return on equity and underwriting ratios such as loss ratio, expense ratio and combined ratio. Other non-IFRSs measures used by the Company to analyze performance, include insurance in force, new insurance written, MCT ratio, delinquency ratio, severity on claims paid, book value per common share (basic) including AOCI, book value per common share (basic) excluding AOCI, book value per common share (diluted) including AOCI, book value per common share (diluted) excluding AOCI, and dividends paid per common share. The Company believes that these non-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 financial measures do not have standardized meaning and are unlikely to be comparable to any similar measure presented by other companies.

See “Non-IFRSs financial measures” section at the end of this MD&A for a reconciliation of net operating income to net income, operating earnings per common share (basic) to earnings per common share (basic), operating earnings per common share (diluted) to earnings per common share (diluted), and shareholders’ equity excluding AOCI to shareholders’ equity. These measures are defined in the Company’s “Glossary for non-IFRSs financial measures”, which can also be found in the “Non-IFRSs financial measures” section at the end of this MD&A.

Overall performance

Business background

Genworth Canada is the leading private-sector residential mortgage insurer in Canada and has been providing 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. Genworth Canada underwrites mortgage insurance for residential properties in all provinces and territories of Canada and has the leading market share among private mortgage insurers. The Canada Mortgage and Housing Corporation ("CMHC"), a crown corporation, is the Company's main competitor.

Seasonality

The mortgage insurance business is seasonal. Premiums written vary each quarter, while net premiums earned, investment income and sales, underwriting and administrative expenses are relatively stable from quarter to quarter. The variations in premiums written are driven by mortgage origination activity and associated mortgage insurance policies written, which typically peak in the spring and summer months. Losses on claims vary from quarter to quarter, primarily as the result of prevailing economic conditions 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.

Outlook

The mortgage insurance business is affected by changes in economic, employment and housing market trends. More specifically, the housing market is affected by trends in interest rates, home price changes, mortgage origination volume, mortgage delinquencies and changes in the regulatory environment.

The current forecast of selected economic indicators for 2012 is presented in the table below.

Canadian economic indicators	Q1'2012	2012 forecast
National unemployment rate	7.2% ¹	7.4% ⁴
5-year Government of Canada bond yield	1.57% ²	1.85% ⁵
Change in national average home price	6.1% ³	0% ⁶
Source:		
¹ Statistics Canada Labour Force Survey – March unemployment rate (April 5, 2012)		
² Bloomberg – 5-year Government of Canada bond yield as at March 30, 2012		
³ Teranet – National Bank National Composite House Price Index™ for February 2012 Year-over-Year (April 23, 2012)		
⁴ Management estimate based on consensus economic forecast of the major bank economists (December 2011)		
⁵ RBC Financial Markets Monthly – 5-year Government of Canada bond yield forecasted as at December 31, 2012 (March, 2012)		
⁶ Management estimate based on Canadian Real Estate Association estimate for 2012 (March 5, 2012)		

The Company remains focused on continuing to grow its market share by executing its customer-focused sales and service strategies. At the same time, the Company intends to maintain a high-quality insurance portfolio through active risk management.

While the Company's earned premiums have benefited from amortization of previous large books of business over the past several quarters, that benefit will continue to decrease in the coming quarters as the large 2007 and 2008 books mature past their peak earnings period, and the earned premiums from the relatively smaller 2009, 2010 and 2011 books are recognized. Unearned premiums were \$1.8 billion at March 31, 2012.

The Company anticipates that, in the upcoming quarter, losses on claims and the associated loss ratio will be impacted by the typical seasonal decreases in delinquencies during the spring and summer months. Overall, the Company expects that its loss ratio for 2012 should remain in the 35% to 40% range.

The Company continues to actively manage its risk allocation through its approximately \$5 billion investment portfolio. This portfolio comprises primarily highly rated fixed income securities. The Company's asset mix includes a small allocation to preferred shares and dividend-paying common shares, which currently offer higher pre-tax equivalent yields. The investment portfolio is well positioned, if interest rates rise, with a relatively short portfolio duration of 3.7 years and \$328 million of maturities occurring in 2012.

The Company manages its capital to ensure capital efficiency and flexibility. At the end of the first quarter, the Insurance Subsidiary's MCT was 159% or 14 percentage points higher than its current internal target of 145%. Changes to the MCT calculation, which took effect on January 1, 2012, included refining the asset risk factors applied to balance sheet assets and adding new capital charges for interest rate risk and foreign exchange risk. The Company plans to maintain its capital strength and operate above the Insurance Subsidiary's internal target and intends to maintain a strong capital position to provide the flexibility necessary to support its in-force insurance, to fund synergistic growth opportunities that may become available, to maintain strong credit ratings and to optimize returns to shareholders.

With a strong financial position including \$1.8 billion of unearned premiums and \$2.7 billion of shareholders' equity, the Company is well positioned as the leading private mortgage insurer through its significant scale, execution of customer-focused sales and service strategies, proactive risk management of its insurance portfolio, and prudent investment management.

Recent Developments

On April 26, 2012 the federal government introduced the "*Job, Growth and Long Term Prosperity Act*" which includes amendments to enhance the governance and oversight framework of the Canada Mortgage and Housing Corporation ("CMHC"). The amendments give the Minister of Finance powers over CMHC's commercial activities consisting of mortgage insurance, Mortgage Backed Securities and Canada Mortgage Bond programs; and 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 its exposure to loss.

In addition, the amendments establish a legal framework for covered bonds under the *National Housing Act*. This includes the establishment of a registry for covered bonds and protection for covered bond contracts and covered bond collateral in the event of an issuer's bankruptcy or insolvency. It also restricts the eligible assets for covered bonds to uninsured residential mortgages with loan to values of 80 percent or less and Government of Canada securities.

The Company believes that these changes will further enhance the long term safety and soundness of the mortgage finance system.

On March 19, 2012, OSFI issued for comment Draft Guideline B-20: *Residential Mortgage Underwriting Practices and Procedures* ("Guideline B-20") which sets out OSFI's expectations for prudent residential mortgage underwriting. Guideline B-20, is applicable to all federally-regulated financial institutions that are engaged in residential mortgage underwriting, the purchase of residential mortgage loan assets and, where appropriate, the issuance of mortgage insurance. The Company does not believe that Guideline B-20 will have a significant effect on its business.

On June 26, 2011, the *Protection of Residential Mortgage or Hypothecary Insurance Act* ("PRMHIA") was passed by Parliament. The stated purposes of the 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."¹

While PRMHIA does not change the level of government guarantee provided on privately insured mortgages, it formalizes in legislation the existing mortgage insurance arrangements with private mortgage insurers, including the rules for government-backed insured mortgages and the terms for the existing agreement between the Insurance

¹ *Protection of Residential Mortgage or Hypothecary Insurance Act, S.C. 2011, c.15, s.20.*

Subsidiary and the Canadian government (the “Government Guarantee Agreement”). The Government Guarantee Agreement will terminate and be replaced by the applicable provisions of PRMHIA when PRMHIA comes into force. The provisions of PRMHIA are expected to come into force after the regulations referenced in the legislation are finalized.

Some of the key provisions of PRMHIA are as follows:

- The Company can only insure risk in respect of eligible mortgage loans and other risks as permitted by regulations.
- The government can establish by regulation various criteria for approved mortgage insurers. This includes, but is not limited to, the fee that the insurer will pay for the government guarantee, the reinsurance activities that can be conducted, business activities beyond insuring eligible mortgages, and information made available to the public.
- The Company’s existing Government Guarantee Agreement will terminate when PRMHIA becomes effective. All risks covered by the Government Guarantee Agreement will continue to be covered under PRMHIA.
- Upon termination of the Government Guarantee Agreement, the government guarantee fund will no longer exist. All investments and money held in the guarantee fund will revert to the Company. It is anticipated that the Company will continue to pay a fee to the Government of Canada similar to the risk premium paid under the existing Government Guarantee Agreement. At present, the government guarantee fund (net of the related deferred tax impact) is deducted from capital available for MCT purposes.
- The Minister of Finance may require the Company to maintain capital above that required to be maintained under the *Insurance Companies Act* (the “ICA”).

While the Company does not anticipate any significant changes to its current or future business prospects as a result of the coming into force of PRMHIA, a full assessment of the impact on the Company’s business cannot be completed until the regulations referenced in the legislation have been finalized.

Management Changes

Effective April 30th, Peter Vukanovich, Executive Vice-President, Corporate Development has left the Company to pursue other opportunities. Moving forward, the Chairman and C.E.O. will lead corporate development initiatives.

Results of operations

The following table sets forth certain financial information for the three months ended March 31, 2012 and 2011.

	For the quarter ended March 31,	
(in millions, unless otherwise specified)	2012	2011
Income statement data		
Net premiums written	\$ 79	\$101
Net premiums earned	147	155
Losses on claims and expenses:		
Losses on claims	56	59
Expenses	26	26
Total losses on claims and expenses	82	85
Net underwriting income	65	71
Net investment income	50	46
Interest expense	(6)	(6)
Income before income taxes	109	111
Net income	81	80
Net operating income ¹	\$ 76	\$ 78
Weighted average number of common shares outstanding		
Basic	98,672,372	104,792,328
Diluted	98,672,372	105,157,657
Earnings per common share ratios		
Earnings per common share (basic)	\$ 0.82	\$ 0.77
Earnings per common share (diluted) ²	\$ 0.82	\$ 0.75
Selected non-IFRSs financial measures¹		
Insurance in force	\$ 268,726	\$ 248,811
New insurance written	\$ 4,106	\$ 5,429
Loss ratio	38%	38%
Expense ratio	18%	17%
Combined ratio	56%	55%
Operating return on equity	12%	13%
MCT ratio	159%	155%
Delinquency ratio	0.19%	0.27%
Severity on claims paid	32%	30%
Operating earnings per common share (basic)	\$ 0.77	\$ 0.75
Operating earnings per common share (diluted) ²	\$ 0.77	\$ 0.73

Notes: Amounts may not total due to rounding.

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

² The difference between basic and diluted number of common shares outstanding is caused by the potentially dilutive impact of the grant of share-based compensation units. At March 31, 2012, the diluted weighted average number of common shares is equal to the number of common shares outstanding as the share-based compensation units would have been anti-dilutive due to the cash settlement option or the Company's stock price. Had the in the money share-based compensation units and options been included in the calculation of the diluted weighted average common shares outstanding as at March 31, 2012, the number of shares would have been 98,965,115.

First quarter highlights

Compared to the first quarter of 2011:

- Net income increased by \$1 million, or 1%, to \$81 million and net operating income decreased by \$2 million, or 3%, to \$76 million. The increase to net income was attributable to higher net gains on investments while the decrease to net operating income was attributable primarily to lower net premiums earned which were partially offset by lower losses and taxes.
- Net premiums written decreased by \$22 million, or 22%, to \$79 million, which the Company believes was due to a smaller high loan-to-value mortgage origination market, particularly for refinance transactions.
- Premiums earned decreased \$8 million or 5%, to \$147 million primarily due to a lower earnings curve adjustments as compared to the first quarter of 2011.
- Losses on claims decreased by \$3 million, or 5%, to \$56 million, primarily due to fewer new delinquencies, particularly in Alberta, which was partially offset by an increase in severity in Ontario, British Columbia and Quebec.
- The MCT ratio increased four percentage points to 159%.

The following table sets forth the quarterly results of operations for the Company's business:

(in millions, unless otherwise specified)	For the quarter ended March 31,		Increase (decrease) and percentage change Q1'12 vs. Q1'11	
	2012	2011		
Net premiums written	\$ 79	\$ 101	\$ (22)	(22)%
Net premiums earned	\$ 147	\$ 155	\$ (8)	(5)%
Losses on claims and expenses:				
Losses on claims	56	59	(3)	(5)%
Expenses	26	26	-	0%
Total losses on claims and expenses	82	85	(3)	(4)%
Net underwriting income	65	71	(6)	(8)%
Investment income:				
Interest and dividend income, net of investment expenses	42	42	-	0%
Net gains on investments ¹	6	3	3	NM
Guarantee fund earnings	1	1	-	0%
Total investment income	50	46	4	9%
Interest expense	(6)	(6)	-	0%
Income before income taxes	109	111	(2)	(2)%
Provision for income taxes	28	31	(3)	(10)%
Net income	\$ 81	\$ 80	\$ 1	1%
Adjustment to net income:				
Net gains on investments, net of taxes	(5)	(2)	(3)	NM
Net operating income ²	\$ 76	\$ 78	\$ (2)	(3)%
Effective tax rate	26%	28%	-	(2) pts
Selected non-IFRSs financial measures²				
Loss Ratio	38%	38%	-	- pts
Expense Ratio	18%	17%	-	1 pts
Combined Ratio	56%	55%	-	1 pts
Operating return on equity	12%	13%	-	(1) pts

Notes: Amounts may not total due to rounding. The Company defines NM as "not meaningful" for increases or decreases greater than 100%.

¹Includes net realized gains (losses) on sales of available-for-sale investments and change in unrealized gains (losses) on fair value through profit or loss ("FVTPL") investments.

²The financial measures are not calculated based on IFRSs. See the "Non-IFRSs financial measures" section at the end of this MD&A for additional information.

First quarter 2012 compared to first quarter 2011

New insurance written on high loan-to-value mortgages decreased by \$0.9 billion, or 19%, to \$3.5 billion in the first quarter of 2012 as compared to the prior year's period, primarily due to a \$0.7 billion decrease, or 46%, to \$0.8 billion in new insurance written on refinance transactions. New insurance written on purchase transactions of high loan-to-value mortgages decreased by \$0.1 billion, or 5%, to \$2.7 billion. As compared to the prior year's period, the Company believes new insurance written was impacted by a smaller high loan-to-value mortgage origination market, particularly for refinance transactions, as a result of the government guarantee product changes in March 2011.

Net premiums written decreased by \$22 million, or 22%, to \$79 million in the first quarter of 2012 as compared to the prior year's period, primarily the result of lower new insurance written for high loan-to-value mortgages, resulting from a smaller high loan-to-value mortgage origination market, particularly for refinance transactions, this quarter as compared to the prior year's period. Premiums from low loan-to-value mortgages were \$3 million as compared to \$5 million in the prior year's period.

Net premiums earned decreased by \$8 million, or 5%, to \$147 million in the first quarter of 2012 as compared to the prior year's period, primarily due to the lower first quarter 2012 earnings curve adjustment of \$5 million as compared to \$12 million in the first quarter of 2011. Declining earnings from the large 2007 and 2008 books were partially offset by the increasing earnings from the relatively smaller 2009, 2010 and 2011 books.

Losses on claims decreased by \$3 million, or 5%, to \$56 million as compared to the prior year's period. The decrease was primarily the result of fewer net new delinquencies, particularly in Alberta, which was partially offset by an increase in severity in Ontario, British Columbia and Quebec. The Company continues to realize savings from its loss mitigation programs, including workout and asset management initiatives. The loss ratio remained flat at 38% for the first quarter of 2012 as compared to the prior year's period. A loss ratio decrease of 2 percentage points resulting from the \$3 million decrease of losses was offset by a loss ratio increase of 2 percentage points resulting from the \$8 million decrease of earned premium.

Expenses remained flat at \$26 million, as a higher stock-based compensation expense was offset by lower professional fees. The expense ratio increased by one percentage point to 18% for the first quarter of 2012 as compared to the prior year's period. The increase was the result of an \$8 million decrease in earned premiums while expenses remained flat as compared to the prior year's period.

Total investment income, including guarantee fund earnings and net investment gains, increased by \$4 million, or 9%, to \$50 million in the first quarter of 2012 as compared to the prior year's period. Interest and dividend income from the general investment portfolio remained flat at \$42 million. The pre-tax equivalent book yield increased to 4.3%, as compared to 4.2% in the prior year's period, primarily due to the favourable impact of the increase in non-taxable dividend income in the first quarter of 2012. Net investments gains were \$6 million in the first quarter of 2012 as the Company reduced its holdings of commercial mortgage-backed securities. Net investment gains were \$3 million in the first quarter of 2011, primarily due to the recovery in the market value of fair value through profit or loss ("FVTPL") investments in 2011.

Interest expense remained flat at \$6 million for the first quarter of 2012, as compared to the prior year's period.

The effective tax rate decreased by two points to 26% in the first quarter of 2012 as compared to the prior year's period. This decrease was primarily the result of lower substantively enacted income tax rates in 2012 as compared to 2011 and an increase in non-taxable dividend income.

The MCT ratio increased four percentage points to 159% in the first quarter of 2012 as compared to the prior year's period, primarily due to the increase in retained earnings from the Company's continued profitability and the net increase in unrealized gains of the investment portfolio, which offset a seven point reduction in the MCT ratio resulting from the changes to the MCT calculation effective January, 1, 2012.

Statement of financial position highlights and selected financial data

<i>(in millions, unless otherwise specified)</i>	As at March 31, 2012	As at December 31, 2011	Increase (decrease) and percentage change 2012 vs. 2011	
Investments:				
General portfolio	\$ 4,236	\$ 4,332	\$ (96)	(2)%
Government guarantee fund	733	731	2	0%
Other assets	248	223	25	11%
Subrogation recoverable	134	107	27	25%
Total assets	5,351	5,393	(42)	(1)%
Unearned premium reserves	1,756	1,824	(68)	(4)%
Loss reserves	159	169	(10)	(6)%
Long-term debt	422	422	-	0%
Other liabilities	294	295	(1)	(0)%
Total liabilities	2,631	2,710	(79)	(3)%
Shareholders' equity excluding AOCI ¹	2,521	2,468	53	2%
Accumulated other comprehensive income ("AOCI")	200	215	(15)	(7)%
Shareholders' equity	2,721	2,683	38	1%
Total liabilities and shareholders' equity	\$ 5,351	\$ 5,393	\$ (42)	(1)%
Selected non-IFRSs financial measures¹				
MCT ratio	159%	162%	-	(3) pts
Book value per common share				
Number of common shares outstanding (basic)	98,678,920	98,666,796	12,124	0%
Book value per common share including AOCI (basic)	\$27.57	\$27.19	\$0.38	1%
Book value per common share excluding AOCI (basic)	\$25.54	\$25.02	\$0.52	2%
Number of common shares outstanding (diluted)	99,626,349	99,584,424	41,925	0%
Book value per common share including AOCI (diluted)	\$27.31	\$26.94	\$0.37	1%
Book value per common share excluding AOCI (diluted)	\$25.30	\$24.78	\$0.52	2%
Dividends paid per common share during the year²	\$ 0.29	\$ 1.57	(\$1.28)	(82)%

Notes: Amounts may not total due to rounding. The Company defines "NM" as "not meaningful" for increases or decreases greater than 100%.

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

² Dividends paid per common share reflect payment for the quarter ended March 31, 2012 and year ended December 31, 2011. The fourth quarter 2011 included a special dividend of \$0.50

Financial instruments and other instruments

Portfolio of invested assets

As of March 31, 2012, the Company had total cash, cash equivalents and invested assets of \$4.2 billion in the general portfolio and \$733 million in the government guarantee fund established under the Government Guarantee Agreement. Unrealized gains on available-for-sale ("AFS") securities were \$238 million in the general portfolio and \$58 million in the government guarantee fund.

The following tables provide the diversification of assets by asset class and credit rating in each of the two portfolios.

Asset Class	As at March 31, 2012			As at December 31, 2011	
	Fair value	%	Unrealized gains	Fair value	%
(in millions, unless otherwise specified)					
General portfolio					
AFS					
Asset backed	\$ 67	2%	\$ 2	\$ 168	4%
Corporate fixed income					
Financial	1,280	30%	73	1,253	29%
Energy	298	7%	21	308	7%
Infrastructure	249	6%	20	258	6%
All other sectors	386	9%	26	384	9%
Total corporate fixed income	2,213	52%	140	2,203	51%
Short-term federal T-bills					
	14	0%	0	46	1%
Government fixed income					
Canadian federal fixed income	745	18%	30	808	18%
Canadian provincial fixed income	800	19%	56	810	19%
Total government fixed income	1,545	36%	86	1,618	37%
Preferred shares					
Financials	10	0%	0	12	1%
Industrial	1	0%	0	1	0%
Energy	10	0%	0	10	0%
Total preferred shares	21	0%	0	23	1%
Common shares					
Energy	88	2%	2	65	1%
Financials	35	1%	1	26	1%
Communication	60	1%	2	40	1%
All other sectors	99	2%	5	70	1%
Total common shares	282	7%	10	202	5%
Total invested assets	\$ 4,141	97%	\$ 238	\$ 4,260	98%
Cash and cash equivalents	95	2%	0	72	2%
Total invested assets and cash	\$ 4,236	100%	\$ 238	\$ 4,332	100%
– general portfolio					

Asset Class	As at March 31, 2012		As at December 31, 2011	
	Fair value	%	Unrealized gains	Fair value
<i>(in millions, unless otherwise specified)</i>				
Government guarantee fund				
Canadian federal fixed income – AFS	\$ 914	100%	\$ 58	\$ 908
Cash and cash equivalents – AFS	1	0%	\$0	1
Total invested assets and cash	\$ 915	100%	\$ 58	\$ 909
– guarantee fund				
Accrued income and contributions	16		\$0	16
Accrued exit fees and due to others	(198)		(\$13)	(194)
Net guarantee fund assets	\$ 733		\$ 45	\$ 731
Total invested assets and cash	\$ 4,969		\$ 283	\$ 5,063

Note: Amounts may not total due to rounding.

Credit Rating – General Portfolio (Excluding Common Shares)

	As at March 31, 2012		As at December 31, 2011	
	Fair value	%	Unrealized gains	Fair value
<i>(in millions, unless otherwise specified)</i>				
Cash and cash equivalents	\$ 95	2%	\$ 0	\$ 72
AAA	1,066	27%	45	1,254
AA	1,499	38%	107	1,509
A	1,134	29%	68	1,140
BBB	159	4%	9	155
Below BBB	0	0%	0	-
Total invested assets and cash (excluding common shares)	\$ 3,954	100%	\$ 228	\$ 4,130

Note: Amounts may not total due to rounding.

General portfolio

The Company manages its general portfolio assets to meet liquidity, credit quality, diversification and yield objectives by investing primarily in fixed income securities, including federal and provincial government bonds and corporate bonds, which include asset-backed securities and mortgage loans on commercial real estate. The Company also holds other invested assets, which include short-term investments, preferred shares and common shares. In all cases, investments are required to comply with restrictions imposed by laws and insurance regulatory authorities as well as the Company's investment policy, which has been approved by the Board.

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

Asset-backed securities

The Company holds approximately 2% of the general portfolio in asset-backed securities consisting of consumer finance securitizations. In the first quarter of 2012, the Company sold its investment in commercial mortgage-backed securities and the proceeds have been reinvested in its diversified common equity strategy. As of March 31, 2012, all of the asset-backed securities were rated AAA.

Corporate fixed income securities

Allocations to corporate fixed income securities are determined based on their relative value to federal government fixed income securities and adjusted for the carrying charge for the increased capital holdings required under regulations set by OSFI. As of March 31, 2012, approximately 52% of the investment portfolio was held in corporate fixed income securities, up by 1% from 51% as at the end of 2011. Securities rated below A were \$159 million, or 4% of invested assets, as of March 31, 2012. The investment policy limits the percentage of the portfolio that can be invested in any single issuer or group of related issuers.

Financial sector exposure represents 30% of the general portfolio, or approximately 58% of the corporate fixed income securities, as financial institutions represent greater than 50% of the corporate issuances of fixed income securities in the Canadian marketplace. The Company continuously monitors and repositions its exposure to the financial services sector.

Canadian federal and provincial government fixed income securities

The Company's investment policy requires that a minimum of 30% of the investment portfolio be invested in sovereign fixed income securities. As of March 31, 2012, 18% of the portfolio was invested in federal securities, which remained flat to the 18% at the end of 2011. Provincial holdings were 19% of the portfolio, which remained flat to the 19% at the end of 2011.

Preferred shares

The Company had \$21 million invested in preferred shares as of March 31, 2012, representing less than 1% of the general portfolio. Approximately 48% of the preferred shares were issued by Canadian financial institutions. The Company's investment guidelines require that preferred shares be rated P-1 or P-2 at the time of purchase.

Common shares

The Company had \$282 million invested in a high dividend yielding, lower beta Canadian equity strategy as of March 31, 2012, representing 7% of the general portfolio. The energy and financial sectors represent approximately 44% of the common shares and the remaining holdings are diversified across the other sectors of the Toronto Stock Exchange.

Cash and cash equivalents

Cash and cash equivalents consist primarily of cash in bank accounts and government treasury bills with original maturities of 90 days or less. The Company determines its target cash holdings based on near-term liquidity needs, market conditions and perceived favourable future investment opportunities. The Company's cash holdings decreased from \$310 million as of March 31, 2011 to \$95 million as of March 31, 2012. The prior year's period included \$150 million cash from debt proceeds. The Company's cash holdings increased from \$72 million as of December 31, 2011 to \$95 million as of March 31, 2012. The increase is attributed mainly to cash generated from investing activities during the period and is within our targeted range.

Government guarantee fund assets

In accordance with the terms of the Government Guarantee Agreement, all funds deposited into the government guarantee fund are held in a revenue trust account separate from all other assets of the Company. On the Company's financial statements, government guarantee fund assets reflect the Company's interest in the assets held in the government guarantee fund, including accrued income and net of exit fees. The assets of the government guarantee fund are permitted to be invested in cash and securities issued by the Government of Canada or agencies unconditionally guaranteed by the Government of Canada. The government guarantee fund will be eliminated when PRMHIA comes into force.

Summary of quarterly results

The table shown below presents select income statement line items and certain key performance indicators for the last eight quarters.

<i>(in millions, unless otherwise specified)</i>	Q1'12	Q4'11	Q3'11	Q2'11	Q1'11	Q4'10	Q3'10	Q2'10
Net premiums written	\$ 79	\$ 123	\$ 160	\$ 149	\$ 101	\$ 134	\$ 166	\$ 157
Net premiums earned	147	156	149	151	155	156	155	154
Losses on claims	56	62	54	50	59	50	47	49
Net underwriting income	65	68	71	77	71	78	83	80
Investment income, including net gains ¹	50	43	45	45	46	44	49	41
Net income	81	79	81	83	80	85	94	85
Adjustment to net income:								
Losses (gains) on investments, net of taxes	(5)	-	(1)	(2)	(2)	(1)	(3)	1
Net operating income ²	\$ 76	\$ 79	\$ 80	\$ 81	\$ 78	\$ 84	\$ 91	\$ 86
Earnings per common share ratios								
Earnings per common share (basic)	\$ 0.82	\$ 0.80	\$ 0.82	\$ 0.79	\$ 0.77	\$ 0.81	\$ 0.83	\$ 0.73
Earnings per common share (diluted) ³	\$ 0.82	\$ 0.80	\$ 0.80	\$ 0.78	\$ 0.75	\$ 0.81	\$ 0.83	\$ 0.71
Selected non-IFRSs financial measures:²								
Loss ratio	38%	39%	36%	33%	38%	32%	30%	32%
Expense ratio	18%	17%	16%	16%	17%	18%	17%	16%
Combined ratio	56%	56%	52%	49%	55%	50%	47%	48%
Operating earnings per common share (basic)	\$ 0.77	\$ 0.80	\$ 0.81	\$ 0.78	\$ 0.75	\$ 0.81	\$ 0.81	\$ 0.73
Operating earnings per common share (diluted) ³	\$ 0.77	\$ 0.80	\$ 0.79	\$ 0.77	\$ 0.73	\$ 0.80	\$ 0.81	\$ 0.72
Operating return on equity	12%	13%	13%	13%	13%	14%	14%	13%

Note: Amounts may not total due to rounding.

¹Includes realized gain (loss) on sale of AFS and change in unrealized gain (loss) on FVTPL investments.

²The financial measures are not calculated based on IFRSs. See the "Non-IFRSs financial measures" section at the end of this MD&A for additional information.

³The difference between basic and diluted number of common shares outstanding is caused by the potentially dilutive impact of the grant of share-based compensation units. At March 31, 2012, the diluted weighted average number of common shares is equal to the number of common shares outstanding as the share-based compensation units would have been anti-dilutive due to the cash settlement option or the Company's stock price.

Liquidity

The purpose of liquidity management is to ensure there is sufficient cash to meet all of the Company's financial commitments and obligations as they fall due. The Company believes it has the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill its cash requirements during the current financial year and to satisfy regulatory capital requirements. The Company maintains a portion of its investment portfolio in cash and liquid securities to meet working capital requirements and other financial commitments. As of March 31, 2012, the Company held liquid assets of \$536 million maturing within one year, including \$95 million in cash and cash equivalents and the remaining in bonds and debentures and short-term investments in order to maintain financial flexibility. As at the end of the first quarter of 2012, the fixed income portfolio had duration of 3.7 years.

The Company has five primary sources of funds, consisting of premiums written from operations, investment income, cash and short-term investments, investment maturities or sales, and proceeds from the issuance of debt and equity. In addition, 36% or \$1,545 million, of the Company's investment portfolio comprises federal and provincial

government securities for which there is a highly liquid market. Funds are used primarily for operating expenses, claims payments, and interest expense, as well as dividends and other distributions to shareholders.

Debt outstanding

The following tables provides details of the Company's long-term debt:

Contractual Obligations	Payment dates due by period (<i>in thousands</i>)				
	Total	Less than 1 year	1–3 years	3–5 years	After 5 years
Long-term debt	\$425,000	\$-	\$-	\$150,000	\$275,000

Series 1

Series 2

Date issued	June 29, 2010	December 16, 2010
Maturity date	June 15, 2020	December 15, 2015
Principal amount outstanding (<i>in millions</i>)	\$275	\$150
Fixed annual rate	5.68%	4.59%
Semi-annual interest payments due each year on	June 15, December 15	June 15, December 15

Debenture Ratings

Standard & Poor's ("S&P")	A- (Positive Outlook)	A- (Positive Outlook)
Dominion Bond Rating Service ("DBRS")	AA (Low)	AA (Low)

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

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

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

For more specific details on the terms and conditions of the debentures, please see the trust indenture of the Company dated June 29, 2010, a copy of which is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

Share repurchase

On May 9, 2011, the Company made an offer (the "Offer") to repurchase up to \$160 million of its common shares validly tendered to the Offer, by way of a modified Dutch auction and proportional tenders. On June 30, 2011, in accordance with the terms of the Offer, the Company repurchased 6,153,846 million common shares for cancellation

at a price of \$26.00 per common share, for an aggregate purchase price of approximately \$160 million. Genworth Financial, Inc., through its wholly owned subsidiary, Brookfield Life Assurance Company Limited, participated in the Offer by making a proportional tender, and after the share repurchase on June 30, 2011, Genworth Financial, Inc., continues to hold approximately 57.5% of the outstanding common shares of the Company.

Investments

Investments in bonds and debentures, including government guarantee fund investments, and preferred and common shares are classified either as AFS or FVTPL, and their fair value is determined using quoted market prices. FVTPL investments are recorded at fair value, with realized gains and losses on sale and changes in the fair value of these investments recorded in net investment income in the income statement.

AFS investments are recorded at fair value, with changes in the fair value of these investments recorded in unrealized gains and losses, which are included in other comprehensive income ("OCI"). Realized gains and losses on sale, as well as losses from other-than-temporary declines in value of AFS investments, are reclassified from AOCI and recorded in net investment income in the income statement.

Interest income from fixed income securities is recognized on an accrual basis using the effective interest method and reported as interest in the income statement. Dividends are recognized when the shareholders' right to receive payment is established, which is the ex-dividend date, and are reported in dividends in the income statement.

Investment sales and purchases are recorded at the investments' trade dates. Realized gains or losses recorded on investment sales are measured as the difference between cash received for the investment and the cost of the investment at the trade date, and reported as net investment gains (losses) in the income statement.

Financial assets not carried at FVTPL are assessed for impairment at each reporting period. Impairment losses are recognized by reclassifying losses from AOCI to net income.

Capital expenditures

The Company's capital expenditures primarily relate to technology investments aimed at improving operational efficiency and effectiveness for sales, underwriting, risk management and loss mitigation. For the three months ended March 31, 2012, the Company invested under \$1 million for risk management and underwriting technologies. The Company expects that future capital expenditures will continue to be focused on underwriting and risk management technology improvements. The Company expects that capital expenditures in 2012 will be in the \$3 million to \$5 million range.

Regulatory capital management

The Insurance Subsidiary is regulated by OSFI. Under the MCT, an insurer calculates a ratio of capital available to capital required in a prescribed manner. Mortgage insurers are required to maintain a minimum ratio of core capital (capital available as defined for MCT purposes, but excluding subordinated debt) to required capital of 100%. As a result of the customized methodology applied to the policy liabilities of mortgage insurers and the risk profile of the Insurance Subsidiary, OSFI has established a minimum supervisory capital target of 120% for the Insurance Subsidiary. To maintain an adequate margin above this supervisory minimum, in July 2010 the Insurance Subsidiary revised its internal MCT ratio target to 145%.

Capital above the amount required to meet the Insurance Subsidiary's MCT ratio targets could be used to support organic growth of the business and, if distributed to Genworth Canada, to repurchase common shares of the Company, to declare and pay dividends or other distributions, for acquisitions, or for such other uses as permitted by law and that may be approved by the Board.

As of March 31, 2012, the MCT ratio of the Insurance Subsidiary was 159%, representing a three percentage point sequential decrease over the fourth quarter of 2011, primarily resulting from the OSFI changes to the MCT, effective on January 1, 2012, which included refining the asset risk factors applied to balance sheet assets and adding new capital charges for interest rate risk and foreign exchange risk.

Restrictions on dividends and capital transactions

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

Financial strength ratings

The Insurance Subsidiary has financial strength ratings from both S&P and DBRS. Although the Insurance Subsidiary is not required to have ratings to conduct its business, ratings are helpful to maintain confidence in an insurer and in the marketing of its products. The Insurance Subsidiary is rated AA- (Very Strong), with a positive outlook, by S&P, and AA (Superior), with a stable outlook, by DBRS. The ratings from S&P were affirmed in June 2011, and the ratings from DBRS were confirmed in September 2011.

The Company has a counterparty credit rating and debenture ratings from S&P of A-, with a positive outlook, and an issuer rating from DBRS of AA (Low). The rating from S&P is a function of the financial strength rating on the Company's Insurance Subsidiary and its structural subordination to the policyholders of its Insurance Subsidiary. S&P has applied its standard notching criteria of three notches between an operating company and a holding company, the Insurance Subsidiary and the Company, respectively. The rating from DBRS is a function of the structural subordination of the parent's financial obligations relative to those of the regulated operating subsidiary. DBRS applied a one-notch differential between the Insurance Subsidiary and the Company.

Share-based compensation

Employee stock options ("Options"), upon being exercised, provide employees with a choice between being compensated in common shares of the Company or in cash equal to the net proceeds from the sale of the common shares. These types of awards are commonly referred to as stock options with tandem stock appreciation rights. Options granted by the Company are measured at fair value using the Black-Scholes valuation model at the end of each reporting period and recognized as compensation expense over the Option vesting period, with a corresponding entry to share-based compensation liabilities.

Employee Restricted Share Units ("RSUs") entitle employees to receive an amount equal to the fair market value of the Company's common shares and may be settled in common shares or cash. RSUs granted by the Company are measured at the quoted market value of the Company's common shares at the end of each reporting period and are recorded as compensation expense over the RSU vesting period, with a corresponding entry to share-based compensation liabilities.

Directors' Deferred Share Units ("DSUs") entitle eligible members of the Board to receive an amount equal to the fair market value of the Company's common shares as compensation for director services rendered for the period, and may be settled in common shares or cash. The DSUs granted by the Company are measured at the quoted market value of the Company's common shares at the end of each reporting period and are recorded as compensation expense in the period the awards are granted, with a corresponding entry to share-based compensation liabilities.

Performance Share Units ("PSUs") entitle senior executive employees to receive an amount equal to the fair market value of the Company's common shares as compensation if the Company meets certain performance conditions based on the Company's earnings per common share, return on equity and contribution margin associated with underwriting income and investment income at the end of a three-year period. The PSUs granted by the Company are measured at

the quoted market value of the Company's common shares at the end of each reporting period and are recorded as compensation expense over the PSU vesting period with a corresponding entry to share-based compensation liabilities, based on management's best estimate of the outcome of the performance conditions.

Critical accounting estimates and judgments

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

Accounting estimates

Premiums Earned

Mortgage insurance premiums are deferred and then taken into underwriting revenues over the terms of the related policies. The rates or formulae under which premiums are earned relate to the loss emergence pattern in each year of coverage. In order to match premiums earned to losses on claims, premiums written are recognized as premiums earned using a factor-based premium recognition curve. In constructing the premium recognition curve, the Company applies actuarial forecasting techniques to historical loss data to determine expected loss development and the related loss emergence pattern. The actuarial forecasting techniques incorporate economic assumptions that impact future losses and loss development including unemployment rates, interest rates and expected changes in house prices. 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 impact of the experience update for the three months ended March 31, 2012 was a \$5 million increase in premiums earned, as compared to a \$12 million increase in premiums earned in the three months ended March 31, 2011. The Company will continue to assess its loss experience on a quarterly basis and make adjustments as appropriate to the premium recognition curve.

Deferred Policy Acquisition Costs

Deferred policy acquisition costs comprise premium taxes, appraisal costs, certain employee compensation, and other expenses that relate directly to acquisition of new mortgage insurance business. Policy acquisition costs are deferred and amortized to income in proportion to and over the periods in which premiums are earned. The Company estimates the expenses that are eligible for deferral, based on the nature of the expenses incurred and the results of time and activity studies performed to identify the portion of time that the Company's employees incur in the acquisition of new mortgage insurance business.

Subrogation Recoverable

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

The Company estimates the borrower recoveries related to claims paid and loss reserves that are included in subrogation recoverable based on historical recovery experience.

Loss Reserves

Loss reserves represent the amount needed to provide for the expected ultimate net cost of settling claims, including adjustment expenses related to defaults by borrowers (both reported and unreported) that have occurred on or before the balance sheet date. Loss reserves are discounted to take into account the time value of money and include a supplemental provision for adverse deviation. Loss reserves are recognized when the first scheduled mortgage payment is missed by a mortgage borrower. In determining the ultimate claim amount, the Company estimates the expected recovery from the property that is securing the insured loan, and the legal, property maintenance and other

loss adjustment expenses incurred in the claim settlement process. Loss reserves consist of individual case reserves, incurred but not reported ("IBNR") reserves, and supplemental loss reserves for potential adverse development. For the purpose of quantifying case reserves, the Company analyzes each reported delinquent loan on a case-by-case basis and establishes a case reserve based on the expected loss, if any. The ultimate expected claim amount is influenced significantly by housing market conditions, changes in property values and the condition of properties in default. Accordingly, case reserves include a provision for adverse development, primarily to address a potential decline in property value.

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

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

The Company's external appointed actuary develops a margin for adverse deviation based on assessment of the adequacy of the Company's loss reserves and with reference to the current and future expected condition of the Canadian housing market and its impact on the expected development of losses. The Company determines a supplemental provision for adverse deviation ("PFAD") based on the margin developed by the actuary.

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

Share-Based Compensation

The fair value of Options is measured using the Black-Scholes valuation model. Measurement inputs are the common share price on the measurement date, the exercise price of the instrument, expected volatility, the weighted average expected life of the instrument, expected dividend yield and the risk free rate. Expected volatility is estimated based on the mean volatility of the general index of Canadian financial companies and the Company's average historical volatility. The volatility of Canadian financial companies is used to supplement the volatility calculation given that the Company has limited common share price history. The weighted-average expected life of the instrument is estimated based on historical experience of affiliated companies. The dividend yield is estimated based on historical dividends and the Company's long-term expectations. The risk-free rate is determined with reference to Government of Canada bonds.

Service and performance conditions attached to Options, RSUs and PSUs are not taken into account in determining fair value. However, the Company records share-based compensation expense only to the extent that the share-based awards are expected to vest based on the Company's best estimate of the outcome of the service and performance conditions.

Employee Future Benefits

Actuarial valuations of benefit liabilities for pension and other post-employment benefit plans are performed as at December 31 of each year, based on the Company's assumptions on the discount rate, rate of compensation increase, retirement age, mortality and the trend in the health care cost rate. The discount rate is determined by the Company with reference to AA credit-rated bonds that have maturity dates approximating the Company's obligation terms at period end and are denominated in the same currency as the benefit obligations. Other assumptions are determined with reference to long-term expectations.

Accounting judgments

Objective Evidence of Impairment

As of each balance sheet date, the Company evaluates AFS financial assets in an unrealized loss position for objective evidence of impairment.

For investments in bonds and debentures, evaluation of whether impairment has occurred is based on the Company's best estimate of the cash flows expected to be collected at the individual investment level. The Company considers all available information relevant to the collectability of the investment, including information about past events, current conditions, and reasonable and supportable forecasts. Estimating such cash flows is a quantitative and qualitative process that incorporates information received from third-party sources along with certain internal assumptions and judgments regarding the future performance of any underlying collateral for asset-backed securities. Where possible, this data is benchmarked against third-party sources. Impairments for bonds and debentures in an unrealized loss position are deemed to exist when the Company does not expect full recovery of the amortized cost of the investment, based on the estimate of cash flows expected to be collected, or when the Company intends to sell the investment prior to recovery from its unrealized loss position.

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

Risk management

Risk management is a critical part of the 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 the Company's risks in an ongoing manner. The Company's risk management framework and internal control procedures are designed to reduce the volatility in its financial results.

Mortgage portfolio risk management

Genworth Canada's mortgage portfolio risk management involves actively managing its borrower credit quality, product and geographic exposures. The Company carefully monitors portfolio concentrations by borrower credit quality, product and geography against pre-determined risk tolerances, taking into account the conditions of the housing market and economy in each region of Canada. The Company's underwriting policies and guidelines are reviewed and updated regularly to manage the Company's exposures and to address emerging trends in the housing market and economic environment. For example, in view of economic conditions in the early part of 2009 and 2010, the Company took a number of actions focusing on its new insurance written to reduce the overall risk profile of its mortgage portfolio, including more stringent requirements on borrowers' total debt service ratios, credit scores and loan-to-value ratios in assessing insurance applications in economically stressed regions.

Genworth Canada's extensive historical database and innovative information technology systems are important tools in its approach to risk management. The Company utilizes components of its proprietary high loan-to-value mortgage performance database to build and improve its mortgage scoring model. This mortgage scoring model employs a number of evaluation criteria to assign a score to each insured mortgage loan and predict the likelihood of a future claim. This evaluation criteria includes borrower credit score, loan type and amount, total debt service ratio, property type and loan-to-value. The Company believes these factors, as well as other considerations, significantly enhance the ability of the mortgage scoring model to predict the likelihood of a borrower default, as compared to reliance solely on borrower credit score.

The Company's mortgage portfolio risk management function is organized into three primary groups: portfolio analysis, underwriting policies and guidelines, and risk technology and models. The risk management team analyzes

and summarizes mortgage portfolio performance, risk concentrations, emerging trends and remedial actions which are reviewed with the Company's management-level risk committee on a monthly basis.

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 and 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 the relevant Company policies and accounting standards. Audit results of all three areas are reviewed by management on a monthly basis.

Transactions with related parties

Following the closing of the Company's IPO on July 7, 2009, the Company and the Insurance Subsidiary entered into a Transition Services Agreement with Genworth Financial, Inc., the Company's indirect majority shareholder. The agreement prescribes that these companies will provide certain services to one another, with most services being terminated if Genworth Financial, Inc. ceases to beneficially own more than 50% of the common shares of the Company. The services rendered by Genworth Financial, Inc. and affiliated companies consist of information technology, finance, human resources, legal, investment, compliance and other specified services. The services rendered by the Company and the Insurance Subsidiary relate mainly to financial reporting and tax compliance support services. These transactions are in the normal course of business and are measured at the transaction value. Balances owing for service transactions are non-interest bearing and are settled on a quarterly basis. The Company incurred net related party charges of \$1.5 million for the three months ended March 31, 2012 comparable to the prior year's period.

Special note regarding forward-looking statements

Certain statements made in this MD&A contain forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). When used in this MD&A, the words "may," "would," "could," "will," "intend," "plan," "anticipate," "believe," "seek," "propose," "estimate," "expect," and similar expressions, as they relate to the Company, are intended to identify forward-looking statements. Specific forward-looking statements in this document include, but are not limited to, statements with respect to the Company's expectations regarding the Canadian government's proposed changes to the guarantee regime regarding residential mortgages, and the Company's beliefs as to housing demand and home price appreciation, unemployment rates, future operating and financial results, 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, including the economic assumptions described in the "Outlook" section of this MD&A. 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 risks related to changes in government regulation; competition from other providers of mortgage insurance in Canada; a downturn in the global or Canadian economies; a decline in the Company's regulatory capital or an increase in its regulatory capital requirements; changes to laws mandating mortgage insurance; a decrease in the volume of high loan-to-value mortgage originations; ineffective or unsuccessfully implemented risk management standards by the Company; a downgrade or potential downgrade in the Company's financial strength ratings; interest rate fluctuations; the loss of members of the Company's senior management team; potential legal, tax and regulatory investigations and actions; the failure of the Company's computer systems; and potential conflicts of interest between the Company and its majority shareholder, Genworth Financial, Inc.

This is not an exhaustive list of the factors that may affect any of the Company's forward-looking statements. Some of these and other factors are discussed in more detail in the Company's annual information form ("AIF") dated March 20, 2012. 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 SEDAR website at www.sedar.com, including the AIF. The forward-looking statements contained in this MD&A represent the Company's views only as of the date hereof. Forward-looking statements contained in this MD&A are based on management's current plans, estimates, projections, beliefs and opinions, and the assumptions related to these plans, estimates, projections, beliefs and opinions may change; therefore, they are presented for the purpose of assisting the Company's security holders in understanding management's current views regarding those future outcomes and may not be appropriate for other purposes. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company does not undertake to update any forward-looking statements, except to the extent required by applicable securities laws.

Non-IFRSs financial measures

To supplement the Company's consolidated financial statements, which are prepared in accordance with IFRSs, the Company uses non-IFRSs financial measures to analyze performance. Non-IFRSs financial measures, used by the Company to analyze performance, include net operating income, operating earnings per common share (basic), operating earnings per common share (diluted), shareholders' equity excluding AOCI, operating return on equity and underwriting ratios such as loss ratio, expense ratio and combined ratio. Other non-IFRSs financial measures used by the Company to analyze performance, include insurance in force, new insurance written, MCT ratio, delinquency ratio, severity on claims paid, book value per common share (basic) including AOCI, book value per common share (basic) excluding AOCI, book value per common share (diluted) including AOCI, book value per common share (diluted) excluding AOCI, and dividends paid per common share. The Company believes that these non-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 financial measures do not have standardized meaning and are unlikely to be comparable to any similar measure presented by other companies.

The table below reconciles the Company's net operating income, operating earnings per common share (basic), operating earnings per common share (diluted) and shareholders' equity excluding AOCI for the periods specified to the Company's net income, earnings per common share (basic), earnings per share (diluted) and shareholders' equity in accordance with IFRSs for such periods.

<i>(in millions, unless otherwise specified)</i>	For the quarter ended March 31,	
	2012	2011
Net income	\$ 81	\$ 80
Adjustment to net income:		
Net gains on investments, net of taxes	(5)	(2)
Net operating income ¹	\$ 76	\$ 78
Earnings per common share (basic)	\$ 0.82	\$ 0.77
Adjustment to earnings per common share:		
Net gains on investments, net of taxes	(0.05)	(0.02)
Operating earnings per common share (basic) ¹	\$ 0.77	\$ 0.75
Earnings per common share (diluted)	\$ 0.82	\$ 0.75
Adjustment to earnings per common share:		
Net gains on investments, net of taxes	(0.05)	(0.02)
Operating earnings per common share (diluted) ^{1,2}	\$ 0.77	\$ 0.73
Shareholders' equity	2,721	2,683
Adjustment to shareholders' equity:		
Accumulated other comprehensive income ("AOCI")	(200)	(215)
Shareholders' equity excluding AOCI ¹	\$ 2,521	\$ 2,468

Note: Amounts may not total due to rounding.

¹The financial measures are not calculated based on IFRSs. See the "Non-IFRSs financial measures" section above for additional information.

² The difference between basic and diluted number of common shares outstanding is caused by the potentially dilutive impact of the grant of share-based compensation units. At March 31, 2012, the diluted weighted average number of common shares is equal to the number of common shares outstanding as the share-based compensation units would have been anti-dilutive due to the cash settlement option or the Company's stock price.

The table below shows the Company's non-IFRSs financial measures for which no comparable IFRS measure is available. For a more meaningful description of the measure, refer to the "Glossary for non-IFRSs financial measures" below.

(in millions, unless otherwise specified)	For the quarter ended March 31,	
	2012	2011
Selected non-IFRSs financial measures¹		
Insurance in force	\$ 268,726	\$ 248,811
New insurance written	\$ 4,106	\$ 5,429
Loss ratio	38%	38%
Expense ratio	18%	17%
Combined ratio	56%	55%
Operating return on equity	12%	13%
MCT ratio	159%	155%
Delinquency ratio	0.19%	0.27%
Severity on claims paid	32%	30%
Book value per common share		
Number of common shares outstanding (basic)	98,678,920	104,795,681
Book value per common share including AOCI (basic)	\$27.57	25.01
Book value per common share excluding AOCI (basic)	\$25.54	24.02
Number of common shares outstanding (diluted)	99,626,349	105,753,894
Book value per common share including AOCI (diluted)	\$27.31	24.79
Book value per common share excluding AOCI (diluted)	\$25.30	23.80
Dividends paid per common share²	\$ 0.29	\$ 0.26

¹The financial measures are not calculated based on IFRSs. See the "Non-IFRSs financial measures" section above for additional information.

²Dividends paid per common share reflect payment for the quarter ended March 31, 2012 and quarter ended March 31, 2011.

Glossary for non-IFRSs financial measures

"book value per share including AOCI (basic)" means the ratio of shareholders' equity to number of basic common shares outstanding at a specified date.

"book value per share excluding AOCI (basic)" means the ratio of shareholders' equity excluding AOCI to number of basic common shares outstanding at a specified date.

"book value per share including AOCI (diluted)" means the ratio of shareholders' equity including AOCI to number of diluted common shares outstanding at a specified date. Diluted common shares outstanding takes into account all of the outstanding dilutive securities that could potentially be exercised.

"book value per share excluding AOCI (diluted)" means the ratio of shareholders' equity excluding AOCI to number of diluted common shares outstanding at a specified date. Diluted common shares outstanding takes into account all of the outstanding dilutive securities that could potentially be exercised.

"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.

"delinquency ratio" 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.

“dividends paid per common share” means the portion of the Company’s profits distributed to shareholders during a specified period.

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

“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.

“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.

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

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

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

“operating return on equity” means the net operating income for a period divided by the average of the beginning and ending shareholders’ equity, excluding AOCl, 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 AOCl, for such quarter.

“severity on claims paid” 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 (original balance of a mortgage loan divided by the original value of the mortgaged property), age of the mortgage loan, the value of the underlying property, accrued interest on the loan, expenses advanced by the insured and foreclosure expenses.

The Company’s full glossary, is posted on the Company’s website at <http://investor.genworthmicanada.ca> and can be accessed by clicking on the “Glossary of Terms” link in the Investor Resources subsection on the left navigation bar.