Genworth
Canada

PROVEN BUSINESS MODEL

Genworth MI Canada Inc.
2015 Annual Report

Corporate Profile

Genworth MI Canada Inc. (TSX: MIC) through its subsidiary, Genworth Financial Mortgage Insurance Company Canada (Genworth Canada), is the largest private residential mortgage insurer in Canada. The Company provides mortgage default insurance to Canadian residential mortgage lenders, making homeownership affordable and accessible to more Canadians.

As at December 31, 2015, Genworth Canada had $6.2 billion in total assets and $3.4 billion in shareholders' equity.

2015 Financial & Operating Highlights

$809 million
Premiums written

39%
Combined ratio

$375 million
Net operating income

$4.05
Operating earnings per share (diluted)

12%
Operating return on equity

$36.82
Book value per share (diluted)

Contents

ifc Corporate Profile and Financial & Operating Highlights

2 CEO Letter to Shareholders

4 Strategic Priorities

5 Conversation with Executive Chairman

7 Reflections from the Leadership Team

14 Corporate Social Responsibility Highlights

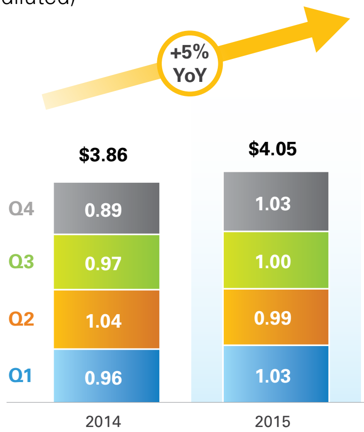
15 Board of Directors

16 Shareholder Information

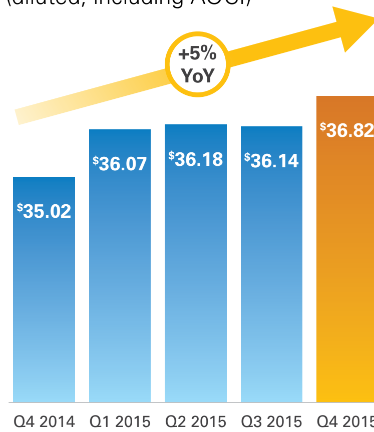
We also increased our ordinary dividend in the fourth quarter, representing the sixth increase in six years, and repurchased $50 million in shares through our share buy-back program. These actions support our objective of improving capital efficiency and maximizing shareholder value.

Stuart Levings, President and CEO

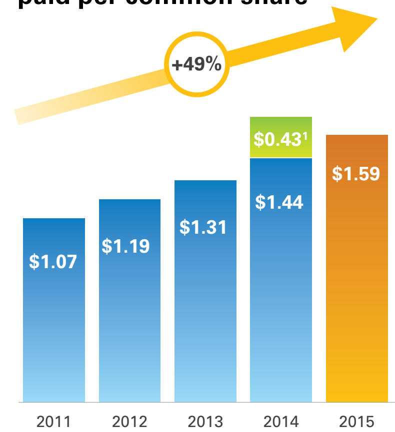
Operating earnings per share
(diluted)



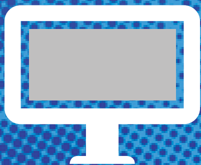
Book value per share
(diluted, including AOCI)



Ordinary dividends paid per common share



1. Special dividend



To view or download our complete Annual Report, including MD&A and Financial Statements, visit the Investors section at www.genworth.ca.

CEO Letter to Shareholders

PROVEN BUSINESS MODEL

Balance is key to success in our business: balancing the interests of our customers with our appetite for risk; balancing accessible homeownership with responsible homeownership; and balancing capital requirements with shareholder returns. Our success in maintaining this balance year after year is the result of our sound business practices and proven business model.

Dear Fellow Shareholders,

The year 2015 was significant for our business, with many great accomplishments. In this letter, I discuss some highlights of this performance and share insights into our current challenges, opportunities and strategic priorities.

In this report you will also read commentary from members of our leadership team, who share their perspectives on Genworth Canada's customer experience, risk-management framework, operational efficiencies, regulatory environment and capital strength.

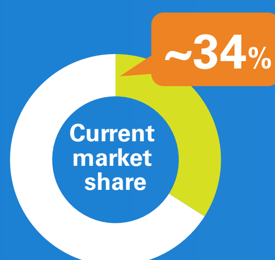
We hope this information gives you a deeper understanding of our business and instills in you the same level of confidence and trust that I have in the strength, profitability and long-term sustainability of Genworth Canada.

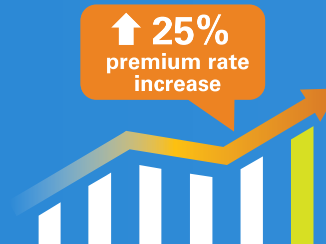
Delivering consistently strong performance

Performance is measured by a number of factors, including top-line growth, loss ratio, return on equity and book value per share. In 2015 our results on all these metrics met or exceeded our expectations. We helped more than 83,000 Canadian families achieve responsible homeownership, wrote a total of $51 billion in new insurance and ended the year with $6.2 billion in total assets and $3.4 billion in shareholders' equity.

Improved market penetration, higher premium rates and a healthy housing and labour market across most of the country helped drive $809 million in net premiums written from transactional and portfolio mortgage insurance.

Key Accomplishments in 2015





Strong but prudent top-line growth

High-quality and diversified insurance portfolio

Strong loss ratio performance

Cumulative 25% premium rate increase in 2014 and 2015

Our 2015 results provided tangible value to our shareholders. We delivered increases across a number of key metrics, including

+26% in premiums written

+5% in earnings per share

+5% in book value per share

We also increased our ordinary dividend in the fourth quarter, representing the sixth increase in six years, and repurchased $50 million in shares through our share buy-back program. These actions support our objective of improving capital efficiency and maximizing shareholder value.

Staying focused on portfolio quality and prudent underwriting resulted in an annual loss ratio of 21 per cent, at the low end of our expected 20–30 per cent range. We continued to see improved quality and diversification in our portfolio, with high credit scores and healthy debt service ratios among our insured borrowers. Our 2015 loss ratio result also reflects the important contribution from our proactive loss-mitigation programs.

Adapting to varying economic conditions

Our business is built to perform well over a long-term business cycle. We manage our risk extensively, and we regularly conduct stress tests to evaluate our performance in even the worst case scenarios. We invest time and resources in the monitoring and analytics needed to help mitigate the effects of potential or emerging risks.

In late 2014 we saw the start of the oil price decline, which led to some market concerns as reflected in our stock price. We acknowledge the pressure that falling prices have had and continue to have on employment and labour markets in oil-affected regions. Although we cannot control oil prices or predict a rebound, we can protect the interests of our shareholders by embracing a prudent and balanced approach to underwriting – in all markets.

In 2016 we see four key themes with respect to the economic environment and its potential impact on our business:

- Lower oil prices for a longer period
- Modest economic growth (GDP)
- Increasing disparity between regional housing markets
- Regional affordability pressures

Against this backdrop, we remain confident that our financial strength, disciplined risk-management framework, strong leadership and long-standing customer relationships position us well to weather varying economic cycles.

Supporting sound regulatory policy

The mortgage finance market has been subjected to a great deal of regulatory review and oversight in the last few years. Since 2008, a number of policy actions have been taken to reduce government and taxpayer risk. The impact of these changes on us is a higher-quality insurance portfolio in a smaller mortgage insurance market. The mortgages we insure today reflect more fiscally prudent borrowers with stronger credit profiles. We do not believe further regulatory changes are needed to maintain the health and stability of this segment of the housing market.

Capital adequacy is an important concept for an insurance company, and we believe we are well-capitalized for the risks this business undertakes. That said, our regulator

CEO Letter to Shareholders
(continued)

constantly monitors and reviews the applicability of existing capital regimes. In 2016 we will continue to work with regulators on the development of mortgage–insurance specific capital models that OFSI is targeting to implement on January 1, 2017.

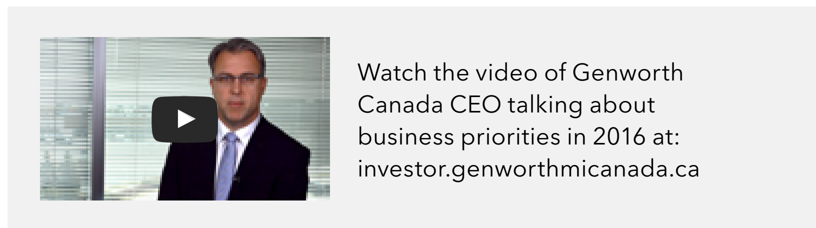
Overall, we are pleased to see that the new government acknowledges the importance of keeping a close watch on the housing market, and we continue to adopt a proactive government-relations strategy to maintain and strengthen our position as leading industry experts and advisors to government officials and policy makers.

Building stronger communities across Canada

The success of our business results from collaboration and long-standing relationships with lenders, mortgage brokers, realtors, builders and industry associations across Canada. An underlying theme binds us together: our passion for helping Canadians achieve responsible homeownership and for helping build stronger communities in all parts of the country.

I am proud to say that Genworth Canada promotes a culture of giving and active volunteerism that is embraced by our people.

In 2015 Genworth Canada donated $750,000 in cash-based contributions to support affordable housing, food and shelter, medical research, financial literacy and other important causes. In addition, our employees volunteered more than 3,000 hours in support of charities across the country, and raised more than $60,000 through fundraising and personal donations.


Watch the video of Genworth Canada CEO talking about business priorities in 2016 at: investor.genworthmicanada.ca

You can find out more about our commitment to building stronger communities across Canada in our 2015 Public Accountability Statement.

Looking forward to the future

Our proven business model positions us well for the future. As we strive to deliver solid returns to our shareholders, we remain focused on the following key strategic priorities in 2016:

- Prudent underwriting
- Dynamic risk management
- Proactive loss mitigation
- Customer experience innovation
- Research and development into strategic ancillary opportunities to enhance the core mortgage insurance business.

The cornerstone of our success is the depth and breadth of experience of our leadership team; the knowledge, skills and commitment of our employees; and the trust and loyalty of our customers and stakeholders.

Thank you for your ongoing confidence and support.

Stuart Levings, President and CEO

Strategic Priorities

Proven business model positions MIC for future performance

Prudent underwriting

Dynamic risk management

Proactive loss mitigation

Customer experience innovation

Research and development into strategic ancillary opportunities

Q&A

In conversation *with* Brian Hurley, Executive Chairman

Good corporate governance makes good business sense. It helps companies make the right decisions, enhances their performance and protects the interests of all key stakeholders.

At Genworth Canada, corporate governance is a priority. A key part of our Board's mandate is to make sure we continue to invest in the systems, processes and talent needed to continually add value, minimize risk and protect our reputation.

Q: In your first year as Executive Chairman, what actions have you taken to strengthen the role and position of your Board?

A: Last year was a year of change – internal changes to leadership and Board composition, as well as external market changes that influenced the market in which we operate. New people and changing circumstances create opportunity for renewed thinking, and the Board embraced this opportunity. We welcomed Stuart Levings to the role of President and CEO and to the Board. I enjoyed working with Stuart to ensure a smooth transition and the continued success of the business. We also strengthened our Board skill set by welcoming two new directors to our insurance company Board, Sharon Giffen and Andrea Bolger. Sharon adds extensive actuarial experience to the Board, having spent many years in senior actuarial, finance and risk-management roles in the life insurance business; Andrea adds depth to our governance and financial services industry expertise, having worked in a variety of senior executive positions.

Q&A with Brian Hurley, Executive Chairman (continued)

Q: How does the Board interface with the Management Team?

A: The entire Board continues to meet regularly with leaders in all areas of the business to ensure a deep understanding of each department's priorities, challenges and direction. There are also numerous touchpoints through our committee structure (see summary chart below). This Company is led by a talented and experienced management team. We are fortunate as a Board to have such depth of industry knowledge at our disposal and we must ensure that we listen to the needs and concerns of those who know and understand this business and industry best. At the same time, we must act as that second set of eyes, identifying gaps or potential challenges where they exist, and work together with the business leaders to support the right solutions that balance the needs of investors, employees, customers and all stakeholders.

Q: What are your key priorities in 2016?

A: My role is to ensure we remain accountable and transparent to all our key stakeholders. For this year, I am going to continue to focus on areas that are key to investors, in particular, risk management, business strategy and leadership development. And, as usual, capital allocation will continue to be an active discussion with the Board.

2015 Board and Committee Structure

Directors	MIC[1] (Holding Co.)	GFMICC[2] (Operating Co.)	Audit Committee	Risk, Capital & Investment Committee	Compensation & Nominating Committee	Conduct Review Committee
Sidney Horn (Lead Director)	✓	✓	✓		Chair	
Andrea Bolger		✓				
Sharon Giffen		✓				
David Gibbins		✓				
Brian Hurley	Chair	Chair				
Brian Kelly	✓	✓	Chair		✓	✓
Stuart Levings	✓	✓				
Samuel Marsico	✓	✓		Chair		
Heather Nicol	✓	✓	✓			
Leon Roday	✓	✓			✓	
Jerome Upton	✓	✓		✓		✓
John Walker	✓	✓		✓		Chair

1. Genworth MI Canada Inc. (TSX: MIC) – Holding Company
2. Genworth Financial Mortgage Insurance Company Canada – Operating Company

Q&A

with **Debbie McPherson**
Senior Vice President, Sales and Marketing

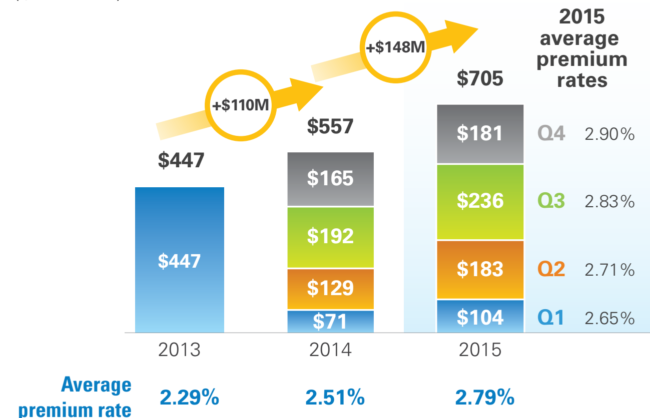
Q: How do you retain and grow share in a dynamic and highly regulated market?

A: Growing our share of the mortgage insurance premiums market requires creating and maintaining close relationships with our customers. We strive to understand their business goals and objectives in order to deliver a value-added sales and service experience that helps customers grow their business, reduce costs and fund higher-quality loans. Our customers view Genworth Canada as an essential resource and rely on the business for support beyond the mortgage insurance transaction. We provide continuing education, market research and data, business development resources and a variety of customized solutions to support their business needs. In 2015 we delivered more than 6,000 training sessions to more than 47,000 mortgage and real estate industry professionals across Canada; we consulted with customers to identify market research needs and conducted a first-time homeownership study that provided valuable insights into current homebuyer trends and behaviours; and we continued to nurture each and every relationship to achieve customer satisfaction and solidify our position as the mortgage insurer of choice.

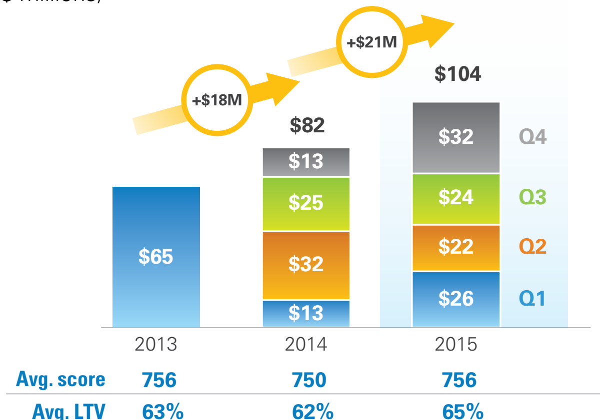
Q: What is your top priority in 2016 and how do you protect your Company against competitive threats?

A: Our focus is to make sure that our customers are at the centre of everything we do and that our people continue to deliver brand-defining customer experiences at every point of interaction. Competition is healthy. It drives companies to work harder, smarter and faster to deliver outstanding customer experiences. Genworth Canada's reputation as the leading private residential mortgage insurer was not achieved by default but by design. We intend to maintain that reputation through continued investments in talent, technology and thought leadership. A priority is making sure that our people have a deep understanding of the economic and competitive climate we operate in and that they are equipped with the right information and tools to deliver the best customer experience. Genworth Canada's holistic and common-sense underwriting approach, personalized and accessible services and knowledgeable and dedicated team will continue to differentiate Genworth Canada as the mortgage insurer of choice.

Transactional insurance premiums written
($ millions)



Portfolio insurance premiums written
($ millions)



Q&A

with **Scott Gorman**
Senior Vice President, Operations

Q: How would you describe the underwriting and loss-mitigation value proposition that Genworth Canada brings to your customers and the marketplace?

A: When it comes to customer service, we constantly strive for a clear and consistent client experience through the use of innovation and industry-leading service standards. Whether it's through our automated decisioning capability, through the dedicated underwriters who understand the uniqueness of each lender or in the processing and paying of claims, we believe that a predictable experience will help our clients manage their books of business. By adopting a collaborative approach with our customers, we are able to help them minimize any losses, avoid defaults and keep their borrowers in their homes.

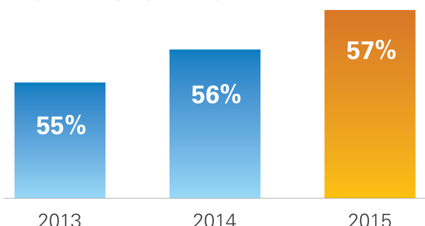
Q: How do the Homeowner Assistance Program and Asset Management Program save the Company money?

A: Our Homeowner Assistance Program assists in helping homeowners through short-term financial distress that their lenders may not be able to offer on their existing mortgages. By making a small investment into bringing their mortgages up to date or helping them restructure their mortgages, we avoid the very costly process of foreclosure. This can be accomplished in many ways, but the most common include capitalization of arrears or deferring of payments. In more than 80 per cent of cases, clients remain current on their payments, even 12 months after we have completed the workout process. Using our Asset Management Program or Real Estate Owned Program, we take over the process of selling a foreclosed property, a process normally handled by the lender on our behalf. Through our highly specialized and dedicated team, in conjunction with Genworth Canada preferred lawyers, realtors and property managers, we have been able to save an average of $15,000 per file.

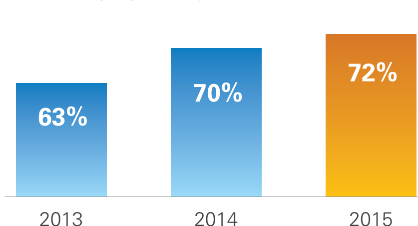
Q: How successful was your loss-mitigation program in 2015?

A: Through the constant evolution of our Homeowner Assistance Program (HOAP) and Asset Management Program (REO), we continue to be successful in loss mitigation. By focusing on 30-, 60- and 90-day delinquencies, and through our proactive HOAP, we helped more than 4,800 homeowners stay in their homes in 2015. Our workout penetration for the year was 57 per cent – meaning that we were able to intervene and help homeowners avoid default in 57 per cent of those delinquencies. In addition, taking responsibility for selling distressed properties in our REO program allows us to effectively manage those properties and make well-informed decisions that save us money. Staying proactive with our account managers and our customers helped us ensure a steady flow of referrals. That continues to be a key factor in our success.

HOAP[1] Penetration



REO[2] Penetration



Q&A

with **Winsor Macdonell**
Senior Vice President, General Counsel and Secretary

Q: How does Canada's housing finance system compare with others around the world and are Canadians protected against potential fallouts seen in other jurisdictions?

A: Canada is recognized worldwide as having one of the most sound housing finance regimes in the world. Canada's legislative and regulatory frameworks enabled the country to weather the global financial crisis without enduring the challenges that other countries experienced. Policies and processes such as mortgage recourse, mandatory mortgage insurance, non-deductibility of mortgage interest and the strong role played by the government distinguished Canada from other countries. These policies also enabled the government to make changes to the market to ensure that Canadians continue to be able to have homes that they can afford.

Q: Canadians have elected a new government. What impact do you think this will have for first-time homebuyers?

A: The new government campaigned on a plan to help strengthen the middle class, a plan that involves increased access to affordable homeownership for first-time buyers. The federal government has made clear that it intends to (1) conduct research on the impact of foreign and speculative investors on the housing market; (2) continue to monitor the housing market; and (3) revisit the RRSP Homebuyers Plan to help more Canadians unlock their retirement savings to support their homeownership goals. As the government continues to develop its housing policy, it is important that Genworth Canada continue to share its data and perspectives on the first-time homebuyer to help the government understand this group and how it is different from others in the market.

Government policy actions since 2007 reduced risk and improved credit quality

	'07		Today
Maximum amortization (insured mortgages)	40 years	→	25 years
LTV[1] limit for new mortgages	100%	→	95%
LTV limit for mortgage refinancing	95%	→	80%
LTV limit for investment properties	90%	→	80%
Debt-service criteria for > 80% LTV	No mandated max	→	GDS[2] capped at 39% & TDS[2] ratio at 44%
Purchase price for > 80% LTV	No max	→	$1 mil.
Minimum down payment	0%	→	5% up to $500k 10% on portion >500k

	'07 / '08		'14 / '15
% > 25-year amortizations	61%	→	0%[3]
% > 95% LTV	14%		
% of > 80% LTV refinance mortgages	23%		
% of > 80% LTV for investment properties	1%		
Average GDS	23%	→	24%
Average credit score	717	→	739

Improved credit quality

Note: Company sources
1. Loan-to-value.
2. GDS represents gross debt service ratio, and TDS represents total debt service ratio.
3. % of new originations > 25-year amortizations and over 80% LTV.

Q&A

with **Craig Sweeney**
Senior Vice President, Chief Risk Officer

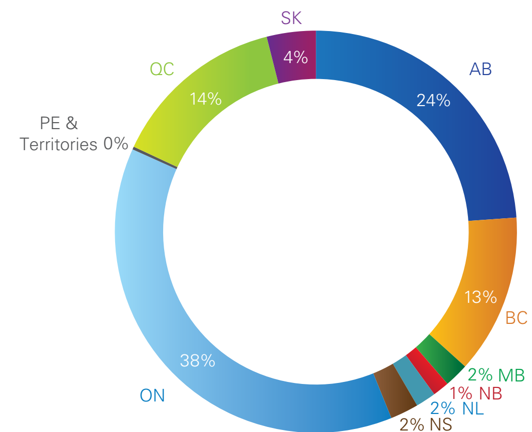
Q: Can you describe the Company's risk philosophy and culture?

A: Given the nature of this insurance business, we are inherently exposed to various types of risks. A culture of strong risk management is important for preserving franchise value and enhances the Company's business performance over the long term. When such a culture is combined with a robust risk framework, it effectively supports appropriate risk awareness and behaviours, as well as sound risk-based decision making.

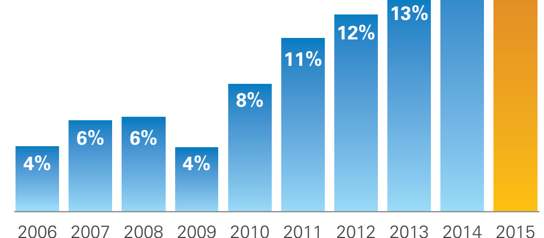
A key component of our risk culture is our risk-governance framework. The governance framework is designed to ensure that the Board and the leadership team have effective oversight of the risks faced by the Company, involving clearly defined and articulated roles, responsibilities and interrelationships. To support the risk-governance framework, we have implemented a "three lines of defence" risk model that drives ownership and accountability for risk management across the organization. The first line of defence is provided by the operational leaders and is responsible for the identification, assessment, and mitigation and reporting of risk against approved policies. The second line of defence is provided by risk management and compliance functions, and is responsible for establishing risk-management practices and for providing risk guidance. Our third line of defence is provided by internal audit and is responsible for providing independent assurance to the leadership team and the Board.

Also supporting our risk culture is our strategic planning process and risk-appetite development. Recommended by the leadership team and approved by the Board, the Company's risk-appetite framework provides a clear understanding of the ultimate level of risk the Company is willing to undertake in pursuit of its strategic objectives. Our risk appetite is communicated broadly

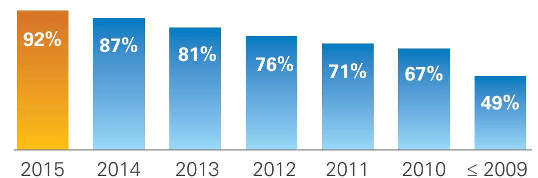
Geographical Dispersion [1]
% as of December 31, 2015



Outstanding Balance of Insured Mortgages by Book Year [1]
% as of December 31, 2015



Effective Loan-to-Value (LTV) [1, 2]



1. Data based on transactional outstanding balance of insured mortgages, as reported by lenders surveyed, which represents the vast majority of insurance in force.
2. Overall estimated effective loan-to-value is calculated by weighting the book year estimated effective loan-to-value percentages.

We employ a risk-management framework that has enabled us to build a portfolio that can perform well through a variety of economic conditions and can withstand regional economic pressures that occur from time to time.

throughout the organization, and compliance is monitored frequently. Action is taken when results do not align with the established limits.

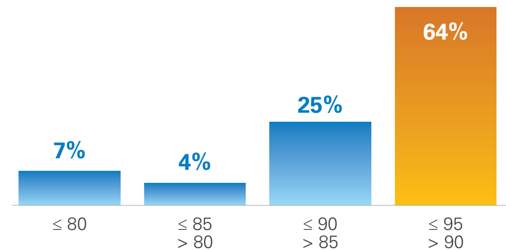
Q: How do you establish and implement risk guidelines that sustain a strong and healthy insurance portfolio?

A: One of Genworth's main strengths is its high-quality and well-diversified mortgage insurance portfolio. We employ a risk-management framework that has enabled us to build a portfolio that can perform well through a variety of economic conditions and can withstand regional economic pressures that occur from time to time.

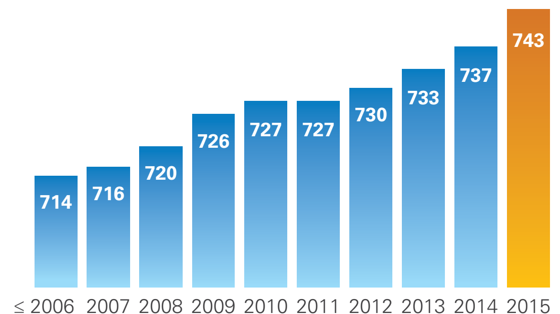
Identifying and assessing key performance risks make up a core component of our risk-management framework. Through in-depth monitoring of the macroeconomic environment and a deep understanding of key housing market trends and regional risk factors, we're able to respond to emerging risks early in their development. For example, in response to lower oil prices, we reduced our new insurance written exposure in Alberta in 2015 to 22 per cent, down from 27 per cent the previous year.

We manage the quality of new business through our disciplined approach to underwriting and robust quality assurance program. By focusing on loan quality, we saw our average credit score increase to 743 in 2015, up 6 points from the previous year and 27 points since 2007. As part of our disciplined approach, we also look to avoid unnecessary exposure or risk concentration, and we target a portfolio that is well-diversified by region, product, book year and loan-to-value. Our experience shows that a well-diversified portfolio is a key attribute through challenging economic cycles and in diverse market conditions.

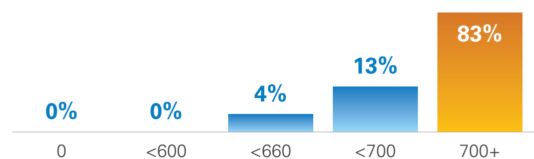
Loan-to-Value of New Insurance Written in 2015 [1]



Average Credit Score on New Insurance Written [1]



Credit Score Dispersion on New Insurance Written in 2015 [1]



2015 Avg Credit Score 743

1. Data based on transactional new insurance written.

Q&A

with **Philip Mayers**
Senior Vice President and Chief Financial Officer

Q: What are the key catalysts that will drive financial performance in 2016?

A: There continues to be regional economic pressure in Canada, but we believe that our loss ratio for 2016 will fall between 25 and 40 per cent. This reflects the strong portfolio risk profile resulting from our proactive risk-management practices. Although we will likely see an increase in our loss ratio year over year, total premiums earned are expected to increase modestly in 2016 by 5 per cent or more. This growth in underwriting revenues reflects the 2014 and 2015 transactional premium rate increases and is expected to be a meaningful contributor to earnings in 2016 and future years. We expect that underwriting profitability will be flat to modestly lower, depending on where the loss ratio falls within our projected range. And even though investment income is expected to be relatively flat, 2016 should be another year of solid financial performance overall.

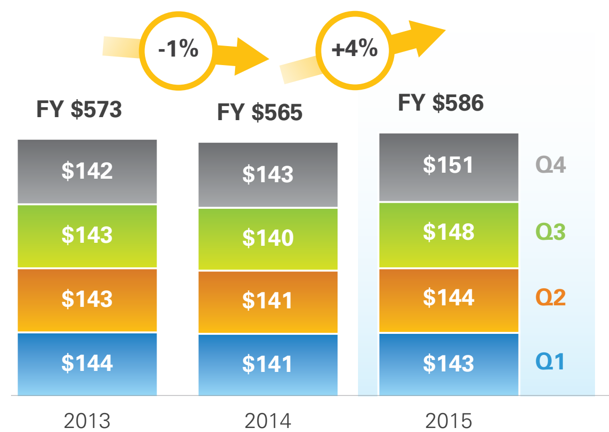
Q: Your investment portfolio has contributed approximately one-third of your net operating income. What is your investment strategy for 2016?

A: We believe interest rates are currently range bound, but we expect our invested assets to grow modestly. Against this backdrop, we are focusing on optimizing our investment portfolio to maximize yield while maintaining a high-quality investment portfolio. We actively review the investable universe and will continue to take advantage of market opportunities within our set risk appetite. Currently, we favour Canadian preferred shares and government-guaranteed mortgage-backed securities that trade at a premium to government bonds.

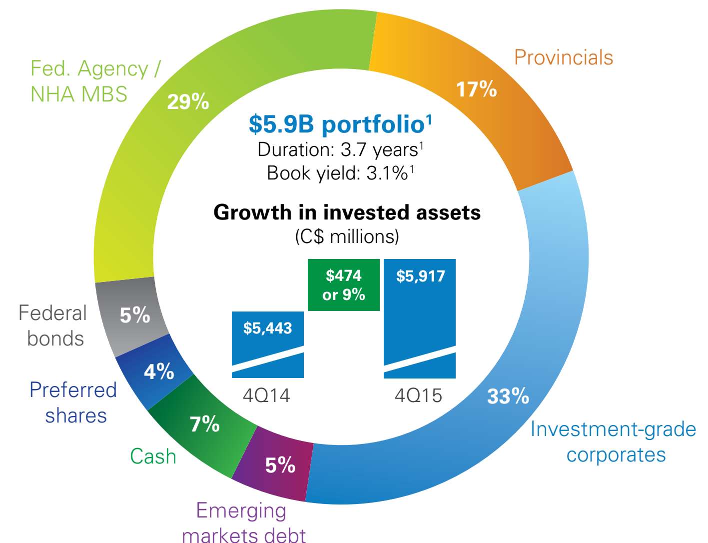
Q. How will the new regulatory capital framework expected to take effect on Jan. 1, 2017 affect the business?

A: In December 2015, OSFI announced plans to update

Premiums earned
($ millions)



Total invested assets
($ millions)



Note: Company sources.
1. Represents market value. Book yield represents pre-tax equivalent book yield after dividend gross-up of portfolio (as at Dec. 31, 2015).

Total premiums earned are expected to increase modestly in 2016 by 5 per cent or more. This growth in underwriting revenues reflects the 2014 and 2015 transactional premium rate increases and is expected to be a meaningful contributor to earnings in 2016 and future years.

the regulatory capital framework for mortgage insurance. We are actively engaged in discussions with OSFI and do not believe that the new standardized approach will result in materially higher capital levels. In the interim, we intend to operate with our minimum capital test modestly above 220 per cent in 2016, in the 225–230 per cent range. MIC has a strong capital base, and we look forward to the finalization of the new framework so that we can continue our efforts to balance capital strength, flexibility and efficiency.

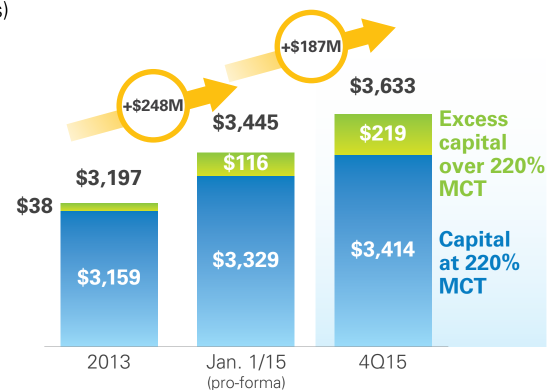
Q. What investments is the Company making to fuel its future success?

Technology continues to be a major catalyst for change in the mortgage industry. We have been investing in further developing our capabilities in the areas of predictive modeling and enhancing the customer experience throughout our sales, underwriting and default-management processes. We are uniquely positioned in these areas given our rich historical performance data set and our proven risk-management practices. We believe that continued investments in these areas strengthen our core mortgage insurance business and may open the doors to complementary business opportunities in the future.

In addition to our technology investments, we have invested heavily in building up our risk-management, analytical and actuarial capabilities to support our enterprise risk-management plan. This investment has enabled us to become an industry thought leader in the area of mortgage performance. Furthermore, our investment in these enhanced capabilities creates a stronger and more dynamic organization, and directly supports our organizational objective of engaging and retaining top talent while remaining prudent and strategic.

Capital required at 220% MCT

($ millions)



	2013	Jan. 1/15 (pro-forma)	4Q15
Holdco cash[1]	$85M	$143M	$121M
MCT ratio	223%	228%	234%[2]

Note: Company sources.
1. Represents capital in addition to capital in operating insurance company.
2. Final MCT as compared with the reported estimate of 233% in Management's Discussion and Analysis and Financial Statements for the year ended December 31, 2015.

Corporate Social Responsibility Highlights

RESEARCH & EDUCATION

2015 First-time Homebuying Study

Leading research into today's millennial homebuyers

ACTIVE VOLUNTEERISM

280 full-time employees giving...

3,000+ volunteer hours

$60,000+ in employee fundraising

30+ charities supported across Canada

HOMEOWNER ASSISTANCE

Helping qualified homeowners weather short-term financial hardship through innovative and proactive Homeowner Assistance Program

4,800+ homeownership dreams saved

COMMUNITY BUILDING

Genworth Canada Meaning of Home Contest

$900,000+ in Genworth Canada grants to

55+ Habitat for Humanity affiliates nationwide

Visit www.powerofhome.ca and download our 2015 Public Accountability Statement for more information on Genworth Canada's Corporate Social Responsibility (CSR) initiatives across Canada

The Board of Directors

Directors of Genworth MI Canada Inc. (TSX: MIC) and its operating subsidiary, Genworth Financial Mortgage Insurance Company Canada (GFMICC):

Brian Hurley, Executive Chairman

Mr. Hurley is the Executive Chairman of the Board of the Company. Prior to his current role, Mr. Hurley was Chairman and Chief Executive Officer of the Company from July 2009 to December 31, 2014. Prior to that Mr. Hurley held several senior management positions with Genworth Financial and General Electric.

Sidney Horn, Lead Director (1, 2, 5, 6)

Mr. Horn is the Lead Director of the Company. Mr. Horn is a partner at the law firm of Stikeman Elliott LLP and specializes in commercial, corporate and securities law. Mr. Horn is a member of the Alberta and Québec Bar Associations.

Brian Kelly (1, 2, 4, 6)

Mr. Kelly serves on several committees, including the MIC and GFMICC Audit Committees and Risk, Capital and Investment Committees. Prior to his retirement in 1998, Mr. Kelly held senior financial management positions with several General Electric businesses.

Samuel Marsico (3)

Mr. Marsico has been a member and Chair of GFMICC's Risk, Capital and Investment Committee since 2009. Mr. Marsico served as Senior Vice President and Chief Risk Officer, Genworth Financial, Global Mortgage Insurance from July 2008 to October 2014. Between 1997 and 2008, he held various senior financial management positions with General Electric businesses.

Heather Nicol (1, 6)

Ms. Nicol is currently the CFO of the Reformulary Group Inc. She has held several senior financial management positions, including CFO for the MaRS Discovery District and Chapters Online, as well as investment banking roles including Vice President for BMO Nesbitt Burns (previously Burns Fry Inc.). She was also a founding board member of Desjardins Credit Union in Ontario.

Leon Roday (2)

Mr. Roday was the Senior Vice President, General Counsel and Secretary of Genworth Financial from 2004 to January 2015. He retired from Genworth Financial in February 2015. Mr. Roday was General Counsel for General Electric Financial Assurance from 1996. Before joining General Electric, he was a partner at LeBoeuf, Lamb, Greene, and McRae LLP for 14 years.

Jerome Upton (3, 4)

Mr. Upton is Chief Financial Officer and Chief Operations Officer for Global Mortgage Insurance of Genworth Financial. Prior to that he served as Senior Vice President and Chief Operating Officer for International Mortgage Insurance of Genworth Financial, and before then Senior Vice President and Chief Financial Officer, Genworth Financial International – Asia Pacific, Canada and Latin America. Since joining General Electric in 1998 from KPMG Peat Marwick, he has held several senior financial management positions with GE and Genworth Financial.

John Walker (3, 4, 6)

Mr. Walker is a partner in the law firm Walker Sorensen LLP, specializing in advising insurance and reinsurance companies. Prior to founding Walker Sorenson LLP in 2007, he was a sole practitioner. From 1987 to 2004, Mr. Walker practised in the Financial Services Group of McCarthy Tétrault LLP, a national law firm. Mr. Walker 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, President and Chief Executive Officer

Mr. Levings assumed his current role as President and Chief Executive Officer in January 2015. Prior to that Mr. Levings served in the roles of Senior Vice President, Chief Operating Officer, as well as Senior Vice President, Chief Operations Officer and Senior Vice President, Chief Risk Officer. Mr. Levings joined the Company in July 2000 as the Financial Controller and has also held positions in finance and product development, including five years as Chief Financial Officer. Before that, Mr. Levings spent seven years with Deloitte & Touche.

Additional Directors of Genworth Financial Mortgage Insurance Company Canada:

David Gibbins (6)

Mr. Gibbins is currently a member of the board of directors of Greenfield Financial Group. He has also served as a director, since 2006, of Patient Care Automated Services, and, since 2008, of Certifi Media. From 1996 until his retirement in 2003, Mr. Gibbins was Managing Director, Global Head Foreign Exchange and Commodity Derivatives, for RBC Capital Markets. He also served as a member of the Executive Committee of RBC Capital Markets from 1998 until his retirement.

Sharon Giffen (6)

Ms. Giffen joined the Board of Genworth Financial Mortgage Insurance Company Canada in July 2015. Ms Giffen has spent her professional career in the life insurance business, holding several executive positions at The Independent Order of Foresters, including Chief Actuary, Chief Financial Officer, President of the Canadian Division and Chief Risk Officer. She also serves as Chair of Finance and Audit on the Board of Directors of Opera Atelier.

Andrea Bolger (6)

Ms. Bolger joined the board of directors of Genworth Financial Mortgage Insurance Company Canada in October 2015. Ms. Bolger is also a member of the board of directors of Knowledge First Financial/Foundation, where she chairs the Governance Committee and also sits on the advisory counsel to the Dean of the Ted Rogers School of Business at Ryerson University. Ms. Bolger is a former senior executive at Royal Bank of Canada, most recently the Executive Vice President of Business Financial Services and member of the operating committee for RBC's Personal and Commercial Banking division.

(1) MIC and GFMICC Audit Committee (2) MIC Compensation and Nominating Committee (3) MIC and GFMICC Risk, Capital and Investment Committee (4) GFMICC Conduct Review Committee (5) Lead Director (6) Independent

For detailed biographies visit the Investors section at **www.genworth.ca**.

Management's Discussion and Analysis

For the year ended December 31, 2015

Interpretation

The fourth quarter and full year results for 2015 and prior-period comparative results for Genworth MI Canada Inc. ("Genworth Canada" or the "Company") reflect the consolidation of the Company and its subsidiaries, including Genworth Financial Mortgage Insurance Company Canada (the "Insurance Subsidiary"). The Insurance Subsidiary is engaged in the provision of mortgage insurance in Canada and is regulated by the Office of the Superintendent of Financial Institutions ("OSFI") as well as financial services regulators in each province.

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations as approved by the Company's board of directors (the "Board") on February 3, 2016 is prepared for the three and twelve months ended December 31, 2015. The audited consolidated financial statements of the Company were prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with the Company's financial statements.

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

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

Special note regarding 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.

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

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

The Company's actual results and performance could differ materially from those anticipated in these forward-looking statements as a result of both known and unknown risks, including: the continued availability of the Canadian government's guarantee of private mortgage insurance on terms satisfactory to the Company; the Company's expectations regarding its revenues, expenses and operations; the Company's plans to implement its strategy and operate its business; the Company's expectations regarding the compensation of directors and officers; the Company's anticipated cash needs and its estimates regarding its capital expenditures, capital requirements, reserves and its needs for additional financing; the Company's plans for and timing of expansion of service and products; the Company's ability to accurately assess and manage risks associated with the policies that are written; the Company's ability to accurately manage market, interest and credit risks; the Company's ability to maintain ratings, which may be affected by the ratings of its majority shareholder, Genworth Financial, Inc.; interest rate fluctuations; a decrease in the volume of high loan-to-value mortgage originations; the cyclical nature of the mortgage insurance industry; changes in government regulations and laws mandating mortgage insurance; the acceptance by the Company's lenders of new technologies and products; the Company's ability to attract lenders and develop and maintain lender relationships; the Company's competitive position and its expectations regarding competition from other providers of mortgage insurance in Canada; anticipated trends and challenges in the Company's business and the markets in which it operates; changes in the global or Canadian economies; a decline in the Company's regulatory capital or an increase in its regulatory capital requirements; loss of members of the Company's senior management team; potential legal, tax and regulatory investigations and actions; the failure of the Company's computer systems; 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 (the "AIF") dated March 23, 2015. Investors and others should carefully consider these and other factors and not place undue reliance on the forward-looking statements. Further information regarding these and other risk factors is included in the Company's public filings with provincial and territorial securities regulatory authorities (including the Company's AIF) and can be found on the SEDAR website at www.sedar.com. The forward-looking statements contained in this MD&A represent the Company's views only as of the date hereof. Forward-looking statements and future-oriented

financial information contained in this MD&A are based on management's current plans, estimates, projections, beliefs and opinions and the assumptions related to these plans, estimates, projections, beliefs and opinions may change, and therefore are presented for the purpose of assisting the Company's security holders in understanding management's current views regarding those future outcomes and may not be appropriate for other purposes. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company does not undertake to update any forward-looking statements, except to the extent required by applicable securities laws.

Non-IFRS financial measures

To supplement the Company's consolidated financial statements, which are prepared in accordance with IFRS, the Company uses non-IFRS financial measures to analyze performance. Non-IFRS financial measures include net operating income, interest and dividend income, net of investment expenses, 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. Additional non-IFRS measures used by the Company to analyze performance include insurance in-force, new insurance written, Minimum Capital Test ("MCT") ratio, delinquency ratio, average reserve per delinquency, credit score, debt service ratio, debt-to-capital ratio, ordinary dividend payout ratio, workout penetration rate, investment yield, 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-IFRS financial measures provide meaningful supplemental information regarding its performance and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making. Non-IFRS financial measures do not have standardized meanings and are unlikely to be comparable to any similar measures presented by other companies.

See the "Non-IFRS financial measures" section at the end of this MD&A for a reconciliation of net operating income to net income, total net investment income to interest and dividend income, net of investment expenses, 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.

Definitions of key non-IFRS financial measures and explanations of why these measures are useful to investors and management can be found in the Company's "Glossary", in the "Non-IFRS financial measures" section at the end of this MD&A.

Table of contents

Business profile 5
Overview 6
- Financial highlights for 2015 6
- 2015 accomplishments 8
- 2016 objectives 10
- Recent business and regulatory developments 11
- Financial performance 16
- Fourth quarter review 17
- Full year review 19
- Summary of annual information 21
- Summary of quarterly results 23

Financial condition 24
- Reserve development analysis 25
- Financial instruments 25
- Liquidity 29
- Derivative financial instruments 31
- Capital expenditures 31

Capital management 32
- Minimum capital test 32
- Debt 33
- Financial strength ratings 34
- Capital transactions 35
- Restrictions on dividends and capital transactions 35
- Outstanding share data 35

Risk management 36
- Enterprise risk management framework 36
- Governance framework 37
- Risk appetite framework 37
- Risk controls 39
- Risk categories 39

Financial reporting controls and accounting disclosures 42
- Disclosure controls and procedures and internal controls over financial reporting 42
- Changes in accounting policies and future accounting standards 42
- Significant estimates and judgments 43
- Transactions with related parties 45

Non-IFRS financial measures 46
- Glossary 49

Business profile

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.

The Company offers both transactional (previously referred to as high loan-to-value) and portfolio (previously referred to as low loan-to-value) mortgage insurance.

Federally regulated lenders are required to purchase transactional mortgage insurance in respect of a residential mortgage loan whenever the loan-to-value ratio exceeds 80%. The Company's transactional mortgage insurance covers default risk on mortgage loans secured by residential properties to protect lenders from any resulting losses on claims. By offering insurance for transactional mortgages, the Company plays a significant role in 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.

The Company also provides portfolio mortgage insurance to lenders for loans with loan-to-value ratios of 80% or less. Portfolio insurance is beneficial to lenders as they provide the ability to manage capital and funding requirements and mitigate risk. The Company views portfolio mortgage insurance as an extension of its relationship with its existing lenders. Therefore, the Company carefully manages the level of its portfolio mortgage insurance relative to its overall mortgage insurance business. Premium rates on portfolio mortgage insurance are significantly lower than those on transactional mortgage insurance due to the lower risk profile associated with portfolio loans.

Seasonality

The transactional mortgage insurance business is seasonal. Premiums written vary each quarter, while premiums earned, investment income, underwriting and administrative expenses tend to be relatively stable from quarter to quarter. The variations in premiums written are driven by mortgage origination activity and associated 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, due primarily to an increase in new delinquencies, and decrease during the spring and summer months.

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

Distribution and marketing

The Company works with lenders, mortgage brokers and real estate agents across Canada to make homeownership more 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 mortgages originated by them. The five largest Canadian chartered banks are the largest mortgage originators in Canada and provide the majority of financing for residential mortgages.

Overview

Financial highlights for 2015

The following table sets forth certain financial information for the fourth quarter and full years ended December 31, 2014 and 2015:

	Fourth Quarter		Full Year	
(in millions of dollars, unless otherwise specified)	**2015**	2014	**2015**	2014
Income statement data				
Premiums written	**$ 213**	$ 178	**$ 809**	$ 640
Premiums earned	**$ 151**	$ 143	**$ 586**	$ 565
Losses on claims and expenses				
Losses on claims	**35**	37	**122**	111
Expenses	**27**	30	**108**	107
Total losses on claims and expenses	**62**	66	**230**	219
Net underwriting income	**90**	76	**356**	346
Net investment income	**47**	47	**201**	195
Interest expense	**6**	6	**23**	24
Fee on early redemption of long term debt	**—**	—	**—**	7
Income before income taxes	**131**	117	**534**	511
Net income	**$ 98**	$ 86	**$ 398**	$ 377
Net operating income [1]	**$ 95**	$ 84	**$ 375**	$ 366
Weighted average number of common shares outstanding				
Basic	**91,795,125**	94,239,672	**92,296,521**	94,787,064
Diluted [2]	**92,218,209**	94,284,878	**92,771,849**	94,966,380
Earnings per common share				
Earnings per common share (basic)	**$ 1.06**	$ 0.92	**$ 4.32**	$ 3.97
Earnings per common share (diluted) [2]	**$ 1.03**	$ 0.91	**$ 4.22**	$ 3.97
Selected non-IFRS financial measures [1]				
Insurance in force [3]	**$ 404,963**	$ 356,318	**$ 404,963**	$ 356,318
Total new insurance written	**$ 15,826**	$ 8,785	**$ 50,938**	$ 42,153
Transactional new insurance written	**$ 6,231**	$ 6,193	**$ 25,243**	$ 22,112
Portfolio new insurance written	**$ 9,595**	$ 2,593	**$ 25,696**	$ 20,041
Loss ratio	**23%**	26%	**21%**	20%
Expense ratio	**18%**	21%	**18%**	19%
Combined ratio	**41%**	47%	**39%**	39%
Operating return on equity	**12%**	11%	**12%**	12%
MCT ratio [4]	**233%**	225%	**233%**	225%
Delinquency ratio	**0.10%**	0.10%	**0.10%**	0.10%
Operating earnings per common share (basic)	**$ 1.04**	$ 0.89	**$ 4.07**	$ 3.86
Operating earnings per common share (diluted) [2]	**$ 1.03**	$ 0.89	**$ 4.05**	$ 3.86

Note: Amounts may not total due to rounding.

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

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

[3] The Company estimates the outstanding balance of insured mortgages was approximately $184 billion as at September 30, 2015. Outstanding balances are reported on a one quarter lag.

[4] The MCT ratio as at December 31, 2015 is a Company estimate and as at December 31, 2014 is the actual reported figure.

Key fourth quarter financial metrics:

The Company reported fourth quarter of 2015 net income of $98 million and net operating income of $95 million, as compared to $86 million and $84 million, respectively in the prior year.

- Premiums written of $213 million represented an increase of $35 million, or 20%, as compared to the same quarter in the prior year. The year-over-year increase was primarily the result of $19 million from higher demand of portfolio insurance and $16 million related to a 24 basis point increase in the average transactional insurance premium rate to 2.90% resulting from the 2014 and 2015 premium rate increases.
- Premiums earned of $151 million increased by $9 million, or 6%, as compared to the same quarter in the prior year due to the higher level of premiums written in recent years. The unearned premiums reserve was $2.0 billion at the end of the fourth quarter, up $222 million, or 12%, from December 31, 2014, reflecting the higher level of premiums written in 2015.
- Losses on claims of $35 million decreased by $2 million, or 5%, as compared to the same quarter in the prior year. This decrease was primarily due to a moderate quarterly increase in average reserve per delinquency in the prior year, driven by the Quebec and Atlantic regions, compared to a modest quarterly increase in the current year. The resulting loss ratio was 23%, or 3 percentage points lower than the same quarter in the prior year.
- Expenses of $27 million decreased by $3 million, or 9%, as compared to the same quarter in the prior year primarily due to lower share based compensation expense. The expense ratio was 18%, or 3 percentage points lower than the same quarter in the prior year, and remained consistent with the Company's expected operating range of 18 to 20%.
- Net investment income, excluding net investment gains, of $44 million increased by $1 million, or 2%, as compared to the same quarter in the prior year primarily due to a 9% increase in invested assets that was partially offset by the impact of lower reinvestment rates. The Company's investment portfolio had a market value of $5.7 billion at the end of the quarter and earned a pre-tax equivalent book yield of 3.3%.
- The number of reported delinquencies outstanding was 1,829. Compared to the same quarter in the prior year, this represented an increase of 73 delinquencies. New delinquencies, net of cures, were 487 in the quarter representing a decrease of 2 delinquencies compared to the same quarter in the prior year.

Key 2015 financial metrics:

On a full year basis, the Company reported net income of $398 million and net operating income of $375 million, as compared to $377 million and $366 million respectively, in the prior year.

- Premiums written of $809 million increased by $169 million, or 26%, in 2015, as compared to 2014. The year-over-year increase was primarily due to a $67 million related to a 28 basis point increase in the average transactional insurance premium rate to 2.79% resulting from the 2014 and 2015 premium rate increases, $81 million from an estimated 4 percentage points increase in market penetration and higher overall volumes of mortgage originations and $21 million from higher demand of portfolio insurance.
- Premiums earned of $586 million, increased by $21 million, or 4%, as compared to the prior year's period due to the higher level of premiums written in recent years.
- The full year loss ratio of 21% was at the lower end of the Company's anticipated 2015 range of 20-30% and was higher by one percentage point as compared to 2014.
- The expense ratio of 18% was lower by one percentage point as compared to 2014 and consistent with the Company's expected operating range of 18 to 20%.
- Net investment income, excluding net investment gains, decreased by $4 million, or 3%, to $169 million as compared to 2014. The decrease was primarily due to the impact of the lower reinvestment rates which was partially offset by a 9% increase of invested assets. The investment portfolio earned a pre-tax equivalent book yield of 3.3%.
- The regulatory capital ratio or Minimum Capital Test ("MCT") ratio was approximately 233%, or 48 percentage points, higher than the Company's internal target MCT ratio of 185% and 13 percentage points higher than the Company's operating MCT holding target of 220%. The Company intends to operate with an MCT ratio modestly above its holding target.

2015 accomplishments

The Company met or exceeded its key strategic priorities in the year including:

- Achieved significant net premiums written growth primarily through improved market penetration, a higher average premium rate for transactional insurance, and strong demand for portfolio insurance;
- Maintained strong insurance portfolio quality;
- Grew net operating income by 2.5%; and
- Achieved a stable operating return on equity of 12%.

The following table summarizes the Company's performance in comparison to the objectives:

Objectives	Accomplishments	Key Performance Metrics
Top Line Growth Achieve moderate growth in premiums written through customer-centric product and service strategies and successful sales execution.	The Company achieved premiums written growth of 26% year-over-year primarily through the execution of customer-centric sales and service strategies. The Company estimates that average market share increased by approximately 4 percentage points in 2015 and that the Company ended 2015 with a market share of approximately 34%.	**Premiums Written Growth** Y/Y 26%
Loss Performance Proactive risk management and focused loss mitigation strategies: • Loss ratio range of 20 to 30% • Workout penetration greater than 50%	The Company achieved a loss ratio of 21% which is at the lower end of the Company's anticipated range of 20-30% for 2015. The workout penetration rate of 57% was 7 percentage points higher than the target of 50%.	**Loss Ratio** 21% **Workout Penetration Rate** 57%
Portfolio Quality and Risk Management Maintain a high quality insurance portfolio through prudent underwriting guidelines, proactive risk management and disciplined underwriting: • Average Credit Score greater than 725 • Average Gross Debt Service ratio less than 26%	The average Credit Score for transactional insurance of 743 was 18 points higher than target of 725 and the Average Gross Debt Service ratio of 24% was two percentage points lower than target of 26%.	**Average Credit Score** 743 **Average Gross Debt Service Ratio** 24%
Capital Management Proactively manage capital to balance capital strength, flexibility and efficiency: • Ordinary Dividend Payout Ratio 35 - 45% • Debt to capital ratio of less than or equal to 15% • MCT ratio modestly above 220%	The Company maintained ongoing capital strength, flexibility and efficiency including the following key items. • The Dividend Payout Ratio of 39% was near the mid-point of the target range of 35-45%; • Debt to capital ratio of 11% was 4 percentage points below the target of 15%; • The Company paid ordinary dividends of $1.59 per common share including an increase of 8% in the fourth quarter; • The Company repurchased 1,454,196 common shares for cancellation, representing 2% of the outstanding common shares, for an aggregate amount of $50 million; and • The MCT ratio at December 31, 2015 was approximately 233%, 13 percentage points above the holding target of 220%.	**Ordinary Dividend Payout Ratio** 39% **Debt to Total Capital Ratio** 11% As At December 31, 2015 **MCT Ratio** 233% As At December 31, 2015
Investment Management Optimize investment portfolio to maximize investment yield while maintaining a high quality investment portfolio to minimize the correlation of risk with insurance in force.	The Company earned an investment yield of 3.3% on its investment portfolio while maintaining a high quality investment portfolio consisting of 89% in investment grade bonds and debentures. The Company added $281 million of investment grade preferred shares which have a comparable dividend yield to common shares and offer a more attractive risk and capital adjusted return profile to that of common shares under the current MCT guidelines. During the year, the Company had net realized gains of $32 million which primarily resulted from the sale of all of its common share holdings.	**Investment Yield** 3.3% **Percentage of Investment Grade Bonds and Debentures** 89% As At December 31, 2015

Economic environment

The mortgage insurance business is affected by changes in economic growth, employment and housing market trends as well as changes in government policy.

Macroeconomic environment

The Bank of Canada expects economic growth, as measured by real Canadian Gross Domestic Product ("GDP"), to slow to 1.2% in 2015 and 1.4% in 2016, compared to a growth rate of 2.5% in 2014, primarily due to low oil prices and ongoing weakness in business investment. With the weakened Canadian dollar, non-energy exports should benefit in 2016. However, global uncertainty may contribute to volatility in financial markets and the global economy which could result in further volatility to Canadian GDP.

General economic forecasts anticipate the average oil price in 2016 to range from US $30 to US $40 compared to the current price of US $32 at February 3, 2016. Low oil prices may continue to negatively impact economic growth, employment and housing in the oil producing provinces of Alberta, Newfoundland and Labrador and Saskatchewan. The impact to the economy from lower oil prices is being monitored by the Company as part of its proactive risk management strategy to ensure that the quality of its insurance portfolio remains strong.

Canada created 158,000 jobs in 2015, with the unemployment rate holding at 7.1% at the end of the year. The average unemployment rate was 6.9% for 2015, in line with the 2014 rate despite weakness in Alberta's labour market in the second half of 2015. Given the continued pressure on oil prices and its impact on oil producing provinces, the Company estimates the national unemployment rate to range for 2016 between 7.3% and 7.5%.

The Bank of Canada maintained its overnight interest rates at 0.50% in January 2016 primarily due to the potential for fiscal stimulus in the upcoming Federal Budget and the potential effect of a further weakening in the currency. However, with ongoing concerns around the slowing Canadian economy and the possibility of a deeper and more prolonged decline in oil prices, rate cuts in 2016 are possible. The low interest rate environment is expected to continue through 2016 and into the first half of 2017.

Housing market

Canada's housing market recorded another year of price growth with 2015 prices growing an average of 5.2% year-over-year driven by continued strong demand and a low interest rate environment that has supported affordability. The 2015 Canadian housing market was a three-speed market with strong home price appreciation in Toronto and Vancouver, home price depreciation in a softening Alberta market including Calgary and Edmonton, and stable or modestly lower prices in the rest of Canada. The Company expects national average home price appreciation for 2016 to be in the range of 0% to 2.0%. National home resales should decrease marginally in 2016 by 1% to 3% based on the Company's expectations and generally consistent with the Canadian Real Estate Association's latest forecast. Consequently, the Company expects a modestly smaller mortgage origination market in 2016. Overall, the Company expects that relatively stable housing markets in Ontario, Quebec and British Columbia will be partially offset by weakness in the oil producing provinces.

2016 objectives

In pursuit of being Canada's mortgage insurer of choice, the Company seeks to enhance stakeholder value through working with its lender partners, regulators and influencers to:

- Maintain strong claim paying ability and financial strength;
- Help Canadians responsibly achieve and maintain homeownership;
- Promote strong and sustainable communities across Canada; and
- Advance prudent risk management practices to enhance the safety and soundness of the mortgage finance system.

The Company's long term objective is to enhance shareholder value by achieving a return on equity that exceeds its cost of capital and by increasing net income over time. The Company's priorities to achieve its long-term objective are identified in the following chart where "A" represents an actual result, "E" represents an estimate and "Y/Y" represents year over year.

	Objectives	Key Economic Indicators
Top Line	**Flat or modestly lower premiums written from transactional insurance compared to 2015** as the full year impact of the June 2015 price increase partially offsets the impact of an expected decline in mortgage originations. Total premiums written moderately lower compared to 2015, primarily due to lower portfolio insurance volumes. Moderate growth in premiums earned of 5% or greater for the full year	**Housing Resales E** [1] Y/Y **(1)% to (3)%**
Loss Performance	**Proactive risk management and focused loss mitigation strategies**: • Loss ratio range of 25 to 40% • Workout penetration greater than 55%	**GDP** [2] 2016E - **1.4%** **National Unemployment** [3] 2016E - **7.3% to 7.5%** **National Home Price Appreciation** [3] 2016E - **0% to 2.0%** **Average Oil Prices**[3]**:** 2016E - **US $30 to US $40**
Portfolio Quality and Risk Management	**Maintain a high quality insurance portfolio through prudent underwriting guidelines, proactive risk management and disciplined underwriting:** • Average Credit score greater than 735 • Average Gross Debt Service ratio of less than 26% • Average Credit score below 660 of less than 5%	
Capital Management	**Prudently manage capital to balance capital strength, flexibility and efficiency:** • Ordinary Dividend Payout Ratio 35 - 45% • Debt to capital ratio of less than or equal to 15% • MCT ratio modestly above 220%	n/a
Investment Management	**Optimize investment portfolio to maximize investment yield while maintaining a high quality investment portfolio to minimize the correlation of risk with our insurance in force.**	**5 year Government of Canada Bond Yields:** [4] Q1'15A **0.77%** Q2'15A **0.81%** Q3'15A **0.81%** Q4'15A **0.73%** **5 year Government of Canada Bond Yields:** [4] Q1'16E **0.90%** Q2'16E **0.95%** Q3'16E **1.00%** Q4'16E **1.05%**

[1] Company estimate generally consistent with Canadian Real Estate Association ("CREA") – Quarterly Forecast published December 15, 2015.
[2] Monetary Policy Report, January 2016.
[3] Company estimate.
[4] Bloomberg – Quarterly data for 2015 actual results and Company estimate for 2016 based on Forward Curve as at January 20, 2016.

Recent business and regulatory developments

Mortgage insurance eligibility rules

On December 11, 2015 the Minister of Finance announced a change to the eligibility rules for new government-backed insured mortgages on properties priced above $500,000. Effective February 15, 2016, the minimum down payment for new insured mortgages will be increased from 5 per cent to 10 per cent for the portion of the house price above $500,000.

The table below illustrates the minimum down payment by home purchase price for the current and new eligibility rules.

	Current Eligibility Rules		Eligibility Rules Effective February 15, 2016			
Home Purchase Price	**Minimum Down Payment Percentage**	**Minimum Down Payment Amount**	**Minimum Down Payment Percentage**	**Minimum Down Payment Amount**	**Effective Loan-to-Value**	**Incremental Down Payment**
$500,000	5%	$25,000	5.0%	$25,000	95.0%	$0
$600,000	5%	$30,000	5.8%	$35,000	94.2%	$5,000
$700,000	5%	$35,000	6.4%	$45,000	93.6%	$10,000
$800,000	5%	$40,000	6.9%	$55,000	93.1%	$15,000
$900,000	5%	$45,000	7.2%	$65,000	92.8%	$20,000
$999,999	5%	$50,000	7.5%	$75,000	92.5%	$25,000

The Company estimates that approximately 9% of the total transactional new insurance written by the Company in 2015 could have been impacted based on the new maximum effective loan to value by home price range. The table below illustrates the percentage distribution of these affected insured mortgages based on the 2015 transactional new insurance written by home purchase price range:

Home Purchase Price Range	New Insurance Written	Incremental Down Payment
<= $500,000	0.0%	$0
$500,001 - $600,000	4.7%	$1 to $5,000
$600,001 - $700,000	2.3%	$5,001 to $10,000
$700,001 - $800,000	1.1%	$10,001 to $15,000
$800,001 - $900,000	0.5%	$15,001 to $20,000
$900,001 - $999,999	0.4%	$20,001 to $25,000
Total	9.0%	

Considering this, the Company believes that the impact on its business will be modest as most borrowers impacted by the new rules may be able to afford the increase in down payment or might choose to purchase a lower priced home.

Changes to the regulatory capital framework

On December 11, 2015, OSFI announced plans to update the regulatory capital framework for loans secured by residential real properties for both federally regulated mortgage insurers and deposit-taking institutions, including the following changes:

For mortgage insurers, OSFI is contemplating a new standardized approach that updates the capital requirements for mortgage guarantee insurance risk and will also require more capital when house prices are high relative to borrower incomes; and

For deposit-taking institutions using internal models for mortgage default risk, a risk-sensitive floor (for losses in the event of default) may be introduced that will be tied to increases in local property prices and/or to house prices that are high relative to borrower incomes.

OSFI will consult with federally regulated financial institutions and other stakeholders before making any changes, initially through a directed consultation with industry in 2016, followed by broader public consultation later in the year. OSFI expects to have final rules in place no later than 2017. The anticipated changes may impact the regulatory capital requirements for the Company.

Portfolio Mortgage Insurance

On December 11, 2015 CMHC announced a price increase to the guarantee fees they charge issuers as well as annual limits for the new guarantees for both the National Housing Act Mortgage Backed Securities ("NHA MBS") and Canada Mortgage Bonds ("CMBs") effective July 1, 2016. CMHC guarantees the timely payment of interest and principal for NHA MBS and CMB, enabling approved financial institutions to pool eligible mortgages and transform them into marketable securities that can be sold to investors.

The below table illustrates the changes to the guarantee fees and annual limits:

Guarantee Fee	Prior to July 1, 2016	As of July 1, 2016
5-Year NHA Market MBS	30bps (annual guarantees <= $6.0 billion)	30bps (annual guarantees <= $7.5 billion)
5-Year NHA Market MBS	60bps (annual guarantees > $6.0 billion)	80bps (annual guarantees > $7.5 billion)
5-Year CMB	40bps	30bps + market NHA MBS fee

The guarantee fees are in addition to the mortgage insurance premium for insured mortgages. CMHC noted "the revised fee structure is intended to encourage the development of private market funding alternatives by narrowing the funding cost difference between government sponsored and private market funding sources and the higher guarantee fees for issuances beyond the threshold is designed to discourage excessive use of NHA MBS for liquidity or funding purposes." This price increase followed a separate price increase effective April 1, 2015. The Company believes lender demand for portfolio mortgage insurance may be impacted as most of the mortgages that are portfolio-insured by the Company are pooled and securitized through the NHA MBS program.

On June 6, 2015, the Government of Canada published draft regulations to implement the prohibition that was announced in the Government's 2013 budget to limit portfolio mortgage insurance to only those mortgages that will be used in CMHC securitization programs and to prohibit the use of government guaranteed insured mortgages in private securitizations. The Company anticipates the regulations will come into force in the first half of 2016.

On June 3, 2015, the Government of Canada published regulations that prohibit the substitution of mortgages in insured pools after May 15, 2015 and limit the time period that a mortgage insurer can commit to insure mortgages to no more than one year.

Although it is difficult to determine the full impact of these changes until all the regulations are in effect, the Company believes that the regulations may result in a decrease in demand for portfolio mortgage insurance.

Price increase

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

On June 1, 2015, the Company increased its mortgage insurance premium rates on mortgages with less than a 10 percent down payment by approximately 15%. The new pricing is a reflection of higher current capital requirements and supports the long term health of Canada's housing finance system.

The premium rates on transactional new insurance written for standard owner-occupied purchase applications are as follows:

Transactional New Insurance Written Loan-to-Value Ratio	Standard Premium (Prior to June 1, 2015)	Standard Premium (Effective June 1, 2015)
Up to and including 65%	0.60%	0.60%
Up to and including 75%	0.75%	0.75%
Up to and including 80%	1.25%	1.25%
Up to and including 85%	1.80%	1.80%
Up to and including 90%	2.40%	2.40%
Up to and including 95%	3.15%	3.60%
90.01% to 95% (Borrowed Down Payment Program)	3.35%	3.85%

In 2015, the increase in premiums written and premiums earned attributable to the June 1, 2015 price increase were approximately $27 million and $2 million, respectively. In the fourth quarter of 2015, approximately 94% of the transactional new insurance written reflected the post-June 1, 2015 premium rates. The full impact of the price increase will be reflected in premiums written in the first half of 2016.

The weighted average premium rate on transactional new insurance written by quarter for 2015 and for 2014 are as follows:

Weighted Average Premium Rate	2014	2015
First Quarter	2.27%	2.65%
Second Quarter	2.35%	2.71%
Third Quarter	2.60%	2.83%
Fourth Quarter	2.66%	2.90%
Full Year	2.51%	2.79%

Financial strength ratings

On September 3, 2015, Standard & Poor's ("S&P") affirmed the Insurance Subsidiary's A+ rating with a stable outlook and the Company's BBB+ rating with a stable outlook. S&P noted that the Company had a strong competitive position, low industry risk due to the Company's disciplined underwriting initiatives, tight regulation and very strong earnings and capitalization.
The Insurance Subsidiary is rated AA and the Company's issuer rating and senior unsecured debentures are AA (Low), with a stable outlook according to DBRS. The ratings from DBRS were confirmed in March 2015. DBRS applies a one-notch differential between the Insurance Subsidiary and the Company to reflect the structural subordination of the Company's financial obligations relative to those of the regulated Insurance Subsidiary.

Dividends

On November 27, 2015, the Company paid a quarterly dividend of $0.42 per common share, an 8% increase over the prior quarter. The Company has increased its dividend in each of the last 6 years.

Share repurchase

During the second quarter and pursuant to the Company's Normal Course Issuer Bid which will expire on May 4, 2016, the Company repurchased 1,454,196 common shares for cancellation, representing approximately 2% of the outstanding common shares, for an aggregate amount of $50 million. The Company did not make any purchases pursuant to Normal Course Issuer Bid during the third or fourth quarters of 2015.

Regulatory capital

The Company manages its capital base to maintain a balance between capital strength, efficiency and flexibility. As at December 31, 2015, the Insurance Subsidiary's MCT ratio was approximately 233%, or 48 percentage points higher than its internal target of 185% and 13 percentage points higher than its holding target of 220%. The holding target is in place pending the development by OSFI of a new regulatory test for mortgage insurers, which is targeted for implementation in 2017. While the Insurance Subsidiary's internal capital target is calibrated to cover the various risks that the business would face in a severe recession, the holding target is designed to provide a capital buffer to allow management time to take the necessary actions should capital levels be pressured by deteriorating macroeconomic conditions.

Effective January 1, 2015, the Insurance Subsidiary has adopted, on an interim basis, the *Interim Capital Requirements for Mortgage Insurance Companies*, which was released during the third quarter of 2014 by OSFI. This guideline was developed by adjusting the 2015 guideline, *Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies* to reflect the specific characteristics of the mortgage insurance business pending the development by OSFI of a new regulatory test for mortgage insurance companies which is expected to be released later this year and to be effective in 2017. Based on the *pro-forma* analysis completed at December 31, 2014, implementation of the 2015 MCT guideline resulted in an increase of approximately 3 percentage points to the Insurance Subsidiary's MCT ratio as at January 1, 2015.

Own Risk and Solvency Assessment Guideline

During 2014, the Company, through its Insurance Subsidiary, developed and implemented its Own Risk and Solvency Assessment ("ORSA"). The implementation of ORSA did not result in a significant change to the Company's practices of maintaining, evaluating and managing risks.

ORSA is a process that links the Company's risk management framework to its business strategy and decision-making framework. Embedding risk and solvency into the decision making process is a key priority for the business and is supported by the Insurance

Subsidiary's Enterprise Risk Management ("ERM") framework and Risk Appetite Framework ("RAF"). ORSA provides a baseline assessment of identified risks and the supporting risk management activities. Additionally, ORSA documents the Company's risk exposure relative to its RAF Framework and calculates the capital required to support those risks under certain predefined stress events.

E-21 – Operational Risk Management Guideline

In August 2015, OSFI released its draft E-21 Operational Risk Management Guideline (the "E-21 Guideline"). In the E-21 Guideline, OSFI defines operational risk "as the risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events. This includes legal risk but excludes strategic and reputational risk". The E-21 guideline sets out four principles: i) integrated and documented operational risk management framework; ii) supports corporate governance structure including a risk appetite statement; iii) use of a "three lines of defense" approach to ensure accountability; and iv) comprehensive identification and assessment process. The E-21 Guideline closed for public comment on October 9, 2015. The E-21 Guideline is consistent with the Company's current risk management framework and the Company does not anticipate any significant changes to its current policies and procedures upon the implementation of the E-21 Guideline.

B-21 - Mortgage Insurance Underwriting Guideline

On November 6, 2014, OSFI published the final B-21 Residential Mortgage Insurance Underwriting Practices and Procedures Guideline (the "B-21 Guideline"). In the B-21 Guideline, OSFI set out principles that promote and support sound residential mortgage insurance underwriting. These six principles focus on three main themes: (i) governance, development of business objectives and strategy, and oversight; (ii) interaction with lenders as part of the underwriting process; and (iii) internal underwriting operations and risk management. The B-21 Guideline also enhances disclosure requirements, which will support greater transparency, clarity and public confidence in mortgage insurers' residential mortgage insurance underwriting practices. The Company is currently compliant with the B-21 Guideline, which came into effect on June 30, 2015.

Financial performance

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

	Fourth Quarter		Increase (decrease) and percentage change	
(in millions of dollars, unless otherwise specified)	**2015**	2014	Q4'15 vs. Q4'14	
Premiums written	**$ 213**	$ 178	$ 35	20%
Premiums earned	**$ 151**	$ 143	$ 9	6%
Losses on claims and expenses:				
Losses on claims	**35**	37	(2)	(5)%
Expenses	**27**	30	(3)	(9)%
Total losses on claims and expenses	**62**	66	(5)	(7)%
Net underwriting income	**90**	76	14	18%
Net investment income:				
Interest and dividend income, net of investment expenses	**44**	43	1	2%
Net investment gains	**3**	4	—	(5)%
Total net investment income	**47**	47	1	2%
Interest expense	**6**	6	—	—
Income before income taxes	**131**	117	14	12%
Provision for income taxes	**34**	31	3	9%
Net income	**$ 98**	$ 86	$ 11	13%
Adjustment to net income, net of taxes:				
Net investment gains	**(3)**	(3)	—	(2)%
Net operating income [1]	**$ 95**	$ 84	$ 11	14%
Effective tax rate	**25.6%**	26.3%	—	(0.7) pts
Selected non-IFRS financial measures [1]				
New insurance written	**$ 15,826**	$ 8,785	$ 7,040	80%
Transactional new insurance written	**6,231**	6,193	38	1%
Portfolio new insurance written	**9,595**	2,593	7,002	NM
Loss ratio	**23%**	26%	—	(3) pts
Expense ratio	**18%**	21%	—	(3) pts
Combined ratio	**41%**	47%	—	(6) pts
Operating return on equity	**12%**	11%	—	1 pts
Investment yield	**3.3%**	3.4%	—	(0.1) pts

Note: Amounts may not total due to rounding. NM means Not Meaningful.
[1] These financial measures are not calculated based on IFRS. See the "Non-IFRS financial measures" section at the end of this MD&A for additional information.

Fourth quarter review

Transactional new insurance written was $6.2 billion, consistent with the same quarter in the prior year. New insurance written from portfolio insurance was $9.6 billion in the fourth quarter of 2015, as compared to $2.6 billion in the prior year's period. The volume and mix of portfolio insurance varies from quarter to quarter based on lender demand.

Premiums written of $213 million represented an increase of $35 million, or 20%, as compared to the same quarter in the prior year. Premiums written from transactional insurance increased by $16 million, or 10%, to $181 million in the fourth quarter of 2015 as compared to the prior year's period. The $16 million increase was primarily due to a 24 basis point increase in the average premium rate to 2.90% resulting from the May 2014 and June 2015 premium rate increases. Premiums written from portfolio insurance increased by $19 million, to $32 million, as a result of higher volumes of portfolio insurance business while the average premium rate declined by 16 basis points, to 0.34% primarily due to a more favorable product mix.

Premiums earned increased by $9 million, or 6%, to $151 million in the fourth quarter of 2015, as compared to the prior year's period due to higher premiums earned from the relatively larger 2013, 2014 and 2015 books of business.

Losses on claims decreased by $2 million, or 5%, to $35 million in the fourth quarter of 2015 as compared to the prior year's period. The $2 million decrease was primarily due to a moderate increase in average reserve per delinquency in the prior year, driven by the Quebec and Atlantic regions, compared to a modest increase in the current year. The resulting loss ratio was 23% in the fourth quarter of 2015, 3 percentage points lower than the prior year's period. The Company continues to realize savings from its loss mitigation programs, including workout and asset management initiatives that contribute to lowering losses on claims.

Expenses decreased by $3 million, or 9%, to $27 million in the fourth quarter of 2015 as compared to the prior year's period primarily the result of lower share based compensation expense, partially offset by a modest increase in operating costs to support business growth. The expense ratio decreased 3 percentage points to 18% for the fourth quarter of 2015, as compared to the prior year's period.

Interest and dividend income, net of investment expenses, increased $1 million, or 2%, to $44 million in the fourth quarter of 2015, as compared to the prior year's period. The $1 million increase was primarily due to an increased level of invested assets, including preferred shares, partially offset by the impact of lower reinvestment rates. The average investment yield for the quarter was 3.3%, which was 0.1% lower as compared to the investment yield in the prior year's period. The Company recorded $3 million of net investment gains in the fourth quarter of 2015 which is comparable to the $4 million of net investment gains in the prior year's period. This quarter's net investment gains consisted primarily of unrealized foreign exchange gains on US denominated investments due to the decline in the Canadian dollar.

Interest expense of $6 million in the fourth quarter of 2015 was relatively unchanged, as compared to the prior year's period.

The effective tax rate was 25.6% in the fourth quarter of 2015, a decrease of approximately 70 basis points from the 26.3% in the prior year's period. The decrease was primarily the result of higher non-deductible expenses in the prior year's period.

Net income increased by $11 million, or 13%, to $98 million primarily as a result of the following pre-tax changes:

- $9 million higher premiums earned;
- $3 million lower expenses;
- $2 million lower losses on claims; and
- $1 million higher interest and dividend income, net of investment expenses.

Net operating income was $95 million, or $3 million lower than net income, as a result of the adjustment to net income for the exclusion of after-tax net investment gains.

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

	Full Year		Increase (decrease) and percentage change	
(in millions of dollars, unless otherwise specified)	**2015**	2014	2015 vs 2014	
Premiums written	**$ 809**	$ 640	$ 169	26%
Premiums earned	**$ 586**	$ 565	$ 21	4%
Losses on claims and expenses:				
Losses on claims	**122**	111	11	10%
Expenses	**108**	107	1	1%
Total losses on claims and expenses	**230**	219	12	5%
Net underwriting income	**356**	346	9	3%
Investment income:				
Interest and dividend income, net of investment expenses	**169**	173	(4)	(3)%
Net investment gains	**32**	22	10	46%
Total net investment income	**201**	195	6	3%
Interest expense	**23**	24	(1)	(4)%
Fee on early redemption of long-term debt	**-**	7	(7)	NM
Income before income taxes	**534**	511	23	5%
Provision for income taxes	**136**	134	2	1%
Net income	**$ 398**	$ 377	$ 22	6%
Adjustment to net income, after taxes:				
Fee on early redemption of long term-debt	**-**	5	(5)	NM
Net investment gains	**(23)**	(16)	(7)	45%
Net operating income [1]	**$ 375**	$ 366	$ 9	3%
Effective tax rate	**25.4%**	26.3%	—	(0.8) pts
Selected non-IFRS financial measures [1]				
Total new insurance written	**50,938**	42,153	8,785	21%
Transactional new insurance written	**25,243**	22,112	3,131	14%
Portfolio new insurance written	**25,696**	20,041	5,654	28%
Loss ratio	**21%**	20%	—	1 pts
Expense ratio	**18%**	19%	—	(1) pts
Combined ratio	**39%**	39%	—	1 pts
Operating return on equity	**12%**	12%	—	- pts
Investment yield	**3.3%**	3.5%	—	(0.2) pts

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

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

Full year review

Transactional new insurance written increased by $3.1 billion, or 14%, to $25.2 billion, as compared to the prior year's period. The Company believes the increase was primarily due to 4 percentage points of improved market penetration and higher volumes of mortgage originations as compared to the prior year's period. New insurance written from portfolio insurance was $25.7 billion in 2015, as compared to $20.0 billion in 2014, representing an increase of $5.7 billion, or 28%, from higher lender demand.

Premiums written of $809 million increased by $169 million, or 26%, in, 2015, as compared to the prior year's period. Premiums written from transactional insurance increased by $148 million, or 27%, to $703 million in 2015 as compared to the prior year's period. The $148 million increase was due to approximately $81 million from higher volumes, and $67 million from a 28 basis point increase in the average premium rate as a result of the 2014 and 2015 transactional insurance price increases. Premiums written from portfolio insurance increased by $21 million, or 26%, to $104 million in 2015 as compared to the prior year's period as a result of higher volumes of portfolio insurance business.

Premiums earned increased by $21 million, or 4%, to $586 million in 2015, as compared to the prior year's period due to higher premiums earned from the relatively larger 2013, 2014 and 2015 books of business.

Losses on claims increased by $11 million, or 10%, to $122 million in 2015, as compared to the prior year's period. The $11 million increase was primarily due to a higher average reserve per delinquency related to the Quebec, Alberta and Atlantic regions and a modest increase in delinquent loans, net of cures. The resulting loss ratio was 21% in 2015, as compared to 20% in the prior year's period. The Company continues to realize savings from its loss mitigation programs, including workout and asset management initiatives that contribute to lowering losses on claims.

Expenses increased by $1 million, or 1%, to $108 million, in 2015, as compared to the prior year's period. A modest increase in operating costs to support business growth was partially offset by lower share based compensation expenses. The expense ratio was 18% as compared to 19% in the prior year's period.

Interest and dividend income, net of investment expenses, decreased $4 million, or 3%, to $169 million in 2015, as compared to the prior year's period. The $4 million decrease was primarily the result of lower reinvestment rates, partially offset by an 9% increase in invested assets. The average investment yield was 3.3% which was 0.2% lower as compared to the investment yield in the prior year's period. The Company recorded $32 million net investment gains in 2015, primarily from the sale of common equities and unrealized foreign exchange gains, as compared to $22 million in the prior year's period.

Interest expense decreased $1 million, or 4%, to $23 million in 2015, as compared to the prior year's period. In addition, the prior year's period included a $7 million fee on the early redemption of long term debt.

The effective tax rate of 25.4% in 2015 decreased by approximately 80 basis points from 26.3% in the prior year's period. The decrease was primarily the result of an approximate $5 million favourable tax adjustment for prior periods and lower non-deductible expenses, partially offset by an increase in the Alberta provincial tax rate.

Net income increased by $22 million, or 6%, to $398 million, primarily as a result of the following pre-tax changes:

- $21 million higher premiums earned;
- $10 million higher investment gains;
- $5 million favorable tax adjustment;
- $7 million fee on the early redemption of debt in the prior period;
- $1 million lower interest expense;
- offset by $11 million higher losses on claims;
- offset by $4 million lower interest and dividend income, net of investment expenses; and
- offset by $1 million higher expenses.

Net operating income was $375 million, or $23 million lower than net income as a result of an adjustment to net income, net of taxes, from the exclusion of net investment gains. Excluding the $5 million decrease in income taxes in the first quarter of 2015 related to the favourable tax adjustment in respect of prior periods, net income would have been $393 million and net operating income would have been $370 million.

Summary of annual information

The table below presents select income statement line items and certain key performance indicators for the last three years.

(in millions, unless otherwise specified)	**2015**	**2014**	**2013**
Net premiums written	**$809**	$640	$512
Net premiums earned	**586**	565	573
Losses on claims	**122**	111	142
Net underwriting income	**356**	346	319
Total investment income (including impact of reversal of government guarantee exit fees in 2013)	**201**	195	216
Net income	**398**	377	375
Adjustment to net income net of taxes:			
Fee on early redemption of long term debt	—	5	—
Net investment gains	**(23)**	(16)	(26)
Net operating income[1]	**$375**	$366	$349
Earnings per common share:			
Earnings per common share (basic)	**$4.32**	$3.97	$3.86
Earnings per common share (diluted)[2]	**$4.22**	$3.97	$3.86
Selected non-IFRS financial measures:[1]			
Loss ratio	**21%**	20%	25%
Expense ratio	**18%**	19%	20%
Combined ratio	**39%**	39%	44%
Operating earnings per common share (basic)	**$4.07**	$3.86	$3.60
Operating earnings per common share (diluted)[2]	**$4.05**	$3.86	$3.60
Operating return on equity	**12%**	12%	12%

Note: Amounts may not total due to rounding

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

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

The table below presents additional annual information as at the years ended December 31, 2015, 2014 and 2013.

	As at December 31,		
(in millions, unless otherwise specified)	**2015**	2014	2013
Total invested assets and cash	**$5,917**	$5,443	$5,375
Total assets	**$6,239**	5,770	5,691
Unearned premiums reserve	**$2,021**	1,799	1,724
Long term debt	**$433**	$432	$423
Total liabilities	**$2,819**	2,499	2,604
Total shareholders' equity	**$3,420**	3,271	3,087
Dividends paid per common share[1]	**$1.59**	$1.87	$1.31

[1] The Company paid a $0.43 special dividend per common share in 2014

Summary of quarterly results

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

(in millions of dollars, unless otherwise specified)	**Q4'15**	**Q3'15**	**Q2'15**	**Q1'15**	**Q4'14**	**Q3'14**	**Q2'14**	**Q1'14**
Premiums written	**$ 213**	$ 260	$ 205	$ 130	$ 178	$ 217	$ 160	$ 84
Premiums earned	**151**	148	144	143	143	140	141	141
Losses on claims	**35**	31	25	31	37	30	17	28
Net underwriting income	**90**	89	90	87	76	87	97	86
Total investment Income	**47**	39	58	57	47	51	49	49
Net income	**98**	90	103	107	86	98	97	95
Adjustment to net income net of taxes:								
Fee on early redemption of long term debt	**—**	—	—	—	—	—	5	—
Net investment (gains) losses	**(3)**	3	(12)	(11)	(3)	(6)	(4)	(4)
Net operating income [1]	**$ 95**	$ 92	$ 91	$ 97	$ 84	$ 93	$ 99	$ 91
Earnings per common share:								
Earnings per common share (basic)	**$ 1.06**	$ 0.98	$ 1.12	$ 1.15	$ 0.92	$ 1.03	$ 1.02	$ 1.00
Earnings per common share (diluted) [2]	**$ 1.03**	$ 0.96	$ 1.12	$ 1.08	$ 0.91	$ 1.01	$ 1.02	$ 1.00
Selected non-IFRS financial measures: [1]								
Loss ratio	**23%**	21%	17%	22%	26%	21%	12%	20%
Expense ratio	**18%**	19%	20%	17%	21%	17%	19%	19%
Combined ratio	**41%**	40%	37%	39%	47%	38%	31%	39%
Operating earnings per common share (basic)	**$ 1.04**	$ 1.01	$ 0.99	$ 1.04	$ 0.89	$ 0.97	$ 1.04	$ 0.96
Operating earnings per common share (diluted) [2]	**$ 1.03**	$ 1.00	$ 0.99	$ 1.03	$ 0.89	$ 0.97	$ 1.04	$ 0.96

Note: Amounts may not total due to rounding.

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

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

Financial condition

Statement of financial position highlights and selected financial data

(in millions of dollars, unless otherwise specified)		**As at December 31, 2015**		**As at December 31, 2014**		**Increase (decrease) and percentage change 2015 vs. 2014**	
Total investments	**$**	**5,917**	$	5,443	$	474	9%
Other assets		**261**		260		—	—
Subrogation recoverable		**61**		67		(6)	(9)%
Total assets		**6,239**		5,770		469	8%
Unearned premiums reserves		**2,021**		1,799		222	12%
Loss reserves		**132**		115		16	14%
Long-term debt		**433**		432		—	—
Other liabilities		**234**		153		81	53%
Total liabilities		**2,819**		2,499		320	13%
Shareholders' equity excluding Accumulated other comprehensive income ("AOCI")[1]		**3,293**		3,086		207	7%
AOCI		**127**		185		(59)	(32)%
Shareholders' equity		**3,420**		3,271		149	5%
Total liabilities and shareholders' equity	**$**	**6,239**	$	5,770	$	469	8%
Selected non-IFRS financial measures [1]							
MCT ratio [2]		**233%**		225%		—	8 pts
Book value per common share							
Number of common shares outstanding (basic)		**91,795,125**		93,147,778		(1,352,653)	(1)%
Book value per common share including AOCI (basic)		**$37.26**		$35.12		$2.14	6%
Book value per common share excluding AOCI (basic)		**$35.88**		$33.13		$2.75	8%
Number of common shares outstanding (diluted) [3]		**92,872,626**		93,403,036		(530,410)	(1)%
Book value per common share including AOCI (diluted) [3]		**$36.82**		$35.02		$1.80	5%
Book value per common share excluding AOCI (diluted) [3]		**$35.46**		$33.04		$2.42	7%
Dividends paid per common share during the year[4]	**$**	**1.59**	$	1.87			

Note: Amounts may not total due to rounding.
[1] These financial measures are not calculated based on IFRS. See the "Non-IFRS financial measures" section at the end of this MD&A for additional information.
[2] The MCT ratio as at December 31, 2015 is a Company estimate and as at December 31, 2014 is the actual reported figure.
[3] The difference between basic and diluted number of common shares outstanding, book value per common share including AOCI and book value per common share excluding AOCI is caused by the potentially dilutive impact of share-based compensation awards.
[4] The Company paid a $0.43 special dividend per common share in 2014

Reserve development analysis

The table below shows the one-year development of the Company's loss reserves for the five most recent completed years.

	As at December 31				
(in millions, unless otherwise specified)	**2015**	**2014**	**2013**	**2012**	**2011**
Total loss reserves, at the beginning of the year	**$115**	$118	$139	$169	$207
Loss reserves for prior years' delinquent loans, remaining at the end of the year (A)	**23**	16	10	26	45
Change in loss reserves for prior years' delinquent loans	**93**	101	129	143	162
Paid claims for prior years' delinquent loans	**(82)**	(94)	(139)	(193)	(214)
Favourable (unfavourable) development	**$11**	$7	$(10)	$(51)	$(52)
As a percentage of total loss reserves, at the beginning of the year	**10%**	7%	(7)%	(30)%	(25)%
Loss reserves for current year's delinquent loans, at the end of the year (B)	**109**	99	108	113	124
Total loss reserves at the end of the year (A+B)	**$132**	$115	$118	$139	$169

Note: Amounts may not total due to rounding.

The Company's loss-reserving methodology, including reserve development, is reviewed on a monthly basis and incorporates the most current available information. The Company's outstanding reserves represent the Company's current best estimate of the ultimate cost of settling claims, in each case as of the date such reserves are established and based on the information available at such time.

The Company experienced modest favourable reserve development in 2015 of $11 million, or 10% of the total loss reserves at the beginning of the year. The provinces of Alberta and Ontario accounted for the majority of the favourable development in 2015, offsetting modest unfavorable development in Québec and the Atlantic provinces.

The Company regularly reviews the underlying drivers of its loss reserves development and adjusts its reserving practices accordingly.

Financial instruments

As at December 31, 2015, the Company had total cash and cash equivalents and invested assets of $5.9 billion in its portfolio. All of the Company's invested assets are classified as available-for-sale ("AFS") with the exception of cash and cash equivalents, collateral receivable under reinsurance agreement and accrued investment income and other receivables which are classified as loans and receivables. Fair value measurements for AFS securities are based on quoted market prices for identical assets when available. In the event an active market does not exist, estimated fair values are obtained primarily from industry-standard pricing sources using market observable information and through processes such as benchmark curves, benchmarking of like securities and quotes from market participants.

The following tables present the Company's invested assets by asset class for the portfolio.

Asset Class		**As at December 31, 2015**		As at December 31, 2014		
(in millions of dollars, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains (losses)** [3]	Fair value	%	Unrealized gains [3]
Asset backed bonds and debentures [1]	**$ 178**	**3%**	**$ 32**	$ 125	2%	$ 5
Corporate bonds and debentures:						
Financials	**967**	**16%**	**34**	1,142	21%	46
Energy	**316**	**5%**	**22**	252	5%	18
Infrastructure	**222**	**4%**	**14**	241	4%	14
All other sectors	**549**	**9%**	**55**	569	10%	37
Total Corporate bonds and debentures	**2,054**	**35%**	**124**	2,205	41%	115
Short term investments						
Canadian federal government treasury bills [2]	**78**	**1%**	**—**	85	2%	—
Total Short term investments	**78**	**1%**	**—**	85	2%	—
Government bonds and debentures:						
Canadian federal government [2]	**1,963**	**33%**	**79**	1,770	33%	73
Canadian provincial and municipal government	**1,006**	**17%**	**73**	898	16%	68
Total Government bonds and debentures	**2,969**	**50%**	**152**	2,667	49%	141
Preferred shares:						
Financials	**146**	**2%**	**(19)**	—	—	—
Energy	**53**	**1%**	**(9)**	—	—	—
All other sectors	**49**	**1%**	**(5)**	—	—	—
Total Preferred shares	**248**	**4%**	**(33)**	—	—	—
Common shares:						
Financials	**—**	**—**	**—**	45	1%	8
Energy	**—**	**—**	**—**	29	1%	2
All other sectors	**—**	**—**	**—**	97	2%	18
Total Common shares	**—**	**—**	**—**	170	3%	28
Total invested assets	**$ 5,527**	**93%**	**$ 276**	$ 5,253	97%	$ 289
Cash and cash equivalents	**391**	**7%**	**—**	190	3%	—
Total investments	**5,917**	**100%**	**276**	5,443	100%	289
Accrued investment income and other receivables	**28**	**—**	**—**	30	—	—
Collateral receivable under reinsurance agreement	**—**	**—**	**—**	28	—	—
Total Invested assets, accrued investment income and other receivables	**$ 5,946**	**100%**	**$ 276**	$ 5,502	100%	$ 289

Note: Amounts may not total due to rounding.
[1] Asset backed bonds are comprised of collateralized loan obligations. (December 31, 2014, asset backed bonds includes $117 million of collateralized loan obligations).
[2] Canadian federal government bonds and treasury bills includes $85 million (December 31, 2014 - $22 million) in collateral posted for the benefit of the Company's counterparties to its derivative financial instrument contracts.
[3] Unrealized gains include unrealized foreign exchange gains of $97 million (December 31, 2014 - $30 million).

Unrealized gains on AFS securities in the portfolio were $276 million, which included $97 million of unrealized foreign exchange gains. Unrealized gains decreased $14 million from the end of 2014 primarily as a result of the gains realized on the sale of common equities during the year as well as the decline in preferred shares values partially offset by the increase in unrealized foreign exchange gains due to the decline in the Canadian dollar. The increase in unrealized foreign exchange gains was offset by the revaluation of the Company's foreign exchange derivatives consisting of foreign exchange forwards and cross currency interest rate swaps.

The Company's average investment yield for the year ended December 31, 2015 was 3.3%, which included the favourable impact of non-taxable dividend income from its preferred and common shares.

The Company assigns credit ratings based on the asset risk guideline as outlined in OSFI's *Interim Capital Requirements for Mortgage Insurance Companies*, Minimum Capital Test Guideline effective January 1, 2015. Based on this guideline, the Company assigns ratings from DBRS when available. The majority of the assets in Company's current investment portfolio have a DBRS rating. In the absence of a DBRS rating, the Company assigns the lower of S&P or Fitch Rating Services ratings.

The following table presents the Company's invested assets, comprised primarily of fixed income securities, by credit rating for the portfolio.

Credit Rating

	As at December 31, 2015			As at December 31, 2014		
(in millions of dollars, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains (losses)**	Fair value	%	Unrealized gains
Cash and cash equivalents	**$ 391**	**7%**	**$ –**	$ 190	4%	—
AAA	**2,160**	**38%**	**90**	1,947	37%	80
AA	**1,024**	**18%**	**93**	1,099	21%	67
A	**1,703**	**30%**	**87**	1,700	32%	94
BBB	**387**	**7%**	**37**	337	6%	20
Below BBB	**5**	**—**	**1**	—	—	—
Total investments (excluding common shares and preferred shares)	**$ 5,670**	**100%**	**$ 308**	$ 5,273	100%	261
Preferred shares						
P1	**—**	**—**	**—**	—	—	—
P2	**227**	**92%**	**(32)**	—	—	—
P3	**20**	**8%**	**(1)**	—	—	—
Total Preferred shares	**248**	**100%**	**(33)**			
Total Common shares	**—**		**—**	170		—
Total invested assets and cash and cash equivalents	**$ 5,917**		**$ 276**	$ 5,443		261

Note: Amounts may not total due to rounding.

Investment portfolio management

The Company manages its portfolio assets to meet liquidity, credit quality, diversification and yield objectives by investing primarily in fixed income securities, including federal and provincial government bonds, corporate bonds and preferred shares. The Company also holds short-term investments. In all cases, investments are required to comply with restrictions imposed by law and insurance regulatory authorities as well as the Company's own investment policy, which has been approved by the Board.

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

Asset-backed bonds and debentures

The Company held $178 million in asset-backed bonds as of December 31, 2015, up from $125 million as of December 31, 2014. These securities are floating rate collateralized loan obligations ("CLOs") denominated in U.S. dollars of which 89% are rated AA and above, and 11% are rated A.

Corporate bonds and debentures

As of December 31, 2015, approximately 35% of the investment portfolio was held in corporate bonds and debentures, down from 41% at December 31, 2014. The proceeds from maturities in 2015 were reinvested in government bonds and debentures. The investment policy limits the percentage of the portfolio that can be invested in any single issuer or group of related issuers. Financial sector exposure through corporate bonds and debentures represents 16% of the investment portfolio, or approximately 47% of the corporate bonds and debentures. The Company continuously monitors and repositions its exposure to the financial sector, which represents greater than 50% of the corporate issuances of fixed income securities in the Canadian marketplace. Energy sector exposure through corporate bonds and debentures represents 5% of the investment portfolio, of which approximately 33% is in pipelines and distribution companies that are primarily regulated entities with stable cash flows. The remaining 67% of the Company's energy sector exposure is integrated oil and gas companies with large capitalizations. Securities rated BBB and below were $392 million, or 7% of invested assets, as of December 31, 2015.

Government bonds and debentures

The Company's investment policy requires that a minimum of 30% of the investment portfolio be invested in sovereign fixed income securities. As of December 31, 2015, 50% of the investment portfolio was invested in sovereign fixed income securities, consisting of 33% in federal fixed income securities and 17% in provincial fixed income securities, as compared to 49% in the prior year.

Canadian federal government treasury bills held by the Company consist primarily of short-term investments with original maturities greater than 90 days and less than 365 days. The Company held $78 million in Canadian short-term treasury bills in the investment portfolio as of December 31, 2015 as compared to $85 million in the prior year.

Common shares

As of December 31, 2015, the Company held no dividend paying Canadian common shares as compared to 3% of the Company's investment portfolio, or $170 million, as of December 31, 2014. The decision to sell the holdings of dividend paying common shares earlier in the year was primarily related to the substantial increase in the regulatory capital requirements for common shares under the Interim Capital Requirements for Mortgage Insurance Companies which became effective January 1, 2015.

Preferred shares

As of December 31, 2015, the Company held $248 million of preferred shares, of which the financial sector represented 59%. The Company believes that preferred shares have a comparable dividend yield to common shares and offer a more attractive risk and capital adjusted return profile to that of common shares under the current MCT guidelines. As a result of the continued low interest rate environment, the value of the Company's preferred share investment holdings have an unrealized loss of $33 million at December 31, 2015.

Cash and cash equivalents

Cash and cash equivalents consist primarily of cash in bank accounts and government treasury bills with original maturities of 90 days or less. The Company determines its target cash holdings based on near-term liquidity needs, market conditions and perceived favourable future investment opportunities. The Company's cash holdings in the investment portfolio were $391 million as of December 31, 2015, an increase of $200 million from the $190 million in cash holdings as of December 31, 2014. The increase was primarily the result of an increase in cash from operating activities and fixed income maturities in the investment portfolio.

Liquidity

The purpose of liquidity management is to ensure there is sufficient cash to meet all of the Company's financial commitments and obligations. The Company has 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. The Company believes it has the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill its cash requirements during the current financial year and in the future financial years.

The following table provides a summary of the Company's cash flows:

(in millions of dollars, unless otherwise specified)	**2015**	2014
Cash provided by (used in):		
Operating activities	**$ 667**	$ 199
Financing activities	**(195)**	(242)
Investing activities	**(271)**	19
Increase in cash and cash equivalents	**200**	(23)
Cash and cash equivalents, beginning of period	**190**	214
Cash and cash equivalents, end of period	**$ 391**	$ 190

Note: Amounts may not total due to rounding.

The Company generated $667 million of cash flows from operating activities in 2015, as compared to $199 million in the prior year's period. The strong cash flows in 2015 were from strong premiums written activity. The lower cash flows from operating activities in 2014 was primarily the result of $226 million in higher taxes paid in the first quarter, related to the reversal of the government guarantee fund.

The Company utilized $194 million of cash flows for financing activities in 2015, primarily related to the payment of ordinary dividends of $147 million as well as the repurchase of common shares of $50 million, as compared to $242 million primarily related to the payment of ordinary and special dividends of $178 million and the repurchase of common shares of $75 million in the prior year's period.

The Company utilized $271 million of cash flows from investing activities, primarily from the purchase of bonds and debentures and preferred shares in 2015, as compared to the generation of $19 million in the prior year's period primarily from portfolio maturities.

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 December 31, 2015, the Company held liquid assets of $979 million, comprised of $391 million in cash and cash equivalents, and $588 million in bonds and debentures maturing within one year in order to maintain financial flexibility. Of the $588 million liquid assets, $121 million was held outside of the Insurance Subsidiary. As at December 31, 2015, the duration of the fixed income portfolio was 3.7 years.

In addition to cash and cash equivalents, 52%, or $3,048 million, of the Company's investment portfolio comprises federal and provincial government securities for which there is a highly liquid market. Funds are used primarily for operating expenses, claims payments, and interest expense, as well as dividends and other distributions to shareholders. Potential liquidity risks are discussed in more detail in the "Risk Factors" section of the Company's AIF.

The Company leases office space, office equipment, computer equipment and automobiles. Future minimum rental commitments for non-cancellable leases with initial or remaining terms of one year or more, long-term debt, accounts payable and accrued liabilities and loss reserves, consist of the following at December 31, 2015:

Contractual obligations	Payment dates due by period *(in millions)*				
	1 year or less	**1–3 years**	**3–5 years**	**Over 5 years**	**Total**
Long-term debt[1]	—	—	$275	$160	$435
Accounts payable and accrued liabilities	$66	—	—	—	$66
Operating leases	$3	$5	$5	—	$13
Loss reserves	$56	$75	—	—	$132
Total contractual obligations	$125	$80	$280	$160	$645

Note: Amounts may not total due to rounding.
[1] See "Debt" section below for more details.

Operating lease expense for 2015 was $3 million, consistent with the prior year.

Derivative financial instruments

Derivative financial instruments are used by the Company for hedging purposes and for the purpose of modifying the risk profile of the Company's investment portfolio, as long as the resulting exposures are within the Company's investment policy guidelines, which have been approved by the Board.

The Company uses derivative financial instruments in the form of foreign currency forwards and cross currency interest rate swaps to mitigate foreign currency risk associated with bonds denominated in U.S. dollars. The Company uses derivative financial instruments in the form of equity total return swaps to mitigate volatility from changes in the fair market value of the Company's common shares related to risks associated with share-based compensation expense.

The following table shows the fair value and notional amounts of the derivatives by terms of maturity, in Canadian dollars.

		Notional Amount *(in millions)*				
	Net Fair value	1 year or less	1–3 years	3–5 years	Over 5 years	Total
December 31, 2015						
Foreign currency forwards	$(48)	$14	$26	$40	$216	$297
Cross currency interest rate swaps	$(34)	$144	$28	—	$18	$189
Equity total return swaps	$(2)	$20	—	—	—	$20
Total	**$(84)**	**$177**	**$54**	**$40**	**$234**	**$505**
December 31, 2014						
Foreign currency forwards	$(15)	$29	$6	$17	$203	$255
Cross currency interest rate swaps	$(8)	—	$121	—	—	$121
Equity total return swaps	—	—	—	—	—	—
Total	**$(23)**	**$29**	**$126**	**$17**	**$203**	**$375**

Capital expenditures

The Company's capital expenditures primarily relate to technology investments aimed at improving operational efficiency and effectiveness for sales, underwriting, risk management and loss mitigation. In 2015, the Company invested approximately $4 million in underwriting, loss mitigation and risk management technologies enhancements. The Company expects that future capital expenditures will continue to be allocated to underwriting, loss mitigation, and risk management technology improvements. The Company expects that capital expenditures in 2016 will be in the $3 million to $5 million range and it is anticipated that such expenditures will be funded primarily from operating cash flows.

Capital management

Minimum capital test

The Insurance Subsidiary is regulated by OSFI. Under the MCT, an insurer calculates a ratio of capital available to capital required in a prescribed manner. Mortgage insurers are required to maintain a minimum ratio of regulatory capital available, as defined for MCT purposes, to capital required.

Under the Protection of Residential Mortgage or Hypothecary Insurance Act ("PRMHIA") and the *Insurance Companies Act* (Canada) ("ICA"), the minimum MCT ratio for the Insurance Subsidiary is 175%. In conjunction with this requirement, the Insurance Subsidiary has set its internal MCT target capital ratio to 185%. The Company manages its capital base to maintain a balance between capital strength, efficiency and flexibility. As at December 31, 2015, the Insurance Subsidiary's MCT ratio was approximately 233%, or 43 percentage points higher than the Company's internal target of 185% and 13 percentage points higher than the Company's holding target of 220%. While the Company's internal MCT capital target is calibrated to cover the various risks that the business would face in a severe recession, the holding target ratio is designed to provide a capital buffer to allow management time to take the necessary actions should capital levels be pressured by deteriorating macroeconomic conditions. Under this framework, capital in excess of the holding target may be redeployed.

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

During the third quarter of 2014, OSFI released an advisory guideline, *Interim Capital Requirements for Mortgage Insurance Companies*, for use on an interim basis starting in 2015 pending the completion of a new regulatory test for mortgage insurance companies which is expected to take effect in 2017. This guideline was developed by adjusting the 2015 *Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies* ("2015 MCT Guideline"), to reflect the specific characteristics of the mortgage insurance business until the new capital guideline for mortgage insurance companies is developed.

The table below illustrates the MCT at the end of December 31, 2015, a pro-forma MCT at the end of December 31, 2014 under the 2015 MCT Guideline which came into effect on January 1, 2015, as well as MCT at the end of December 31, 2014 under the guideline in effect as of such date.

(in millions, unless otherwise specified)		**2015 MCT Guideline Pro-forma**	
Minimum Capital Test	**As at Dec 31, 2015**	As at Dec 31, 2014	As at Dec 31, 2014
Capital available	**$3,632[1]**	$3,445[1]	$3,298
Capital required	**$1,560[1]**	$1,513[1]	$1,465
MCT ratio	**233%[1]**	228%[1]	225%

[1] Company estimate

The Company's MCT estimate as at December 31, 2015 of 233% increased by 8 percentage points from the MCT as at December 31, 2014. The Company estimates, based on the pro-forma analysis completed as of December 31, 2014, that an increase of approximately 3 percentage points in the MCT ratio from December 31, 2014 resulted from the implementation of the 2015 MCT Guideline. The impact of the guideline change primarily arose from an increase in available capital due to the inclusion of certain deferred acquisition costs originating from expenses. Previously these deferred acquisition costs had been deducted from capital available. As compared to the 2015 MCT guideline pro-forma, the MCT as at December 31, 2015 of 233% increased 5 percentage points. The increase to capital available was due primarily to profitability, which was partially offset by the Insurance Subsidiary's dividends and a decrease in unrealized gains from the investment portfolio. The increase to capital required was due primarily to higher capital requirements for insurance risk margin, interest rate risk and operational risk.

Debt

The Company proactively manages capital to balance capital strength, flexibility and efficiency. The Company currently has $432 million in long-term debt with a debt to capital ratio as at December 31, 2015 of 11%.

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

	Payment dates due by period *(in millions)*				
	Total	**Less than 1 year**	**1–3 years**	**3–5 years**	**After 5 years**
Long-term debt	$435	—	—	$275	$160

	Series 1	Series 3
Date issued	June 29, 2010	April 1, 2014
Maturity date	June 15, 2020	April 1, 2024
Principal amount outstanding *(in millions)*	$275	$160
Fixed annual rate	5.68%	4.242%
Semi-annual interest payments due each year on	June 15, December 15	October 1, April 1
Debenture Ratings		
S&P[1]	BBB+, (Stable)	BBB+, (Stable)
DBRS[1]	AA (Low), Stable	AA (Low), Stable

[1] See "Financial Strength Rating" section of this MD&A for additional information.

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

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

In the case of certain events of default under the terms of the debentures issued by the Company in 2010 and 2014, the aggregate unpaid principal amount of such debentures, together with all accrued and unpaid interest thereon and any other amounts owing with respect thereto, shall become immediately due and payable. The events of default that would trigger such an acceleration of payment include if the Company takes certain voluntary insolvency actions, such as instituting proceedings for its winding up, liquidation or dissolution, or consents to the filing of such proceedings against it; or if involuntary insolvency proceedings go uncontested by the Company or are not dismissed within a specified time period, or the final order sought in such proceedings is granted against the Company.

For more specific details on the terms and conditions of the Company's debentures, please see the relevant prospectus, copies of which are available on the SEDAR website at www.sedar.com.

Financial strength ratings

The Insurance Subsidiary has financial strength ratings from both S&P and DBRS. Although the Insurance Subsidiary is not required to have ratings to conduct its business, ratings may influence the confidence in an insurer and its products.

On September 3, 2015, S&P affirmed the Insurance Subsidiary's A+ rating and the Company's BBB+ rating and stable outlook. S&P noted that the Company had a strong competitive position, low industry risk due the Company's disciplined underwriting initiatives and tight governmental regulation and very strong earnings and capitalization.

The Insurance Subsidiary is rated AA and the Company's issuer rating is AA (Low), with a stable outlook, by DBRS. The ratings from DBRS were confirmed in March 2015. DBRS applies a one-notch differential between the Insurance Subsidiary and the Company to reflect the structural subordination of the Company's financial obligations relative to those of the regulated Insurance Subsidiary. The rating from DBRS is a function of the financial strength, operating performance and ability to meet obligations to policyholders.

Ratings Summary	**S&P**	**DBRS**
Issuer Rating		
Company	BBB+, Stable	AA (Low), Stable
Financial Strength		
Insurance Subsidiary	A+, Stable	AA, Stable
Senior Unsecured Debentures		
Company	BBB+, Stable	AA (Low), Stable

Capital transactions

Share repurchase

On April 28, 2015, the Company received approval from the Toronto Stock Exchange allowing for the Company to undertake a Normal Course Issuer Bid ("NCIB"). Pursuant to the NCIB, the Company may purchase, for cancellation, up to 4,658,577 common shares, representing approximately 5% of its outstanding common shares as of April 27, 2015. Purchases of common shares under the NCIB commenced on or after May 5, 2015 and will conclude on the earlier of May 4, 2016 and the date on which the Company has purchased the maximum number of shares available for purchase under the NCIB.

Pursuant to the NCIB, during the second quarter of 2015 the Company repurchased 1,454,196 common shares for cancellation, representing approximately 2% of the outstanding common shares, for an aggregate amount of approximately $50 million. The Company did not make any purchases pursuant to the NCIB during the third and fourth quarter.

Under the Company's prior NCIB, which commenced on April 29, 2014 and expired on May 4, 2015 (the "Prior NCIB"), the Company purchased a total of 1,873,023 common shares for cancellation during the year ended December 31, 2014, representing approximately 2% of its outstanding common shares. No common shares were purchased for cancellation under the Prior NCIB during 2015.

The Company's major shareholder, Genworth Financial Inc., participated proportionately to maintain its approximately 57.3% ownership interest in the Company throughout the course of both the NCIB and the prior NCIB. Shareholders may obtain a copy of the NCIB notice, without charge, by contacting the Company.

Restrictions on dividends and capital transactions

The 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.

Outstanding share data

The following table presents changes in the number of common shares outstanding at December 31, 2015 and December 31, 2014.

	December 31, 2015	December 31, 2014
Common shares, beginning of period (January 1)	**93,147,778**	94,910,880
Common shares issued in connection with share-based compensation plans	**101,543**	109,921
Common shares repurchased and cancelled	**(1,454,196)**	(1,873,023)
Common shares, end of period	**91,795,125**	93,147,778

At December 31, 2015, Genworth Financial, Inc. beneficially owned 52,562,042 common shares of the Company, or approximately 57.3% of the Company's outstanding common shares, through its wholly-owned subsidiaries, Genworth Financial International Holdings LLC

("GFIH"), Genworth Mortgage Insurance Corporation ("GMIC") and Genworth Mortgage Insurance of North Carolina ("GMINC") which held approximately 40.7%, 14.9% and 1.7% of the common shares of the Company, respectively. On October 1, 2015 Brookfield Life Assurance Limited transferred its 40.7% ownership interest in the Company to GFIH. Subsequent to this transaction, Genworth Financial Inc., which is listed on the New York Stock Exchange, continues to beneficially own approximately 57.3% of the common shares of the Company through GMIC, GMINC and GFIH, respectively.

Risk management

Enterprise risk management framework

Risk management is a critical part of Genworth Canada's business. The Company's Enterprise Risk Management ("ERM") Framework, comprises the totality of the frameworks, systems, processes, policies, and people for identifying, assessing, mitigating and monitoring risks. The key elements of the Enterprise Risk Management Framework are illustrated in the diagram below.

Governance framework

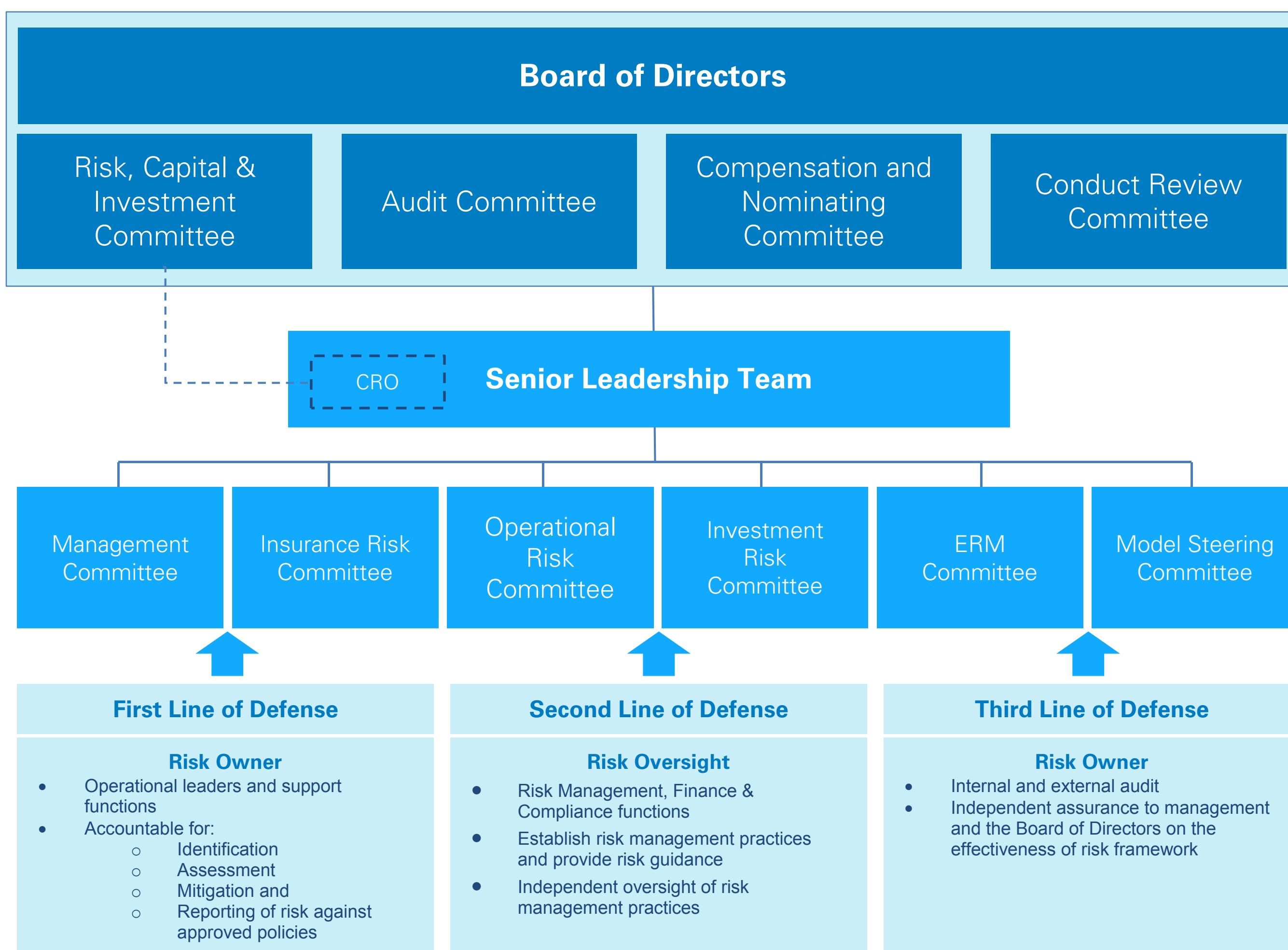
The Company's governance framework is designed to ensure the Board and management have effective oversight of the risks faced by the Company with clearly defined and articulated roles and responsibilities and inter-relationships. The governance framework is comprised of three core elements:

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

The Board, in collaboration with management, is responsible for setting the Company's Risk Appetite and ensuring that it remains consistent with the Company's short and long-term strategy, business and capital plans. The Board carries out its risk management mandate primarily through its committees, with the Risk, Capital and Investment Committee having responsibility for oversight of insurance, investment and operational risks.

The Company's management is responsible for risk management under the oversight of the Board and fulfills its responsibility through several risk committees, as noted in the chart below. The Chief Risk Officer, who oversees the Risk Management Group, reports to the CEO but has direct access via in-camera sessions with the Risk, Capital and Investment Committee of the Board.

Genworth Canada uses a '*three lines of defense*' approach to risk management, which serves to allocate accountability and responsibility for risk management within the various business functions, as outlined in the chart below.



Risk appetite framework

Risk appetite is the maximum amount of risk that the Company is willing to accept in the pursuit of its business objectives. The objective in managing risk is to protect the Company from unacceptable loss or an undesirable outcome with respect to earnings volatility, capital adequacy, liquidity or reputation, while supporting the Company's overall business strategy.

The purpose of the Risk Appetite Framework is to provide a framework for management and the Board for understanding the ultimate level of risk the Company is willing to undertake in pursuit of its strategic objectives with due regard to its commitments and regulatory boundaries. It articulates the desired balance between risk objectives and profitability objectives, and is a key communication tool that enables the Board to cascade key messages throughout the organization. It establishes a common understanding around the acceptable level of variability in financial performance and answers the question of how much risk the Company is willing to take under expected and extreme conditions.

Where possible the Company has set risk limits and tolerances that guide the business and ensure that risk taking activities are within its risk appetite. The Company's risk tolerances and limits will be assessed for appropriateness no less than annually and on a more frequent basis if there is a major change to the economic or business environment. The Company communicates risk tolerances and limits through its policies, limit structures and operating procedures.

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

Risk principles

The Company employs the following methods of managing risk that originate from the business objectives of the Company and responsibility for risk management is shared across the business

- Ensure the expected outcomes of risk taking activities are consistent with the Company's strategies and risk appetite;
- Ensure there is an appropriate balance between risk, return, capital, and liquidity in order to meet policyholder obligations and maximize shareholder value throughout economic cycles;
- Ensure business decisions are based on an understanding of risk. Ensure a deep understanding of risk drivers as they relate to our key objectives;
- Employ a "Three Lines of Defense" risk governance model;
- Proactively address emerging risks as they arise;
- Ensure strict adherence to legal, compliance and regulatory requirements.

The Company's ERM framework and internal control procedures are designed to reduce the level of volatility in its financial results. The key elements and considerations of ORSA include: the comprehensive identification and assessment of risks and the adequacy of the Company's risk management; the assessment of the Company's current and likely future capital needs and solvency positions in light of its risk assessments; the distinguishing of Board oversight and management responsibility for such processes; detailing related monitoring and reporting requirements; and detailing the Company's internal controls and objective review process and procedures for such risk assessments. The Company's ORSA is forward looking and is congruent with the Company's business and strategic planning.

Risk controls

The Company's ERM approach is supported by a comprehensive set of risk controls. The controls are embedded through its ERM framework and risk-specific frameworks. These frameworks lay the foundation for the development and communication of management - approved policies and the establishment of formal review and approval processes. The Company's risk management framework and policies are organized as follows:

- **ERM Framework**: provides an overview of the enterprise-wide program for identifying, measuring, controlling and reporting of material risks the Company faces.
- **Risk-Specific Frameworks**: provides an overview of the Company's program for identifying, measuring, controlling and reporting for each of its material risks.
- **Company-wide Policies and Procedures**: governs activities such as product risk review and approval, project initiatives, stress testing, risk limits and risk approval authorities.

Risk categories

Insurance risk

Genworth Canada's mortgage 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. For Genworth Canada-insured transactional mortgages, the average credit score has increased by 17 points since 2008 to 747 for the fourth quarter of 2015, the average home price has increased modestly since 2011 to $322,000 for the fourth quarter of 2015 and the average gross debt service ratio has remained relatively stable around 24 to 25%, which is well below the industry accepted maximum.

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 estimated effective loan-to-value of the Company's outstanding mortgage insurance balances by book of business.

	As at September 30, 2015			As at December 31, 2014		
Effective Loan to Value by Year of Policy Origination (%) [(1) (2) (3)]	**Transactional**	**Portfolio**	**Total**	**Transactional**	**Portfolio**	**Total**
2009 and Prior	50	25	45	52	27	48
2010	67	36	62	71	36	64
2011	71	42	65	75	45	69
2012	76	42	59	80	47	63
2013	81	46	62	85	50	65
2014	87	53	68	91	58	72
2015	91	59	73	-	-	-
Total	**71**	**47**	**61**	**71**	**48**	**62**

(1) Amounts may not total due to rounding.
(2) This is based on the amounts reported by lenders surveyed, which represents the vast majority of insurance in-force. Outstanding mortgage insured balances
(3) Loan to value ratio is based on loan amount including capitalized premium, where applicable.

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 also utilizes internally developed stochastic modelling to estimate projected losses on claims and to measure the severity of loss and delinquency rate sensitivity to both changes in the economic environment as well as individual loan or borrower attributes.

The Company's mortgage portfolio risk management function is organized into three primary groups: portfolio analysis, underwriting policies and guidelines, and risk technology and actuarial modeling. The risk management team analyzes and summarizes mortgage portfolio performance, risk concentrations, emerging trends and remedial actions which are reviewed with the Company's management-level Risk Committee on a monthly basis. The Company closely monitors the delinquency performance as a key indicator of insurance portfolio performance.

The Company also employs a quality assurance team to ensure that policies and guidelines established by the Company's mortgage portfolio risk management function are adhered to both internally within the Company and by lenders submitting applications to the Company. The quality assurance team conducts daily 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 reserving standards. Audit results of all three areas are reviewed by management on a monthly basis.

Market and credit risk

The Company monitors and manages the credit risk, liquidity risk and market risk, including interest rate risk, equity price risk, currency risk, emerging markets risk and counterparty risk of its investment portfolio.

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. The Company is exposed to credit risk principally through its investment assets. The Company's investment management strategy is to invest primarily in debt instruments of Canadian government agencies and other high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer, business sector, or credit rating category, as specified in its investment policy. Credit quality of financial instrument issuers is assessed based on ratings supplied by rating agencies DBRS, S&P and Moody's and credit analysis completed by the Company and its investment managers.

Credit risk from derivative transactions reflects the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the Company. Therefore, derivative-related credit risk is represented by the positive fair value of the instrument and is normally a small fraction of the contract's notional amount. To mitigate credit risk related to derivative counterparties, the Company has adopted a policy whereby, upon signing the derivative contract, the counterparty is required to have a minimum credit rating of A-.

Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet policy obligations and other financial commitments as they fall due without raising funds at unfavourable rates or selling assets on a forced basis. To ensure liquidity requirements are met, the Company holds a portion of investment assets in liquid securities. Adverse capital and credit market conditions and the MCT requirements of the Insurance Subsidiary may significantly affect the Company's access to capital and may affect its ability to meet liquidity or debt refinancing requirements in the future. Potential liquidity risks are discussed in more detail in the "Risk Factors" section of the Company's AIF and the "Liquidity" section in this MD&A.

Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign currency exchange rates and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. The market risks to which the Company is exposed are interest rate risk, equity price risk, currency risk, emerging markets risk and counterparty risk.

Interest rate risk

Fluctuations in interest rates have a direct impact on the market valuation of the Company's fixed income investment portfolio. Short-term interest rate fluctuations will generally create unrealized gains or losses. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher-yielding fixed income investments are called, mature or are sold and the proceeds are reinvested at lower rates, and this will likely result in unrealized gains in the value of fixed income investments the Company continues to hold, as well as realized gains to the extent that the relevant investments are sold. During periods of rising interest rates, the market value of the Company's existing fixed income investments will generally decrease and gains on fixed income investments will likely be reduced or become losses.

Equity price risk

Equity price risk is the risk that the fair values of equities will decrease as a result of changes in the levels of equity indices and the values of individual stocks. Equity price risk exposure arises from the Company's investment in common shares. The Company has policies to limit and monitor exposures to individual equity investment issuers and its aggregate exposure to equities.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk arising from investments and receivables denominated in U.S. The Company uses foreign exchange forward contracts and cross-currency interest rate swaps to mitigate currency risk.

Emerging markets risk

Emerging markets risk relates to international investment grade bond holdings which are exposed to greater market volatility, have less availability of reliable financial information, carry higher transactional and custody costs, are subject to taxation by foreign governments, have decreased market liquidity and may be exposed to political instability.

Counterparty risk

Counterparty risk relates to the risk that a counterparty will fail to discharge its obligation related to a bond, derivative contract or other trade or transaction.

Financial reporting controls and accounting disclosures

Disclosure controls and procedures and internal controls over financial reporting

As required by National Instrument 52-109, the Company has in place disclosure controls and procedures and internal controls over financial reporting, designed under the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") Framework (2013) to ensure the disclosure of all material information or changes relating to the Company to all members of the public in a fair and timely manner. Such controls and procedures ensure that all relevant material is gathered and reported to senior management (including the CEO, CFO and General Counsel) and the Company's management-level disclosure committee on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation and certification of the Company's disclosure controls and procedures and internal controls over financial reporting is done regularly under supervision by the Company's CEO and CFO in accordance with the requirements of National Instrument 52-109 of the Canadian Securities Administrators, and such certifications are available with the Company's filings on the SEDAR website at www.sedar.com. The certifications filed in connection with certain interim and annual financial disclosure documents, confirm that the CEO and CFO have concluded that the design and operation of the disclosure controls and procedures and internal controls over financial reporting were effective, for such periods. There were no changes in the Company's internal controls over financial reporting during the quarter or year ending December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's controls over financial reporting.

Changes in accounting policies and future accounting standards

There have been no changes in accounting policies during the year.

IFRS 9 - Financial instruments

In July 2015, the IASB published an amended version of IFRS 9, which replaces *IAS 39 -Financial instruments: recognition and measurement*, and includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and a new general hedge accounting model. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces a single impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected credit losses at initial recognition of a financial instrument and the recognition of full lifetime expected credit losses if certain criteria are met. The new model for hedge accounting aligns hedge accounting with risk management activities.

While the new standard is generally effective for years beginning on or after January 1, 2018, in December 2015 the IASB published an Exposure Draft *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*, which proposes to allow some insurers optional transitional relief until the forthcoming insurance accounting standard is available for implementation. The proposed options would allow (a) entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4 to defer the implementation of IFRS 9 to as late as January 1, 2021, which may allow alignment of the implementation of IFRS 9 with the forthcoming insurance accounting standard, or alternatively (b) give entities issuing insurance contracts the option to remove from profit or loss the incremental volatility caused by changes in the measurement of specified financial assets upon application of IFRS 9.

The Company is evaluating the impact of IFRS 9 on its financial assets and financial liabilities and the option for the deferral of IFRS 9 adoption.

IFRS 4 - Insurance contracts

In June 2014, the IASB issued a revised exposure draft proposing a comprehensive measurement approach for all types of insurance contracts, which would replace the existing *IFRS 4 Insurance Contracts*. Deliberations of the exposure draft continue and a final standard is expected to be issued in late 2016. The effective date of the final standard is not expected to be before 2020.

The Company is monitoring the development of IFRS 4 and assessing the impact of its adoption.

IFRS 16 - Leases

IFRS 16 was issued on January 13, 2016. The new standard will replace existing lease guidance in IFRS and related interpretations, and requires companies to bring most leases on-balance sheet.

The Company is assessing the impact of IFRS 16.

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

Significant estimates and judgments

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

Accounting estimates

Information about assumptions and estimation uncertainties that have a risk of resulting in material adjustment within the next 12 months are as follows:

Premiums earned

Mortgage insurance premiums are deferred and then taken into underwriting revenues over the terms of the related policies. The rates or formulae under which premiums are earned relate to the loss emergence pattern in each year of coverage. In order to match premiums earned to losses on claims, premiums written are recognized as premiums earned using a factor-based premium recognition curve.

In constructing the premium recognition curve, the Company applies actuarial forecasting techniques to historical loss data to determine expected loss development and the related loss emergence pattern.

Loss reserves

Loss reserves represent the amount needed to provide for the expected ultimate net cost of settling claims including adjustment expenses related to defaults by borrowers (both reported and unreported) that have occurred on or before the reporting date. Loss reserves are discounted to take into account the time value of money and include a supplemental provision for adverse deviation. 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 securing the insured loan and the legal, property maintenance and other loss adjustment expenses incurred in the claim settlement process. Loss reserves consist of individual case reserves, Incurred But Not Reported ("IBNR") reserves and supplemental loss reserves for potential adverse deviation.

For the purpose of quantifying case reserves, the Company analyzes each reported delinquent loan on a case-by-case basis and establishes a case reserve based on the expected loss, if any. The ultimate expected claim amount is influenced significantly by housing market conditions, changes in property values, and the condition of properties in default.

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

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

The Company recognizes a provision for adverse deviation based on assessment of the adequacy of the Company's loss reserves and with reference to the current and future expected condition of the Canadian housing market and its impact on the expected development of losses.

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

Subrogation recoverable

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

The Company estimates borrower recoveries related to claims paid and loss reserves included in subrogation recoverable based on historical recovery experience. Borrower recoveries are based on the expected discounted cash flows net of an actuarial margin for adverse deviation.

Deferred policy acquisition costs

Deferred policy acquisition costs are comprised of premium taxes, appraisal costs, risk fee, certain employee compensation, and other expenses that relate directly to acquisition of new mortgage insurance business. Deferred policy acquisition costs are deferred and expensed in proportion to and over the periods in which premiums are earned.

The Company estimates expenses eligible for deferral based on the nature of expenses incurred and results of time and activity studies performed to identify the portion of time the Company's employees incur in the acquisition of new mortgage insurance business.

Accounting judgments

Objective evidence of impairment of AFS financial assets

Financial assets not carried at Fair Value Through Profit and Loss are assessed at each reporting period to determine whether there is existence of objective evidence of impairment.

Bonds, debentures and preferred shares are assessed for impairment if objective evidence indicates that a loss event has occurred after the initial recognition of the asset. Loss events include default or delinquency of the debtor, indications that the issuer of a security will enter bankruptcy, significant deterioration of credit quality and economic conditions that correlate with defaults or the disappearance of an active market for a security. Impairment is deemed to exist when the Company does not expect full recovery of the amortized cost of the investment based on the estimate of cash flows expected to be collected or when the Company intends to sell the investment prior to recovery from its unrealized loss position.

Common shares are deemed to be impaired when it is determined that the common shares have experienced significant or prolonged losses.

Impairment losses on AFS financial assets are recognized by reclassifying losses from AOCI to income. The cumulative loss that is reclassified from AOCI to income is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in income. Changes in impairment provisions attributable to time value are reflected as a component of investment income. If, in a subsequent period, the fair value of an impaired AFS bond or preferred share increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in income, then the impairment loss is reversed, with the amount of the reversal recognized in income. However, any subsequent recovery in fair value of an impaired AFS equity investment is recognized in other comprehensive income ("OCI").

Transactions with related parties

Services

The Company enters into related party transactions with Genworth Financial, Inc. and its subsidiaries. Services rendered by Genworth Financial, Inc. and subsidiaries consist of information technology, finance, human resources, legal and compliance, and other specified services. The services rendered by the Company and the Insurance Subsidiary relate mainly to financial reporting and tax compliance support services. These transactions are in the normal course of business and are at terms and conditions no less favourable than market. Balances owing for service transactions are non-interest bearing and are settled on a quarterly basis. The Company incurred net related party charges of approximately $6 million in 2015, as compared to $5 million in 2014. The $1 million increase was primarily due to devaluation of Canadian dollar in the current year's period.

Reinsurance

Effective November 30, 2015, the Company, through its indirect subsidiary MIC Insurance Company Canada ("MICICC"), terminated a retrocession agreement ("the Agreement") that commenced on December 1, 2013 with a third party reinsurance company. Under the Agreement, the Company assumed reinsurance risk for approximately 33% of the retroceded liabilities on claims paid by Genworth Financial Mortgage Insurance Pty Limited, an Australian company ("Genworth Australia") in excess of 700 million Australian dollars within any one year up to a maximum exposure to the Company of 30 million Australian dollars less claims paid by the Company in prior years. Under the Agreement, the Company received premium equal to 6.75% of the maximum exposure in the first year of coverage and 8.75% of the maximum exposure in the second and third years of coverage. These premiums were consistent with current reinsurance market rates.

Under the Agreement, the Company was required to collateralize its reinsurance obligations by posting cash collateral equal to the maximum exposure of 30 million Australian dollars. As at December 31, 2015, the Company has no collateral posted (December 31, 2014 - 30 million Australian dollars, equivalent to $28 million).

The Company earned approximately $2 million in reinsurance premiums and did not incur any losses on claims under the Agreement in 2015 and 2014.

Non-IFRS financial measures

To supplement the Company's consolidated financial statements, which are prepared in accordance with IFRS, the Company uses non-IFRS financial measures to analyze performance. Non-IFRS financial measures include net operating income, interest and dividend income, net of investment expenses, 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. Additional non-IFRS measures used by the Company to analyze performance include insurance in-force, new insurance written, Minimum Capital Test ("MCT") ratio, delinquency ratio, average reserve per delinquency, credit score, debt service ratio, debt-to-capital ratio, ordinary dividend payout ratio, workout penetration rate, investment yield, 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-IFRS financial measures provide meaningful supplemental information regarding its performance and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making. Non-IFRS financial measures do not have standardized meanings and are unlikely to be comparable to any similar measures presented by other companies.

The table below reconciles the Company's interest and dividend income, net of investment expenses, 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 common share (diluted) and shareholders' equity in accordance with IFRS for such periods.

	For the Fourth Quarter ended December 31,		For the Full Year ended December 31,	
(in millions of dollars, unless otherwise specified)	**2015**	2014	**2015**	2014
Total net investment income	**$ 47**	$ 47	**$ 201**	$ 195
Adjustment to total net investment income:				
Net gains on investments	**(3)**	(4)	**(32)**	(22)
Interest and dividend income, net of investment expenses	**44**	43	**169**	173
Net income	**98**	86	**398**	377
Adjustments to net income, net of taxes:				
Fee on early redemption of long-term debt	**—**	—	**—**	5
Net gains on investments	**(3)**	(3)	**(23)**	(16)
Net operating income	**$ 95**	$ 84	**$ 375**	$ 366
Earnings per common share (basic)	**$ 1.06**	$ 0.92	**$ 4.32**	$ 3.97
Adjustment to earnings per common share, net of taxes:				
Fee on early redemption of long-term debt	**—**	—	**—**	0.06
Net gains on investments	**(0.03)**	(0.03)	**(0.25)**	(0.17)
Operating earnings per common share (basic)	**$ 1.04**	$ 0.89	**$ 4.07**	$ 3.86
Earnings per common share (diluted)[1]	**$ 1.03**	$ 0.91	**$ 4.22**	$ 3.97
Adjustment to earnings per common share, net of taxes:				
Fee on early redemption of long-term debt	**—**	—	**—**	0.06
Share based compensation re-measurement amount	**0.03**	—	**0.08**	—
Net gains on investments	**(0.03)**	(0.03)	**(0.25)**	(0.17)
Operating earnings per common share (diluted)[1]	**$ 1.03**	$ 0.89	**$ 4.05**	$ 3.86
Shareholders' equity	**$ 3,420**	$ 3,271	**$ 3,420**	$ 3,271
Adjustment to shareholders' equity:				
AOCI	**(127)**	(185)	**(127)**	(185)
Shareholders' equity excluding AOCI	**$ 3,293**	$ 3,086	**$ 3,293**	$ 3,086

Note: Amounts may not total due to rounding.

[1]The difference between basic and diluted number of common shares outstanding is caused by the potentially dilutive impact of share-based compensation awards.

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

	For the Fourth Quarter ended December 31,		For the Full Year ended December 31,	
(in millions of dollars, unless otherwise specified)	**2015**	2014	**2015**	2014
Selected non-IFRS financial measures				
Insurance in force	**$ 404,963**	$ 356,318	**$ 404,963**	$ 356,318
New insurance written	**$ 15,826**	$ 8,785	**$ 50,938**	$ 42,153
Loss ratio	**23%**	26%	**21%**	20%
Expense ratio	**18%**	21%	**18%**	19%
Combined ratio	**41%**	47%	**39%**	39%
Operating return on equity	**12%**	11%	**12%**	12%
MCT ratio [1]	**233%**	225%	**233%**	225%
Delinquency ratio	**0.10%**	0.10%	**0.10%**	0.10%
Investment yield	**3.3%**	3.4%	**3.3%**	3.5%
Book value per common share				
Number of common shares outstanding (basic)	**91,795,125**	93,147,778	**91,795,125**	93,147,778
Book value per common share including AOCI (basic)	**$ 37.26**	$ 35.12	**$ 37.26**	$ 35.12
Book value per common share excluding AOCI (basic)	**$ 35.88**	$ 33.13	**$ 35.88**	$ 33.13
Number of common shares outstanding (diluted)[2]	**92,872,626**	93,403,036	**92,872,626**	93,403,036
Book value per common share including AOCI (diluted)[2]	**$ 36.82**	$ 35.02	**$ 36.82**	$ 35.02
Book value per common share excluding AOCI (diluted)[2]	**$ 35.46**	$ 33.04	**$ 35.46**	$ 33.04
Dividends paid per common share[3]	**$ 0.42**	$ 0.39	**$ 1.59**	$ 1.87

[1]The MCT ratio as at December 31, 2015 is the company estimate and as at December 31, 2014 is the actual reported figure.
[2]The difference between basic and diluted number of common shares outstanding is caused by the potentially dilutive impact of share-based compensation awards.
[3] The Company paid a $0.43 special dividend per common share in 2014.

Glossary

"average reserve per delinquency" means the average reserve per delinquent loan calculated by total loss reserves in dollars divided by the number of outstanding delinquent loans reported by lenders. Average reserve per delinquency measures the potential size of the average loss, including delinquent loans with no expected loss, and is used for trending purposes and comparisons against internal targets.

"book value per common share" is a measure of the carrying value of each individual share of the Company and is a key metric used in assessing the market value of the Company.

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

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

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

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

"combined ratio" means the sum of the loss ratio and the expense ratio. The combined ratio measures the proportion of the Company's total cost to its premium earned and is used to assess the profitability of the Company's insurance underwriting activities.

"credit score" means the lowest average credit score of all borrowers on a mortgage insurance application. Average credit scores are calculated by averaging the score obtained from both Equifax and TransUnion for each borrower on the application. This is a key measure of household financial health.

"debt-to-capital ratio" means the ratio (expressed as a percentage) of debt to total capital (the sum of debt and equity). This is a measure of financial leverage that the Company considers in capital management planning.

"delinquent loans" means loans reported by lenders where the borrowers have failed to make scheduled mortgage payments under the terms of the mortgage and where the cumulative amount of mortgage payments missed exceeds the scheduled payments due in a three-month period.

"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. The delinquency ratio is an indicator of the emergence of losses on claims and the quality of the insurance portfolio and is a useful comparison to industry benchmarks and internal targets.

"dividends paid per common share" means the portion of the Company's profits distributed to shareholders during a specified period and measures the total amount distributed by the Company to shareholders.

"dividend payout ratio" means the ratio (expressed as a percentage) of the dollar amount of ordinary dividends paid during a specified period on net operating income over the same period. This is measure of how much cash flow is being returned for each dollar invested in an equity position.

"**expense ratio**" means the ratio (expressed as a percentage) of sales, underwriting and administrative expenses to premiums earned for a specified period. The expense ratio measures the operational efficiency of the Company and is a useful comparison to industry benchmarks and internal targets.

"gross debt service ratio" means the percentage of borrowers' total monthly debt servicing costs, in respect of the debt in question, as a percentage of borrowers monthly gross income. This is a key measure of household financial health.

"**insurance in-force**" means the amount of all mortgage insurance policies in effect at a specified date, based on the original principal balance of mortgages covered by such insurance policies, including any capitalized premiums. Insurance in-force measures the maximum potential total risk exposure under insurance contracts at any given time and is used to assess potential losses on claims.

"Interest and dividend income, net of investment expenses" means the total net investment income excluding investment gains (losses). This measure is an indicator of the core operating performance of the investment portfolio.

"investment yield" means the net investment income before investment fees and excluding net investment gains (losses) tax affected for dividends for a period divided by the average of the beginning and ending investments book value, for such period. For quarterly results, the investment yield is the annualized net investment income using the average of beginning and ending investments book value, for such quarter.

"**loss ratio**" means the ratio (expressed as a percentage) of the total amount of losses on claims associated with insurance policies incurred during a specified period to premiums earned during such period. The loss ratio is a key measure of underwriting profitability and the quality of the insurance portfolio and is used for comparisons to industry benchmarks and internal targets.

"**Minimum Capital Test**" or "**MCT**" means the minimum capital test for certain federally regulated insurance companies established by OSFI (as defined herein). Under MCT, companies calculate MCT ratio of regulatory capital available to regulatory capital required using a defined methodology prescribed by OSFI in monitoring the adequacy of a company's capital. The MCT ratio is a key metric of the adequacy of the Company's capital in comparison to regulatory requirements and is used for comparisons to other mortgage insurers and internal targets.

"**net operating income**" means net income excluding after-tax net investment gains (losses) and after-tax fees on early redemption of debt. Net operating income estimates the recurring after-tax earnings from core business activities and is a better indicator of core operating performance.

"**new insurance written**" means the original principal balance of mortgages, including any capitalized premiums, insured during a specified period. New insurance written measures the maximum potential risk exposure under insurance contracts added during a specific time period and is used to determine potential loss exposure.

"operating earnings per common share (basic)" means the net operating income divided by the basic average common shares outstanding at the end of period.

"operating earnings per common share (diluted)" means the net operating income divided by the diluted average common shares outstanding at the end of period. The Company excludes the impact of the share based compensation re-measurement amount from operating earnings per share (diluted) as it believes this results in a better indicator of core operating performance.

"**operating return on equity**" means the net operating income, excluding the impact of the share-based compensation re-measurement amount, for a period divided by the average of the beginning and ending shareholders' equity, excluding AOCI, for such period. For quarterly results, the operating return is the annualized operating return on equity using the average of beginning and ending shareholders' equity, excluding AOCI, for such quarter. Operating return on equity is an indicator of return on equity from the core business activities.

"original amortization period" means the number of years that it will take to repay in full the original mortgage balance on the regularly scheduled payment of principal and interest based at inception.

"**portfolio insurance**" means mortgage insurance covering an individual mortgage that is underwritten as part of a portfolio of mortgages that have a loan-to-value ratio equal to or less than 80% at the time the loan is insured.

"remaining amortization period" means the estimated number of years that it will take to repay the outstanding mortgage balance as of the reporting date based on the regularly scheduled payments of principal and interest.

"share based compensation re-measurement amount" means the impact of revaluation of stock option liability as required under IFRS due to the cash settlement option. The Company believes that excluding this impact from operating earnings per share (diluted) is a better indicator of core operating performance.

"transactional insurance" means mortgage insurance covering an individual mortgage that typically has been underwritten individually, and which is predominantly a mortgage with a loan-to-value ratio of greater than 80% at the time the loan is originated.

"workout penetration" means the ratio (expressed as a percentage) of the number of total workouts approved, including shortfall sales, over total workout opportunities. Total workout opportunities include all new delinquencies and re-delinquencies reported plus total workouts approved over the same period. Workout penetration ratio measures the number of workouts performed relative to the number of existing workout opportunities and is used to assess the success of the loss mitigation homeowner's assistance program.

The Company's full glossary is posted on the Company's website at http://investor.genworthmicanada.ca and can be accessed by clicking on the link under the Investor Resources heading on the bottom navigation bar.

Genworth MI Canada Inc.

Consolidated Financial Statements

(In Canadian dollars)

Years ended December 31, 2015 and 2014

53 Management statement on responsibility for financial reporting

54 Independent auditors' report

55 Consolidated statements of financial position

56 Consolidated statements of income

57 Consolidated statements of comprehensive income

58 Consolidated statements of changes in equity

59 Consolidated statements of cash flows

60 Notes to consolidated financial statements

Management statement on responsibility for financial reporting

Management is responsible for the preparation and presentation of the consolidated financial statements of Genworth MI Canada Inc. (the "Company"). This responsibility includes ensuring the integrity and fairness of information presented and making appropriate estimates based on judgment. The consolidated financial statements are prepared in conformity with Canadian generally accepted accounting principles.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Company. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy of operation of the control systems is monitored on an ongoing basis by management.

The Board of Directors of the Company (the "Board") is responsible for approving the financial statements. The Audit Committee of the Board, comprising directors who are neither officers nor employees of the Company, meets with management, internal auditors, the actuary and external auditors (all of whom have unrestricted access and the opportunity to have private meetings with the Audit Committee), and reviews the financial statements. The Audit Committee then submits its report to the Board recommending its approval of the financial statements.

The Company's appointed actuary is required to conduct a valuation of policy liabilities in accordance with Canadian generally accepted actuarial standards, reporting his results to management and the Audit Committee.

The Office of the Superintendent of Financial Institutions Canada ("OSFI") makes an annual examination and inquiry into the affairs of the insurance subsidiary of the Company as deemed necessary to ensure that the Company is in sound financial condition and that the interests of the policyholders are protected under the provisions of the Insurance Companies Act (Canada).

The Company's external auditors, KPMG LLP, Chartered Professional Accountants, conduct an independent audit of the consolidated financial statements of the Company and meet both with management and the Audit Committee to discuss the results of their audit. The auditors' report to the shareholders appears on the following page.

Stuart Levings
President and Chief Executive Officer

Philip Mayers
Senior Vice-President and Chief Financial Officer

Toronto, Canada

To the Shareholders of Genworth MI Canada Inc.

We have audited the accompanying consolidated financial statements of Genworth MI Canada Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Genworth MI Canada Inc. as at December 31, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

February 4, 2016
Toronto, Canada

Consolidated statements of financial position

(In thousands of Canadian dollars)

December 31, 2015 and 2014	Notes	2015 [1] [2]	2014 [1] [2]
Assets			
Cash and cash equivalents	9	$ 390,796	$ 190,375
Short-term investments	9	78,178	84,933
Accrued investment income and other receivables		28,130	30,099
Derivative financial instruments	9	—	303
Bonds and debentures	9	5,200,715	4,997,359
Preferred shares	9	247,717	—
Common shares	9	—	170,456
Collateral receivable under reinsurance agreement	6(e)	—	28,446
Total invested assets, accrued investment income and other receivables		5,945,536	5,501,971
Income taxes recoverable		15,670	6,465
Subrogation recoverable	6(c)	61,244	66,976
Prepaid assets		2,456	2,924
Property and equipment		1,088	1,335
Intangible assets	15	9,084	7,461
Deferred policy acquisition costs	6(d)	193,070	172,289
Goodwill	17	11,172	11,172
Total assets		$ 6,239,320	$ 5,770,593
Liabilities and Shareholders' equity			
Liabilities:			
Accounts payable and accrued liabilities		$ 65,750	$ 41,557
Loss reserves	6(b)	131,577	115,493
Share-based compensation liabilities	14	8,496	16,764
Derivative financial instruments	9	83,861	23,298
Long-term debt	19	432,504	432,137
Unearned premium reserves	6(a)	2,020,993	1,798,568
Accrued net benefit liabilities under employee benefit plans	13	37,241	36,307
Deferred tax liabilities	10	39,005	35,122
Total liabilities		2,819,427	2,499,246
Shareholders' equity:			
Share capital	18	1,366,374	1,384,558
Retained earnings		1,926,949	1,701,707
Accumulated other comprehensive income		126,570	185,082
Total shareholders' equity		3,419,893	3,271,347
Total liabilities and shareholders' equity		$ 6,239,320	$ 5,770,593

[1] Refer to note 21 for a presentation of assets and liabilities expected to be recovered or settled after 12 months.
[2] Refer to note 9 for the invested assets that have been loaned under the company's securities lending program
See accompanying notes to the consolidated financial statements.

On behalf of the Board:

Brian Hurley
Director

Brian Kelly
Director

Consolidated statements of income

(In thousands of Canadian dollars, except per share amounts)

Years ended December 31,2015 and 2014

	Notes	2015	2014
Premiums written	6(a)(e)	$ 808,621	$ 639,761
Premiums earned	6(a)(e)	$ 586,196	$ 564,961
Losses on claims	6(b)	121,910	111,110
Expenses:			
Premium taxes and underwriting fees		59,968	49,417
Employee compensation		40,239	44,063
Office		17,382	16,275
Professional fees		4,818	4,382
Promotional and travel		5,319	5,667
Other		1,420	1,473
Total expenses		129,146	121,277
Net change in deferred policy acquisition costs	6(d)	(20,781)	(13,862)
Net expenses		108,365	107,415
Net underwriting income		355,921	346,436
Investment income:			
Interest		164,864	171,582
Dividends		8,435	6,010
Net investment gains		31,987	21,875
Total investment income		205,286	199,467
General investment expenses		(4,396)	(4,345)
		200,890	195,122
Interest expense	19	22,774	23,686
Fee on early redemption of long-term debt	19	—	7,249
Income before income taxes		534,037	510,623
Income taxes:	10		
Current		132,595	137,536
Deferred		3,140	(3,457)
		135,735	134,079
Net income for the year attributable to owners of the Company		$ 398,302	$ 376,544
Earnings per share:	20		
Basic		$ 4.32	$ 3.97
Diluted		$ 4.22	$ 3.97

See accompanying notes to the consolidated financial statements.

Consolidated statements of comprehensive income

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014		2015		2014
Net income	$	398,302	$	376,544
Other comprehensive income (loss):				
Items that will not be reclassified subsequently to income:		2,028		(5,079)
Re-measurement of employee benefit obligations, net of income tax of $743 (2014 - $1,834)				
Items that may be reclassified subsequently to income:				
Net change in fair value of Available-for-Sale ("AFS") financial assets, net of income tax of $12,101 (2014 - $24,919)		(31,523)		71,743
Gains on AFS financial assets realized and reclassified to income, net of income tax of $9,939 (2014 - $3,718)		(26,989		(10,704)
Total other comprehensive income (loss) for the period attributable to owners of the Company, net of income tax of $21,297 (2014 - $19,367)		(56,484)		55,960
Total comprehensive income attributable to owners of the Company	$	341,818	$	432,502

See accompanying notes to the consolidated financial statements.

Consolidated statements of changes in equity

(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2015 and 2014

	Share capital	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance at January 1, 2015	$ 1,384,558	$ 1,701,707	$ 185,082	$ 3,271,347
Comprehensive income:				
Net income	—	398,302	—	398,302
Other comprehensive income (loss)	—	—	(56,484)	(56,484)
Total comprehensive income	—	398,302	(56,484)	341,818
Total transactions recognized directly in equity:				
Dividends on common shares[1]	—	(146,702)	—	(146,702)
Issuance of common shares	3,437	—	—	3,437
Repurchase of common shares (note 18)	(21,621)	(28,386)	—	(50,007)
Re-measurement of employee benefit obligations, net of income tax	—	2,028	(2,028)	—
Total transactions recognized directly in equity	(18,184)	(173,060)	(2,028)	(193,272)
Balance at December 31, 2015	$ 1,366,374	$ 1,926,949	$ 126,570	$ 3,419,893

	Share capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at January 1, 2014	$ 1,408,213	$ 1,555,062	$ 124,043	$ 3,087,318
Comprehensive income:				
Net income	—	376,544	—	376,544
Other comprehensive income (loss)	—	—	55,960	55,960
Total comprehensive income	—	376,544	55,960	432,504
Total transactions recognized directly in equity:				
Dividends on common shares[1]	—	(177,652)	—	(177,652)
Issuance of common shares	4,186	—	—	4,186
Repurchase of common shares (note 18)	(27,841)	(47,168)	—	(75,009)
Re-measurement of employee benefit obligations, net of income tax	—	(5,079)	5,079	—
Total transactions recognized directly in equity	(23,655)	(229,899)	5,079	(248,475)
Balance at December 31, 2014	$ 1,384,558	$ 1,701,707	$ 185,082	$ 3,271,347

[1] The Company paid dividends of $0.39 per common share in the first, second and third quarters of 2015 and $0.42 per common share in the fourth quarter of 2015 ($0.35 per common share in the first, second and third quarters of 2014 and $0.39 per common share in the fourth quarter of 2014 and a special dividend of $0.43 per common share in the fourth quarter of 2014).

See accompanying notes to the consolidated financial statements.

Consolidated statements of cash flows

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
Net income	$ 398,302	$ 376,544
Adjustments for:		
Amortization of intangible assets and depreciation of property and equipment	2,370	3,638
Expensing of deferred policy acquisition costs	58,120	53,050
Income taxes	135,735	134,079
Interest income	(164,864)	(171,582)
Dividend income	(8,435)	(6,010)
Net investment gains	(31,987)	(21,875)
Interest expense	22,774	23,686
Share-based compensation expense net of equity total return swap re-measurement	(309)	6,305
	411,706	397,835
Change in non-cash balances related to operations:		
Cash collateral received from the termination of reinsurance agreement	28,224	—
Accrued investment income and other receivables	(1,088)	(1,155)
Prepaid assets	468	211
Subrogation recoverable	5,732	8,478
Deferred policy acquisition costs	(78,901)	(66,912)
Accounts payable and accrued liabilities	23,826	7,787
Loss reserves	16,084	(1,895)
Unearned premium reserves	222,425	74,800
Accrued net benefit liabilities under employee benefit plans	3,703	2,830
	632,179	421,979
Cash generated from (used in) operating activities:		
Interest received from bonds and debentures	176,484	184,615
Dividends received from preferred shares and common shares	9,028	6,057
Interest paid on long-term debt	(22,407)	(21,598)
Income taxes paid	(119,760)	(390,013)
Share-based compensation awards settled in cash	(1,849)	(1,752)
Settlement of foreign currency forwards and cross currency interest rate swaps	(4,533)	—
Settlement of equity total return swaps	(2,450)	—
Net cash generated from operating activities	666,692	199,288
Financing activities:		
Net proceeds from issuance of long-term debt	—	158,635
Repayment of long-term debt	—	(150,000)
Dividends paid	(146,702)	(177,652)
Repurchase of common shares	(50,007)	(75,009)
Proceeds from exercise of stock options	1,843	1,924
Net cash used in financing activities	(194,866)	(242,102)
Investing activities:		
Purchase of short-term investments	(336,517)	(317,096)
Proceeds from sale or maturities of short-term investments	343,272	271,812
Purchase of bonds	(1,406,015)	(1,371,268)
Proceeds from sale or maturities of bonds	1,241,415	1,405,182
Purchase of preferred shares	(290,539)	—
Proceeds from sale of preferred shares	11,292	—
Purchase of common shares	(8,953)	(58,126)
Proceeds from sale of common shares	178,386	93,378
Purchase of intangible assets and property and equipment	(3,746)	(4,385)
Net cash generated from (used in) investing activities	(271,405)	19,497
Increase (decrease) in cash and cash equivalents	200,421	(23,317)
Cash and cash equivalents, beginning of year	190,375	213,692
Cash and cash equivalents, end of year	$ 390,796	$ 190,375

See accompanying notes to the consolidated financial statements.

1. Reporting entity:

Genworth MI Canada Inc. (the "Company") was incorporated under the Canada Business Corporations Act on May 25, 2009 and is domiciled in Canada. Its shares are publicly traded on the Toronto Stock Exchange under the symbol "MIC". The Company's registered office is located at Suite 300, 2060 Winston Park Drive, Oakville, Ontario, L6H 5R7, Canada.

Genworth Financial Inc., a public company listed on the New York Stock Exchange, indirectly holds approximately 57.3% of the common shares of the Company.

The Company holds a 100% ownership interest in the holding companies Genworth Canada Holdings I Company ("Holdings I"), Genworth Canada Holdings II Company ("Holdings II"), and MIC Holdings G Company ("Gco"). During the year ended December 31, 2015, MIC Holdings F Company ("Fco") was wound up as part of a corporate reorganization undertaken by the Company. The Company also holds an indirect 100% ownership interest in Genworth Financial Mortgage Insurance Company Canada (the "Insurance Subsidiary") through Holdings I and Holdings II. These consolidated financial statements as at and for the year ended December 31, 2015 reflect the consolidation of the Company and these subsidiaries. Additional information on the reporting and consolidation structure is disclosed in note 11(b).

The Insurance Subsidiary is engaged in mortgage insurance in Canada and owns all of the issued and outstanding shares of MIC Insurance Company Canada ("MICICC"). MICICC is licensed to service policies originated prior to its acquisition by the Company in 2012, and underwrite reinsurance limited to the class of mortgage insurance.

The Insurance Subsidiary is subject to regulation under the Protection of Residential Mortgage or Hypothecary Insurance Act ("PRMHIA"). Under the terms of PRMHIA, the Canadian federal government guarantees the benefits payable under eligible mortgage insurance policies issued by the Insurance Subsidiary, less 10% of the original principal amount of each insured loan, in the event that the Insurance Subsidiary fails to make claim payments with respect to that loan due to its bankruptcy or insolvency. The Insurance Subsidiary and MICICC are regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI") as well as applicable provincial financial services regulators.

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved by the Board of Directors on February 3, 2016.

(b) Basis of measurement:

These consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statements of financial position:

(i) Available-for-Sale ("AFS") short-term investments, bonds and debentures, preferred shares and common shares are measured at fair value;

(ii) Subrogation rights related to real estate included in subrogation recoverable are measured at the fair value of the real estate assets at the reporting date less costs for obtaining the rights to and selling the real estate;

(iii) Derivative financial instruments, which are comprised of foreign currency forwards, cross currency interest rate swaps, and equity total return swaps are measured at fair value;

(iv) Accrued benefit liabilities under employee benefit plans are recognized at the present value of the defined benefit obligations;

(v) Liabilities for cash-settled share-based compensation are measured at fair value; and

(vi) Loss reserves and borrower recoveries included in subrogation recoverable are discounted and include an actuarial margin for adverse deviation.

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except per share amounts.

(d) Use of estimates and judgments:

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the year. Actual results may differ from estimates made. See note 5 for a description of the significant judgments and estimates made by the Company.

3. Significant accounting policies:

(a) Basis of consolidation:

(i) Business combinations:

Business combinations are accounted for using the acquisition method as at the acquisition date, when control is transferred to the Company.

The Company measures goodwill at the acquisition date as the fair value of consideration transferred less the net recognized amount of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in income.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

Interest in consolidated subsidiaries is disclosed in note 11(b).

(ii) Subsidiaries:

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. Intra-group balances and transactions are eliminated in preparing consolidated financial statements.

(b) Insurance contracts:

The items in the Company's consolidated financial statements that are derived from insurance contracts are premiums, losses on claims, subrogation recoveries, deferred policy acquisition costs and reinsurance. Each of these items is described below.

(i) Premiums written, premiums earned and unearned premium reserves:

Mortgage insurance premiums are deferred and then taken into underwriting revenues over the terms of the related policies. The unearned portion of premiums is included in the liability for unearned premium reserves. The majority of policies to date have been written for terms of 25 to 35 years. The rates or formulae under which premiums are earned are based on the loss emergence pattern in each year of coverage. The Company performs actuarial studies and adjusts the formulae under which premiums are earned in accordance with the results of such studies. This includes adjustments to earnings from premium written in respect of prior periods.

A premium deficiency provision, if required, is determined as the excess of the present value of expected future losses on claims and expenses (including policy maintenance expenses) on policies in force (using an appropriate discount rate) over unearned premium reserves.

3. Significant accounting policies (continued):

(b) Insurance contracts (continued):

(ii) Risk fee:

In conjunction with receiving credit support in the form of the Government of Canada guarantee, as prescribed in the PRMHIA, the Company is subject to a risk fee equal to 2.25% of gross premiums written excluding reinsurance premiums. The Company records the risk fee in premium taxes and underwriting fees in the consolidated statements of income. The risk fee relates directly to the acquisition of new mortgage insurance business. Accordingly, it is subsequently deferred and expensed in proportion to and over the period in which premiums are earned (note 3(b)(v)) and reflected in Deferred Policy Acquisition Costs.

(iii) Losses on claims and loss reserves:

Losses on claims include internal and external claims adjustment expenses and are recorded net of amounts received or expected to be received from recoveries.

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 each reporting date. Loss reserves are discounted to take into account the time value of money. The Company records a supplemental provision for adverse deviation based on an explicit margin for adverse deviation developed by the Company's appointed actuary.

Loss reserves are derecognized after a claim has been paid and the Company's obligation under the policy has been fulfilled, or after a borrower has remedied a delinquent loan and management estimates that no loss will be incurred under the policy.

(iv) Subrogation recoveries and subrogation recoverable:

Subrogation rights related to real estate are carried in subrogation recoverable at the fair value of the real estate assets less costs for obtaining the rights to and selling the real estate.

Estimated borrower recoveries related to claims paid and loss reserves are recognized in subrogation recoverable net of estimated administrative fees associated with collection. Borrower recoveries are discounted to take into account the time value of money and include an explicit margin for adverse deviation.

3. Significant accounting policies (continued):

(b) Insurance contracts (continued):

(v) Deferred policy acquisition costs:

Deferred policy acquisition costs comprise premium taxes, appraisal costs, risk fee, certain employee compensation, and other expenses that relate directly to acquisition of new mortgage insurance business. Policy acquisition costs related to unearned premiums are deferred to the extent that they can be expected to be recovered from the unearned premium reserves and are expensed in proportion to and over the periods in which the premiums are earned.

(vi) Reinsurance:

Reinsurance contracts are those contracts under which the reinsurer agrees to indemnify the cedant against all or part of the primary insurance risks underwritten by the cedant under one or more insurance contracts.

Reinsurance premiums are taken into underwriting revenues over the terms of the related reinsurance agreements. Reinsurance premiums are reported in premiums written and premiums earned in the consolidated statements of income.

Unpaid reinsurance premiums, if any, are reported in accrued investment income and other receivables on the consolidated statements of financial position.

3. Significant accounting policies (continued):

(c) Financial instruments:

The Company recognizes financial assets on the trade date, at which the Company becomes a party to the contractual provisions of the financial asset contract.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount is presented in the statements of financial position when the Company has a legally enforceable right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(i) Cash and cash equivalents:

Cash and cash equivalents are comprised of deposits in banks, treasury bills, and other highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(ii) Financial assets at fair value through profit and loss:

A financial asset is classified as fair value through profit and loss ("FVTPL") if it is considered to be held for trading or it is designated as such upon initial recognition. The Company has classified its derivative financial instruments as FVTPL at December 31, 2015 and 2014 (note 3(e)).

FVTPL financial assets are recorded at fair value with realized gains and losses on sale and changes in the fair value recorded in income. Transaction costs related to FVTPL financial assets are recognized in income as incurred.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(iii) AFS financial assets:

AFS financial assets are non-derivative financial assets that are designated as AFS and are not classified in any other specific financial asset category. As at December 31, 2015 and 2014, the Company classifies bonds and debentures, preferred shares, short-term investments and common shares in the AFS financial asset category.

AFS financial assets are recorded at fair value with changes in the fair value of these assets recorded in other comprehensive income ("OCI"). Cumulative realized gains and losses on sale and cumulative realized gains and losses on AFS instrument derecognition, as well as impairment losses, are reclassified from accumulated other comprehensive income ("AOCI") and recorded in investment income. Investment gains or losses on sale of investments are measured at the difference between cash proceeds received and the amortized cost of a bond or preferred share or the cost of a common share. Transaction costs are capitalized as part of the carrying value of the AFS financial assets.

Re-measurement adjustments arising on translation of AFS bonds denominated in U.S. dollars to Canadian dollars are recognized in net investment gains or losses in accordance with the accounting policy for foreign currency translation in note 3(n).

(iv) Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents, accrued investment income and other receivables and collateral receivable under reinsurance agreement.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(v) Non-derivative financial liabilities:

All non-derivative financial liabilities are recognized initially on the date that the Company becomes a party to the contractual provisions of the financial instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company classifies all non-derivative financial liabilities into the Other financial liabilities category. Such financial liabilities are recognized initially at fair value along with any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Non-derivative financial liabilities are comprised of the Company's long-term debt (note 19) and accounts payable and accrued liabilities including balances due to the Company's majority shareholder and companies under common control (note 11(c)).

(d) Securities lending:

The Company includes its invested assets in its securities lending program. Securities lending transactions are entered into on a fully collateralized basis. The transferred securities themselves are not derecognized on the consolidated statements of financial position given that the risks and rewards of ownership are not transferred from the Company to the counterparties in the course of such transactions. The securities are reported separately on the consolidated statements of financial position on the basis that counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities received from counterparties as collateral are not recorded on the consolidated statements of financial position given that the risk and rewards of ownership are not transferred from the counterparties to the Company in the course of such transactions and because cash collateral is not permitted as an acceptable form of collateral under the program.

3. Significant accounting policies (continued):

(e) Derivative financial instruments:

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index. Derivative financial instruments are classified as FVTPL and are recognized in the consolidated statements of financial position as assets when their fair value is positive and as liabilities when their fair value is negative. While the Company has the ability to settle multiple financial derivative instruments on a net basis under a master netting arrangement, the Company does not meet the accounting requirements to offset derivative assets and liabilities. Accordingly, each derivative financial instrument is presented as an asset or liability based on the fair value of the individual instrument. Derivative financial instruments include foreign currency forwards, cross currency interest rate swaps and equity total return swaps.

Changes in fair value of derivative financial instruments are generally recognized in net investment gains or losses during the period in which they arise. However, when an economic hedge relationship has been established between the derivative financial instruments and certain expenses, the changes in fair value are recognized in expenses during the period in which they arise.

(f) Interest income:

Interest income from fixed income investments including short-term investments and bonds and debentures is recognized on an accrual basis using the effective interest method and reported as interest in investment income.

Lending fees received under the Company's securities lending program are recognized on an accrual basis and reported in investment income.

Interest income from impaired fixed income investments is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Such interest is recognized only if the Company expects the interest to be received based on the financial condition of the fixed income investment issuer.

(g) Dividend income:

Dividends on preferred and common shares are recognized when the shareholder's right to receive payment is established, which is the ex-dividend date, and are reported as dividends in investment income.

3. Significant accounting policies (continued):

(h) Property and equipment:

(i) Recognition and measurement:

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes all expenditures that are directly attributable to acquiring the asset and preparing it for its intended use. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property and equipment, and are recognized on a net basis in income.

The Company classifies computer software that is part of an operating system or is an integral part of related hardware as property and equipment.

(ii) Subsequent costs:

Property and equipment replacements are recognized in the carrying amount of property and equipment if they embody future economic benefit to the Company and the carrying amount of the replaced part is derecognized. The costs of day-to-day servicing of property and equipment are expensed as incurred.

(iii) Depreciation:

Depreciation on property and equipment, except for leasehold improvements, is recognized in income on a straight-line basis over the estimated useful lives of each component of an item of property and equipment from the date it is available for use. Straight-line depreciation most closely reflects the expected pattern of consumption of the future economic benefits embodied in the property and equipment. Leasehold improvements are depreciated over the terms of the related leases.

3. Significant accounting policies (continued):

(i) Intangible assets:

(i) Goodwill:

Goodwill arises upon the acquisition of subsidiaries. See note 3(a)(i) for the policy on measurement of goodwill on initial recognition. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. See note 3(j)(ii) for the policy on measurement of impairment losses on non-financial assets, including goodwill.

(ii) Other intangible assets:

(i) Recognition and measurement:

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. The Company's intangible assets consist of computer application software that is not an integral part of related hardware.

(ii) Subsequent expenditures:

Subsequent expenditures are recognized in the carrying amount of intangible assets if they embody future economic benefit to the Company. All other costs including the costs of day-to-day servicing of intangible assets are expensed as incurred.

(iii) Amortization:

Amortization is recognized in expense on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

3. Significant accounting policies (continued):

(j) Impairment:

(i) Impairment of financial assets:

Financial assets not carried at FVTPL are assessed at each reporting period to determine whether there is existence of objective evidence of impairment.

Bonds and debentures and preferred shares are assessed for impairment if objective evidence indicates that a loss event has occurred after the initial recognition of the asset. Loss events include default or delinquency of the debtor, indications that the issuer of a security will enter bankruptcy, significant deterioration of credit quality and economic conditions that correlate with defaults or the disappearance of an active market for a security. Impairment is deemed to exist when the Company does not expect full recovery of the amortized cost of the investment based on the estimate of cash flows expected to be collected or when the Company intends to sell the investment prior to recovery from its unrealized loss position.

Common shares are deemed to be impaired when it is determined that the common shares have experienced significant or prolonged losses.

Impairment losses on AFS financial assets are recognized by reclassifying losses from accumulated other comprehensive income ("AOCI") to income. The cumulative loss that is reclassified from AOCI to income is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in income. Changes in impairment provisions attributable to time value are reflected as a component of investment income. If, in a subsequent period, the fair value of an impaired AFS bond or preferred share increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in income, then the impairment loss is reversed, with the amount of the reversal recognized in income. However, any subsequent recovery in fair value of an impaired AFS equity investment is recognized in other comprehensive income ("OCI").

(ii) Impairment of non-financial assets:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

3. Significant accounting policies (continued):

(j) Impairment (continued):

(ii) Impairment of non-financial assets (continued):

Goodwill is tested for impairment on an annual basis regardless of whether an indication of impairment exists. The recoverable amount of an asset is the greater of its value in use and its fair value less expected selling costs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For purposes of goodwill impairment testing, the comparison of estimated recoverable amount to carrying amount is performed on the Company's single cash-generating unit ("CGU"), which is its mortgage insurance business. Impairment losses are recognized in income in the period in which the impairment is determined. Impairment losses recognized in respect of a CGU are allocated first to reduce the carrying amount of goodwill and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis. An impairment loss in respect of goodwill is not reversed.

The assessment of impairment of non-financial assets excludes assessment of deferred policy acquisition costs. The ability of the Company to recover its deferred policy acquisition costs is assessed as part of the Company's overall insurance liability adequacy testing. In the event that a provision for premium deficiency is required based on this test, the deferred policy acquisition cost asset is reduced with a corresponding charge recognized as deferred policy acquisition expense.

(k) Income taxes:

Income taxes are comprised of current and deferred taxes. Current and deferred taxes associated with items recognized in equity are recognized directly in equity. Taxes on fair value gains and losses and actuarial gains and losses from re-measurement of defined benefit plans included in OCI are recorded directly in OCI. Otherwise, except to the extent that they relate to a business combination, current and deferred taxes are recognized in income.

(i) Current tax:

Current taxes are recognized for estimated income taxes payable or recoverable for the current year and any adjustments to taxes payable in respect of prior years. The tax rates and laws used to compute these amounts are those that are enacted or substantively enacted at the date of the consolidated financial statements.

3. Significant accounting policies (continued):

(k) Income taxes (continued):

(i) Current tax (continued):

Current taxes payable and current taxes recoverable are offset when they relate to income taxes imposed by the same taxation authority for the same legal entity and the taxation authority permits making or receiving a single net payment.

(ii) Deferred tax:

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future, and taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred taxes are measured using currently enacted or substantively enacted income tax rates expected to apply to taxable income in the periods in which the temporary differences reverse. The most significant temporary difference relates to policy reserves.

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable the Company will have sufficient taxable income against which they can be used. The deferred tax assets are reviewed each reporting period and are reduced to the extent that it is no longer probable that the benefit arising from the unused tax loss, tax credit or deductible temporary difference will be realized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes imposed by the same taxation authority for the same legal entity.

3. Significant accounting policies (continued):

(l) Employee benefits:

(i) Defined contribution pension plan:

The defined contribution pension plan is a post-employment benefit plan under which the Company pays fixed contributions into the plan (that is a separate legal entity) which are held in trust for the benefit of its employees and will have no legal or constructive obligation to pay further amounts. The obligation for contributions to the defined contribution pension plan is recognized as an expense in the period during which services are provided by employees.

(ii) Defined benefit plans:

A defined benefit plan is a post-employment plan other than a defined contribution plan. The Company currently maintains two defined benefit plans: a Supplemental Executive Retirement Plan ("SERP") and a plan for non-pension post-retirement benefits. The Company's obligation in respect of each plan is calculated separately. For each plan, the Company has adopted the following policies:

Actuarial valuations of benefit liabilities for pension and non-pension post-retirement benefit plans are performed as at December 31 of each year using the projected unit credit method and based on management's assumptions including assumptions on the discount rate, rate of compensation increase, mortality and the trend in the health care cost rate. For the non-pension post-retirement benefits plan, membership data is updated every three years.

Obligations for the SERP are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of termination, death or retirement. Obligations for non-pension post-retirement benefits are attributed to the period beginning on the employee's date of hire to the date the employee reaches the age of 55 and is eligible for benefits under the plan.

Actuarial gains and losses arising from changes in actuarial assumptions used to determine the benefit obligations or experience adjustments are recognized in OCI in the period in which they arise, and reported in retained earnings.

Prior service costs arising from plan amendments are recognized in expense in the period in which the plan amendments are introduced.

The Company recognizes gains or losses on settlement of a defined benefit obligation when a settlement occurs. The gain or loss is comprised of any change in the present value of the defined benefit obligation and any changes in actuarial gains and losses that had not been previously recognized.

3. Significant accounting policies (continued):

(l) Employee benefits (continued):

(iii) Short-term employee compensation and benefits:

Short-term employee compensation and benefit obligations, including the Company's short-term bonus, are measured on an undiscounted basis and are expensed as the related service is provided.

(iv) Share-based compensation:

The Company's share-based awards include stock options with tandem stock appreciation rights ("Options"), Restricted Share Units ("RSUs"), Performance Share Units ("PSUs"), Directors' Deferred Share Units ("DSUs") and Executive Deferred Share Units ("EDSUs"). Recipients of Options have choice of settlement in cash or shares of the Company. RSUs, DSUs, and PSUs are settled in cash or shares of the Company at the discretion of the Company's Board of Directors. EDSUs are settled in cash.

The fair value of Options, RSUs, PSUs, DSUs and EDSUs is recognized as compensation expense over the relevant vesting period, with a corresponding entry to share-based compensation liabilities. The liabilities are re-measured at each reporting date and the settlement date. Any changes in the fair value of the liabilities are recognized as compensation expense. Share-based compensation is reclassified from liability to equity if shares are selected when the awards are exercised.

Options are measured at fair value using the Black-Scholes valuation model. RSUs, PSUs, DSUs and EDSUs are measured at fair value using the quoted market price of the Company's shares at the end of each reporting period.

RSUs, PSUs, DSUs and EDSUs may participate in dividend equivalents at the discretion of the Company's Board of Directors. Dividend equivalents are calculated based on the fair value of the Company's shares on the date the dividend equivalents are credited to the RSU, PSU, DSU or EDSU account.

Share-based awards are recorded as expense only to the extent that management expects such awards to vest based on service and performance conditions attached to the share-based awards.

The Company economically hedges the impact of the change in fair value of its common shares by entering into equity total return swaps. Changes in fair value of the equity total return swaps are recognized in employee compensation expense in the statements of income.

3. Significant accounting policies (continued):

(m) Share capital:

Common shares are classified as equity on the consolidated statements of financial position. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(n) Foreign currency translation:

Transactions in foreign currencies are translated to Canadian dollars at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Canadian dollars at period end rates. Foreign currency differences arising on translation are recognized in income. The Company does not have any non-monetary assets or liabilities denominated in foreign currencies.

(o) Fair value measurement:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is applied to all fair value measurements including non-financial assets and liabilities that are measured at or based on fair value in the consolidated statements of financial position. The Company's fair value hierarchy is disclosed in note 22.

(p) Earnings per share:

The Company presents basic and diluted earnings per share for its common shares. Basic earnings per share are calculated by dividing the Company's net income for the period by the weighted average number of shares outstanding during the period. Diluted earnings per share are determined by adjusting the weighted average number of shares outstanding for the effects of all dilutive potential shares, which are comprised of share-based compensation awards granted to employees and directors of the Company, and by adjusting net income for the period by the share based compensation re-measurement amount, if the impact of such an adjustment is dilutive.

4. Changes in accounting standards:

Future accounting standards:

(i) IFRS 9 - Financial instruments ("IFRS 9"):

In July 2015, the IASB published an amended version of IFRS 9, which replaces IAS 39 -Financial instruments: recognition and measurement, and includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and a new general hedge accounting model. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces a single impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected credit losses at initial recognition of a financial instrument and the recognition of full lifetime expected credit losses if certain criteria are met. The new model for hedge accounting aligns hedge accounting with risk management activities.

While the new standard is generally effective for years beginning on after January 1, 2018, in December 2015 the IASB published an Exposure Draft Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, which proposes to allow some insurers optional transitional relief until the forthcoming insurance accounting standard is available for implementation. The proposed options would allow (a) entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4 to defer the implementation of IFRS 9 to as late as January 1, 2021, which may allow alignment of the implementation of IFRS 9 with the forthcoming insurance accounting standard, or alternatively (b) give entities issuing insurance contracts the option to remove from profit or loss the incremental volatility caused by changes in the measurement of specified financial assets upon application of IFRS 9.

The Company is evaluating the impact of IFRS 9 on its financial assets and financial liabilities and the option for the deferral of IFRS 9 adoption.

(ii) IFRS 4 - Insurance contracts ("IFRS 4"):

In June 2014, the IASB issued a revised exposure draft proposing a comprehensive measurement approach for all types of insurance contracts, which would replace the existing IFRS 4 - Insurance contracts. Deliberations of the exposure draft continue and a final standard is expected to be issued in late 2016. The effective date of the final standard is not expected to be before 2020.

The Company is monitoring the development of IFRS 4 and assessing the impact of its adoption.

(iii) IFRS 16 - Leases ("IFRS 16"):

IFRS 16 was issued on January 13, 2016. The new standard will replace existing lease guidance in IFRS and related interpretations, and requires companies to bring most leases on-balance sheet.

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

The Company is currently assessing the impact of IFRS 16.

5. Significant judgments and estimates:

(a) Judgments:

Significant judgments made in applying accounting policies are as follows:

Objective evidence of impairment of AFS financial assets:

As of each reporting date, the Company evaluates AFS financial assets for objective evidence of impairment.

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

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

5. Significant judgments and estimates (continued):

(b) Estimates (continued):

Information about assumptions and estimation uncertainties that have a risk of resulting in material adjustment within the next 12 months are as follows:

(i) 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.

(ii) Losses:

Loss reserves represent the amount needed to provide for the expected ultimate net cost of settling claims including adjustment expenses related to defaults by borrowers (both reported and unreported) that have occurred on or before the reporting date. Loss reserves are discounted to take into account the time value of money and include a supplemental provision for adverse deviation. 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 securing the insured loan and the legal, property maintenance and other loss adjustment expenses incurred in the claim settlement process. Loss reserves consist of individual case reserves, Incurred But Not Reported ("IBNR") reserves and supplemental loss reserves for potential adverse deviation.

For the purpose of quantifying case reserves, the Company analyzes each reported delinquent loan on a case-by-case basis and establishes a case reserve based on the expected loss, if any. The ultimate expected claim amount is influenced significantly by housing market conditions, changes in property values, and the condition of properties in default.

5. Significant judgments and estimates (continued):

(b) Estimates (continued):

(ii) Losses (continued):

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

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

The Company recognizes a provision for adverse deviation based on assessment of the adequacy of the Company's loss reserves and with reference to the current and future expected condition of the Canadian housing market and its impact on the expected development of losses.

The process for the establishment of loss reserves relies on the judgment and opinions of a number of individuals, on historical precedent and trends, on prevailing legal and economic trends and on expectations as to future developments. This process involves risks that actual results will deviate, perhaps substantially, from the best estimates made. These risks vary in proportion to the length of the estimation period and the volatility of each component comprising the liability. Refer to note 6(b) for sensitivity analyses that quantify the exposure to changes in key loss assumptions.

(iii) Subrogation recoverable:

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

The Company estimates borrower recoveries related to claims paid and loss reserves included in subrogation recoverable based on historical recovery experience. Borrower recoveries are discounted to present value and include an actuarial margin for adverse deviation.

(iv) Deferred policy acquisition costs:

Deferred policy acquisition costs are comprised of premium taxes, appraisal costs, risk fee, certain employee compensation, and other expenses that relate directly to acquisition of new mortgage insurance business. Deferred policy acquisition costs are deferred and expensed in proportion to and over the periods in which premiums are earned.

The Company estimates expenses eligible for deferral based on the nature of expenses incurred and results of time and activity studies performed to identify the portion of time the Company's employees incur in the acquisition of new mortgage insurance business.

6. Insurance contracts:

(a) Premiums and unearned premium reserves:

Changes in unearned premium reserves recorded in the consolidated statements of financial position and their impact on premiums earned are as follows:

	2015	2014
Unearned premium reserves, beginning of year	$ 1,798,568	$ 1,723,768
Premiums written during the year	808,621	639,761
Premiums earned during the year	(586,196)	(564,961)
Unearned premium reserves, end of year	$ 2,020,993	$ 1,798,568

Key methodologies and assumptions:

Premiums written are recognized as premiums earned using a factor-based premium recognition curve that is based on the Company's expected loss emergence pattern. The principal assumption underlying the formation of the premium recognition curve is that the Company's future claims development will follow a similar pattern to past claims emergence patterns. Approximately 80% of the Company's premiums written are recognized as premium earned within the first five years of policy inception based on the current premium recognition curve. A shift in the Company's loss emergence pattern could change the timing of the Company's recognition of earned premium and impact the Company's financial performance for a period.

6. Insurance contracts (continued):

(a) Premiums and unearned premium reserves (continued):

The Company's appointed actuary performs a liability adequacy test on the Company's unearned premium reserves using a dynamic regression model that is in accordance with accepted actuarial practice. The purpose of the test is to ensure the unearned premium liability at year end is sufficient to pay for future claims and expenses that may arise from unexpired insurance contracts. The liability adequacy test for the years ended December 31, 2015 and 2014 identified a surplus in the Company's unearned premium reserves and thus no premium deficiency reserves are required at these reporting dates.

(b) Losses on claims and loss reserves:

The carrying value of loss reserves reflects the present value of expected claims costs and expenses and provisions for adverse deviation and is considered to be an indicator of fair value. There is no ready market for the trading of loss reserves and the value agreed between parties in an arm's-length transaction may be materially different.

Loss reserves comprise the following:

	2015	2014
Case reserves	$ 83,962	$ 75,178
Incurred but not reported reserves	41,591	35,365
Discounting	(1,502)	(1,936)
Provision for adverse deviation	7,526	6,886
Total loss reserves	$ 131,577	$ 115,493

6. Insurance contracts (continued):

(b) Losses on claims and loss reserves (continued):

The following table presents movement in loss reserves and the impact on losses on claims:

	2015	2014
Loss reserves, beginning of year	$ 115,493	$ 117,388
Claims paid during the year	(105,826)	(113,005)
Net losses on claims incurred during the year:		
Losses on claims related to the current year	132,945	118,498
Losses (recoveries) on claims related to prior years	(11,035)	(7,388)
Loss reserves, end of year	$ 131,577	$ 115,493

Claims development:

Loss reserves are established to reflect an estimate of the ultimate cost of claim settlement as at the reporting date. Given the uncertainty in establishing the outstanding loss reserves, it is likely that the final outcome will be different than the original liability established. Claims development refers to the financial adjustment in the current period relating to claims incurred in previous periods because of new and more up to date information that has become available and to reflect changes in assumptions. The information is presented on a default year basis (claims are related to the period in which the insured event occurred and not the period in which the policy was underwritten).

6. Insurance contracts (continued):

(b) Losses on claims and loss reserves (continued):

The following table demonstrates the development of the estimated loss reserves for the ten most recent default years.

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	total
Claims incurred at the end of											
the default year	$70,994	$102,549	$148,493	$196,586	$175,189	$172,200	$143,388	$132,299	$118,498	$132,945	
Claims incurred one year later	46,971	106,468	200,807	218,890	193,820	193,226	141,957	128,042	112,834	—	
Claims incurred two years later	54,352	112,224	204,706	247,663	217,034	196,377	140,572	126,540	—	—	
Claims incurred three years later	55,461	115,632	209,850	252,041	218,884	195,903	140,196	—	—	—	
Claims incurred four years later	56,072	115,816	212,615	255,282	218,088	194,969	—	—	—	—	
Claims incurred five years later	55,701	115,427	212,595	254,725	217,036	—	—	—	—	—	
Claims incurred six years later	55,701	115,427	212,595	253,795	—	—	—	—	—	—	
Current estimate of claims incurred	$55,701	$115,427	$212,595	$253,795	$217,036	$194,969	$140,196	$126,540	$112,834	$132,945	$1,562,038
Cumulative payments to date	55,701	115,427	212,595	252,995	216,915	194,757	139,489	123,872	94,447	24,263	1,430,461
Current loss reserves	$ —	$ —	$ —	$800	$121	$212	$707	$2,668	$18,387	$108,682	$131,577
Current estimate of surplus (deficiency)	$15,293	$(12,878)	$(64,102)	$(57,209)	$(41,847)	$(22,769)	$3,192	$5,759	$5,664	$ —	
Surplus (deficiency) of initial gross loss reserve	22%	(13)%	(43)%	(29)%	(24)%	(13)%	2%	4%	5%	—	

6. Insurance contracts (continued):

(b) Losses on claims and loss reserves (continued):

Conditions and trends that have affected the development of liabilities in the past may or may not occur in the future and, accordingly, conclusions about future results may not necessarily be derived from the information presented in the table above.

Key methodologies and assumptions:

The establishment of loss reserves is based on known facts and interpretation of circumstances. The principal methodologies and assumptions underlying loss reserve estimates are as follows:

(i) Claim frequency:

Claim frequency is the portion of delinquencies (both reported and unreported) that are expected to result in paid claims, after estimated cures have been deducted. A cure is defined as a reported delinquency that closes with no claim payment or only nominal loss adjustment expenses. Claim frequency is influenced by labour market performance and changes in house prices. The Company estimates claim frequency for case reserves by analyzing individual reported delinquencies. The Company estimates claim frequency for incurred but not reported delinquencies by applying average delinquency-to-paid-claim ratios to historical reported delinquencies, derived from tracking and analyzing loss development over time.

(ii) Claim severity:

Claim severity is influenced by the performance of the housing market and will increase in a period of property value declines. The Company estimates claim severity for case reserves by analyzing individual reported delinquencies, including obtaining valuations for the properties securing claims. The Company estimates claim severity for incurred but not reported delinquencies based on historical claim amounts.

Variables that affect the determination of loss reserves are the receipt of additional claim information and other internal and external factors such as the performance of the housing market, changes in claims handling procedures, significant claim reporting lags, and uncertainties regarding the condition of properties at the time of initial loss reserve quantification.

6. Insurance contracts (continued):

(b) Losses on claims and loss reserves (continued):

Sensitivity:

Sensitivity analyses are conducted to quantify the exposure to changes in key loss assumptions. The change in any key assumption will impact the Company's performance and financial position for a period. The following sensitivity analyses are performed for reasonable possible movements in key loss assumptions with all other assumptions held constant, showing the impact on income before income taxes and shareholders' equity. The correlation of assumptions will have a significant effect in determining ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions are changed on an individual basis.

2015 Sensitivity factor	Change in assumptions	Impact on income before income taxes	Impact on shareholders' equity
Claim frequency	+10%	$ (23,646)	$ (17,368)
	-10%	23,646	17,368
Claim severity	+10%	(23,646)	(17,368)
	-10%	23,646	17,368

(c) Subrogation recoverable:

The following table presents movement in subrogation recoverable during the year:

	2015	2014
Subrogation rights related to real estate, beginning of year	$ 46,195	$ 55,968
Subrogation rights related to real estate acquired as a result of settling claims at fair value	195,703	211,140
Change in market value of real estate on hand	(4,718)	(10,168)
Subrogation rights related to real estate disposed of during the year	(193,957)	(210,745)
Subrogation rights related to real estate, end of year	43,223	46,195
Borrower recoveries, beginning of year	20,781	19,486
Net estimated borrower recoveries recognized	2,865	8,036
Borrower recoveries received	(5,625)	(6,741)
Borrower recoveries, end of year	18,021	20,781
Subrogation recoverable, end of year	$ 61,244	$ 66,976

6. Insurance contracts (continued):

(c) Subrogation recoverable (continued):

The Company applies an expected recovery rate based on historical experience of successful recoveries from borrowers to past claims paid and current loss reserves to establish a recovery accrual. The Company reviews the expected recovery rate to ensure it reflects the most current historical experience of successful recoveries.

(d) Deferred policy acquisition costs:

The following table presents movement in deferred policy acquisition costs and the impact on total expenses:

	2015	2014
Deferred policy acquisition costs, beginning of year	$ 172,289	$ 158,427
Policy acquisition costs deferred during the year	78,901	66,912
Deferred policy acquisition costs expensed during the year	(58,120)	(53,050)
Net change in deferred policy acquisition costs during the year	20,781	13,862
Deferred policy acquisition costs, end of year	$ 193,070	$ 172,289

(e) Reinsurance:

Effective December 1, 2013, the Company, through its indirect subsidiary MICICC, entered into a retrocession agreement ("the Agreement") with a third party reinsurance company, under which the Company assumed reinsurance risk for approximately 33% of the retroceded liabilities on claims paid by Genworth Financial Mortgage Insurance Pty Limited, an Australian company ("Genworth Australia") in excess of 700,000 Australian dollars within any one year up to a maximum exposure to the Company of 30,000 Australian dollars less claims paid by the Company in prior years. Under the Agreement, the Company received premiums equal to 7% of the maximum exposure of 30,000 Australian dollars in the first year of coverage and 9% of the maximum exposure in the second and third years of coverage.

The term of the Agreement was 3 years. Genworth Australia had the right to terminate the Agreement after the first year of coverage. The Company was required to collateralize its reinsurance obligations by posting collateral equal to the maximum exposure of 30,000 Australian dollars.

Effective December 1, 2014, the Agreement was terminated and replaced with a new agreement that had the same terms as the terminated agreement except that premiums under the new agreement were equal to 6.75% of the maximum exposure of 30,000 Australian dollars in the first year of coverage and 8.75% of the maximum exposure in the second and third years of coverage.

Effective November 30, 2015, the Company terminated the Agreement with its third party reinsurance company.

During the year ended December 31, 2015, the Company recognized $1,802 of premiums and incurred no losses under the reinsurance agreement (2014 - $2,086 of premiums recognized and no losses incurred). As at December 31, 2015, the Company has no collateral posted (2014 - 30,000 Australian dollars, equivalent to $28,446).

7. Financial risk management:

During the year ended December 31, 2014, the Insurance Subsidiary developed and implemented an Own Risk and Solvency Assessment framework ("ORSA") in accordance with OSFI Guideline E-19: Own Risk and Solvency Assessment. The prime purpose of ORSA is for an insurer to identify material risks, and to assess the adequacy of its current and likely future capital needs and solvency position relative to these risks. The implementation of ORSA by the Insurance Subsidiary did not result in a significant change to the Company's practices of monitoring, evaluating and managing risks.

The Company's risk management framework facilitates the identification and assessment of risks, and the ongoing monitoring and management of these risks. The objective of the framework and related internal control procedures is to ensure risks are within the Company's defined risk appetite and tolerance and to achieve profitable underwriting results. There have been no significant changes to the Company's insurance risk management policies at December 31, 2015 compared to December 31, 2014.

(a) Insurance risk:

The Company is exposed to insurance risk from underwriting of mortgage insurance contracts. Mortgage insurance contracts transfer risk to the Company by indemnifying lending institutions against credit losses arising from borrower mortgage default. Under a mortgage insurance policy, a lending institution is insured against risk of loss for the entire unpaid principal balance of a loan plus interest, customary mortgage enforcement and selling costs, and expenses related to the sale of the underlying property. Insurance risk impacts the amount, timing and certainty of cash flows arising from insurance contracts.

The Company has identified pricing risk, underwriting risk, claims management risk, loss reserving risk, insurance portfolio concentration risk and reinsurance risk as its most significant sources of insurance risk. Each of these risks is described separately below.

(i) Pricing risk:

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. The Company's premium rates vary with the perceived risk of a claim on an insured loan, which takes into account the Company's long-term historical loss experience on loans with similar loan-to-value ratios, terms and types of mortgages, borrower credit histories and capital required to support the product.

7. Financial risk management (continued):

(a) Insurance risk (continued):

(i) Pricing risk (continued):

Before the Company introduces a new product, it establishes 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. These performance targets are adjusted periodically to ensure they reflect the current environment.

(ii) Underwriting risk:

Underwriting risk is the risk that the Company's underwriting function will underwrite mortgage insurance under terms that do not comply with the Company's pre-established risk guidelines, resulting in inappropriate risk acceptance by the business.

The underwriting results of the mortgage insurance business can fluctuate significantly due to the cyclicality of the Canadian mortgage market. The mortgage market is affected primarily by housing supply and demand, interest rates, and general economic factors including unemployment rates.

The Company's risk management function establishes risk guidelines based on the Company's underwriting goals. The underwriting process enables assessment of high loan-to-value applications on a loan-by-loan basis, taking into account a broad range of factors and ensuring compliance with the risk guidelines. The risk guidelines are reviewed and updated regularly to manage the Company's exposures and to address emerging trends in the housing market and economic environment. Authority levels for underwriting decisions are also assigned and monitored by the risk management function. Underwriters are given authority to approve mortgage insurance applications based on their experience and levels of proficiency. Underwriter performance is reviewed continuously to facilitate continuous improvement or remedial action where necessary.

(iii) Claims management risk:

The Company enforces a policy of actively managing and promptly settling claims in order to reduce exposure to unpredictable future developments that can adversely impact losses. The Company has two primary loss mitigation programs. 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 mortgages.

7. Financial risk management (continued):

(a) Insurance risk (continued):

(iii) Claims management risk (continued):

Initiatives currently employed under the Homeowner Assistance Program include capitalizing arrears, deferring payments for a specified period, arranging a partial payment plan, and increasing a mortgage amortization period. The Asset Management Program is designed to accelerate the conveyance of the rights to real estate properties to the Company in select circumstances. This strategy allows for better control of the property marketing process, reduction of carrying costs and potential of realization of a higher property sales price.

In addition to its current loss mitigation programs in place, under its agreement with lending institutions, the Company has the right to recover losses from borrowers once a claim has been paid. The Company actively pursues such recoveries.

(iv) Loss reserving risk:

Loss reserving risk is the risk that loss reserves differ significantly from the ultimate amount paid to settle claims, principally due to additional information received and external factors that influence claim frequency and severity (including performance of the Canadian housing market).

The Company reviews its case reserves on an ongoing basis and updates the case reserves as appropriate. Management has established procedures to evaluate the appropriateness of loss reserves, which include a review of the loss reserves by the Company's appointed actuary.

(v) Insurance portfolio concentration risk:

A national or regional economic downturn may increase the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect home values, which increases the severity of the Company's losses. Portfolio concentration risk is the risk that losses increase disproportionately where portfolio diversification is inadequate.

The exposure to insurance portfolio concentration risk is mitigated by a portfolio that is diversified across geographic regions. The Company monitors the conditions of the housing market and economy in each region of Canada against pre-determined risk tolerances and utilizes this data to customize underwriting guidelines and loss mitigation initiatives by region.

7. Financial risk management (continued):

(a) Insurance risk (continued):

(v) Insurance port folio concentration risk:

Additional scrutiny is given to geographic regions where property values are particularly sensitive to an economic downturn.

The following table presents the Company's concentration of insurance risk by region based on premiums written.

Premiums written		2015			2014
Ontario	$	329,904	41 %	$ 246,560	39 %
Alberta		176,213	22 %	165,908	26 %
British Columbia		108,061	13 %	75,428	12 %
Quebec		92,995	12 %	70,742	11 %
Other		99,646	12 %	81,123	12 %
	$	806,819	100 %	$ 639,761	100 %

The Company is exposed to changes in housing market performance and trends by geographic region and the concentration of geographic risk may change over time.

(vi) Reinsurance risk:

Effective November 30, 2015, the Company terminated its reinsurance agreement as described in note 6(e). As at December 31, 2015, the Company has no reinsurance risk (2014 - maximum liability exposure from reinsurance agreement of 30,000 Australian dollars or $28,446).

(b) Credit risk:

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. The Company is exposed to credit risk principally through its invested assets.

7. Financial risk management (continued):

(b) Credit risk (continued):

The total credit risk exposure at December 31, 2015 is $5,615,984 (2014 - $5,208,116) and comprises $78,178 (2014 - $84,933) of short-term investments, $28,130 (2014 - $30,099) of accrued investment income and other receivables, $5,200,715 (2014 - $4,997,359) of bonds and debentures, $247,717 (2014-$ nil) of preferred shares and $61,244 (2014 - $66,976) of subrogation recoverable. At December 31, 2015, the Company did not have any credit risk exposure to derivative financial instrument assets (2014 - $303) or collateral receivable under the reinsurance agreement (2014 - $28,446).

The Company's investment management strategy is to invest primarily in financial instruments of Canadian government agencies and other high-credit-quality issuers and to limit the amount of credit exposure with respect to any one issuer, business sector, or credit rating category, as specified in its investment policy. Credit quality of financial instrument issuers is assessed based on ratings supplied by rating agencies DBRS, Standard and Poor's, or Moody's.

The breakdown of the Company's bonds and debentures, preferred shares and short-term investments by credit rating is presented below.

	2015		2014	
Credit rating	Carrying value amount	%	Carrying value amount	%
Bonds and debentures:				
AAA	$ 2,159,848	40.9	$ 1,946,510	38.3
AA	1,024,168	19.4	1,098,982	21.6
A	1,703,236	32.3	1,690,528	33.3
BBB	386,749	7.3	346,272	6.8
BB	4,892	0.1	—	—
	5,278,893	100.0	5,082,292	100.0
Preferred Shares				
P2	227,369	91.8	—	—
P3	20,348	8.2	—	—
	247,717	100.0	—	—
	$ 5,526,610		$ 5,082,292	

7. Financial risk management (continued):

(b) Credit risk (continued):

As at December 31, 2015, 92.6% of the Company's bonds and debentures were rated 'A' or better, compared to 93.2% at December 31, 2014. As at December 31, 2015, 91.8% of the Company's preferred shares were rated 'P2'. As at December 31, 2014 the Company did not hold any preferred shares.

The Company did not hold any impaired financial assets at December 31, 2015 and 2014.

Concentration of credit risk:

Concentration of credit risk exists where a number of borrowers or counterparties are engaged in similar activities, are located in the same geographic area or have comparable economic characteristics. Their ability to meet contractual obligations may be similarly affected by changing economic, political or other conditions. The Company's investments could be sensitive to changing conditions in specific geographic regions or specific industries.

The following table presents the Company's concentration of credit risk within its bond and debenture, short-term investment and preferred share portfolios by geographic region and by industry.

			2015			2014
By country of issuance:						
Canada	$	5,041,102	91.2%	$	4,735,080	93.2%
Other		485,508	8.8%		347,212	6.8%
	$	5,526,610	100.0%	$	5,082,292	100.0%
By industry:						
Government	$	3,047,539	55.2%	$	2,752,370	54.1%
Bank, insurance, and other financial institutions		1,113,009	20.1%		1,142,371	22.5%
Energy		368,537	6.7%		252,453	5.0%
Infrastructure		222,360	4.0%		240,940	4.7%
All other sectors		775,165	14.0%		694,158	13.7%
	$	5,526,610	100.0%	$	5,082,292	100.0%

7. Financial risk management (continued):

(b) Credit risk (continued):

The Company has invested 20.1% (2014 - 22.5%) of its invested assets in the financial sector. This risk concentration is closely monitored by the Company and adjusted through periodic portfolio rebalancing as deemed necessary.

Derivative-related credit risk:

Credit risk from derivative transactions reflects the potential for the Company's counterparty to its derivative transactions to default on its contractual obligations when one or more transactions have a positive market value to the Company. Therefore, derivative-related credit risk is represented by the positive fair value of the instrument and is normally a small fraction of the contract's notional amount.

To mitigate credit risk related to derivative counterparties, the Company has adopted a policy whereby, upon signing the derivative contract, the counterparty is required to have a minimum credit rating of A-.

Netting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of netting clauses in master derivative agreements. The netting clauses in a master derivative agreement provide for a single net settlement of all financial instruments covered by the agreement in the event of default. However, credit risk is reduced only to the extent that the Company's financial obligations toward the counterparty to such an agreement can be set off against obligations such counterparty has toward the Company. The Company uses netting clauses in master derivative agreements to reduce derivative-related credit exposure.

The Company also uses collateral to manage derivative-related counterparty credit risk. Mark-to-market provisions in the Company's agreements with counterparties provide the Company with the right to request that the counterparty collateralize the current market value of its derivative positions when the value passes a specified exposure threshold. As at December 31, 2015 the Company's net derivative obligations were $83,861 (2014 - $22,995) and the Company has pledged a net amount of $85,296 (2014 - $22,418) of Canadian federal government securities as collateral under the master derivative agreements. The Company had no derivative-related credit risk at December 31, 2015 as all of its derivative financial instruments were in a liability position. The Company had minimal derivative-related credit risk at December 31, 2014 as the majority of its derivative financial instruments were in a liability position.

7. Financial risk management (continued):

(c) Liquidity risk/maturity analysis:

Liquidity risk is 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.

Liquidity risk arises from the Company's general business activities and in the course of managing its assets, liabilities and externally imposed capital requirements (note 8). The liquidity requirements of the Company's business have been met primarily by funds generated from operations including investment income, investment asset maturities and financing activities. Cash provided from these sources is used primarily for loss and loss adjustment expense payments, operating expenses, payment of dividends and funding of share repurchase transactions. To ensure liquidity requirements are met, the Company holds a portion of its invested assets in liquid securities. At December 31, 2015, the Company has cash and cash equivalents of $390,796 (2014 - $190,375) and short-term investments of $78,178 (2014 - $84,933).

The table presented below summarizes the carrying value by the earliest contractual maturity of the Company's bonds and debentures and short-term investments.

	Within 1 year	1 - 3 years	3 - 5 years	5 - 10 years	Over 10 years	Total
2015	$ 587,560	$ 1,181,669	$ 1,517,124	$ 1,503,156	$ 489,384	$ 5,278,893
2014	$ 546,316	$ 1,208,632	$ 1,269,674	$ 1,418,274	$ 639,396	$ 5,082,292

7. Financial risk management (continued):

(c) Liquidity risk/maturity analysis (continued):

The table below shows the expected payout pattern of the Company's financial liabilities:

	Within 1 year	1 - 3 years	3 - 5 years	5 - 10 years	Over 10 years	Total
2015:						
Non-derivative financial liabilities:						
Accounts payable and accrued liabilities	$ 65,750	$ —	$ —	$ —	$ —	$ 65,750
Loss reserves (at Actuarial Present Value)	56,234	75,343	—	—	—	131,577
Long-term debt	—	—	275,000	160,000	—	435,000
Derivative financial liabilities:						
Derivative financial instruments	33,707	6,900	6,659	36,595	—	83,861
2014:						
Non-derivative financial liabilities:						
Accounts payable and accrued liabilities	$ 41,557	$ —	$ —	$ —	$ —	$ 41,557
Loss reserves (at Actuarial Present Value)	58,413	57,080	—	—	—	115,493
Long-term debt	—	—	—	435,000	—	435,000
Derivative financial liabilities:						
Derivative financial instruments	—	8,678	1,192	13,349	—	23,298

7. Financial risk management (continued):

(d) Market risk:

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign currency exchange rates and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. The market risks to which the Company is exposed are interest rate risk, equity price risk and currency risk.

(i) Interest rate risk:

Fluctuations in interest rates have a direct impact on the market valuation of the Company's interest-sensitive assets. Short-term interest rate fluctuations will generally create unrealized gains or losses. Generally, the Company's investment income will be reduced during sustained periods of lower interest rates as higher-yielding investments are called, mature or are sold and the proceeds are reinvested at lower rates, and this will likely result in unrealized gains in the value of investments the Company continues to hold, as well as realized gains to the extent that the relevant investments are sold. During periods of rising interest rates, the market value of the Company's existing interest-sensitive assets will generally decrease and gains on investments will likely be reduced or become losses.

As at December 31, 2015, management estimates that an immediate hypothetical 100 basis point, or 1%, increase in interest rates would decrease the market value of the AFS bonds and debentures, short- term investments and preferred shares by approximately $203,720, representing 3.69% of the $5,526,610 fair value of these investments, and decrease the value of loss reserves by $878. Conversely, a 100 basis point, or 1%, decrease in interest rates would increase the market value of the AFS bonds and debentures, short-term investments and preferred shares by approximately $212,843 representing 3.85% of the fair value, and increase the value of loss reserves by approximately $894.

7. Financial risk management (continued):

(d) Market risk (continued):

(i) Interest rate risk (continued):

As at December 31, 2014,management estimates that an immediate hypothetical 100 basis point, or 1%, increase in interest rates would decrease the market value of the AFS bonds and debentures and short- term investments by approximately $178,000, representing 3.50% of the $5,082,292 fair value of these investments, and decrease the value of loss reserves by $896. Conversely, a 100 basis point, or 1%, decrease in interest rates would increase the market value of the AFS bonds and debentures and short-term investments by approximately $192,000 representing 3.78% of the fair value, and increase the value of loss reserves by approximately $913.

Computations of the prospective effects of hypothetical interest rate changes are based on numerous assumptions and should not be relied on as indicative of future results. The analysis in this section is based on the following assumptions: (a) the existing level and composition of interest-sensitive assets will be maintained; (b) shifts in the yield curve are parallel; and (c) credit and liquidity risks have not been considered.

(ii) Equity price risk:

Equity price risk is the risk that the fair values of equity investments will decrease as a result of changes in the levels of equity indices and the values of individual stocks. Equity price risk exposure arises from the Company's investment in common shares.

As at December 31, 2015, the Company did not hold any common shares.

As at December 31, 2014, the Company had a total investment in common shares of $170,456. Management estimates that a 10% increase in the equity price index would increase the market value of the common shares by $12,102 and that a 10% decrease in the equity price index would decrease the market value of the common shares by the same amount.

The Company has policies to limit and monitor exposures to individual common share issuers and its aggregate exposure to common shares.

7. Financial risk management (continued):

(d) Market risk (continued):

(iii) Currency risk:

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk arising from investments denominated in U.S. dollars. During the year ended December 31, 2014, the Company was also exposed to currency risk arising from collateral pledged under its reinsurance agreement denominated in Australian dollars.

The Company uses foreign currency forward contracts and cross currency interest rate swaps to mitigate currency risk.

The following table presents the foreign-denominated financial assets and the derivative financial instruments used to reduce currency risk.

		2015		2014
Collateral receivable under reinsurance agreement denominated in Australian dollars	$	—	$	28,446
Bonds and debentures denominated in U.S. dollars [1]		485,508		347,212
Total financial assets exposed to currency risk		485,508		375,658
Less: foreign currency forward contract notional amount		288,856		254,607
cross currency interest rate swap notional amount		224,665		120,558
Total derivative financial instrument notional amount		513,521		375,165
Net currency exposure from financial instruments	$	(28,013)	$	493

[1] Bonds and debentures denominated in U.S. dollars consists of $307,941 of emerging market debt (2014-$229,870) and $177,567 of collateralized loan obligations ("CLOs") (2014-$117,342).

8. Capital management and regulatory requirements:

Capital comprises the Company's shareholders' equity. The Company's objectives when managing capital are to maintain financial strength and a strong financial strength credit rating, to support its claim-paying ability and to maximize returns to shareholders over the long term.

The Insurance Subsidiary is a regulated insurance company governed by PRMHIA and the provisions of the Insurance Companies Act ("the Act"), which is administered by OSFI. As such, the Insurance Subsidiary is subject to certain requirements and restrictions contained in PRMHIA and the Act. The Act limits dividends to shareholders under certain circumstances.

Under PRMHIA and the Act, the Insurance Subsidiary is required to meet a minimum capital test ("MCT") to support its outstanding mortgage insurance in force. The MCT ratio is calculated based on methodology prescribed by OSFI. The statutory minimum is 100% and the Department of Finance has established an MCT ratio of 175% for the Insurance Subsidiary under PRMHIA in order for the Insurance Subsidiary to be able to write new business (2014 - 175%). In addition, the Company has established an internal capital ratio target for the Insurance Subsidiary of 185% (2014 - 185%).

In June 2013, OSFI communicated that it has commenced an internal process aimed at developing a new capital framework for mortgage insurers expected to be effective in 2017. The Company regularly reviews its capital levels and, after reviewing stress testing results and consulting with OSFI, the Company established an operating MCT holding target of 220%, pending the development of the new capital framework for mortgage insurers. While the Company's internal capital target of 185% is calibrated to cover the various risks that the business would face in a severe recession, the holding target of 220% is designed to provide a capital buffer to allow management time to take necessary actions should capital levels be pressured by deteriorating macroeconomic conditions.

In September 2014, OSFI published an interim MCT guideline for mortgage insurers effective January 1, 2015. This guideline was developed by adjusting the 2015 MCT guideline applicable to Property and Casualty insurers to reflect the specific characteristics of the mortgage insurance business until the new capital framework for mortgage insurers is developed. The implementation of the interim MCT guideline in 2015 did not have a significant impact to the Company's MCT.

As at December 31, 2015, the Insurance Subsidiary had an MCT ratio of 233% (2014 - 225%) and has complied with regulatory and internal capital requirements as well as its MCT holding target.

In addition to requirements to maintain specified levels of capital, to measure the degree to which the Insurance Subsidiary is able to meet regulatory requirements, the Company's appointed actuary must present an annual Dynamic Capital Adequacy Test to the Board of Directors and management on the Insurance Subsidiary's current and future solvency under various projected scenarios.

The Company's Board of Directors has adopted a capital management policy for the Company and the Insurance Subsidiary. The policy identifies sources of capital, establishes a capital adequacy target and capital holding target for the Insurance Subsidiary and sets a financial leverage target and dividend policy for the Company. As part of its ongoing management of capital, the Company prepares capital forecasts and regularly compares actual performance with forecasted results.

9. Investments:

The investments presented in the table below are carried at fair value:

	2015				2014			
	Fair value	Amortized cost/cost	Unrealized gain (loss)	% total fair value	Fair value	Amortized cost/cost	Unrealized gain (loss)	% total fair value
Cash and cash equivalents:								
Canadian federal government treasury bills	$ 274,166	$ 274,166	$ —	4.6	$ 135,628	$ 135,628		2.5
Cash	116,630	116,630	—	2.0	54,747	54,747		1.0
	390,796	390,796	—	6.6	190,375	190,375	—	3.5
AFS investments:								
Short-term investments:								
Canadian federal government treasury bills[1]	78,178	78,178	—	1.3	84,933	84,933	—	1.6
	78,178	78,178	—	1.3	84,933	84,933	—	1.6
Government bonds and debentures:								
Canadian federal government[1]	1,963,176	1,884,347	78,829	33.2	1,769,540	1,696,877	72,663	32.5
Canadian provincial and municipal government	1,006,185	932,785	73,400	17.0	897,897	829,461	68,436	16.5
	2,969,361	2,817,132	152,229	50.2	2,667,437	2,526,338	141,099	49.0
Corporate bonds and debentures:								
Financial	967,228	933,357	33,871	16.3	1,142,371	1,096,582	45,789	21.0
Energy	315,592	293,913	21,679	5.3	252,453	234,335	18,118	4.6
Infrastructure	222,360	208,774	13,586	3.8	240,940	226,616	14,324	4.5
All other sectors	548,607	493,571	55,036	9.3	568,746	532,185	36,561	10.4
	2,053,787	1,929,615	124,172	34.7	2,204,510	2,089,718	114,792	40.5
Asset backed bonds [2]	177,567	145,539	32,028	3.0	125,412	119,930	5,482	2.3
Total AFS bonds and debentures	5,200,715	4,892,286	308,429	87.9	4,997,359	4,735,986	261,373	91.8
Preferred Shares:								
Financial	145,781	164,565	(18,784)	2.5	—	—	—	—
Energy	52,945	62,036	(9,091)	0.9	—	—	—	—
All other sectors	48,991	53,949	(4,958)	0.8	—	—	—	—
	247,717	280,550	(32,833)	4.2	—	—	—	—
Common shares:								
Energy	—	—	—	—	28,756	26,924	1,832	0.5
Financial	—	—	—	—	45,074	37,088	7,986	0.8
Communications	—	—	—	—	16,562	14,823	1,739	0.3
All other sectors	—	—	—	—	80,064	63,821	16,243	1.5
	—	—	—	—	170,456	142,656	27,800	3.1
Total investments	$ 5,917,406	$ 5,641,810	275,596 [3]	100.0	$ 5,443,123	$ 5,153,950	289,173 [3]	100.0

[1] As at December 31, 2015, Canadian federal government bonds and treasury bills includes $85,296 in collateral posted for the benefit of the Company's counterparties to its derivative financial instrument contracts, as described in the derivative financial instruments section of note 9 (December 31, 2014 - $22,418).

[2] As at December 31, 2015, asset backed bonds is comprised entirely of collateralized loan obligations (December 31, 2014 - $117,342).

[3] Unrealized gains include unrealized foreign exchange gains of $97,019 as at December 31, 2015 (December 31, 2014 - $30,044).

9. Investments (continued):

The fair value of investments, excluding preferred shares, common shares and cash and cash equivalents, are shown by contractual maturity of the investment.

	2015	2014
Terms to maturity:		
Federal, provincial and municipal bonds and debentures and short-term investments:		
1 year or less	$ 383,164	$ 288,499
1-3 years	562,108	675,912
3-5 years	1,089,309	768,565
5-10 years	822,535	777,605
Over 10 years	190,423	241,789
	3,047,539	2,752,370
Corporate bonds and debentures and asset backed bonds:		
1 year or less	204,396	257,817
1-3 years	619,561	532,720
3-5 years	427,815	501,109
5-10 years	680,621	640,669
Over 10 years	298,961	397,607
	2,231,354	2,329,922
	$ 5,278,893	$ 5,082,292

Investments denominated in foreign currencies:

Corporate bonds and debentures and asset backed bonds include $307,941 (2014 - $229,870) of emerging market bonds and $177,567 of collateralized loan obligations ("CLOs") (2014 -$117,342) denominated in U.S. dollars. The CLOs are structured credit securities, collateralized by U.S. bank loans with an average AA credit rating, that pay interest based on floating interest rates indexed to the London Interbank Offered Rate.

9. Investments (continued):

Investments denominated in foreign currencies (continued):

The emerging market bonds and CLOs are classified as AFS and changes in the fair value of the investments are recorded in OCI. Re-measurement adjustments arising on translation of the investments from U.S. dollars into Canadian dollars are recognized in net investment gains.

Derivative financial instruments:

Derivative financial instruments are used by the Company for hedging purposes and for the purpose of modifying the risk profile of the Company's investment portfolio, subject to exposure limits specified within the Company's investment policy guidelines, which have been approved by the Board of Directors.

The Company uses derivative financial instruments in the form of foreign currency forwards and cross currency interest rate swaps to mitigate foreign currency risk associated with bonds denominated in U.S. dollars (2014 - bonds denominated in U.S. dollars and reinsurance collateral denominated in Australian dollars). Foreign currency forwards and cross currency interest rate swaps are contractual obligations to exchange one currency for another at a predetermined future date.

The Company uses equity total return swaps to hedge a portion of its economic exposure from the changes in fair market value of the Company's common shares in relation to risk associated with share-based compensation expenses. Additional disclosure of the Company's equity total return swaps is included in note 14.

The following table shows the fair value and notional amounts of the derivative financial instruments by terms of maturity, in Canadian dollars:

		Notional amount				
2015	Net Fair value	1 year or less	1 - 3 years	3 - 5 years	Over 5 years	Total
Foreign currency forwards [1]	$ (44,886)	$ 14,351	$ 26,412	$ 35,558	$ 212,535	$ 288,856
Cross currency interest rate swaps [1]	(37,461)	143,590	27,680	19,376	34,019	224,665
Equity total return swaps [1]	(1,514)	19,558	—	—	—	19,558
Total	$ (83,861)	$177,499	$ 54,092	$ 54,934	$ 246,554	$ 533,079

9. Investments (continued):

		Notional amount				
2014	Net Fair value	1 year or less	1 - 3 years	3 - 5 years	Over 5 years	Total
Foreign currency forwards [1]	$ (14,902)	$ 29,322	$ 5,752	$ 16,500	$ 203,033	$ 254,607
Cross currency interest rate swaps [1]	(8,249)	—	120,558	—	—	120,558
Equity total return swaps [1]	156	—	—	—	—	—
Total	$ (22,995)	$ 29,322	$ 126,310	$ 16,500	$ 203,033	$ 375,165

[1] As at December 31, 2015, All foreign currency forwards, cross currency interest rate swaps and equity total return swaps were in a liability position.

[1] December 31, 2014 - Foreign currency forwards includes $15,049 derivative financial instrument liabilities and $147 derivative financial instrument assets. All cross currency interest rate swaps were in a liability position. All equity total return swaps were in an asset position.

The Company enters into collateral arrangements with its derivative counterparties that require the posting of collateral upon certain net exposure thresholds being met. As at December 31, 2015, the Company had posted collateral of $85,296 in the form of Canadian federal government bonds and treasury bills for the benefit of its counterparties to the foreign currency forwards, cross currency interest rate swaps and equity total return swaps (2014 - $22,418).

Securities lending:

The Company participates in a securities lending program through an intermediary that is a financial institution for the purpose of generating fee income. Non-cash collateral, in the form of U.S. or Canadian government securities, which is equal to at least 105% of the fair value of the loaned securities, is retained by the Company until the underlying securities have been returned to the Company.

The fair value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the fair value of the underlying securities fluctuates. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties. The intermediary indemnifies the Company against any shortfalls in collateral.

In addition to earning fee income under the securities lending program, the Company continues to earn all interest, dividends and other income generated by the loaned securities while the securities are in the possession of counterparties.

9. Investments (continued):

Securities lending (continued):

These transactions are conducted under terms that are usual and customary to security lending activities, as well as requirements determined by exchanges where a financial institution acts as an intermediary.

As at December 31, 2015, the Company had loaned the following investments under its securities lending program:

	2015	2014
Cash equivalents	$ 28,648	$ —
Short-term investments	3,823	—
Bonds and debentures	435,357	367,190
Preferred shares	22,055	—
Common shares	—	63,753
	$ 489,883	$ 430,943

As at December 31, 2015, the Company has accepted eligible securities as collateral with a fair value of $495,671 (2014 - $455,029).

10. Income taxes:

The provision for income taxes comprises the following:

	2015	2014
Current tax:		
Current income taxes	$ 137,108	$ 137,605
Current income tax adjustments in respect of prior years	(4,513)	(69)
	132,595	137,536
Deferred tax:		
Origination and reversal of temporary differences	2,448	(3,816)
Impact of change in income tax rates	692	359
	3,140	(3,457)
Total income tax expense	$ 135,735	$ 134,079

Income taxes recognized in OCI comprise the following:

	2015	2014
Income taxes (income tax recovery) related to net gains or losses on AFS financial assets	$ (22,040)	$ 21,201
Income taxes (income tax recovery) related to re-measurement of employee benefit plan obligations	743	(1,834)
Total income taxes (income tax recovery) recognized in OCI	$ (21,297)	$ 19,367

10. Income taxes (continued):

Income taxes reflect an effective tax rate that differs from the statutory tax rate for the following reasons:

	2015	2014
Income before income taxes	$ 534,037	$ 510,623
Combined basic Canadian federal and provincial income tax rate	26.55 %	26.30%
Income tax expense based on statutory rate	$ 141,787	$ 134,294
Increase (decrease) in income tax resulting from:		
Non-taxable income	(2,927)	(343)
Effect of increase in income tax rates	1,362	359
Income tax adjustments in respect of prior years	(4,487)	(231)
Income tax expense	$ 135,735	$ 134,079

The difference in the effective income tax rate of 25.42%, implicit in the $135,735 provision for income taxes in 2015 from the Company's statutory income tax rate of 26.55%, was primarily attributable to income tax adjustments in respect of prior years and higher non-taxable income partially offset by a higher income tax rate applicable to deferred income.

The difference in the effective income tax rate of 26.26%, implicit in the $134,079 provision for income taxes in 2014 from the Company's statutory income tax rate of 26.30%, was primarily attributable to non-taxable dividend income and adjustments relating to prior years, partially offset by non-deductible share-based compensation expenses and a higher income tax rate applicable to deferred income.

10. Income taxes (continued):

The following table describes the components of the net deferred tax liability on the Company's consolidated statements of financial position:

		2015		2014
Deferred tax assets:				
Employee benefits	$	11,579	$	11,917
Loss reserves		1,763		1,666
Tax losses available for carry forward		10,679		10,079
Financing costs		—		916
		24,021		24,578
Deferred tax liabilities:				
Investments		(1,404)		(1,619)
Policy reserves		(59,304)		(56,002)
Property and equipment and intangible assets		(2,062)		(2,079)
Financing costs		(256)		—
		(63,026)		(59,700)
Net deferred tax liability	$	(39,005)	$	(35,122)

The net change in the composition of the net deferred tax liabilities is as follows:

		2015		2014
Balance, beginning of year	$	35,122	$	40,413
Expense for the year		3,140		(3,457)
OCI recognized for the year		743		(1,834)
Balance, end of year	$	39,005	$	35,122

All deferred tax assets have been recognized as at December 31, 2015 and 2014 as the Company has assessed it is probable that future taxable profits will be available against which the deferred tax benefits can be utilized.

11. Related party transactions and balances:

(a) Transactions with key management personnel and Company directors:

Key management personnel are those persons having authority and responsibility for planning and directly controlling the activities of the Company.

Key management personnel's compensation includes base salary and performance-based compensation consisting of short-term incentive compensation and long-term share-based compensation benefits, retirement benefits and executive allowances. Short-term incentive compensation is dependent on the Company's performance against metrics that have been approved by the Company's Board of Directors and each managers' performance against his or her personal goals and objectives. Long-term share-based compensation grants may consist of any combination of Options, RSUs, PSUs and EDSUs (note 14). In addition to the defined contribution retirement benefit plan, the SERP is maintained to provide pension benefits to key management personnel in excess of the amounts payable under the Company's registered defined contribution plan. The Company has a compensation recoupement policy pertaining to its incentive compensation plans, providing for the full or partial forfeiture and recoupement of incentive compensation awarded and outstanding or paid to incentive compensation plan participants, including key management personnel. This policy will be applied at the discretion of the Board of Directors in circumstances that may include a material financial restatement, other than a restatement caused by a change in applicable accounting rules or interpretations, the result of which was that any incentive compensation provided to senior executives or officers would have been a lower amount had it been calculated based on such restated results, or where a participant has been determined by the Board of Directors to have engaged in misconduct, regardless of the need for a financial restatement.

The Company has standard policies in place to cover various forms of termination. Key management personnel are subject to the same terms and conditions as all other employees of the Company for resignation and termination for cause.

Directors must take 50% of their annual retainer in the form of DSUs and may elect to take the remaining portion as cash. Independent directors are required to own at least three times their annual retainer in common shares or DSUs five years from the individual's appointment date. If a director has not met the Company's ownership guideline within the prescribed period, 100% of the director's annual retainer will be paid in DSUs until such time as the guidelines are met.

11. Related party transactions and balances (continued):

(a) Transactions with key management personnel and Company directors (continued):

Compensation for the Company's seven key management personnel and eight independent directors (2014 - seven key management personnel and six independent directors) is comprised of the following:

	2015	2014
Short-term employee benefits	$ 3,888	$ 4,911
Post-employment benefits	751	700
Share-based compensation	1,075	2,207
Director fees	704	617
Total compensation	$ 6,418	$ 8,435

(b) Interest in consolidated subsidiaries:

The following table identifies all of the investees in the Company's reporting structure and the Company's percentage of direct and indirect ownership of the investees. All of the investees have been incorporated in Canada:

Investee	Type of ownership	Ownership interest
Genworth Canada Holdings I Company ("Holdings I")	Direct	100%
Genworth Canada Holdings II Company ("Holdings II")	Direct	100%
MIC Holdings G Company ("Gco")	Direct	100%
Genworth Financial Mortgage Insurance Company Canada ("the Insurance Subsidiary")	Indirect through Holdings I and Holdings II	100%
MIC Insurance Company Canada ("MICICC")	Indirect through the Insurance Subsidiary	100%

11. Related party transactions and balances (continued):

(b) Interest in consolidated subsidiaries (continued):

Through its sole ownership interest in these investees, the Company has the ability to make decisions on behalf of the investees and has control of the investees. As control has been established, the Company is required to consolidate the investees.

The Insurance Subsidiary and MICICC are regulated insurance companies governed by the provisions of the Insurance Company Act ("the Act"), which is administered by OSFI. The Insurance Subsidiary is also subject to legislation under PRMHIA. As such, these investees are subject to certain requirements and restrictions contained in PRMHIA and the Act. The Investees are required under the Act to meet an MCT to support their outstanding mortgage insurance policies in force. In addition, internal capital ratio targets and capital holding targets have been established for the Insurance Subsidiary by the Board of Directors with which it must comply (note 8). Accordingly, the payment of dividends and other distributions by the Insurance Subsidiary to the Company are subject to compliance with MCT internal capital ratio targets, MCT holding targets and other applicable regulatory requirements.

(c) Other related party transactions:

The Company enters into related party transactions with Genworth Financial Inc. and its subsidiaries. Services rendered by Genworth Financial Inc. and its subsidiaries consist of information technology, finance, human resources, legal and compliance and other specified services. The services rendered by the Company and the Insurance Subsidiary relate mainly to financial reporting and tax compliance support services. These transactions are in the normal course of business and are at terms and conditions no less favourable than market. Balances owing for service transactions are non-interest bearing and are settled on a quarterly basis.

The Company incurred net related party charges of $6,458 for the year ended December 31, 2015, recorded in office expenses in the consolidated statements of income (2014 - $5,247). The balance payable for related party services at December 31, 2015 is $228 (2014 - $317) and is reported in accounts payable and accrued liabilities in the consolidated statements of financial position.

During the year ended December 31, 2015, the Company repurchased 1,454,196 (2014- 1,873,023) of its own common shares for cancellation on the open market for an aggregate purchase price of $50,007 (2014 - $75,009). Genworth Financial Inc., through its subsidiaries, participated proportionately in the share purchase transaction and maintained a 57.3% (2014 - 57.3%) ownership interest in the Company. See note 18 for additional disclosure on the share repurchase transactions.

Effective November 30, 2015, the Company, through its indirect subsidiary MICICC, terminated a retrocession agreement that commenced on December 1, 2013 with a third party reinsurance company. Under the Agreement the Company assumed reinsurance risk for approximately 33% of the retroceded liabilities on claims paid by Genworth Australia in excess of 700,000 Australian dollars within any one year up to a maximum exposure to the Company of 30,000 Australian dollars less claims paid by the Company in prior years. Additional information about the reinsurance transaction is disclosed in note 6(e).

12. Commitments:

The Company's commitments comprise of operating leases. The Company leases office space, office equipment, computer equipment and automobiles. Leases of office space have initial lease terms between five to seven years, with the right to extend the initial term of the lease for an additional three or five years.

Future minimum lease commitments at December 31, 2015 and 2014 are as follows:

	2015	2014
Less than 1 year	$ 2,704	$ 2,542
Later than 1 year but less than 5 years	9,914	4,080
	$ 12,618	$ 6,622

Lease payments recognized as an expense for the year ended December 31, 2015 were $3,032 (2014 - $3,127)

13. Employee benefits:

Defined contribution pension benefit plan:

The Company's eligible employees participate in a registered defined contribution pension plan. The plan has no vesting period. Employees are entitled to accumulated pension benefits immediately upon hire. As plan sponsor, the Company is responsible for contributing a predetermined amount to an employee's retirement savings, based on a percentage of that employee's salary.

The cost of the defined contribution pension plan is recognized as compensation expense as services are provided by employees.

The defined contribution pension plan is subject to regulation under the Pension Benefits Act (Ontario) and the Canadian Income Tax Act.

Defined benefit plans:
The Company maintains two types of defined benefit plans: a SERP and a defined benefit plan for non-pension post-retirement benefits.

13. Employee benefits (continued):

The SERP is an unregistered, non-contributory supplemental pension plan that supplements the registered defined contribution plan. Benefit entitlement under the SERP is based on a final average earnings target. The SERP has no vesting period. Employees eligible for SERP participation are entitled to accumulated pension benefits immediately upon hire. The non-pension post-retirement benefit plan provides medical and life insurance coverage to employees after retirement. Certain employees are also entitled to dental benefits under this plan.

The benefit liabilities for these plans represent the amount of pension and non-pension post-retirement benefits that employees and retirees have earned as at year end. The Company's actuaries perform valuations of the benefit liabilities for these plans as at December 31 of each year based on the Company's assumptions, including assumptions on discount rate, rate of compensation increase, 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.

Plan membership data used in the valuations includes the number of plan members and the average age, service period and pensionable earnings of plan members. For the SERP, actuarial valuations for the years ended December 31, 2015 and 2014 are based on plan membership data as at the respective period ends. The weighted average duration of the SERP is 21 years. For the non-pension post retirement benefits, actuarial valuations for the years ended December 31, 2015 and 2014 are based on plan membership data as at June 1, 2015 and August 1, 2012, respectively. The weighted average duration of the non-pension post-retirement benefit plan is 24 years.

The plans are unfunded with no specific assets backing the plan. The Company is the sponsor of these plans. Pension and benefit payments related to these plans are paid directly by the Company at the time the benefits are due.

The SERP and non-pension post-retirement benefit plans are unregistered and are not subject to specific legislation.

13. Employee benefits (continued):

Benefit plan governance:

The Company's Board of Directors has oversight of the pension and post-retirement benefit plans. The Pension Committee, which is comprised of executive-level employees of the Company, reports to the Board of Directors on all pension-related matters. Part of the Pension Committee's broader mandate is to identify risks associated with the pension plans and to recommend appropriate policies and procedures to mitigate and manage these risks to the Board of Directors for approval. Once approved by the Board of Directors, the policies and procedures are implemented by the Company.

The benefit liabilities in respect of the plans are recorded in the Company's consolidated statements of financial position as follows:

	SERP		Non-pension post-retirement benefits		Total benefit liabilities	
	2015	2014	2015	2014	2015	2014
Accrued net benefit liabilities under employee benefit plans	$21,052	$19,908	$16,189	$16,399	$37,241	$36,307

The maturity profile of the plans is demonstrated in the following table:

	SERP		Non-pension post-retirement benefits		Total benefit liabilities	
	2015	2014	2015	2014	2015	2014
Accrued net benefit liabilities of active plan members	$15,635	$14,738	$12,997	$14,278	$28,632	$29,016
Accrued net benefit liabilities of retirees and deferred vested benefit recipients	$5,417	$5,170	$3,192	$2,121	$8,609	$ 7,291
Accrued net benefit liabilities under employee benefit plans	$21,052		$16,189	$16,399	$37,241	$36,307

13. Employee benefits (continued):

Pension and non-pension post-retirement benefits are recognized in employee compensation in the consolidated statements of income and are determined as follows:

	SERP		Non-pension post-retirement benefits		Total benefit liabilities	
	2015	2014	2015	2014	2015	2014
Defined benefit expense:						
Benefits earned by employees	$ 1,029	$ 705	$ 1,435	$ 1,179	$ 2,464	$ 1,884
Interest costs on accrued benefit liability	820	687	678	630	1,498	1,317
Plan settlements	92	—	—	—	92	—
Defined benefit expense for the year	1,941	1,392	2,113	1,809	4,054	3,201
Defined contribution expense for the year	2,635	2,646	—	—	2,635	2,646
Total pension and non-pension post-retirement benefit expense for the year	$ 4,576	$ 4,038	$ 2,113	$ 1,809	$ 6,689	$ 5,847

The actuarial gains recognized in the consolidated statements of comprehensive income relating to the SERP are $513 for the year ended December 31, 2015 (2014 - actuarial losses of $4,905). The actuarial gains recognized in the consolidated statements of comprehensive income relating to the non-pension post-retirement benefits are $2,257 (2014 - actuarial losses of $2,008).

13. Employee benefits (continued):

Changes in the estimated financial positions of the SERP and non-pension post-retirement benefits are as follows:

	SERP		Non-pension post-retirement benefits		Total benefit liabilities	
	2015	2014	2015	2014	2015	2014
Accrued net benefit liabilities under employee benefit plans, beginning of year	$ 19,908	$ 13,830	$ 16,399	$ 12,689	$ 36,307	$ 26,519
Benefits earned by employees during the year	1,029	705	1,435	1,179	2,464	1,884
Interest costs on accrued liability incurred during the year	820	687	678	630	1,498	1,317
Plan settlements recognized during the year	92	—	—	—	92	—
Benefits paid to pensioners during the year	(284)	(219)	(66)	(107)	(350)	(326)
Actuarial losses (gains) from plan re-measurement	(513)	4,905	(2,257)	2,008	(2,770)	6,913
Accrued net benefit liabilities under employee benefit plans	$ 21,052	$ 19,908	$ 16,189	$ 16,399	$ 37,241	$ 36,307

The actuarial gains or losses categorized according to experience gains or losses and changes in assumptions are presented in the following table:

	SERP		Non-pension post-retirement benefits		Total benefit liabilities	
	2015	2014	2015	2014	2015	2014
Actuarial losses (gains):						
Experience losses (gains)	$ (41)	$ 1,210	$ (1,884)	$ (46)	$ (1,925)	$ 1,164
Changes in assumptions:						
Financial assumptions	(508)	3,577	(343)	2,639	(851)	6,216
Demographic assumptions	36	118	(30)	(585)	6	(467)
Total changes in assumptions	(472)	3,695	(373)	2,054	(845)	5,749
	$ (513)	$ 4,905	$ (2,257)	$ 2,008	$ (2,770)	$ 6,913

13. Employee benefits (continued):

Defined benefit plan assumptions:

The significant weighted average assumptions used to determine benefit liabilities are as follows:

	SERP		Non-pension post-retirement benefits	
	2015	2014	2015	2014
Discount rate	4.30%	4.15%	4.30 %	4.15 %
Change in rate of compensation increase	3.00%	3.00%	3.00 %	3.00 %
Mortality	75% of male rates and 92% of female rates from the CIA Private Sector Table with generational mortality improvements using CIA CPM-B Scale	75% of male rates and 92% of female rates from the CPM RPP 2014 Private table with generational mortality improvements using Scale CPM-B	CPM2014 Private Sector Table with generational mortality improvements scale CPM-B	CPM2014 Private Sector Table with generational mortality improvements scale CPM-B
Assumed overall health care cost trend rate	n/a	n/a	6.24 %	8.33 %

[1] Grading down to 4.50% per year in and after 2029.

13. Employee benefits (continued):

The following sensitivity analyses demonstrate the impact of a reasonable possible change in each significant valuation assumption as at December 31, 2015 and 2014 on the benefit obligations.

2015	SERP	Non-pension post-retirement benefits
Increase (decrease) in benefit obligations:		
Discount rate:		
Impact of 1% increase	$ (3,804)	$ (3,118)
Impact of 1% decrease	4,973	3,791
Change in rate of compensation increase:		
Impact of 1% increase	1,855	n/a
Impact of 1% decrease	(1,650)	n/a
Mortality rate:		
Impact of 1 additional year of life expectancy	368	264
Impact of 1 less year of life expectancy	(400)	(250)
Assumed overall health care cost trend rate:		
Impact of 1% increase	n/a	706
Impact of 1% decrease	n/a	(1,041)

13. Employee benefits (continued):

2014	SERP	Non-pension post-retirement benefits
Increase (decrease) in benefit obligations:		
Discount rate:		
Impact of 1% increase	$ (3,757)	$ (3,084)
Impact of 1% decrease	4,956	4,387
Change in rate of compensation increase:		
Impact of 1% increase	1,980	n/a
Impact of 1% decrease	(1,747)	n/a
Mortality rate:		
Impact of 1 additional year of life expectancy	462	296
Impact of 1 less year of life expectancy	(498)	282
Assumed overall health care cost trend rate:		
Impact of 1% increase	n/a	1,183
Impact of 1% decrease	n/a	(948)

This sensitivity analysis is hypothetical. Actual experience may differ from expected experience. For the purpose of this analysis, all other assumptions were held constant.

13. Employee benefits (continued):

Benefit plan cash flows:

The SERP and non-pension post-retirement benefits plans are unfunded. The Company pays these benefits as they become due.

Cash payments made by the Company during the year in connection with employee benefit plans are as follows:

	Pension plans		Non-pension	
	2015	2014	2015	2014
Benefits paid for defined benefit plans	$ 284	$ 219	$ 66	$ 107
Contribution to defined contribution plan	2,635	2,646	—	—
	$ 2,919	$ 2,865	$ 66	$ 107

The Company expects to contribute the following amounts to its employee benefit plans during the annual period beginning after December 31, 2015:

Defined contribution plan	$ 2,287
SERP	297
Non-pension post retirement benefit plan	180
Total	$ 2,764

Termination benefits:

Termination benefits are required to be recognized at the earlier of when the Company can no longer withdraw the offer of the termination benefit or the Company recognizes restructuring costs within the scope of IAS 37 - Provisions, contingent liabilities and contingent assets ("IAS 37").

14. Share-based compensation:

The Company provides long-term incentive plans for the granting of Options, RSUs, PSUs, EDSUs and DSUs.

Options are granted to employees with an exercise price equal to the Company's closing share price at the date of grant. Options vest over a period of three years (50% on each of the second and third anniversaries of the grant date or equally over three years). The Options expire 10 years from the date of grant and provide employees with the choice of settlement in either cash or shares of the Company. The range of exercise prices for the year ended December 31, 2015 is $19.00 to $32.88 (2014 - $19.00 to $32.88).

RSUs entitle employees to receive an amount equal to the fair value of the Company's shares. RSU grants issued prior to 2014 vest equally over three years. Starting in 2014 RSU grants issued vest at the end of a three-year period.

PSUs entitle employees to receive an amount equal to the fair value of the Company's shares if certain performance conditions are met. Performance measures associated with PSU grants include return on equity and basic earnings per share. PSU grants issued vest at the end of a three-year period. The average of the performance measures taken over the three-year performance period is used to determine the extent to which performance conditions are met.

The Company's Board of Directors, at its sole discretion, may grant EDSUs to the Company's executive-level employees. EDSUs entitle employees to receive an amount equal to the fair value of the Company's shares. The Board of Directors determines the vesting and performance conditions, as well as the number of EDSU units to be granted. EDSUs may be redeemed only upon termination of employment.

DSUs entitle eligible members of the Company's Board of Directors to receive an amount equal to the fair value of the Company's shares. The number of DSUs granted is based on the fair value of director services provided during the period and is calculated using the Company's average share price in the five days immediately preceding the period end. DSUs vest immediately on the date of grant and must be redeemed no later than December 15 of the calendar year, commencing immediately after the Director's termination date.

14. Share-based compensation (continued):

Employees and directors receive settlement of RSUs, PSUs and DSUs in either cash or shares of the Company at the discretion of the Company's Board of Directors. EDSUs are settled in cash. The RSUs, PSUs, EDSUs and DSUs may also receive dividend equivalents at the discretion of the Company's Board of Directors.

The Company has a compensation recoupement policy pertaining to its incentive plans, including its share-based compensation plans, providing for the full or partial forfeiture and recoupement of incentive compensation awarded and outstanding or paid to incentive compensation plan participants. This policy will be applied at the discretion of the Board of Directors in circumstances that may include a material financial restatement, other than a restatement caused by a change in applicable accounting rules or interpretations, the result of which was that any incentive compensation provided to senior executives or officers would have been a lower amount had it been calculated based on such restated results or where a participant has been determined by the Board of Directors to have engaged in misconduct, regardless of the need for a financial restatement.

The Company enters into equity total return swaps to hedge a portion of its economic exposure from the changes in fair market value of the Company's common shares in relation to risk associated with share-based compensation expense. Equity total return swaps are contracts by which one counterparty agrees to pay or receive from the other cash amounts based on changes in the value of a referenced asset or group of assets, including any returns such as interest earned or dividends accrued on these assets, in exchange for amounts that are based on prevailing market funding rates. Changes in fair value of the equity total return swaps are recognized in employee compensation expense in the consolidated statements of income.

14. Share-based compensation (continued):

The Company has reserved 3,000,000 common shares of its issued and authorized shares for issuance under these long-term incentive plans.

As at December 31, 2015, the Company has 1,797,884 common shares remaining that are available for distribution (2014 - 1,741,938) .

The following table presents information about these share-based compensation plans:

2015	Number of Options	Weighted average exercise price	Weighted average fair value of Options	Number of RSUs	Weighted average fair value of RSUs	Number of DSUs	Weighted average fair value of DSUs	Number of PSUs	Weighted average fair value of PSUs	Number of EDSUs	Weighted average fair value of EDSUs
Outstanding as at January 1	1,001,764	$ 23.48	$ 10,289	105,983	$ 3,919	53,717	$ 1,986	96,600	$ 3,572	21,149	$ 782
Granted	53,100	31.90	—	39,200	1,246	10,639	312	28,185	883	8,600	274
Dividend equivalents granted	—	—	—	5,307	162	3,038	79	5,258	152	1,568	50
Exercised	(87,960)	20.96	(293)	(40,196)	(1,289)	(14,078)	(377)	(19,630)	(619)	—	—
Forfeited	(11,667)	32.38	(34)	(14,366)	(445)	—	—	(12,778)	(386)	—	—
Changes in fair value	—	—	(7,313)	—	(1,041)	—	(582)	—	(1,005)	—	(273)
Outstanding as at December 31	955,237	24.08	2,649	95,928	2,552	53,316	1,418	97,635	2,597	31,317	833
Exercisable as at December 31	805,833	$ 22.86	$ 2,391	—	$ —	53,316	$ 1,418	—	$ —	—	$ —
Weighted average remaining contractual life (years)	5.3	—	—	1.8	—	—	—	1.6	—	2.6	—

14. Share-based compensation (continued):

2014	Number of Options	Weighted average exercise price	Weighted average fair value of Options	Number of RSUs	Weighted average fair value of RSUs	Number of DSUs	Weighted average fair value of DSUs	Number of PSUs	Weighted average fair value of PSUs	Number of EDSUs	Weighted average fair value of EDSUs
Outstanding as at January 1	986,908	$ 22.12	$ 9,198	105,314	$ 3,858	44,736	$ 1,639	71,538	$ 2,620	20,153	$738
Granted	114,500	32.88	—	45,000	1,480	6,620	244	37,922	1,228	—	—
Dividend equivalents granted	—	—	—	4,921	142	2,361	58	4,733	128	996	31
Exercised	(93,494)	20.57	(1,099)	(49,252)	(1,678)	—	—	(17,593)	(586)	—	—
Forfeited	(6,150)	23.49	(73)	—	—	—	—	—	—	—	—
Changes in fair value	—	—	2,263	—	117	—	45	—	182	—	13
Outstanding as at December 31	1,001,764	23.48	10,289	105,983	3,919	53,717	1,986	96,600	3,572	21,149	782
Exercisable as at December 31	775,798	$ 22.13	$ 8,497	—	$ —	53,717	$ 1,986	—	$ —	—	$ —
Weighted average remaining contractual life (years)	6.0	—	—	1.8	—	—	—	1.7	—	3.3	—

14. Share-based compensation (continued):

The fair value of Options is measured using the Black-Scholes valuation model as at the end of each reporting period.

The inputs used in the measurement of fair value of the Options are as follows:

	2015	2014
Share price at reporting date	$ 26.60	$ 36.98
Weighted average exercise price per share	$ 24.08	$ 23.48
Expected volatility	25.53 %	22.41%
Option life (years)	8.0	6.0
Expected dividend yield	6.44 %	3.79%
Risk-free interest rate	0.62 %	1.02%

Expected volatility is estimated based on the Company's average historical volatility and the mean volatility of the general index of Canadian financial companies. The volatility of Canadian financial companies is used to supplement the volatility calculation given the Company has limited share price history. The weighted average expected life of the instrument is estimated based on the Company's expectations about the timing of option exercises. Dividend yield is estimated based on historical dividends and the Company's long-term expectations. Risk-free rate is determined with reference to Government of Canada bonds.

The aggregate fair value of the Options outstanding is $2,649 as at December 31, 2015 (2014 - $10,289).

The fair value of the RSUs, PSUs, DSUs and EDSUs is measured at the quoted market price of the Company's shares at the end of each reporting period.

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 service and performance conditions.

14. Share-based compensation (continued):

The following tables provide information about the expenses and liabilities arising from share-based compensation:

	2015	2014
Expenses arising from:		
Options	$ (6,086)	$ 2,923
RSUs	360	1,461
PSUs	811	1,462
EDSUs	281	267
DSUs	(191)	348
	$ (4,825)	$ 6,461
Effect of equity total return swaps	$ 4,516	$ (156)
Net share-based compensation expense (recovery)	$ (309)	$ 6,305

	2015	2014
Total carrying amount of liabilities for cash-settled arrangements	$ 8,496	$ 16,764
Total intrinsic value of liability for vested benefits	$ 4,432	$ 13,509

15. Intangible assets:

The Company's intangible assets are summarized as follows:

Cost	Computer software
Balance at January 1, 2014	$ 36,265
Acquisitions - externally purchased	3,338
Balance at December 31, 2014	39,603
Acquisitions - externally purchased	3,564
Balance at December 31, 2015	$ 43,167

Amortization and impairment losses	Computer software
Balance at January 1, 2014	$ 28,951
Amortization for the year	3,191
Balance at December 31, 2014	32,142
Amortization for the year	1,941
Balance at December 31, 2015	$ 34,083

Amortization of intangible assets is included in office expenses in the consolidated statements of income.

Carrying amounts	Computer software
At December 31, 2014	$ 7,461
At December 31, 2015	9,084

16. Transactions with lenders:

Gross premiums written from two major lenders (defined as lenders that individually account for more than 10% of the Company's gross premiums written) was $189,482, representing 23.4% of the Company's total gross premiums written for the year ended December 31, 2015 (2014 - gross premiums written from two major lenders that accounted for more than 10% of the Company's gross premiums written was $166,924 or 26.1%).

17. Goodwill:

On January 17, 1995, the Company acquired certain assets and assumed certain liabilities from the Mortgage Insurance Company Canada ("MICC") related to MICC's residential mortgage insurance line of business. The excess of the purchase price over the estimated fair value of the net assets was recorded as goodwill.

Goodwill impairment test:

Goodwill is considered impaired to the extent that its carrying amount exceeds its recoverable amount. The recoverable amount of the Company's single CGU, which is its mortgage insurance business, 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. The calculation of value in use incorporated five years of cash flow estimates and was based on the following key assumptions:

The Company's multi-year plan was used as a proxy for five years of future cash flow estimates. The multi-year plan represents the Company's best estimate of future income and cash flows and is approved by the Company's Board of Directors. The plan incorporates assumptions regarding premium growth rate, loss development and relevant industry and economic assumptions.

Terminal value incorporated into the value in use calculations was estimated by applying a growth rate of 1.7% (2014 - 1.6%) to the last year of the multi-year plan cash flow estimate. The growth rates at December 31, 2015 and 2014 reflect the Canadian five year historical average core inflation rate, which does not exceed the long-term average growth rate for the industry.

A pre-tax discount rate of 13.7% (2014 - 13.8%) was applied in determining the recoverable amount of the unit. The discount rates as at December 31, 2015 and 2014 were based on the Company's weighted average cost of capital, adjusted for liquidity and a risk premium.

Based on the value in use calculation, the recoverable amount of the unit was determined to be higher than its carrying amount. No goodwill impairment charge has been recognized in the year ended December 31, 2015 (2014 - nil).

18. Share capital:

The share capital of the Company comprises the following:

	2015	2014
Authorized:		
Unlimited common shares with nominal or no par value[1]		
1 special share[2]		
Issued:		
91,795,125 common shares (2014 - 93,147,778)	$ 1,366,374	$ 1,384,558
1 special share	—	—
Share capital	$ 1,366,374	$ 1,384,558

[1] Holders of common shares will, except where otherwise provided by law and subject to the rights of the holder of the special share, be entitled to elect a portion of the Board of Directors, vote at all meetings of shareholders of the Company and be entitled to one vote per common share. Holders of common shares are entitled to receive dividends as and when declared by the Board of Directors and, upon voluntary or involuntary liquidation, dissolution or winding-up of the Company, the holders of common shares are entitled to receive the remaining property and assets of the Company available for distribution, after payment of liabilities. All issued shares are fully paid.

[2]Only one special share may be authorized for issuance. The special share is held by the Company's majority shareholder, Genworth Financial Inc. 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 of Directors, 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 Inc. beneficially owns a specified percentage of commons shares, the holder of the special share will be entitled to nominate and elect a specified number of the Company's directors, as set out in the table below.

Common share ownership	Number of directors
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

Under the shareholder agreement, the selling shareholder will agree that the special share may not be transferred except to and among affiliates of Genworth Financial Inc. Subject to applicable law, the special share will be automatically redeemed for $1.00 immediately upon (a) any transfer to a non-affiliate of Genworth Financial Inc., (b) the time that any affiliate of Genworth Financial Inc. who, at the relevant time, holds the special share is no longer an affiliate of Genworth Financial Inc., (c) the time that Genworth Financial Inc. first ceases to beneficially own at least 10% of the outstanding common shares, or (d) demand by the holder of the special share.

18. Share capital (continued):

The following table presents changes in the number of common shares outstanding that occurred during each year:

	2015	2014
Common shares, January 1	93,147,778	94,910,880
Common shares issued in connection with share-based compensation plans	101,543	109,921
Common shares retired under share repurchase	(1,454,196)	(1,873,023)
Common shares, December 31	91,795,125	93,147,778

At December 31, 2015, subsidiaries of Genworth Financial Inc. owned 52,562,042 common shares of the Company or approximately 57.3% (2014 - 53,395,420 or approximately 57.3%).

Share repurchases:

2015:

Shares purchased by the Company for cancellation are recognized as a reduction to share capital equal to the average carrying value of the common shares. Any difference between the aggregate purchase price and the average carrying value of the common shares is recorded in retained earnings. Expenses incurred in connection with the share purchases are recorded in retained earnings.

During the year ended December 31, 2015, the Company received approval by the Toronto Stock Exchange for the Company to undertake a normal course issuer bid ("NCIB"). Pursuant to the NCIB, the Company can purchase, for cancellation, up to 4,658,577 shares representing approximately 5% of its outstanding common shares. Purchases of common shares under the NCIB commenced on May 5, 2015 and will conclude on the earlier of May 4, 2016 and the date on which the Company has purchased the maximum number of shares under the NCIB.

During the year ended December 31, 2015, under the terms of the NCIB, the Company purchased 1,454,196 shares for cancellation on the open market for an aggregate price of $50,007. The Company's majority shareholder Genworth Financial Inc. through its subsidiaries, participated proportionately in the share purchase transaction and maintained a 57.3% ownership interest in the Company.

2014:

During the year ended December 31, 2014, the Company received approval by the Toronto Stock Exchange for the Company to undertake an NCIB. Pursuant to the NCIB, the Company could purchase, for cancellation, up to 4,746,504 shares representing approximately 5% of its outstanding common shares. Purchases of common shares under the NCIB may have commenced on or after May 5, 2014 and concluded on the earlier of May 4, 2015 and the date on which the Company had purchased the maximum number of shares under the NCIB.

During the year ended December 31, 2014, under the terms of the NCIB, the Company purchased 1,873,023 common shares for cancellation on the open market for an aggregate price of $75,009. The Company's majority shareholder Genworth Financial Inc. through its subsidiaries, participated proportionately in the share purchase transaction and maintained a 57.3% ownership interest in the Company.

19. Long-term debt:

On June 29, 2010, the Company completed an offering of $275,000 principal amount of senior unsecured debentures ("Series 1"). The Series 1 debentures were issued for gross proceeds of $274,862 or a price of $99.95, before approximate issuance costs of $2,413.

On December 16, 2010, the Company completed an additional offering of $150,000 principal amount of senior unsecured debentures ("Series 2"). The Series 2 debentures were issued at par, before approximate issuance costs of $986.

On April 1, 2014, the Company completed an offering of $160,000 principal amount of senior unsecured debentures ("Series 3"). The Series 3 debentures were issued at par, before approximate issuance costs of $1,365.

On May 1, 2014, the Company redeemed its existing Series 2 senior unsecured debentures with a principal amount of $150,000. The Company repaid the principal amount plus accrued and unpaid interest to the redemption date of $2,584. In addition, the Company paid an early redemption fee to existing debt holders of $7,249.

All debentures issued are redeemable at the option of the Company in whole or in part, at any time subject to an early redemption fee.

The issuance costs and discount are amortized over the respective terms of the debentures using the effective interest method.

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

	Series 1	Series 3
Date issued	June 29, 2010	April 1, 2014
Maturity date	June 15, 2020	April 1, 2024
Principal amount	$275,000	$160,000
Fixed annual rate	5.68 %	4.242 %
Semi-annual interest payment due each period on:	June 15	October 1
	December 15	April 1

19. Long-term debt (continued):

The Company's long-term debt balances are as follows:

2015	Series 1	Series 3	Total
Carrying value	$ 273,670	$ 158,834	$ 432,504
Fair value	299,489	159,662	459,151

2014	Series 1	Series 3	Total
Carrying value	$ 273,418	$ 158,719	$ 432,137
Fair value	310,896	165,579	476,475

The Company's long-term debt is classified as a Level 2 financial instrument, as described in note 22, as the fair value of the debt is determined using observable market data.

The Company incurred interest expense of $22,774 and $23,686 for the years ended December 31, 2015 and 2014, respectively, with accrued interest payable of $2,429 at December 31, 2015 (2014- $2,429).

20. Earnings per share:

Basic earnings per share have been calculated using the weighted average number of shares outstanding of 92,296,521 (2014 - 94,787,064). Diluted earnings per share have been calculated using the diluted weighted average number of shares outstanding of 92,771,849 (2014 -94,966,380). 155,933 Options (2014 - 1,001,764 Options, 4,346 RSUs, 17,845 PSUs, 40,781 DSUs and 20,153 EDSUs) were excluded from the calculation of diluted weighted average number of shares since their effect would have been anti-dilutive.

Earnings per share are presented below:

	2015	2014
Basic earnings per share:		
Net income	$ 398,302	$ 376,544
Diluted earnings per share:		
Re-measurement amount net of income taxes	(7,166)	106
Earnings for purposes of diluted earnings per share	$ 391,136	$ 376,650
Basic common shares outstanding, beginning of year:	93,147,778	94,910,880
Effect of share-based compensation exercised during the year	64,941	73,071
Effect of repurchase of common shares during the year	(916,198)	(196,887)
Weighted average basic common shares outstanding during the year	92,296,521	94,787,064
Basic earnings per share	$ 4.32	$ 3.97
Diluted earnings per share:		
Basic weighted average common shares outstanding	92,296,521	94,787,064
Effect of share-based compensation during the year	475,328	179,316
Diluted weighted average common shares outstanding during the year	92,771,849	94,966,380
Diluted earnings per share	$ 4.22	$ 3.97

21. Non-current assets and liabilities:

The following table presents assets and liabilities the Company expects to recover or settle after 12 months at December 31, 2015 and 2014.

	2015	2014
Assets:		
Collateral under reinsurance agreement	$ —	$ 28,446
Bonds and debentures	4,691,333	4,535,976
Preferred shares	247,717	—
Common shares	—	170,456
Subrogation recoverable	12,637	14,324
Total assets	4,951,687	4,749,202
Liabilities:		
Loss reserves	75,343	57,080
Derivative financial instruments	50,154	23,298
Accrued net benefit liabilities under employee benefit plans	36,764	35,880
Long-term debt	432,504	432,137
Total liabilities	594,765	548,395
Net assets due after one year	$ 4,356,922	$ 4,200,807

22. Fair value measurement:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurements are based on a three-level fair value hierarchy based on inputs used in estimating the fair value of assets and liabilities. The hierarchy of inputs is summarized below:

- Level 1 - inputs used to value the financial assets and liabilities are unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs used to value the financial assets and liabilities are other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3 - inputs used to value the financial assets and liabilities are not based on observable market data.

22. Fair value measurement (continued):

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount				Fair value		
2015	AFS	FVTPL	Loans and receivables	Other financial liabilities	Level 1	Level 2	Level 3
Financial assets measured at fair value:							
Short-term investments	$ 78,178	$ —	$ —	$ —	$ 78,178	$ —	$ —
Derivative financial instruments	—	—	—	—	—	—	—
Bonds and debentures	5,200,715	—	—	—	—	5,200,715	—
Preferred shares	247,717	—	—	—	247,717	—	—
	5,526,610	—	—	—	325,895	5,200,715	—
Financial assets not measured at fair value:							
Cash and cash equivalents	—	—	390,796	—	—	—	—
Accrued investment income and other receivables	—	—	28,130	—	—	—	—
	—	—	418,926	—	—	—	—
Financial liabilities measured at fair value:							
Derivative financial instruments	—	(83,861)	—	—	—	(83,861)	—
Financial liabilities not measured at fair value:							
Accounts payable and accrued liabilities	—	—	—	(65,750)	—	—	—
Long-term debt	—	—	—	(432,504)	—	(459,151)	—
	—	—	—	(498,254)	—	(459,151)	—
Total	$ 5,526,610	$ (83,861)	$ 418,926	$ (498,254)	$ 325,895	$ 4,657,703	$ —

22. Fair value measurement (continued):

	Carrying amount				Fair value		
2014	AFS	FVTPL	Loans and receivables	Other financial liabilities	Level 1	Level 2	Level 3
Financial assets measured at fair value:							
Short-term investments	$ 84,933	$ —	$ —	$ —	$ 84,933	$ —	$ —
Derivative financial instruments	—	303	—	—	—	303	—
Bonds and debentures	4,997,359	—	—	—	—	4,997,359	—
Common shares	170,456	—	—	—	170,456	—	—
	5,252,748	303	—	—	255,389	4,997,662	—
Financial assets not measured at fair value:							
Cash and cash equivalents	—	—	190,375	—	—	—	—
Accrued investment income and other receivables	—	—	30,099	—	—	—	—
Collateral receivable under reinsurance agreement	—	—	28,446	—	—	—	—
	—	—	248,920	—	—	—	—
Financial liabilities measured at fair value:							
Derivative financial instruments	—	(23,298)	—	—	—	(23,298)	—
Financial liabilities not measured at fair value:							
Accounts payable and accrued liabilities	—	—	—	(41,557)	—	—	—
Long-term debt	—	—	—	(432,137)	—	(476,475)	—
	—	—	—	(473,694)	—	(476,475)	—
Total	$ 5,252,748	$ (22,995)	$ 248,920	$ (473,694)	$ 255,389	$ 4,497,889	$ —

22. Fair value measurement (continued):

The fair value of cash and cash equivalents, accrued investment income and other receivables, collateral receivable under reinsurance agreement and accounts payable and accrued liabilities approximates fair value due to the short term nature of these items.

During the years ended December 31, 2015 and 2014, the Company did not hold any investments measured at fair value using unobservable inputs (Level 3). Transfers between levels of the fair value hierarchy may occur if the inputs used to value the investments change. Any transfers between the levels are deemed to have occurred at the end of the reporting period. Given the types of assets classified in Level 1, which are short-term investments and preferred or common shares, the Company does not typically have any transfers between Level 1 and Level 2 of the fair value hierarchy, and there were no such transfers during the years ended December 31, 2015 and 2014.

Valuation of Level 2 financial instruments:

Fair values of bonds and debentures, including CLOs, are obtained primarily from industry standard pricing services and third party brokers utilizing market observable inputs. Fair value is assessed by analyzing available market information through processes such as benchmark curves, benchmarking of like securities and quotes from market participants.

Observable information is compiled and integrates relevant credit information, interest rates of the underlying investment, perceived market movements and sector news. Market indicators, industry and economic events are also monitored as triggers to obtain additional data. The primary inputs used in determining fair value of bonds and debentures and preferred shares are interest rate curves and credit spreads.

Derivative financial instruments are non-exchange traded foreign currency forwards, cross currency interest rate swaps and equity total return swaps. The value of these derivative financial instruments is determined using an income approach in which future cash flows expected from the contracts are discounted to reflect the current value of the derivative financial instruments. The primary inputs used in determining fair value of foreign currency forwards and cross currency swaps are interest rate yield curves and foreign currency exchange rates. The primary inputs used in determining fair value of equity total return swaps are market prices for referenced assets and interest rate yield curves.

The Company's long-term debt is a financial liability that is not carried at fair value on the Company's consolidated statements of financial position, for which fair value is disclosed in the notes to the consolidated financial statements (note 19). Fair values are obtained from independent pricing sources utilizing market observable information. The primary inputs used in the valuation of the long-term debt are interest rate curves and credit spreads.

Five-year financial review

Certain terms and abbreviations used in the Annual Report are defined below.

Years ended December 31 (in millions, unless otherwise specified)	**2015**	2014	2013	2012	2011
Income statement data					
Gross premiums written	**$ 809**	$ 640	$ 512	$ 560	$ 545
Net premiums earned	**586**	565	573	589	612
Underwriting revenues	**586**	565	573	589	612
Losses	**122**	111	142	194	225
Expenses	**108**	107	113	105	101
Investment income	**201**	195	215	181	179
Impact of the reversal of government guarantee fund exit fees	**0**	0	0	186	0
Interest expense [1]	**(23)**	(31)	(23)	(23)	(23)
Pre-tax income	**534**	511	511	635	443
Net income	**398**	377	375	470	323
Net operating income	**375**	366	349	462	318
Balance sheet data					
Cash and investments	**5,917**	5,443	5,375	5,379	5,063
Total assets	**6,239**	5,770	5,691	5,734	5,393
Unearned premium reserves	**2,021**	1,799	1,724	1,785	1,824
Debt	**433**	432	423	422	422
Total liabilities	**2,819**	2,499	2,604	2,697	2,710
Shareholders equity	**3,420**	3,271	3,087	3,037	2,683
AOCI	**127**	185	124	221	215
Shareholders equity, Excluding AOCI	**3,293**	3,086	2,963	2,816	2,468
Key ratios and other items					
Loss ratio	**21%**	20%	25%	33%	37%
Expense ratio	**18%**	19%	20%	18%	17%
Combined ratio	**39%**	39%	44%	51%	53%
Operating return on equity	**12%**	12%	12%	17%	13%
Adjusted operating return on equity [2]	**12%**	12%	12%	13%	13%
MCT ratio [3]	**234%**	225%	223%	170%	162%
Delinquency ratio	**0.10%**	0.10%	0.12%	0.14%	0.20%
Severity ratio	**29%**	29%	30%	32%	32%
Leverage	**11%**	12%	12%	12%	14%
Operating earnings per share (diluted)	**$ 4.05**	$ 3.86	$ 3.60	$ 4.67	$ 3.08
Adjusted operating Earnings per share (diluted) [2]	**$ 4.05**	$ 3.86	$ 3.60	$ 3.43	$ 3.08
Book value per share (diluted, exc. AOCI)	**$ 35.46**	$ 33.04	$ 31.22	$ 28.40	$ 24.78
Book value per share (diluted, incl. AOCI)	**$ 36.82**	$ 35.02	$ 32.53	$ 30.62	$ 26.94

[1] 2014 Interest Expense Includes $7 million of fee on early redemption of long term debt
[2] Adjusted for the impact of the government guarantee fund exit fee reversal in 2012
[3] Final MCT as compared to the reported estimate of 233% in Management's Discussion and Analysis and Financial Statements for the year ended December 31, 2015

(For the quarter ended, in millions, unless otherwise specified)				2015				2014
	Q4'15	Q3'15	Q2'15	Q1'15	Q4'14	Q3'14	Q2'14	Q1'14
Net Premiums Written	$ 213	$ 260	$ 205	$ 130	$ 178	$ 217	$ 160	$ 84
Net Premiums Earned	151	148	144	143	143	140	141	141
Underwriting revenues	151	148	144	143	143	140	141	141
Losses on claims	35	31	25	31	37	30	17	28
Expenses	27	28	29	24	30	24	27	27
Net underwriting income	90	89	90	87	76	87	97	86
Investment Income	47	39	58	57	47	51	49	49
Impact of the reversal of government guarantee fund exit fees								
Fee on early redemption of long term debt							(7)	
Interest Expense	(6)	(6)	(6)	(6)	(6)	(6)	(7)	(6)
Net income	98	90	103	107	86	98	97	95
Adjustment to net income, net of taxes:								
Fee on early redemption of long term debt							5	
Net Investment Gains	(3)	3	(12)	(11)	(3)	(6)	(4)	(4)
Net Operating Income	95	92	91	97	84	93	99	91
Loss ratio	23%	21%	17%	22%	26%	21%	12%	20%
Expense ratio	18%	19%	20%	17%	21%	17%	19%	19%
Combined ratio	41%	40%	37%	39%	47%	38%	31%	39%
Operating earnings per share diluted	$ 1.03	$ 1.00	$ 0.99	$ 1.03	$ 0.89	$ 0.95	$ 1.04	$ 0.96

Designed by Creative Equity Partners Inc.

Exchange listing
The Toronto Stock Exchange:
Common shares (MIC)

Common shares
As at December 31, 2015, there were 91,795,125 common shares outstanding (basic).

Independent auditor
KPMG LLP
Bay Adelaide Centre
333 Bay Street, Suite 4600
Toronto, Ontario M5H 2S5

Registrar and transfer agent
Canadian Stock Transfer Company, Inc.
320 Bay Street, P.O. Box 1
Toronto, Ontario M5H 4A6
Tel: 416-643-5000
Fax: 416-643-5570
www.canstockta.com

All inquiries related to address changes, elimination of multiple mailings, transfer of MIC shares, dividends or other shareholder account issues should be forwarded to the offices of Canadian Stock Transfer Company.

Investor relations
Shareholders, security analysts and investment professionals should direct inquiries to:
Jonathan A. Pinto
Vice-President, Investor Relations
investor@genworth.com

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, Genworth Financial Mortgage Insurance Company Canada.

The Company holds a conference call following the release of its quarterly results. These calls are archived in the Investor section of the Company's website.

Annual general meeting of shareholders
Date: Thursday, June 2, 2016
Time: 10:00 AM
Location: TMX Broadcast Centre
The Exchange Tower
130 King St West, Toronto, Ontario

Board of Directors
Complaints about the Company's internal accounting controls or auditing matters or any other concerns may be addressed directly to the Board of Directors or the Audit Committee at:

Board of Directors
Genworth MI Canada Inc.
c/o Winsor Macdonell, Secretary
2060 Winston Park Drive, Suite 300
Oakville, Ontario L6H 5R7
Tel: 905-287-5484

Corporate ombudsperson
Concerns related to compliance with the law, Genworth policies or government contracting requirements may be directed to:

Genworth ombudsperson
2060 Winston Park Drive, Suite 300
Oakville, Ontario L6H 5R7
Tel: 905-287-5510
Canada-ombudsperson@genworth.com

Disclosure documents
Corporate governance, disclosure and other investor information is available online from the Investor Relations pages of the Company's website at http://investor.genworthmicanada.ca.

Cautionary statements
The cautionary statements included in the Company's Management's Discussion and Analysis and Annual Information Form, including the "Special note regarding forward-looking statements" and the "Non-IFRS financial measures," also apply to this Annual Report and all information and documents included herein. These documents can be found at www.sedar.com.

2015 common share dividend dates
The declaration and payment of dividends and the amount thereof are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flow and other factors the Board considers relevant from time to time.

Eligible dividend designation
For purposes of the dividend tax credit rules contained in the Income Tax Act (Canada) and any corresponding provincial or territorial tax legislation, all dividends (and deemed dividends) paid by Genworth MI Canada Inc. to Canadian residents are designated as eligible dividends. Unless stated otherwise, all dividends (and deemed dividends) paid by the Company hereafter are designated as eligible dividends for the purposes of such rules.

Information for shareholders outside Canada
Dividends paid to residents in countries with which Canada has bilateral tax treaties are generally subject to the 15% Canadian non-resident withholding tax. There is no Canadian tax on gains from the sale of shares (assuming ownership of less than 25%) or debt instruments of the Company owned by non-residents not carrying on business in Canada. (No government in Canada levies estate taxes or succession duties.)

Contact:

Investor Relations
Email: investor@genworth.com

Genworth MI Canada
2060 Winston Park Drive, Suite 300
Oakville, Ontario L6H 5R7

Tel: 905.287.5300
Fax: 905.287.5472
www.genworth.ca

Credit ratings

	S&P	DBRS
Issuer rating		
Genworth MI Canada Inc.	BBB+, Stable	AA (low), Stable
Financial strength		
Genworth Financial Mortgage Insurance Company Canada	A+, Stable	AA, Stable
Senior unsecured debentures		
Genworth MI Canada Inc.	BBB+, Stable	AA (low), Stable

Dividend declaration dates

Declared	Record	Payable	Amount per common share
10/28/15	11/13/15	11/27/15	$0.42
08/04/15	08/17/15	08/31/15	$0.39
04/27/15	05/15/15	05/29/15	$0.39
02/09/15	02/23/15	03/06/15	$0.39

The issuer ratings of Genworth MI Canada and financial strength ratings of Genworth Financial Mortgage Insurance Company Canada reflect each rating agency's opinion of the Company's financial strength, operating performance and ability to meet obligations to policyholders.

Genworth.ca