Genworth Canada

Genworth MI Canada Inc.

2014 Annual Report

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 more accessible to first-time homebuyers.

As at December 31, 2014, Genworth Canada had $5.8 billion in total assets and $3.3 billion in shareholders' equity.

2014 Financial and Operating Highlights

$640 million
net premiums written

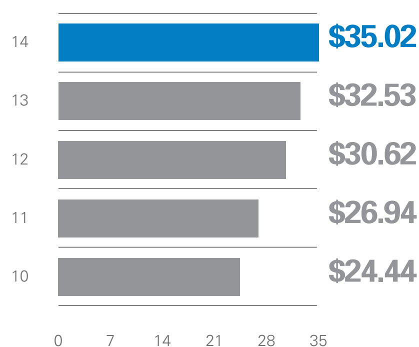
$366 million
net operating ncome

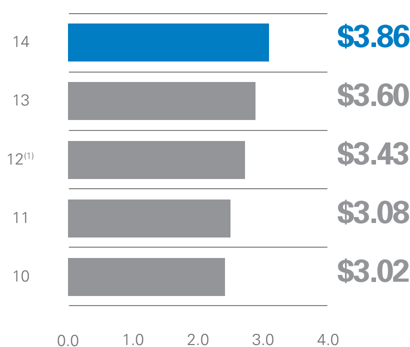
12%
operating return on equity

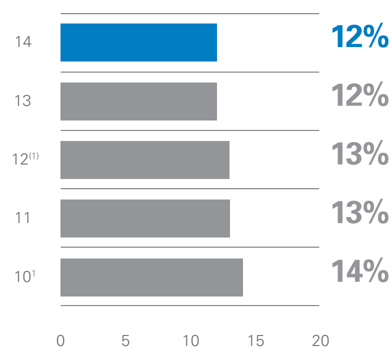
39%
combined ratio

$3.86
operating diluted earnings per share

$1.87
dividends paid per common share







[1] Adjusted for the impact of the government guarantee fund exit fee reversal in 2012. Including the impact of the government guarantee exit fee reversal, operating earnings per share (diluted) and operating return on equity were $4.67 and 17%, respectively.

Note: For further information refer to the MD&A.

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Building on Growth Momentum

Dear Fellow Shareholders,

As I take on the role as your President and CEO, I am excited by the opportunities and challenges that lie ahead for our business. 2014 was a milestone year for Genworth Canada on many fronts. We celebrated our fifth year as a public company, delivered outstanding results for our shareholders and continued to increase our market share with key customers.

In 2015 we embarked on our 20th year of helping Canadians achieve their homeownership dreams and I am proud to have been involved in various facets of the business for the majority of those years. A chartered accountant by profession, I spent five years in the CFO role before diversifying my experience through leadership roles in risk, operations and sales management. What I learned in that time is that our success is a result of a combination of four factors: a solid business model; a prudently regulated industry; collaborative customer relationships; and most importantly, passionate employees with a shared commitment to excellence.

Our success is driven by our people. In-depth expertise and a customer-comes-first culture have helped us build and maintain our position as Canada's leading private mortgage insurer.

As I meet with many shareholders, customers, regulators and other key stakeholders, I remind them our goal moving forward is to solidify our position as the mortgage insurer of choice across the industry.

Stuart Levings, President and CEO

When we look at our financial performance in 2014, the competitive landscape and economic environment we operate in, along with our continued focus on driving an innovative workforce, it's clear that we have what it takes to grow – strategically and prudently – in the years ahead.

Strong performance in 2014

Our fifth year as a public company was a successful one on many fronts. We outpaced general market growth with very strong top line results. We met or exceeded market expectations across the board, delivering increases of

+25% net premiums written

+5% net operating income

+7% earnings per share

+8% book value per share

Throughout the year we also delivered a 12 per cent operating return on equity and increased our ordinary dividend by 11 per cent in the fourth quarter, representing our fifth increase in five years. In addition, we repurchased shares through our share buy-back program, contributing to management and the Board's objective to maximize shareholder value and improve capital efficiency.

Notable in 2014 was our strong loss performance, driven mainly by our solid portfolio quality and a healthy housing and labour market across the country. Regulatory changes in recent years combined with our prudent and dynamic approach to risk management continue to drive improvements in our portfolio quality. In fact this past year we saw average credit scores at their highest ever, at 737, and very healthy debt servicing ratios among our target market of first-time homebuyers. Our proactive loss-mitigation programs also continue to help mitigate losses while providing a value-add service to our customers and homeowners.

What we see on the horizon

First-time homebuyers

The target market we serve is made up primarily of first-time buyers and what we see within this segment are fiscally prudent consumers. The average purchase price of a home in the market we serve is approximately $315,000. Even though that number varies from one city to another, our averages remain well below the average price seen in the same market. Also, according to our data, new homeowners are dedicating, on average, about 26 per cent of their income to carrying the cost of their mortgage – a very reasonable ratio. Even in the higher priced markets of Toronto and Vancouver, those ratios are approximately 30 per cent and 29 per cent respectively.

This demonstration of rational purchasing habits among first-time homebuyers, combined with solid credit profiles and our own diligent underwriting processes, gives us confidence that the quality of our books moving forward will continue to be strong. The homebuyers we insure have the capacity to withstand gradual interest rate increases should they occur.

Economic landscape

We actively monitor the local economic factors that impact Canada's housing market and consider it our responsibility to make sure our actions support the safety and soundness of this important sector.

Based on the data we see today and the trends we are watching, we expect Canada to enjoy ongoing growth, both in housing prices and sales, albeit at a slower pace than that witnessed in recent years. A stable and slower housing market is good for our business and good for the market overall as it allows affordability to improve.

With respect to the impact of lower oil prices, while we can't predict how long this will last or how low prices will go, we do know that Alberta's housing market was in a very healthy and balanced state as we entered this phase which should help to reduce potential economic pressure. While some markets face pressure, others, such as Ontario and Quebec, will benefit as the lower dollar and oil prices help boost manufacturing and overall consumer spending.

Finally, we believe that Government policy and regulatory actions taken during the past few years have helped to moderate risk and increase the safety and soundness of the Canadian housing market.

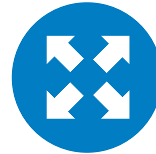
All these factors, combined with an overall healthy employment market nationally, support a positive outlook on the health and balance of the market we operate in.

Commitment to our communities

An overview of the year would not be complete without a mention of some of the many ways our engaged and compassionate workforce makes a difference in communities where we work and live.

In 2014 we helped Habitat for Humanity Canada launch a new initiative – as founding partner of the Canada Builds program. This program brings the concept of Habitat Global Villages to Canadian soil with the intention of helping build, or re-build, communities in need coast to coast. The initiative launched with a build of 7 homes in a part of Calgary ravaged by the floods of 2013 and we were proud to have members of our leadership team and staff participate in that inaugural build.

2015 Key Strategic Priorities



Expand Market Share

Proactive Risk Management

Strong Government Relations

Efficient Capital Structure

Adjacent Opportunities

Employ and Engage Top Talent

This is but one example of the many ways our charitable efforts – which in 2014 totaled $750,000 in corporate donations, $50,000 in employee fundraising efforts and 2,520 volunteer hours – help build stronger communities across the nation.

This commitment to our people and our communities is not only the right thing to do, it also strengthens our reputation and our industry relationships across the country.

Well-positioned for prudent growth

My mission is to make Genworth Canada the mortgage insurer of choice for lenders – and homebuyers – coast to coast. We will achieve this by focusing on our key strategic priorities, balancing growth with prudent risk management, active government relations and efficient use of capital.

I believe that investing in resources to enhance our service levels, expand our value proposition and drive innovation in our industry, will drive market share growth within our core business over the next 3 to 5 years. We have the momentum to grow and I intend to seize on the right opportunities to not only grow our footprint in this industry but also expand into adjacent opportunities that align with our vision and strategy.

Through a continued focus on delighting our customers with a better customer experience, capacity to take on more volumes and desire to become a broader mortgage services provider, the prospects for the future of Genworth Canada are exciting.

Thank you to our employees, our customers, our promoters, our shareholders, our dedicated Board of Directors and all those who take an interest in our business, for your ongoing trust and support.

Stuart Levings
President and CEO

Dear Fellow Shareholders,

As I pass on the reigns to our new President and CEO, Stuart Levings, I feel very good about the current state of our business and our prospects for continued success and growth.

Leading Genworth Canada through its first five years as a public company has been a tremendous experience. We set out to focus on execution and relentlessly deliver on our promises to both our customers and shareholders. Our strategy has proved effective. Since our initial public offering we improved our position in the market, delivered greater than 100 per cent total shareholder return, increased awareness on the value and benefits of a regulated mortgage insurance industry and set a precedent for greater industry disclosure and transparency.

The Board's Role

The Board plays an active role helping the Company pursue growth opportunities while remaining focused on core strengths and disciplined risk management.

Ongoing change and evolution in the economy, regulatory landscape and housing market require that we remain nimble and open to exploring new ways of doing business. To that end the Board invests significant time in fully understanding all facets of the business landscape and mortgage insurance industry. This helps ensure the guidance we bring is based on in-depth knowledge of the business as well as our varied expertise.

As a Board, we are focused on making sure Genworth Canada continues to create value for shareholders as it establishes and delivers on its strategic priorities. Our 5 years of consistent dividend increases demonstrate our confidence in ongoing business growth, prudent risk management and capital efficiency.

Brian Hurley, Executive Chairman

Risk management

The industry, including customers and regulatory bodies, has come to rely on Genworth Canada for strategic perspectives and best practices, especially in recent years of increased regulatory interest and oversight. As your Board Chair, I am committed to making sure the Board actions support and strengthen this reputation through sound governance and oversight.

In 2014, your Board introduced some new practices to help enhance the long-term value of the Company to its shareholders. In December, we approved the documentation of a process we refer to as "Own Risk and Solvency Assessment" (ORSA). ORSA is a process that links the Company's risk management framework to its business strategy and decision-making processes. Throughout the year, the ORSA management committee led working sessions with our Board that included the identification, assessment, measurement and risk quantification of each of the Company's material risks.

We continue to bring a variety of perspectives to senior management, to ensure that all options and all stakeholders are considered. Diligent corporate governance plays an important role in the Company's overall performance and helps ensure that we remain well-positioned for long term sustainability and continued strong performance.

Positive momentum

The Board is proud of being part of the leading private mortgage insurer in Canada. We recognize and respect the passion and skills of the employees who make it all happen. We look forward to helping guide the business towards many more decades of delivering strong value to all our stakeholders.

I'd like to take this opportunity to thank Robert Gillespie and Angel Mas, who will be leaving our Board this year, for their insight and assistance in building the business. And thank you, our shareholders. Your confidence in the Board, and in the business, helps fuel our momentum for continued growth and for this I am grateful.

Brian Hurley
Executive Chairman

EXECUTIVE TEAM

Executive Team:
Clockwise from left – standing: Philip Mayers, Chief Financial Officer; Stuart Levings, President and Chief Executive Officer; Brian Hurley, Executive Chairman; Winsor Macdonell, SVP, General Counsel and Corporate Secretary; Craig Sweeney, Chief Risk Officer; Seated from left: Debbie McPherson, SVP, Sales and Marketing; Rhonda Lawson, SVP, Human Resources and Facilities

BOARD OF DIRECTORS

Board of Directors:
From left to right: Sidney Horn; Heather Nicol; John Walker; Brian Kelly; Jerome Upton; Leon Roday; Angel Mas; Robert Gillespie[1]; Brian Hurley and Samuel Marsico. Absent from photo: David Gibbins[1]

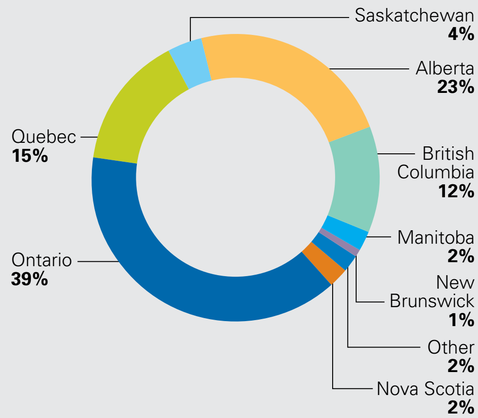
(1) Directors of Genworth Financial Mortgage Insurance Company Canada

DEMONSTRATED FINANCIAL STRENGTH

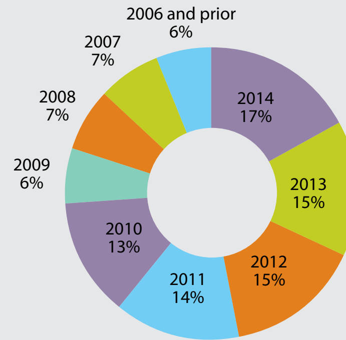
(1) Adjusted for the impact of the government guarantee fund exit fee reversal in 2012. Including the impact, net operating income would have been $462 and net investment income $355.

HIGH-QUALITY AND DIVERSIFIED INSURANCE PORTFOLIO

Geographical dispersion
(% as at December 31, 2014)

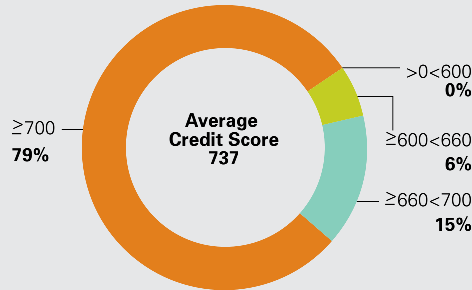


Book Year
(% as at December 31, 2014)

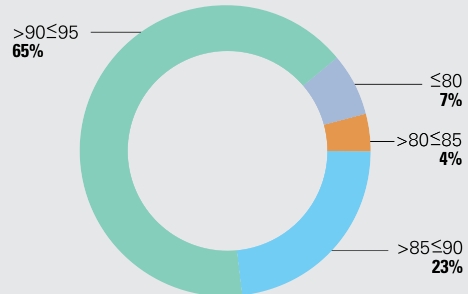


Note: Data is based on high loan-to-value outstanding balance of insured mortgages.

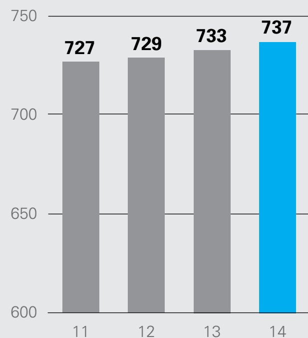
Credit score dispersion on new insurance written in 2014



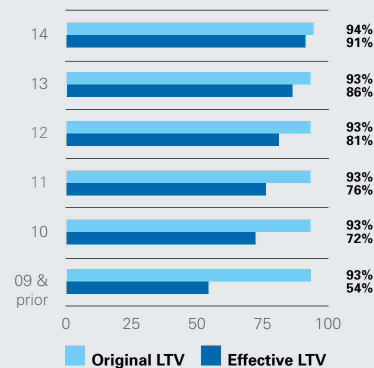
Loan-to-value on new insurance written in 2014



Average credit score on new insurance written



Effective loan-to-value (LTV)[1]



[1] Overall estimated effective loan-to-value is calculated by weighting the book year estimated effective loan-to-value percentages

1.5 million:
the number of families across Canada who have achieved homeownership with our help

29,000:
the number of families we helped through our Homeowner Assistance Program

$5.2 million
donated to 78 charities nationwide

12,000+
hours of volunteer service by Genworth Canada employees

270 EMPLOYEES

80 EMPLOYEES with 10+ years of service who bring more than **1,000** YEARS of experience to the business

HABITAT FOR HUMANITY CANADA:

$2.8 million
donated in support of **45** Habitat for Humanity affiliates across Canada

1,000s of volunteer hours on Habitat build sites – impacting **1,800** families

35,000+ children engaged in supporting Habitat via Genworth Canada's Meaning of Home contest

JUVENILE DIABETES RESEARCH FOUNDATION:

$198,000 raised by employees through Ride for Life challenges across Canada

OAKVILLE:

$250,000 donated to the new Oakville Hospital

$250,000 donated to Wellspring

$500,000+ donated to the United Way of Oakville

Visit **www.powerofhome.ca** for more information on Genworth Canada's contributions to communities across Canada.

Management’s Discussion and Analysis

For the year ended December 31, 2014

Interpretation

The fourth quarter and full year results for 2014 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 9, 2015 is prepared for the three and twelve months ended December 31, 2014. 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, and the effect of changes to the government guarantee mortgage eligibility rules, and the Company's beliefs as to housing demand and home price appreciation, unemployment rates, the Company's future operating and financial results, sales expectations regarding premiums written, capital expenditure plans, dividend policy and the ability to execute on its future operating, investing and financial strategies.

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

The Company's actual results and performance could differ materially from those anticipated in these forward-looking statements as a result of both known and unknown risks, including the continued availability of the Canadian government's guarantee of private mortgage insurance on terms satisfactory to the Company; the Company's expectations regarding its revenues, expenses and operations; the Company's plans to implement its strategy and operate its business; the Company's expectations regarding the compensation of directors and officers; the Company's anticipated cash needs and its estimates regarding its capital expenditures, capital requirements, reserves and its needs for additional financing; the Company's plans for and timing of expansion of service and products; the Company's ability to accurately assess and manage risks associated with the policies that are written; the Company's ability to accurately manage market, interest and credit risks; the Company's ability to maintain ratings, 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 orientations; the cyclical nature of the mortgage insurance industry; changes in government regulations and laws mandating mortgage insurance; the acceptance by the Company's lenders of new technologies and products; the Company's ability to attract lenders and develop and maintain lender relationships; the Company's competitive position and its expectations regarding competition from other providers of mortgage insurance in Canada; anticipated trends and challenges in the Company's business and the markets in which it operates; changes in the global or Canadian economies; a decline in the Company's regulatory capital or an increase in its regulatory capital requirements; loss of members of the Company's senior management team; potential legal, tax and regulatory investigations and actions; the failure of the Company's computer systems; and potential conflicts of interest between the Company and its majority shareholder, Genworth Financial, Inc.

This is not an exhaustive list of the factors that may affect any of the Company's forward-looking statements. Some of these and other factors are discussed in more detail in the Company's Annual Information Form (the "AIF") dated March 17, 2014. 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 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 (excluding fees on early redemption of debt, as applicable), 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. Non-IFRS financial measures used by the Company to analyze the impact of the reversal of the government guarantee fund exit fee include adjusted net investment income, adjusted net income, adjusted earnings per common share (basic), adjusted earnings per common share (diluted), adjusted net operating income, adjusted operating earnings per common share (basic), adjusted operating earnings per common share (diluted), and adjusted operating return on equity. Other non-IFRS measures used by the Company to analyze performance include insurance in-force, new insurance written, Minimum Capital Test ("MCT") ratio, pro-forma MCT ratio, delinquency ratio, severity on claims paid, 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. In addition, where applicable, non-IFRS measures used by the Company have been adjusted to analyze the impact of the reversal of the government guarantee fund exit fee.

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 for non-IFRS financial measures", in the "Non-IFRS financial measures" section at the end of this MD&A.

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 high loan-to-value and low loan-to-value mortgage insurance.

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

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

Seasonality

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

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

Distribution and marketing

The Company works with lenders, mortgage brokers and real estate agents across Canada to make homeownership more affordable for first-time homebuyers. Mortgage insurance customers consist of originators of residential mortgage loans, such as banks, mortgage loan and trust companies, credit unions and other lenders. These lenders typically determine which mortgage insurer they will use for the placement of mortgage insurance written on loans originated by them. The five largest Canadian chartered banks are the largest mortgage originators in Canada and provide the majority of financing for residential mortgages.

Overview

Financial highlights for 2014

The following table sets forth certain financial information for the fourth quarter and full year of 2014 and 2013.

	Quarter		Full Year	
(In millions of dollars, unless otherwise specified)	**2014**	2013	**2014**	2013
Income statement data				
Premiums written	**$ 178**	$ 129	**$ 640**	$ 512
Premiums earned	**$ 143**	$ 142	**$ 565**	$ 573
Losses on claims and expenses				
Losses on claims	**37**	31	**111**	142
Expenses	**30**	33	**107**	113
Total losses on claims and expenses	**66**	64	**219**	255
Net underwriting income	**76**	78	**346**	319
Net investment income	**47**	56	**195**	215
Interest expense	**6**	6	**24**	23
Fee on early redemption of long term debt	**—**	—	**7**	—
Income before income taxes	**117**	128	**511**	511
Net income	**$ 86**	$ 93	**$ 377**	$ 375
Net operating income[1]	**$ 84**	$ 85	**$ 366**	$ 349
Weighted average number of common shares outstanding				
Basic	**94,239,672**	94,904,567	**94,787,064**	97,049,781
Diluted[2]	**94,284,878**	94,907,933	**94,966,380**	97,067,722
Earnings per common share ratios				
Earnings per common share (basic)	**$ 0.92**	$ 0.98	**$ 3.97**	$ 3.86
Earnings per common share (diluted)[2]	**$ 0.91**	$ 0.98	**$ 3.97**	$ 3.86
Selected non-IFRS financial measures[1]				
Insurance in force[3]	**$ 356,318**	$ 316,702	**$ 356,318**	$ 316,702
New insurance written total	**$ 8,785**	$ 7,693	**$ 42,153**	$ 34,985
New insurance written high loan-to-value	**$ 6,193**	$ 5,175	**$ 22,112**	$ 19,502
New insurance written low loan-to-value	**$ 2,593**	$ 2,519	**$ 20,041**	$ 15,483
Loss ratio	**26%**	22%	**20%**	25%
Expense ratio	**21%**	23%	**19%**	20%
Combined ratio	**47%**	45%	**39%**	44%
Operating return on equity	**11%**	12%	**12%**	12%
MCT ratio	**225%**	223%	**225%**	223%
Delinquency ratio	**0.10%**	0.12%	**0.10%**	0.12%
Severity on claims paid	**29%**	29%	**29%**	30%
Operating earnings per common share (basic)	**$ 0.89**	$ 0.90	**$ 3.86**	$ 3.60
Operating earnings per common share (diluted)[2]	**$ 0.89**	$ 0.90	**$ 3.86**	$ 3.60

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 is caused by the potentially dilutive impact of share-based compensation awards.

[3] The Company estimates that the outstanding balance of insured mortgages was approximately $166 billion as at September 30, 2014. Outstanding balances are reported on a quarter lag.

On a full year basis, the Company reported 2014 net income of $377 million and net operating income of $366 million, as compared to $375 million and $349 million in the prior year, respectively.

The Company reported fourth quarter of 2014 net income of $86 million or $0.91 per diluted common share and net operating income of $84 million or $0.89 per diluted common share, as compared to $93 million and $85 million in the prior year, respectively.

Key 2014 financial metrics:

- Net premiums written were $640 million, representing an increase of $128 million, or 25% higher as compared to 2013. The premiums written growth was primarily attributed to higher volumes of mortgage originations, premium rate increases, and market penetration.
- Net premiums earned for the year was $565 million, representing a decrease of $8 million, or 1%, as compared to 2013, primarily due to lower net premiums written in recent book years.
- The loss ratio was 20%, consistent with the Company's anticipated 2014 range of 15–25%. The full year loss ratio was lower by 5 percentage points when compared to 2013. The improvement in loss ratio was primarily due to strong insurance portfolio quality and stable economic conditions.
- The expense ratio was 19%, in line with the Company's expectations.
- Net investment income, excluding realized gains, was $173 million, lower by $6 million as compared to the income contribution in 2013, primarily due to the low interest rate environment.

Key fourth quarter financial metrics:

- Net premiums written of $178 million, represented an increase of $49 million, or 38%, as compared the same quarter in the prior year. The year-over-year increase was primarily the result of higher volumes of mortgage originations and premium rate increases.
- Net premiums earned of $143 million were relatively flat as compared to the same quarter in the prior year. The unearned premium reserve was $1.8 billion at the end of the quarter, consistent with the prior quarter.
- Losses on claims of $37 million were $6 million higher than the same quarter in the prior year due to a higher number of new reported delinquencies, net of cures from the Quebec and Atlantic regions. The resulting loss ratio was 26% for the quarter, as compared to 22% in the same quarter in the prior year.
- The expense ratio was 21%, 3 percentage points lower than the same quarter in the prior year, driven by share price fluctuations which impacted employee share-based compensation.
- Net Investment income, excluding realized gains, of $43 million was essentially flat to the same quarter in the prior year.
- The regulatory capital ratio or Minimum Capital Test ("MCT") ratio was approximately 225%, 1 percentage point higher than the prior quarter, 40 percentage points higher than the Company's internal target MCT ratio of 185% and 5 percentage points higher than the Company's operating MCT holding target of 220%. The Company currently intends to operate with a MCT modestly above its operating MCT holding target.

Recent business developments

As at December 31, 2014, the Company had $1.8 billion of unearned premiums, $3.3 billion of shareholders' equity, $5.4 billion in invested assets and as at September 30, 2014, approximately $166 billion outstanding balance of insured mortgages. The Company is well positioned as the leading private mortgage insurer in Canada through its significant scale, execution of customer-focused sales and service strategies, proactive risk management of its insurance portfolio, and prudent investment management.

Debt issuance

On April 1, 2014, the Company completed an offering of $160 million principal amount of senior "Series 3" unsecured debentures. The debentures bear interest at a fixed annual rate of 4.242% until maturity on April 1, 2024, payable in equal, semi-annual installments commencing on October 1, 2014.

Debt redemption

On May 1, 2014, in connection with the April 1, 2014 debt issuance "Series 3", the Company redeemed all of its existing "Series 2" senior unsecured debentures with a principal amount of $150 million bearing a fixed annual interest rate of 4.59%, in accordance with the terms of such debentures, and in advance of their maturity on December 15, 2015. The Company incurred a $7 million one-time fee on the early redemption of long term debt in the second quarter of 2014.

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 May 1, 2014, the Company increased its mortgage insurance premium rates on high loan-to-value mortgages by an average of 15%.

The new premium rates for standard owner-occupied purchase applications effective May 1, 2014 were as follows:

Loan-to-Value Ratio	Standard premium (prior to May 1, 2014)	Standard premium (effective May 1, 2014)
Up to and including 65%	0.50%	0.60%
Up to and including 75%	0.65%	0.75%
Up to and including 80%	1.00%	1.25%
Up to and including 85%	1.75%	1.80%
Up to and including 90%	2.00%	2.40%
Up to and including 95%	2.75%	3.15%

The incremental premiums written, as a result of this price increase, were approximately $21 million for the quarter ended December 31, 2014 and approximately $43 million for the year ended December 31, 2014. During the fourth quarter of 2014, approximately 94% of the new insurance written was at the new premium rates with the remaining 6% reflecting mortgage insurance approvals prior to May 1, 2014, primarily related to new construction properties which typically take longer to close.

Renewal of shelf prospectus

In the ordinary course of business, the Company renewed, on June 18, 2014, its short-form base shelf prospectus for the offering of up to $1.5 billion of the Company's securities, either in the form of debt, preferred shares, common shares, subscription receipts, warrants or units. The shelf prospectus remains available for a period of 25 months from the date of the prospectus.

Standard and Poors ("S&P")

During the fourth quarter of 2014, the Company noted that S&P had revised its rating of Genworth Financial Group's U.S. life insurance operations following the release of the Genworth Financial, Inc. 2014 third quarter financial results. As a result of this downgrade, S&P also lowered its financial strength rating on the Insurance Subsidiary from AA- to A+ and the Company's issuer and credit ratings on its senior unsecured debentures from A- to BBB+, in each case as a result of S&P's group rating methodology.

DBRS

The Insurance Subsidiary is rated AA (Superior) and the Company's issuer rating is AA (Low), with a stable outlook, by DBRS. The ratings from DBRS were confirmed in November 2014. 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 28, 2014, the Company paid a quarterly dividend of $0.39 per common share and a special dividend of $0.43 per common share. The quarterly dividend represented an increase of $0.04 or 11% from the third quarter.

Share repurchase

During the fourth quarter of 2014, the Company purchased 1,873,023 shares for cancellation, representing approximately 2% of its outstanding common shares, for an aggregate amount of approximately $75 million. The share repurchases were executed pursuant to the Company's Normal Course Issuer Bid, which expires on the earlier of May 4, 2015 and the date the maximum number of shares are repurchased.

Regulatory capital

The Company manages its capital base to maintain a balance between capital strength, efficiency and flexibility. As at December 31, 2014, the Insurance Subsidiary's MCT ratio was approximately 225%, or 40 percentage points higher than the Company's internal target of 185%. The Company regularly reviews its capital levels. In the second quarter of 2014, the Company established an operating MCT holding target of 220% after reviewing stress testing results and consulting with OSFI. This 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 of 185% MCT is calibrated to cover the various risks that the business would face in a severe recession, the holding target of 220% MCT 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 operating holding target may be redeployed.

Management changes

Effective January 1, 2015, Brian Hurley, transitioned from Chairman and Chief Executive Officer to the newly created role of Executive Chairman. Concurrently, Stuart Levings, previously Chief Operating Officer of Genworth Canada, succeeded Mr. Hurley, assuming the role of President and Chief Executive Officer. To assist with the transition, Mr. Hurley will work with Mr. Levings on corporate strategy, overall business performance, board relations and leadership succession. Genworth Canada will continue to have a Lead Director on the Board to provide leadership to the Board of Directors.

Objectives and focus for 2015

In pursuit of being Canada's mortgage insurer of choice, the Company seeks to enhance stakeholder value through working with our 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 financial system.

The Company's long-term objectives are 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 and "E" represents an estimate.

Priorities	2015 objectives	Related indicators	Key performance metrics
Top Line Growth	Achieve moderate growth in net premiums written through customer-centric product and service strategies and successful sales execution.	**Housing resales:** 2014A – 481,150[1] 2015E – 485,200[1]	**Net premiums written** 2014A – $640 million
Loss Performance	Target a loss ratio range of 20 to 30% through proactive risk management and focused loss mitigation strategies.	**GDP:** 2014E – 2.4%[2] 2015E – 2.1%[2] **National unemployment:** 2014A – 6.6%[3] 2015E – 6.9%[3]	**Loss ratio** 2014A – 20% **Workout penetration rate** 2014A – 56%
Portfolio Quality and Risk Management	Maintain a high quality insurance portfolio through prudent underwriting guidelines, proactive risk management and disciplined underwriting.	**National home price appreciation:** 2014A – 4.9%[4] 2015E – 0 to 1.5%[5]	**Credit score** 2014A – 737 **Gross debt service (GDS)** 2014A – 24.3%
Capital Management	Proactively manage capital to balance capital strength, flexibility and efficiency: • MCT modestly above 220% • Debt to total capital ratio of less than 15%.		**Ordinary dividend payout ratio** 2014A – 36% **Debt to total capital** 2014A – 12% **MCT** 2014A – 225%
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:[6] Q1'14A 1.69% Q2'14A 1.63% Q3'14A 1.56% Q4'14A 1.47% 5 year Government of Canada Bond Yields:[6] Q1'15E 0.80% Q2'15E 0.85% Q3'15E 0.90% Q4'15E 0.95%	**Investment yield** 2014A – 3.5% **Percentage of investment grade fixed income** 2014A – 92%

[1] CREA – CREA Monthly Data (SA), January 15, 2015 & CREA Quarterly Forecast, December 15, 2014
[2] Bank of Canada – Monetary Policy Report, January 2015
[3] Statistics Canada – Labour Force Survey: Year-end review, 2014
[4] Teranet – National Bank Home Price Index January 14, 2015
[5] Management Estimate at January 2015 Based on Consensus Forecast Using Expected Year Over Year Exit Rates
[6] Bloomberg Forward Curve, January 2015 and Management Interpolation for 2015 by Quarter

Economic environment

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

Housing market

Canada's housing market outperformed expectations in 2014, buoyed by the persistence of ultra-low interest rates that have maintained affordability in the face of high home prices. With the decrease in the overnight interest rate to 0.75% in January 2015, and the expectation of the low rate environment to continue through 2015, the Company expects this to support continued housing demand in 2015.

Nationwide, home sales increased approximately 5% in 2014, with tight supply continuing to pressure prices in select urban markets with the resale market remaining at or near balanced market conditions. The Canadian Real Estate Association's 2015 forecast calls for a 0.8% increase in resale activity as the housing market is expected to moderate in 2015 with national home prices expected also to post a stable increase of 0.9% for 2015. Going forward, the growth rate of the high loan-to-value market should keep pace with the change in housing resale activity and home price appreciation.

Macroeconomic environment

Economic growth as measured by real Canadian Gross Domestic Product ("GDP") is expected to grow by 2.1% in 2015 based on the recent Bank of Canada forecast, as released in the Monetary Policy Report in January 2015, down from an estimated 2.4% in 2014. GDP growth in 2015 is forecast to be fueled by a stronger U.S. economy and a weaker Canadian dollar that benefits exports in central Canada and British Columbia, offset by the negative impact of lower oil prices.

The recent decline in oil prices is an emerging risk due to its potential impact on employment and housing, especially in the provinces of Alberta, Newfoundland & Labrador, and Saskatchewan. The general economic forecasts anticipate oil prices to be in the U.S. $60 to U.S. $65 range by the end of 2015. The Company will continue to monitor the impact of oil prices as part of its proactive risk management strategy to ensure the quality of its insurance portfolio remains strong.

Canadian employment data was generally positive in 2014 with the unemployment rate closing the year at 6.6%. Looking ahead, job creation is expected to remain steady but modest, with unemployment expected to marginally increase to 6.9% in 2015, an increase driven primarily by concerns regarding decreasing oil prices and its impact on the oil producing provinces of Canada.

Overall, we expect relatively stable housing markets in Ontario, Quebec and British Columbia with modest pressure in the oil producing regions, specifically Alberta, Newfoundland & Labrador, and Saskatchewan.

Regulatory environment

Changes to the regulatory capital framework

On June 25, 2013, OSFI released a Discussion paper on Proposed Changes to the Regulatory Capital Framework for Federally Regulated Property and Casualty ("P&C") insurers, and OSFI noted that it has commenced an internal process aimed at developing a new capital framework for mortgage insurers expected to be effective in 2017.

During the third quarter of 2014, OSFI released an advisory guideline, *Interim Capital Requirements for Mortgage Insurance Companies*, which will be used on an interim basis for 2015. 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 until the new capital guideline for mortgage insurance companies is developed. The Company used this guideline to calculate a pro forma MCT ratio as at December 31, 2014 and compared the result to its estimated MCT ratio using the existing calculation for the same time period. Based on this comparison, the Company believes that the implementation of the 2015 MCT guideline will not have a material impact on its MCT ratio.

Own Risk and Solvency Assessment Guideline

On November 11, 2013, OSFI published the final version of Guideline E-19 *Own Risk and Solvency Assessment* (the "ORSA"), with an effective date of January 1, 2014. 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 Company's Enterprise Risk Management ("ERM") framework and Risk Appetite Framework ("RAF"). The Company's ORSA provides a baseline assessment of identified risks and the supporting risk management activities. Furthermore, 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.

During the year ended December 31, 2014, the Company developed and implemented ORSA. The implementation of ORSA did not result in a significant change to the Company's practices of maintaining, evaluating and managing risks.

OSFI Corporate Governance Guideline

OSFI's revised Corporate Governance Guideline came into force January 1, 2014. The guideline addresses board and committee responsibilities and competencies, the development of a risk appetite framework and the overall internal control framework. To the extent the Company has deemed appropriate, it has made enhancements to its corporate governance structure to align with this 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*. In the 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 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 well positioned to comply with the Guideline by the implementation deadline of June 30, 2015.

Low loan-to-value mortgages

On December 1, 2014, CMHC announced a price increase to its National Housing Act Mortgage Backed Securities guarantee fees effective April 1, 2015. Under the NHA MBS Program, CMHC guarantees timely payment of principal and interest to purchasers of the MBS securities backed by pools of eligible insured mortgages. The NHA MBS fees are in addition to the mortgage insurance premium. For example, the guarantee fee for a NHA MBS with a 5 year term will increase from 20 to 30 basis points for annual lender issuance of less than $6 billion and from 20 to 60 basis points for annual lender issuance which exceed $6 billion. This two-tier pricing structure may impact lenders' demand for portfolio insurance as the majority of mortgages that are portfolio insured by the Company are then pooled and securitized through the NHA MBS program.

In the 2013 federal budget, the Government of Canada proposed to gradually limit the insurance of low loan-to-value mortgages to only those mortgages that will be used in CMHC securitization programs. In addition, the Government has indicated an intention to prohibit the use of any taxpayer-backed insured mortgage, both high and low loan-to-value, as collateral in securitization vehicles that are not sponsored by CMHC. To implement these changes, the Government of Canada passed amendments to Protection of Residential Mortgage or Hypothecary Insurance Act ("PRMHIA") in 2014 to make the necessary changes to the regulations. The Company anticipates the related legislation will be introduced in 2015. Although it is difficult to determine the full impact of this change until all the legislation has been introduced, the Company believes it may result in a decrease in demand for low loan-to-value mortgage insurance.

Financial performance

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

(In millions of dollars, unless otherwise specified)	Quarter 2014	Quarter 2013	Increase (decrease) and percentage change Q4'14 vs. Q4'13	
Net premiums written	**$ 178**	$ 129	**$ 49**	38%
Net premiums earned	**$ 143**	$ 142	**$ 0**	0%
Losses on claims and expenses:				
Losses on claims	**37**	31	**6**	20%
Expenses	**30**	33	**(4)**	(11)%
Total losses on claims and expenses	**66**	64	**2**	4%
Net underwriting income	**76**	78	**(2)**	(3)%
Net investment income:				
Interest and dividend income, net of investment expenses	**43**	44	**(2)**	(4)%
Net investment gains	**4**	11	**(8)**	(68)%
Total net investment income	**47**	56	**(9)**	(17)%
Interest expense	**6**	6	**(0)**	(1)%
Income before income taxes	**117**	128	**(11)**	(9)%
Provision for income taxes	**31**	35	**(5)**	(13)%
Net income	**$ 86**	$ 93	**$ (7)**	(7)%
Adjustment to net income, net of taxes:				
Net investment gains	**(3)**	(8)	**5**	(66)%
Net operating income[1]	**$ 84**	$ 85	**$ (1)**	(2)%
Effective tax rate	**26.3%**	27.5%	**—**	(1.3) pts
Selected non-IFRS financial measures[1]				
New insurance written	**$ 8,785**	$ 7,693	**$ 1,092**	14%
New insurance written high loan-to-value	**$ 6,193**	$ 5,175	**$ 1,018**	20%
New insurance written low loan-to-value	**$ 2,593**	$ 2,519	**$ 74**	3%
Loss ratio	**26%**	22%	**—**	4 pts
Expense ratio	**21%**	23%	**—**	(3) pts
Combined ratio	**47%**	45%	**—**	2 pts
Operating return on equity	**11%**	12%	**—**	(1) pts
Investment yield	**3.4%**	3.6%	**—**	(0.2) pts

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.

Fourth quarter review

New insurance written on high loan-to-value mortgages increased by $1.0 billion, or 20%, to $6.2 billion in the fourth quarter of 2014 as compared to the prior year's period. The Company believes the increase in high loan-to-value new insurance written was primarily the result of stronger real estate activity, as compared to the prior year's period.

New insurance written on low loan-to-value mortgages was $2.6 billion in the fourth quarter of 2014, relatively unchanged as compared to the prior year's period. Demand for low loan-to-value mortgage insurance may fluctuate from quarter to quarter.

Premiums written increased by $49 million, or 38%, to $178 million in the fourth quarter of 2014 as compared to the prior year's period. The $49 million increase was comprised of approximately $24 million from higher volumes of high loan-to-value business, approximately $23 million from the May 1st price increase on high loan-to-value premiums and $2 million from higher premiums of low loan-to-value business.

Premiums earned were $143 million in the fourth quarter of 2014, relatively unchanged as compared to the prior year's period. Approximately $4 million increase in premiums earned was from the relatively larger 2013 and 2014 books of business, which was offset by an approximate $4 million decrease in premiums earned from the relatively smaller books of business in prior years.

Losses on claims increased by $6 million, or 20%, to $37 million in the fourth quarter of 2014 as compared to the prior year's period. The $6 million increase was primarily due to an increase in new delinquencies net of cures of 19% in the fourth quarter of 2014 as compared to an increase of 7% in the prior year's period as the strong housing market in BC, Ontario and Alberta muted the typical seasonal increase. The resulting loss ratio is 26%. The Company continues to realize savings from its loss mitigation programs, including workout and asset management initiatives which also contribute to lowering losses on claims.

Expenses decreased by $4 million, or 11%, to $30 million primarily due to a decrease in share-based compensation and office expenses, as compared to the prior year's period. The expense ratio decreased 2 percentage points to 21% for the fourth quarter of 2014, as compared to the prior year's period.

Interest and dividend income, net of investment expenses, decreased $2 million, or 4%, to $43 million in the fourth quarter of 2014, as compared to the prior year's period. The $2 million decrease was primarily the result of persistent low reinvestment rates and the investment yield of 3.4% was marginally lower than the prior year's period. The Company recorded $4 million net investment gains in the fourth quarter of 2014, primarily from the sale of equities, as compared to $11 million, also from the sale of equities, in the prior year's period.

The effective tax rate of 26.3% in the fourth quarter of 2014 decreased by approximately 130 basis points from the 27.5% 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 decreased by $7 million, or 7%, to $86 million, in the fourth quarter of 2014 primarily the result of $6 million higher losses on claims, $8 million lower investment gains and $2 million lower interest and dividend income, net of investment expenses which was partially offset by $4 million lower expenses. Net operating income was $84 million, in the fourth quarter of 2014, or $3 million lower than net income as a result of an adjustment to net income, net of taxes, from the exclusion of net investment gains.

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

	Year		Increase (decrease) and percentage change	
(In millions of dollars, unless otherwise specified)	**2014**	2013	Q4'14 vs. Q4'13	
Premiums written	**$ 640**	$ 512	**$ 128**	25%
Premiums earned	**$ 565**	$ 573	**$ (8)**	(1)%
Losses on claims and expenses:				
Losses on claims	**111**	142	**(31)**	(22)%
Expenses	**107**	113	**(5)**	(5)%
Total losses on claims and expenses	**219**	255	**(36)**	(14)%
Net underwriting income	**346**	319	**28**	9%
Investment income:				
Interest and dividend income, net of investment expenses	**173**	179	**(6)**	(3)%
Net investment gains	**22**	37	**(15)**	(41)%
Total net investment income	**195**	216	**(20)**	(9)%
Interest expense	**24**	23	**(1)**	3%
Fee on early redemption of long term debt	**7**	—	**(7)**	—
Income before income taxes	**511**	511	**(1)**	(0)%
Provision for income taxes	**134**	136	**(2)**	(2)%
Net income	**$ 377**	$ 375	**$ 2**	1%
Adjustment to net income, after taxes:				
Fee on early redemption of long term debt	**5**	—	**5**	—
Net gains on investments	**(16)**	(26)	**10**	(39)%
Net operating income[1]	**$ 366**	$ 349	**$ 17**	5%
Effective tax rate	**26.3%**	26.7%	**—**	(0.4) pts
Selected non-IFRS financial measures[1]				
New insurance written	**$ 42,153**	$ 34,985	**$ 7,168**	20%
New insurance written high loan-to-value	**$ 22,112**	$ 19,502	**$ 2,610**	13%
New insurance written low loan-to-value	**$ 20,041**	$ 15,483	**$ 4,558**	29%
Loss ratio	**20%**	25%	**—**	(5) pts
Expense ratio	**19%**	20%	**—**	(1) pts
Combined ratio	**39%**	44%	**—**	(6) pts
Operating return on equity	**12%**	12%	**—**	— pts
Investment yield	**3.5%**	3.7%	**—**	(0.2) pts

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.

Full year review

New insurance written on high loan-to-value mortgages increased by $2.6 billion, or 13%, to $22.1 billion in 2014 as compared to the prior year's period. The Company believes the increase in high loan-to-value new insurance written was primarily the result of stronger real estate activity and an increase in market share penetration, as compared to the prior year's period.

New insurance written on low loan-to-value mortgages was $20.0 billion in 2014, as compared to $15.5 billion in the prior year's period, as a result of an increase in demand for low loan-to-value mortgage insurance.

Premiums written increased by $128 million, or 25%, to $640 million in 2014 as compared to the prior year's period. Premiums written on high loan-to-value mortgages increased by $110 million, or 24%, to $555 million and premiums written on low loan-to-value mortgages increased by $18 million, or 28%, to $83 million as compared to the prior year's period. An additional $2 million was received from reinsurance premiums in 2014 as compared to less than $1 million in the prior year's period. The $110 million increase in premiums from high loan-to-value new insurance written included approximately $60 million from higher volumes and approximately $48 million from the May 1st price increase on high loan-to-value premiums.

Premiums earned decreased by $8 million, or 1%, to $565 million in 2014 as compared to the prior year's period. The decrease was primarily due to the lower premiums received from the relatively smaller 2010 and subsequent books of business partially offset by $2 million from reinsurance premiums in 2014.

Losses on claims decreased by $31 million, or 22%, to $111 million in 2014 as compared to the prior year's period. The decrease was primarily due to the strong credit quality of recent books and a stable economic environment which has led to fewer new delinquencies. On a regional basis, the decrease reflects lower losses in Ontario, British Columbia and Alberta. The Company continues to realize savings from its loss mitigation programs, including workout and asset management initiatives, which also contributed to lower losses on claims. The loss ratio declined by 5 percentage points to 20% in 2014, as compared to the prior year's period.

Expenses decreased by $5 million, or 5%, to $107 million in 2014 primarily due to lower share-based compensation expense and professional fees, as compared to the prior year's period. The expense ratio was 19% in 2014, down 1 percentage point, as compared to the prior year's period.

Interest and dividend income, net of investment expenses, decreased $5 million, or 3%, to $173 million for in 2014, as compared to the prior year's period. The decrease was primarily the result of $3 million lower dividend income due to lower equity balances. Low reinvestment rates persist and the investment yield of 3.5% declined by 20 basis points as compared to the prior year's period. In addition, the Company recorded $22 million net investment gains in 2014, primarily from the sale of equities, as compared to $37 million, also from the sale of equities, in the prior year's period.

Interest expense increased by $1 million, or 3%, to $24 million in 2014, as compared to the prior year's period. The increase was primarily the result of additional expense from the 30-day intervening period between the new debt issuance "Series 3" on April 1, 2014 and the early redemption of existing debt "Series 2" on May 1, 2014. In addition, the Company incurred a $7 million fee on the early redemption of such long term debt in the second quarter of 2014.

The effective tax rate was marginally lower in 2014 at 26.3% as compared to the prior year's tax rate of 26.7%.

Net income increased by $2 million, or approximately 1%, to $377 million in 2014 primarily the result of $31 million lower losses on claims, and $5 million lower expenses partially offset by $15 million lower net investment gains, a $7 million one-time fee on the early redemption of long term debt, $8 million lower earned premium, $5 million lower interest and dividend income, net of investment expenses, and $1 million higher interest expense, in each case as compared to the prior year's period. Net operating income was $366 million in 2014, or $11 million lower than net income as a result of an adjustment to net income, net of taxes, from the exclusion of net investment gains and a fee on early redemption of long term debt.

Summary of annual information

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

(In millions, unless otherwise specified)	2014	2013	2012
Net premiums written	$ 640	$ 512	$ 550
Net premiums earned	565	573	589
Losses on claims	111	142	194
Net underwriting income	346	319	291
Total investment income (including impact of reversal of exit fees)[2]	195	216	367
Net income[2]	377	375	470
Adjustment to net income net of taxes:			
Fee on early redemption of long term debt	5	—	—
Net gains in investments	(16)	(26)	(9)
Net operating income[1][2]	$ 366	$ 349	$ 462
Earnings per common share ratios			
Earnings per common share (basic)[2][3]	$ 3.97	$ 3.86	$ 4.77
Earnings per common share (diluted)[2][3]	$ 3.97	$ 3.86	$ 4.76
Selected non-IFRS financial measures:[1]			
Loss ratio	20%	25%	33%
Expense ratio	19%	20%	18%
Combined ratio	39%	44%	51%
Operating earnings per common share (basic)[2][3]	$ 3.86	$ 3.60	$ 4.68
Operating earnings per common share (diluted)[2][3]	$ 3.86	$ 3.60	$ 4.67
Operating return on equity[2]	12%	12%	17%

[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] Excluding the impact of the government guarantee fund exit fee reversal of $166 million, related to 2011 and prior years, non-IFRS financial measures for the full year of 2012 would have been: net investment income $201 million, adjusted net income $348 million, adjusted net operating income $339 million, adjusted operating earnings per common share basic and diluted $3.44 and $3.43, and operating return on equity 13%.

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

The table shown below presents additional annual information for the years ending December 31, 2014, 2013 and 2012.

	As at December 31		
(In millions, unless otherwise specified)	2014	2013	2012
Total invested assets and cash	$ 5,443	$ 5,375	$ 5,380
Total assets	5,770	5,691	5,734
Total liabilities	2,499	2,604	2,697
Total shareholders' equity	3,271	3,087	3,037
Dividends paid per common share	$ 1.87	$ 1.31	$ 1.19

Summary of quarterly results

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

In millions, unless otherwise specified)	**Q4'14**	**Q3'14**	**Q2'14**	**Q1'14**	Q4'13	Q3'13	Q2'13	Q1'13
Net premiums written	**$ 178**	**$ 217**	**$ 160**	**$ 84**	$ 129	$ 161	$ 137	$ 84
Net premiums earned	**143**	**140**	**141**	**141**	142	143	143	144
Losses on claims	**37**	**30**	**17**	**28**	31	32	35	44
Net underwriting income	**76**	**87**	**97**	**86**	78	84	82	74
Total investment income	**47**	**51**	**49**	**49**	56	51	59	50
Net income	**86**	**98**	**97**	**95**	93	96	98	88
Adjustment to net income net of taxes:								
Fee on early redemption of long term debt	**—**	**—**	**5**	**—**	—	—	—	—
Net investment gains	**(3)**	**(6)**	**(4)**	**(4)**	(8)	(5)	(10)	(3)
Net operating income[1]	**$ 84**	**$ 93**	**$ 99**	**$ 91**	$ 85	$ 91	$ 88	$ 85
Earnings per common share ratios								
Earnings per common share (basic)	**$ 0.92**	**$ 1.03**	**$ 1.02**	**$ 1.00**	$ 0.98	$ 0.99	$ 1.00	$ 0.89
Earnings per common share (diluted)[2]	**$ 0.91**	**$ 1.01**	**$ 1.02**	**$ 1.00**	$ 0.98	$ 0.99	$ 1.00	$ 0.89
Selected non-IFRS financial measures:[1]								
Loss ratio	**26%**	**21%**	**12%**	**20%**	22%	22%	25%	31%
Expense ratio	**21%**	**17%**	**19%**	**19%**	23%	19%	18%	18%
Combined ratio	**47%**	**38%**	**31%**	**39%**	45%	41%	43%	49%
Operating earnings per common share (basic)	**$ 0.89**	**$ 0.97**	**$ 1.04**	**$ 0.96**	$ 0.90	$ 0.94	$ 0.90	$ 0.86
Operating earnings per common share (diluted)[2]	**$ 0.89**	**$ 0.97**	**$ 1.04**	**$ 0.96**	$ 0.90	$ 0.94	$ 0.90	$ 0.86
Operating return on equity	**11%**	**12%**	**13%**	**12%**	12%	13%	12%	12%

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 2014	As at December 31 2013	Increase (decrease) and percentage change 2014 vs. 2013	
Total invested assets, accrued investment income and other receivables	$ 5,443	$ 5,375	$ 68	1%
Other assets	260	241	19	8%
Subrogation recoverable	67	75	(8)	(11)%
Total assets	5,770	5,691	79	1%
Unearned premium reserves	1,799	1,724	75	4%
Loss reserves	115	117	(2)	(2)%
Long-term debt	432	423	9	2%
Other liabilities	153	340	(187)	(55)%
Total liabilities	2,499	2,604	(105)	(4)%
Shareholders' equity excluding AOCI[1]	3,086	2,963	123	4%
Accumulated other comprehensive income ("AOCI")	185	124	61	49%
Shareholders' equity	3,271	3,087	184	6%
Total liabilities and shareholders' equity	$ 5,770	$ 5,691	$ 79	1%
Selected non-IFRS financial measures[1]				
MCT ratio	225%	223%	—	2 pts
Book value per common share				
Number of common shares outstanding (basic)	93,147,778	94,910,880	(1,763,102)	(2)%
Book value per common share including AOCI (basic)	$ 35.12	$ 32.53	$ 2.59	8%
Book value per common share excluding AOCI (basic)	$ 33.13	$ 31.22	$ 1.91	6%
Number of common shares outstanding (diluted)[2]	93,403,036	94,918,169	(1,515,133)	(2)%
Book value per common share including AOCI (diluted)[2]	$ 35.02	$ 32.53	$ 2.50	8%
Book value per common share excluding AOCI (diluted)[2]	$ 33.04	$ 31.22	$ 1.82	6%
Dividends paid per common share during the year	$ 1.87	$ 1.31		

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 is caused by the potentially dilutive impact of share-based compensation awards.

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)	**2014**	2013	2012	2011	2010
Total loss reserves, at the beginning of the year	**$ 118**	$ 139	$ 169	$ 207	$ 236
Loss reserves for prior years' delinquent loans, remaining at the end of the year (A)	**16**	10	26	45	67
Change in loss reserves for prior years' delinquent loans	**101**	129	143	162	169
Paid claims for prior years' delinquent loans	**(94)**	(139)	(193)	(214)	(200)
Favourable (unfavourable) development	**$ 7**	$ (10)	$ (51)	$ (52)	$ (31)
As a percentage of total loss reserves, at the beginning of the year	**7%**	(7)%	(30)%	(25)%	(13)%
Loss reserves for current year's delinquent loans, at the end of the year (B)	**99**	108	113	124	140
Total loss reserves at the end of the year (A+B)	**$ 115**	$ 118	$ 139	$ 169	$ 207

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 2014 of $7 million, or 7% of the total loss reserves at the beginning of the year. The Company uses third party appraisals to determine the expected net property proceeds, and has observed that the initial appraisal value was lower than the ultimate sales price of the Company's subrogation rights to real estate due to strong home price appreciation. Additionally, cures were higher than originally estimated and new reported delinquencies were lower than estimated. The provinces of Alberta and Ontario accounted for the majority of the favourable development in 2014, 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. As a result of these adjustments, reserve development pertaining to the prior years in 2014 was the lowest level the Company has experienced in the past five years.

Financial instruments

As at December 31, 2014, the Company had total cash, cash equivalents and invested assets of $5.4 billion in the portfolio. All of the Company's invested assets are classified as available-for-sale ("AFS") with the exception of cash and Canadian federal government treasury bills. 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. Unrealized gains on AFS securities in the portfolio were $289 million. The Company's investment yield for the fourth quarter of 2014 was 3.4%, which included the favourable impact of non-taxable dividend income from its equity investments.

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

Asset class

	As at December 31, 2014			As at December 31, 2013	
(In millions of dollars, unless otherwise specified)	Fair value	%	Unrealized gains	Fair value	%
Asset backed bonds and debentures[2]	$ 125	2%	$ 5	$ 8	0%
Corporate bonds and debentures:					
Financial	1,142	21%	46	1,281	24%
Energy	252	5%	18	311	6%
Infrastructure	241	4%	14	230	4%
All other sectors	569	10%	37	451	8%
Total corporate bonds and debentures	2,205	41%	115	2,272	42%
Short term investments:					
Canadian federal government treasury bills[1]	85	2%	—	40	1%
Total short term investments	85	2%	—	40	1%
Government bonds and debentures:					
Canadian federal government	1,770	33%	73	1,810	34%
Canadian provincial and municipal government	898	16%	68	846	16%
Total Government bonds and debentures	2,667	49%	141	2,656	49%
Equity investments:					
Energy	29	1%	7	38	1%
Financials	45	1%	2	47	1%
Communication	17	0%	2	21	0%
All other sectors	80	1%	17	78	1%
Total equity investments	170	3%	28	184	3%
Total invested assets	$ 5,253	97%	$ 289	$ 5,161	96%
Cash and cash equivalents	190	3%	—	214	4%
Total invested assets and cash	5,443	100%	289	5,375	100%
Accrued investment income and other receivables	30	—	—	32	—
Collateral receivable under reinsurance agreement	28	—	—	29	—
Total invested assets, accrued investment income and other receivables	$ 5,502	100%	$ 289	$ 5,435	100%

Note: Amounts may not total due to rounding.

[1] Canadian federal government bonds includes $22,418 in collateral posted for the benefit of the Company's counterparties to its derivative financial instrument contracts. In the year ended December 31, 2013 Canadian federal government treasury bills included $3,108 in collateral posted for the benefit of the Company's counterparties to its derivative financial instrument contracts.

[2] As at December 31, 2014, asset backed bonds includes $117,342 of collateralized loan obligations.

The Company assigns credit ratings based on the asset risk guidelines as outlined in the Minimum Capital Test Guideline published by OSFI in January 2013. Based on this guideline, the Company assigns ratings from DBRS when available. The majority of the assets in the Company's current investment portfolio have a DBRS rating. In the absence of a DBRS rating, the Company assigns the higher 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, 2014			As at December 31, 2013	
(In millions of dollars, unless otherwise specified)	Fair value	%	Unrealized gains	Fair value	%
Cash and cash equivalents	$ 190	4%	$ —	$ 214	4%
AAA	1,947	37%	80	1,935	37%
AA	1,099	21%	67	1,016	20%
A	1,700	32%	94	1,665	32%
BBB	337	6%	20	360	7%
Total invested assets and cash (excluding common shares)	$ 5,273	100%	S 261	$ 5,190	100%

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 and corporate bonds. The Company also holds short-term investments and common shares. 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 $125 million in asset-backed bonds and debentures as of December 31, 2014, up from $8 million as of December 31, 2013. These securities are primarily AA rated and floating rate. During the second and third quarters of 2014, the company purchased $90 million and $22 million, respectively, of floating rate collateralized loan obligations ("CLOs") denominated in U.S. dollars, consistent with the Company's diversification and yield objectives.

Corporate bonds and debentures

As of December 31, 2014, approximately 41% of the investment portfolio was held in corporate bonds and debentures, relatively unchanged from December 31, 2013. 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 21% of the investment portfolio, or approximately 52% of the corporate fixed income securities. 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 75% is to pipelines and distribution companies that are primarily regulated entities with stable cash flows. The remaining 25% of the Company's energy sector exposure is integrated oil and gas companies with large capitalizations. Securities rated below A were $337 million, or 6% of invested assets, as of December 31, 2014.

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, 2014, 49% of the investment portfolio was invested in sovereign fixed income securities, including 33% in federal fixed income securities and 16% in provincial fixed income securities, relatively unchanged from 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 $85 million, or 2%, in Canadian short-term treasury bills in the investment portfolio as of December 31, 2014, up from $40 million, or 1%, as of December 31, 2013.

Equity investments

As of December 31, 2014, 3%, or $170 million, of the Company's investment portfolio was held in high dividend yielding, relatively low volatility Canadian common shares as compared to 3%, or $184 million, as of December 31, 2013. The financial sector represents approximately 26% of the common shares held by the Company, relatively unchanged from the 25% as of December 31, 2013. The remaining holdings are diversified across the other sectors of companies listed on the Toronto Stock Exchange.

Cash and cash equivalents

Cash and cash equivalents consist primarily of cash in bank accounts and government treasury bills with original maturities of 90 days or less. The Company determines its target cash holdings based on near-term liquidity needs, market conditions and perceived favourable future investment opportunities. The Company's cash holdings in the investment portfolio were $190 million as of December 31, 2014, a decrease of $23 million from the $214 million as of December 31, 2013. The decrease was primarily the result of a $226 million tax payment in the first quarter of 2014 related to the reversal of government guarantee fund, which was partially offset by an increase in cash from operating and investing activities.

Liquidity

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

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

(In millions of dollars, unless otherwise specified)	**2014**	2013
Cash provided by (used in):		
Operating activities	**$ 199**	$ 366
Financing activities	**(242)**	(231)
Investing activities	**19**	(170)
Increase in cash and cash equivalents	**(24)**	(34)
Cash and cash equivalents, beginning of period	**214**	248
Cash and cash equivalents, end of period	**$ 290**	$ 214

Note: Amounts may not total due to rounding.

The Company generated $199 million of cash flows from operating activities in 2014, as compared to $366 million in the prior year's period. The decrease in cash flows from operating activities was primarily the result of $226 million in higher taxes paid in the first quarter of 2014, related to the reversal of the government guarantee fund. Excluding the $226 million tax payment, cash flows generated from operating activities would have been $425 million or an increase of $59 million primarily related to higher gross premiums written.

The Company utilized $242 million of cash flows for financing activities in 2014, as compared to $231 million in the prior year's period. The Company utilized cash flows in 2014 primarily for the payment of ordinary and special dividends of $178 million, issuance and redemption of debt and $75 million for repurchase of common shares of the Company. In the prior year's period, the Company utilized $231 million of cash flows primarily for the payment of ordinary dividends of $127 million and $105 million for the repurchase of common shares of the Company.

The Company generated $19 million of cash flows from investing activities, primarily from the sale and maturities of fixed income assets in 2014, as compared to the utilization of $170 million in the prior year's period.

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, 2014, the Company held liquid assets of $821 million maturing within one year, comprised of $275 million in cash and cash equivalents, and $546 million in bonds and debentures and short-term investments in order to maintain financial flexibility. As at December 31, 2014, the duration of the fixed income portfolio was 3.7 years.

The Company has five primary sources of funds, consisting of premiums written from operations, investment income, cash and short-term investments, investment maturities or sales and proceeds from the issuance of debt and equity. In addition to cash and cash equivalents, 51%, or $2,752 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, 2014:

Contractual obligations					Payment dates due by period
(In thousands)	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term debt[1]	$ 435,000	$ —	$ —	—	$ 435,000
Accounts payable and accrued liabilities	41,557	41,557	—	—	—
Operating leases	6,622	2,542	4,080	—	—
Loss reserves	115,493	58,413	57,080	—	—
Total contractual obligations	$ 598,672	$ 102,512	$ 61,160	—	$ 435,000

[1] See "Debt" section for more details.

Operating lease expense for 2014 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, cross currency interest rate swaps, and equity total return swaps to mitigate foreign currency risk associated with bonds denominated in U.S. dollars, Australian dollars pledged to collateralize reinsurance obligations, and changes in the fair market value of the Company's common shares.

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, 2014						
Foreign currency forwards[1]	$ (15)	$ 29	$ 6	$ 17	$ 203	$ 255
Cross currency interest rate swaps[1]	(8)	—	121	—	—	121
Total	**$ (23)**	**$ 29**	**$ 126**	**$ 17**	**$ 203**	**$ 375**
December 31, 2013						
Foreign currency forwards[1]	$ (3)	$ 29	—	$ 14	$ 134	$ 176
Cross currency interest rate swaps	—	—	—	—	—	—
Total	$ (3)	$ 29	—	$ 14	$ 134	$ 176

[1] As at December 31, 2014, all foreign currency forwards and cross currency interest rate swaps were in a liability position of approximately $15 million and approximately $8 million respectively. As at December 31, 2013, all foreign currency forwards were in a liability position of approximately $3 million.

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 2014, 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 focused on underwriting, loss mitigation, and risk management technology improvements. The Company expects that capital expenditures in 2015 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 core capital (capital available as defined for MCT purposes, but excluding subordinated debt) to required capital of 100%.

Under 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, 2014, the Insurance Subsidiary's MCT ratio was approximately 225%, or 40 percentage points higher than the Company's internal target of 185%. The Company regularly reviews its capital levels, and after reviewing stress testing results and after consulting with OSFI, the Company established an operating MCT holding target of 220% pending the development by OSFI of a new regulatory test for mortgage insurers which is targeted for implementation in 2017. While our internal capital target of 185% MCT is calibrated to cover the various risks that the business would face in a severe recession, the holding target of 220% MCT 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 operating 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, the OSFI released an advisory guideline, *Interim Capital Requirements for Mortgage Insurance Companies*, which will be used on an interim basis for 2015. This guideline was developed by adjusting the 2015 guideline, *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 Company used this guideline to calculate a pro-forma MCT ratio as at December 31, 2014 and compared the result to its estimated MCT ratio using the existing calculation for the same time period. Based on this comparison, the Company believes that the implementation of the 2015 MCT guideline will not have a material impact on its MCT ratio.

The table below illustrates the MCT at the end of December 31, 2014, under the 2014 MCT Guideline and a pro-forma MCT at the end of December 31, 2014 under the 2015 MCT Guideline which will come in effect on January 1, 2015.

	Minimum capital test	2015 MCT guideline pro-forma
(In millions of dollars, unless otherwise specified)	**As at December 31, 2014**	As at December 31, 2014
Capital available	**3,295**	3,445[1]
Capital required	**1,464**	1,513[1]
MCT ratio	**225%**	228%[1]

[1] Company estimate

On a pro-forma basis, using the 2015 MCT Guideline, the Company estimates that MCT ratio would increase modestly to approximately 228%. Under the 2015 MCT Guideline, Capital available on a pro-forma basis is expected to increase by $150 million as deferred acquisition costs originating from expenses, other than premium tax, would no longer be deducted from capital available. Capital required on a pro-forma basis is expected to increase by $49 million due to an increase in interest rate risk margin, the introduction of an operational risk margin, and higher capital required on equities and other assets, all of which would be partially offset by lower capital required on fixed income. The impact of higher capital required on equities was not significant given the Company's small allocation to equities.

Debt

Debt issuance

On April 1, 2014, the Company completed an offering of $160 million principal amount of senior unsecured debentures "Series 3". The debentures were issued for gross proceeds of $160 million before issuance costs of $1 million. The debentures bear interest at a fixed annual rate of 4.242% until maturity on April 1, 2024, payable in equal semi-annual installments commencing on October 1, 2014. The debentures are redeemable at the option of the Company, in whole or in part, at any time in accordance with the indenture governing the debentures. For more specific details on the terms and conditions of the debentures, please see the prospectus supplement of the Company dated March 26, 2014, a copy of which is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com. The debentures are currently rated AA (low) by DBRS and BBB+ by S&P.

Debt redemption

On May 1, 2014, in connection with the above offering, the Company redeemed its existing "Series 2" senior unsecured debentures with a principal amount of $150 million bearing a fixed annual interest rate of 4.59%, in accordance with the terms of such debentures, and in advance of their maturity on December 15, 2015. The Company repaid the principal amount plus accrued and unpaid interest to the redemption date of $3 million. In addition, the Company paid a one-time early redemption fee to existing debt holders of $7 million. The redemption payment was recorded as a fee on the early redemption of long-term debt in the statement of income in the second quarter of 2014, when the redemption occurred.

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

Contractual obligations					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	—	—	—	$ 435

	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+ (Negative Outlook)	BBB+ (Negative Outlook)
DBRS	AA (Low)	AA (Low)

[1] See "Financial Strength Rating" Section 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.

Capital transactions

Share repurchase

On April 29, 2014, the Company received approval from the Toronto Stock Exchange allowing the Company to undertake a Normal Course Issuer Bid ("NCIB"). Purchases of common shares under the NCIB may continue up to the earlier of May 4, 2015 or the date on which the Company has purchased up to 4,746,504 of its common shares, the maximum number of common shares available for purchase under the NCIB, representing approximately 5% of the Company's outstanding common shares. During the year ended December 31, 2014, the Company purchased 1,873,023 common shares for cancellation, representing approximately 2% of its outstanding common shares. The Company's major shareholder, Genworth Financial Inc., participated proportionately to maintain its 57.3% ownership interest in the Company throughout the course of the NCIB. During the year ended December 31, 2014 there were no purchases made by the Company under its prior normal course issuer bid, which was in place January 1 to May 4, 2014. Genworth Financial Inc. also maintained its proportionate ownership interest in the Company throughout the course of the prior normal course issuer bid. 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, 2014 and 2013.

	2014	2013
Common shares, January 1	**94,910,880**	98,698,018
Common shares issued in connection with share-based compensation plans	**109,921**	115,979
Common shares retired, repurchased and cancelled	**(1,873,023)**	(3,903,117)
Common shares, December 31	**93,147,778**	94,910,880

At December 31, 2014, subsidiaries of Genworth Financial, Inc. owned 53,395,420 common shares of the Company or approximately 57.3% of the Company's outstanding shares.

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.

During the fourth quarter of 2014, the Company noted that S&P had revised its rating of Genworth Financial Group's U.S. life insurance operations following the release of the Genworth Financial, Inc. third quarter of 2014 earnings. As a result of this downgrade and S&P's group rating methodology, S&P also lowered its financial strength rating on the Insurance Subsidiary from AA- to A+ and the Company's issuer and credit ratings on its senior unsecured debentures from A- to BBB+. S&P's group rating methodology states that the insulated Canadian businesses are capped at three notches above the group credit profile. S&P maintained its standard notching criteria of three notches between an operating company and a holding company, for the Insurance Subsidiary and the Company, respectively. S&P noted in their press release of November 6, 2014 that the Canadian mortgage insurance businesses continue to have a very strong capital and earnings profile and they expect the Insurance Subsidiary to maintain regulatory capital of more than 220% of the minimum capital test ratio. In addition to the rating change, S&P also revised its outlook for the Company and the Insurance Subsidiary from stable to negative, reflecting their outlook on Genworth Financial, Inc. The ratings from S&P are a function of financial strength, operating performance and ability to meet obligations to policyholders.

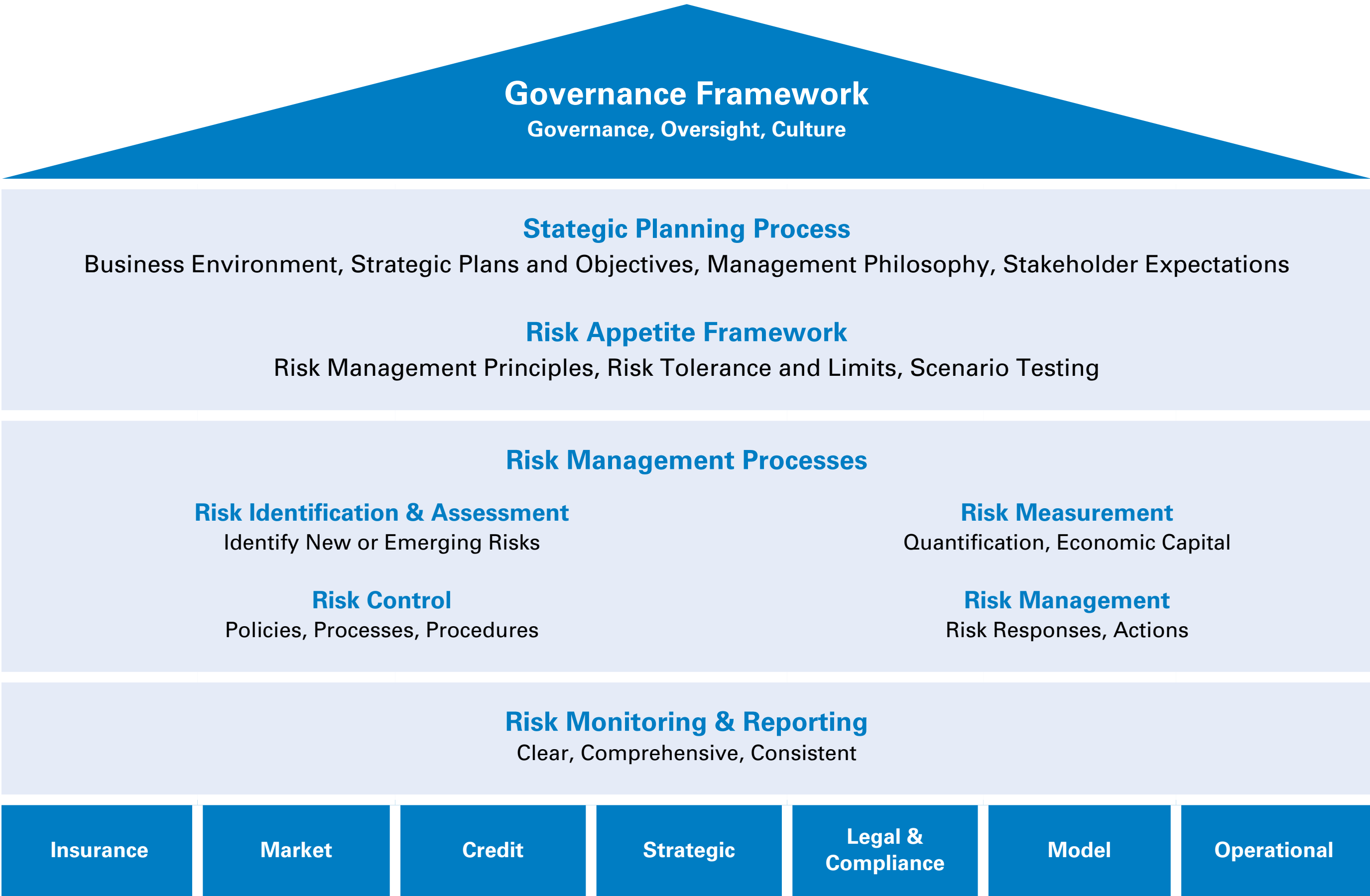
The Insurance Subsidiary is rated AA (Superior) and the Company's issuer rating is AA (Low), with a stable outlook, by DBRS. The ratings from DBRS were confirmed in November 2014. DBRS applies a one-notch differential between the Insurance Subsidiary and the Company to reflect the structural subordination 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+, Negative	AA (Low), Stable
Financial strength		
Insurance subsidiary	A+, Negative	AA, Stable
Senior unsecured debentures		
Company	BBB+, Negative	AA (Low), Stable

Risk management

Enterprise risk management framework

Risk management is a critical part of Genworth Canada's business. The Company has an enterprise risk management framework ("ERM") that comprises the totality of the frameworks, systems, processes, policies, and people for identifying, assessing, mitigating and monitoring risks. The Company's ERM facilitates the assessment of risk by acting as a proactive decision-making tool to determine which risks are acceptable and to monitor and manage the Company's risks in an ongoing manner. The key elements of the ERM Framework are outlined in the subsequent paragraphs and represented in the diagram below.



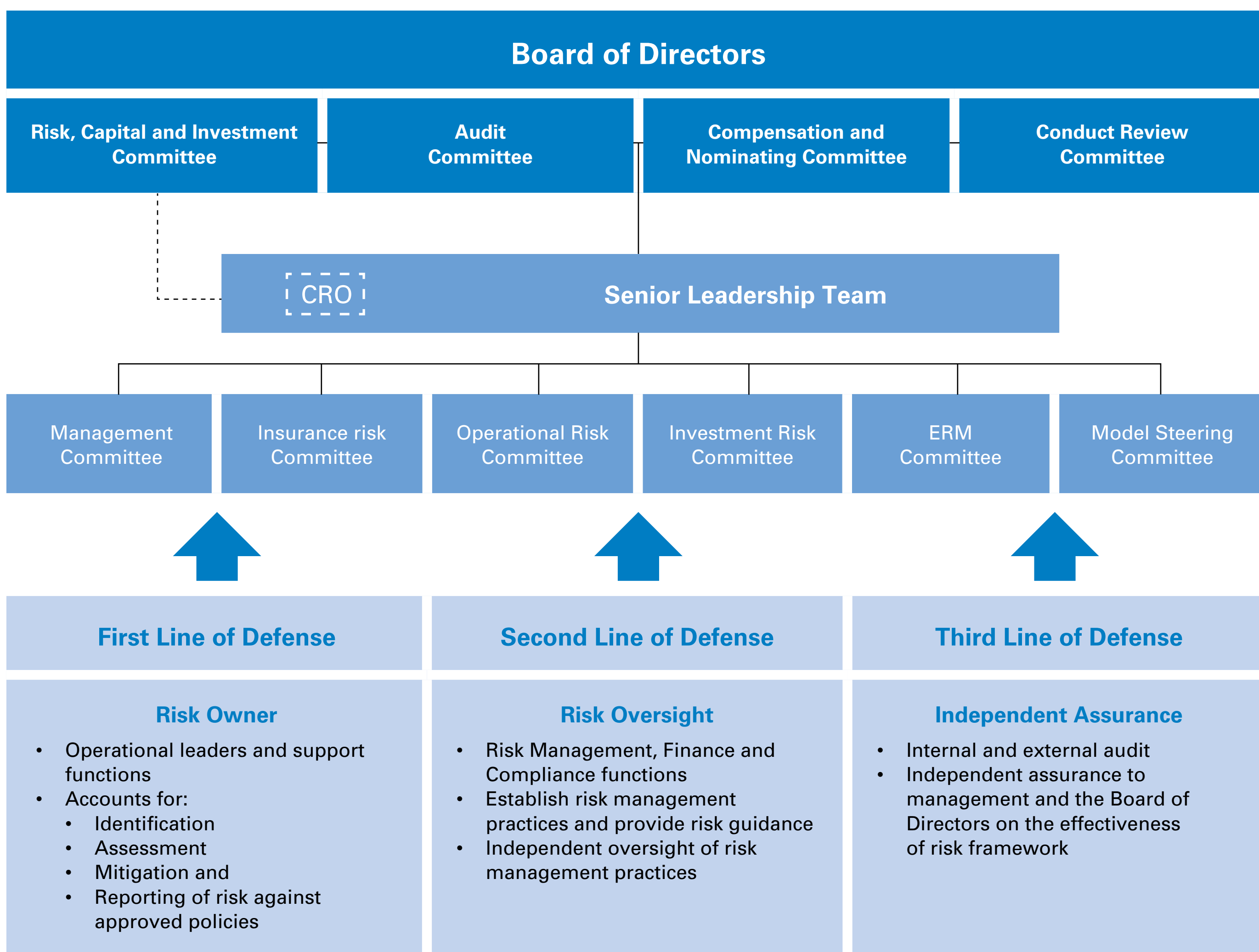
Governance framework

The Company's governance framework is designed to ensure the Board of Directors ("Board") and the Senior Leadership Team ("SLT") 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. SLT management oversight of risks; and

III. The "three lines of defense" operating model.



The Board, in collaboration with the Chief Executive Officer ("CEO"), Chief Risk Officer ("CRO") and Chief Financial Officer ("CFO"), 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, Operational risks.

The SLT, consisting of the CEO, CRO, CFO and General Counsel, is responsible for risk management under the oversight of the Board and fulfills its responsibility through several risk committees, as noted in the chart above. The CRO, who oversees the Risk Management Group ("RMG"), 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 are outlined in the chart on page 40.

Risk appetite framework ("RAF")

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 RAF is to provide a framework for the SLT 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 appetite

The Company has five risk appetite priorities that form the basis of its qualitative risk appetite statements and corresponding risk appetite tolerances and limits.

i. Maintain new insurance written ("NIW") quality and avoid imprudent portfolio risk concentrations.

ii. Balance capital strength, efficiency and flexibility while complying with regulatory requirements and with due regard to the Company's desired rating.

iii. Minimize earnings and dividend volatility while pursuing long-term shareholder value.

iv. Maintain a high quality investment portfolio and sound management of liquidity risk.

v. Ensure sound management of regulatory compliance risk, model and operational risk.

The above priorities are utilized in a holistic fashion and contemplate the interaction of these priorities.

Risk principles

The Company employs the following methods of managing risk that originate from the business objectives of the Company:

- ensure the expected outcomes of risk taking activities are consistent with the Company's strategies and risk appetite;
- ensure there is an appropriate balance between risk and reward in order to maximize shareholder value;
- ensure a deep understanding of risk drivers as they relate to our key objectives;
- ensure responsibility for risk management is shared across the business (by employing "three lines of defense" risk governance model);
- proactively address emerging risks as they arise; and
- ensure strict adherence to legal, compliance and regulatory requirements.

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:

- Enterprise Risk Management 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

The Company's mortgage portfolio risk management involves actively managing its borrower credit quality, product and geographic exposures. The Company carefully monitors portfolio concentrations by borrower credit quality, product and geography against pre-determined risk tolerances, taking into account the conditions of the housing market and economy in each region of Canada. The Company's underwriting policies and guidelines are reviewed and updated regularly to manage the Company's exposures and to address emerging trends in the housing market and economic environment. For example, in view of unemployment and housing market conditions in Québec and the Atlantic provinces, the Company took a number of underwriting actions to reduce the overall risk profile of its mortgage portfolio, including more stringent credit criteria in these regions. The Company is currently monitoring effects of oil prices in the province of Alberta and is taking the necessary actions to stay within our risk appetite.

The Company'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 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, 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 loss mitigation functions to ensure compliance with relevant Company policies and accounting standards. Audit results of all three areas are reviewed by management on a monthly basis.

Market and credit risk

The Company monitors and manages the credit risk, liquidity risk and market risk, including interest rate risk, equity price risk and currency 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, or 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 financial commitments and policy obligations 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 and currency 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. and Australian dollars. The Company uses foreign exchange forward contracts and cross-currency interest rate swaps to mitigate currency risk.

Financial reporting controls and accounting disclosures

Disclosure controls and procedures and internal controls over financial reporting

As required by the 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 ending December 31, 2014 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

The Company adopted amendments to IAS 32 – Financial instruments: presentation and IAS 36 – Impairment of assets in 2014. The adoption of the amendments to these accounting standards did not have a material impact on the Company's financial statements. A description of the amendments is included in the Company's annual consolidated financial statements.

IFRS 9 – Financial instruments

IFRS 9, published on July 24, 2014, replaces the existing guidance in IAS 39 – Financial instruments: recognition and measurement ("IAS 39"). The new standard includes revised guidance on the classification and measurement of financial assets, including impairment, and supplements the new hedge accounting principles published in 2013.

Recognition and derecognition

IFRS 9 retains, largely unchanged, the requirements of IAS 39 relating to scope and recognition and derecognition of financial instruments.

Classification and measurement of financial assets and financial liabilities

Although the permissible bases for financial assets – amortized cost, Fair Value Through Other Comprehensive Income ("FVOCI") and Fair Value Through Profit or Loss ("FVTPL") are similar to IAS 39, the criteria for classification into the appropriate measurement categories are significantly different. Financial assets that are debt instruments are classified and measured at amortized cost, FVOCI or FVTPL based on the business model in which they are held and the characteristics of their contractual cash flows. If classifying a debt instrument at amortized cost or FVOCI would create or enlarge an accounting mismatch in income, an entity can make an irrevocable election to classify it at FVTPL if this would eliminate or significantly reduce the mismatch.

All equity investments are classified and measured at FVTPL. However, for an equity investment that is not held for trading, an entity may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains or losses) in OCI. These changes in fair value are not subsequently reclassified to income under any circumstances.

IFRS 9 retains almost all of the existing requirements from IAS 39 for the classification and measurement of financial liabilities. However, the gain or loss on a financial liability designated at FVTPL that is attributable to changes in an entity's own credit risk is presented in OCI, unless presentation in OCI creates or enlarges an accounting mismatch. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to income.

Impairment

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected loss" model. The new model applies to financial assets that are not measured at FVTPL with the exception of equity investments. The model uses a dual measurement approach, under which a loss allowance is measured as either 12-month expected credit losses or lifetime expected credit losses. The measurement basis generally depends on whether there has been a significant increase in credit risk since initial recognition. Special rules apply to assets that are credit-impaired at initial recognition.

Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of nonfinancial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is no longer required. The work on macro hedging by the IASB is still at a preliminary stage. A discussion paper was issued in April 2014 to gather preliminary views and direction from constituents with the comment period having ended October 17, 2014.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted.

The Company does not currently expect to early adopt IFRS 9 and is evaluating the impact of the standard on its financial assets and financial liabilities.

IFRS 4 – Insurance contracts

On June 21, 2013, the International Accounting Standards Board ("IASB") issued a revised exposure draft: Insurance Contracts (the "revised ED") as part of its ongoing insurance contracts project. The revised ED takes into account the re-deliberations by the IASB since its July 2010 exposure draft: Insurance Contracts (the"2010 ED"). The issuance of the revised ED forms part of the IASB's efforts to eliminate the current diversity that exists in insurance contract accounting.

The insurance contract measurement principles that are set out in the revised ED are similar to those in the 2010 ED: a current measurement model comprising the expected present value of future cash flows, a risk adjustment and a contractual service margin (referred to as "residual margin" in the 2010 ED). However, the IASB made several key changes in response to comments received on the 2010 ED. Some of the most prominent changes relate to addressing the concerns for earnings volatility, for example, how to present the effect of changes in discount rates. Under the 2010 ED, changes in discount rates related to insurance contracts measured at present value were recorded in earnings. The revised proposals also represent a major change for the presentation of insurance contracts in the statement of comprehensive income. The transitional provisions have been amended to include a contractual service margin for existing business when implementing the future insurance standard, thereby permitting insurers to carry forward an unearned profit amount on transition. Comments on the key areas of change in the revised ED were due October 25, 2013.

In the first quarter of 2014, the IASB conducted its first set of re-deliberations on the revised ED. Based on these re-deliberations, key decisions were made relating to the unlocking of the contractual service margin, including the requirement to adjust the contractual service margin for changes in risk adjustment that relate to coverage and other services in the future. Additionally, the use of OCI to present the effects of changes in discount rates has been made optional.

In the second quarter of 2014, the IASB discussed the remaining issues not targeted by the revised ED. A clarification was issued indicating that, for certain contracts, the service represented by the contractual service margin would be insurance coverage that is provided on the basis of passage of time and reflects the number of contracts in force. Guidance was issued to address determining discount rates when an insurance contract extends into a period for which there is a lack of observable data. The IASB also decided on an exception to the subsequent measurement principle for reinsurance contracts to better reflect the economic relationship with the underlying insurance contracts. Finally, the IASB discussed the level of aggregation of insurance contracts and decided that entities could use a higher level of aggregation of insurance contracts in certain circumstances.

In the third quarter of 2014, the IASB continued its analysis of respondents' feedback on the model for non-participating insurance contracts proposed in the ED and decided that the locked-in interest rate at the inception of an insurance contract would be used for accreting interest on the contractual service margin and calculating the change in the present value of expected cash flows that adjust the contractual service margin.

In the fourth quarter of 2014, the IASB concluded its re-deliberations on non-participating contracts by reviewing and reconfirming the transition requirements for non-participating contracts proposed in the 2013 ED, and commenced re-deliberations on participating contracts.

Throughout its re-deliberations, the IASB has considered whether the accounting for insurance contracts would be consistent with other existing or future standards including the new revenue recognition standard – IFRS 15 – Revenue from contracts with customers.

It is expected that re-deliberations will be completed in mid-2015 and a final standard will be issued in late 2015, with implementation not expected before 2019. The Company is currently monitoring the development of this standard and assessing the impact of its adoption.

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 on page 47 as accounting estimates and judgments. Actual results may differ from the estimates used, and such differences may be material.

Accounting estimates

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

Premiums earned

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

In constructing the premium recognition curve, the Company applies actuarial forecasting techniques to historical loss data to determine expected loss development and the related loss emergence pattern. The actuarial forecasting techniques incorporate economic assumptions that impact future losses and loss development including unemployment rates, interest rates and expected changes in house prices.

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. Accordingly, case reserves include a provision for adverse development, primarily to address potential decline in property values.

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 (derived from an independent calculation of the 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.

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.

Utilization of tax losses

As at December 31, 2014, the Company has recognized $10 million of benefits related to tax losses (2013 – tax losses of $9 million). Management considers it probable that future taxable profits will be available against which these tax losses can be utilized.

Share-based compensation

Stock options with tandem stock appreciation rights ("Options") are measured at fair value using the Black-Scholes valuation model. Inputs to the Black-Scholes valuation model are share price on the measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instrument, expected dividend yield and the risk free rate. 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 historical experience of affiliated companies. 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 Company records compensation expense only to the extent that the share-based awards are expected to vest based on management's best estimate of the outcome of service and performance conditions.

Employee defined benefits plans

Actuarial valuations of benefit liabilities for pension and non-pension post-retirement benefit plans are performed 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.

Accounting judgments

Objective evidence of impairment of AFS financial assets

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

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

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 affiliated companies 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 $5 million in 2014 which was comparable to the prior year's period.

Share repurchase

During the year ended December 31, 2014, the Company repurchased 1,873,023 (2013 – 3,903,117) of its own common shares for cancellation on the open market for an aggregate purchase price of $75 million as compared to $105 million in the prior year. Genworth Financial Inc., through its subsidiaries, participated proportionately in the share purchase transaction and maintained a 57.3% (2013 – 57.4%) ownership interest in the Company.

Reinsurance

Effective December 1, 2014, the Company, through its indirect subsidiary MIC Insurance Company Canada ("MICICC"), formerly PMI Insurance Company, entered into a retrocession agreement with a third party reinsurance company under which the Company assumed reinsurance risk for approximately 25% 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. The premiums under the new agreement are 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 are consistent with current reinsurance market rates.

Concurrently, the retrocession agreement signed in 2013 was terminated.

Under the reinsurance agreement, the Company is required to collateralize its reinsurance obligations by posting cash collateral equal to the maximum exposure under the agreement. As at December 31, 2014, the Company had posted $30 million Australian dollars, equivalent to $28 million, under the agreement (December 31, 2013 – $30 million Australian dollars, equivalent to $28 million). Re-measurement adjustments arising on translation of the collateral and any reinsurance receivable balances from Australian dollars to Canadian dollars are recognized in investment gains (losses).

The Company earned $2 million in reinsurance premiums in 2014 and did not earn significant reinsurance premiums in 2013.

Non-IFRS financial measures and glossary

To supplement the Company's consolidated interim financial statements, which are prepared in accordance with IFRS, the Company uses non-IFRS financial measures to analyze performance (excluding fees on early retirement of debt, as applicable), interest and dividend income, net of investment expenses, operating earnings per common share (basic), operating earnings per common share (diluted), shareholders' equity excluding AOCI, operating return on equity and underwriting ratios such as loss ratio, expense ratio and combined ratio. Other non-IFRS financial measures used by the Company to analyze performance include insurance in-force, new insurance written, MCT ratio, delinquency ratio, severity on claims paid, book value per common share (basic) including AOCI, book value per common share (basic) excluding AOCI, book value per common share (diluted) including AOCI, book value per common share (diluted) excluding AOCI, and dividends paid per common share. The Company believes that these non-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 meaning and are unlikely to be comparable to any similar measure presented by other companies.

The table below reconciles the Company's net operating income, interest and dividend income, net of investment expenses, 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 three months ended December 31,		For the twelve months ended December 31,	
(In millions of dollars, unless otherwise specified)	**2014**	2013	**2014**	2013
Total net investment income	**$ 47**	$ 56	**$ 195**	$ 216
Adjustment to total net investment income:				
Net gains on investments	**(4)**	(11)	**(22)**	(37)
Interest and dividend income, net of investment expenses	**43**	44	**173**	179
Net income	**$ 86**	$ 93	**$ 377**	$ 375
Adjustment to net income, net of taxes:				
Fee on early redemption of long term debt	**—**	—	**5**	—
Net gains on investments	**(3)**	(8)	**(16)**	(26)
Net operating income[1]	**$ 84**	$ 85	**$ 366**	$ 349
Earnings per common share (basic)	**$ 0.92**	$ 0.98	**$ 3.97**	$ 3.86
Adjustment to earnings per common share, net of taxes:				
Fee on early redemption of long term debt	**—**	—	**0.06**	—
Net investment gains	**$ (0.03)**	$ (0.08)	**$ (0.17)**	$ (0.26)
Operating earnings per common share (basic)[1]	**$ 0.89**	$ 0.90	**$ 3.86**	$ 3.60
Earnings per common share (diluted)[2]	**$ 0.91**	$ 0.98	**$ 3.97**	$ 3.86
Adjustment to earnings per common share, net of taxes:				
Fee on early redemption of long term debt	**—**	—	**0.06**	—
Net investment gains	**$ (0.03)**	$ (0.08)	**$ (0.17)**	$ (0.26)
Operating earnings per common share (diluted)[1][2]	**$ 0.89**	$ 0.90	**$ 3.86**	$ 3.60
Shareholders' equity	**3,271**	3,087	**3,271**	3,087
Adjustment to shareholders' equity:				
Accumulated other comprehensive income ("AOCI")	**(185)**	(124)	**(185)**	(124)

Note: Amounts may not total due to rounding.

[1] These financial measures are not calculated based on IFRS.

[2] 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 the 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 for non-IFRS financial measures" at the end of this MD&A.

	For the three months ended December 31,		For the twelve months ended December 31,	
(In millions of dollars, unless otherwise specified)	**2014**	2013	**2014**	2013
Selected non-IFRS financial measures[1]				
Insurance in force	**$ 356,318**	$ 316,702	**$ 356,318**	$ 316,702
New insurance written	**$ 8,785**	$ 7,693	**$ 42,153**	$ 34,985
Loss ratio	**26%**	22%	**20%**	25%
Expense ratio	**21%**	23%	**19%**	20%
Combined ratio	**47%**	45%	**39%**	44%
Operating return on equity	**11%**	12%	**12%**	12%
MCT ratio[2]	**225%**	223%	**225%**	223%
Delinquency ratio	**0.10%**	0.12%	**0.10%**	0.12%
Severity on claims paid	**29%**	29%	**29%**	30%
Investment yield	**3.4%**	3.6%	**3.5%**	3.7%
Book value per common share				
Number of common shares outstanding (basic)	**93,147,778**	94,910,880	**93,147,778**	94,910,880
Book value per common share including AOCI (basic)	**$ 35.12**	$ 32.53	**$ 35.12**	$ 32.53
Book value per common share excluding AOCI (basic)	**$ 33.13**	$ 31.22	**$ 33.13**	$ 31.22
Number of common shares outstanding (diluted)[3]	**93,403,036**	94,918,169	**93,403,036**	94,918,169
Book value per common share including AOCI (diluted)[3]	**$ 35.02**	$ 32.53	**$ 35.02**	$ 32.53
Book value per common share excluding AOCI (diluted)[3]	**$ 33.04**	$ 31.22	**$ 33.04**	$ 31.22
Dividends paid per common share	**$ 0.39**	$ 0.35	**$ 1.87**	$ 1.31

(1) These financial measures are not calculated based on IFRS.
(2) The MCT ratio for December 31, 2014 is a Company estimate.
(3) The difference between basic and diluted number of common shares outstanding is caused by the potentially dilutive impact of share-based compensation awards.

In the first quarter of 2014, the Company revised its definition of net operating income (loss) to exclude after-tax fees on early redemption of debt to better reflect the basis on which the performance of the Company's business is internally assessed and to reflect management's opinion that they are not indicative of overall operating trends. The change in the definition did not have an impact on net operating income (loss) for prior periods.

"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 by investors in assessing the market value of the Company.

"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 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.

"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 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.

"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, in most instances, 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 total capital" means the Company's long-term debt divided by its total capital. Total capital includes the Company's shareholders' equity and long-term debt. This is a measure of financial leverage that the Company considers in capital management planning.

"delinquency ratio" means the ratio (expressed as a percentage) of the total number of delinquent loans to the total original 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 is a measure of 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 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 net 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 serving costs, in respect of the debt in question, as a percentage of the borrower's 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 net 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 a 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 believes that excluding the impact of the share based compensation re-measurement amount from operating earnings per share (diluted) is a better indicator of core operating performance.

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

"severity on claims paid" means the ratio (expressed as a percentage) of the dollar amount of paid claims during a specified period on insured loans to the original insured mortgage amount relating to such loans. The main determinants of the severity ratio are the loan-to-value (original balance of a mortgage loan divided by the original value of the mortgaged property), age of the mortgage loan, the value of the underlying property, accrued interest on the loan, expenses advanced by the insured and foreclosure expenses. Severity on claims paid ratio measures the size of the average loss on a paid claim relative to the original insured mortgage amount and is used to assess the potential loss exposure related to insurance in force and for comparison to industry benchmarks and internal targets.

"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.

"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 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.

Consolidated Financial Statements

(In Canadian dollars)

Years ended December 31, 2014 and 2013

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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.

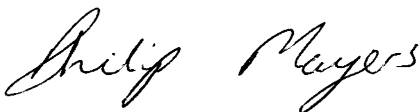
The Board of Directors of the Company (the "Board") is responsible for approving the financial statements. The Audit Committee of the Board, comprising directors who are neither officers nor employees of the Company, meets with management, internal auditors, the actuary and external auditors (all of 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

Independent auditors' report

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, 2014 and 2013, 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, 2014 and 2013, 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 9, 2015
Toronto, Canada

Consolidated statements of financial position

(In thousands of Canadian dollars)

	Notes	**December 31, 2014**[1]	December 31, 2013[1]
Assets			
Cash and cash equivalents	9	**$ 190,375**	$ 213,692
Short-term investments	9	**84,933**	39,649
Accrued investment income and other receivables		**30,099**	31,561
Derivative financial instruments	9	**303**	—
Bonds and debentures	9	**4,630,169**	4,694,002
Bonds and debentures under securities lending program	9	**367,190**	243,141
Equity investments	9	**106,703**	184,422
Equity investments under securities lending program	9	**63,753**	—
Collateral receivable under reinsurance agreement	6(e)	**28,446**	28,482
Total invested assets, accrued investment income and other receivables		**5,501,971**	5,434,949
Income taxes recoverable		**6,465**	—
Subrogation recoverable	6(c)	**66,976**	75,454
Prepaid assets		**2,924**	3,136
Property and equipment		**1,335**	735
Intangible assets	15	**7,461**	7,314
Deferred policy acquisition costs	6(d)	**172,289**	158,427
Goodwill	17	**11,172**	11,172
Total assets		**$ 5,770,593**	$ 5,691,187
Liabilities and shareholders' equity			
Liabilities:			
Accounts payable and accrued liabilities		**$ 41,557**	$ 31,219
Loss reserves	6(b)	**115,493**	117,388
Income taxes payable		**—**	224,810
Share-based compensation liabilities	14	**16,764**	14,317
Derivative financial instruments	9	**23,298**	2,668
Long-term debt	19	**432,137**	422,767
Unearned premium reserves	6(a)	**1,798,568**	1,723,768
Accrued net benefit liabilities under employee benefit plans	13	**36,307**	26,519
Deferred tax liabilities	10	**35,122**	40,413
Total liabilities		**2,499,246**	2,603,869
Shareholders' equity:			
Share capital	18	**1,384,558**	1,408,213
Retained earnings		**1,701,707**	1,555,062
Accumulated other comprehensive income		**185,082**	124,043
Total shareholders' equity		**3,271,347**	3,087,318
Total liabilities and shareholders' equity		**$ 5,770,593**	$ 5,691,187

[1] Refer to note 21 for a presentation of assets and liabilities expected to be recovered or settled after 12 months.

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	Notes	2014	2013
Premiums written	6(a)(e)	**$ 639,761**	$ 511,844
Premiums earned	6(a)(e)	**$ 564,961**	$ 573,217
Losses on claims	6(b)	**111,110**	141,867
Expenses:			
Premium taxes and underwriting fees		**49,417**	41,516
Employee compensation		**44,063**	46,125
Office		**16,275**	19,719
Professional fees		**4,382**	5,417
Promotional and travel		**5,667**	5,110
Other		**1,473**	1,023
Total expenses		**121,277**	118,910
Net change in deferred policy acquisition costs	6(d)	**(13,862)**	(6,116)
Net expenses		**107,415**	112,794
Net underwriting income		**346,436**	318,556
Investment income:			
Interest		**171,582**	174,046
Dividends		**6,010**	9,168
Net investment gains		**21,875**	36,792
Total investment income		**199,467**	220,006
General investment expenses		**(4,345)**	(4,549)
		195,122	215,457
Interest expense	19	**23,686**	22,926
Fee on early redemption of long-term debt	19	**7,249**	—
Income before income taxes		**510,623**	511,087
Income taxes:	10		
Current		**137,536**	375,902
Deferred		**(3,457)**	(239,472)
		134,079	136,430
Net income attributable to owners of the Company		**$ 376,544**	$ 374,657
Earnings per share:	20		
Basic		**$ 3.97**	$ 3.86
Diluted		**$ 3.97**	$ 3.86

See accompanying notes to the consolidated financial statements.

Consolidated statements of comprehensive income

(In thousands of Canadian dollars)

Years ended December 31	2014	2013
Net income	**$ 376,544**	$ 374,657
Other comprehensive income (loss):		
Items that will not be reclassified subsequently to income:		
Re-measurement of employee benefit obligations, net of income tax of $1,834 (2013 – $899)	**(5,079)**	2,518
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 $24,919 (2013 – $27,057)	**71,743**	(71,666)
Gains on AFS financial assets realized and reclassified to income, net of income tax of $3,718 (2013 – $9,510)	**(10,704)**	(25,187)
Total other comprehensive income (loss) for the period attributable to owners of the Company, net of income tax of $19,367 (2013 – $35,668)	**55,960**	(94,335)
Total comprehensive income attributable to owners of the Company	**$ 432,504**	$ 280,322

See accompanying notes to the consolidated financial statements.

Consolidated statements of changes in equity

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

	Share capital	Retained earnings	Accumulated other comprehensive income	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	—	—	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**

	Share capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at January 1, 2013	$ 1,463,612	$ 1,352,456	$ 220,896	$ 3,036,964
Comprehensive income:				
Net income	—	374,657	—	374,657
Other comprehensive income	—	—	(94,335)	(94,335)
Total comprehensive income	—	374,657	(94,335)	280,322
Transactions recognized directly in equity:				
Dividends on common shares[1]	—	(127,368)	—	(127,368)
Issuance of common shares	2,500	—	—	2,500
Repurchase of common shares (note 18)	(57,899)	(47,201)	—	(105,100)
Re-measurement of employee benefit plan obligations, net of income tax	—	2,518	(2,518)	—
Total transactions recognized directly in equity	(55,399)	(172,051)	(2,518)	(229,968)
Balance at December 31, 2013	$ 1,408,213	$ 1,555,062	$ 124,043	$ 3,087,318

[1] The Company paid dividends of $0.35 per ordinary 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 ordinary common share in the fourth quarter of 2014 ($0.32 per ordinary common share in the first, second and third quarters of 2013 and $0.35 per common share in the fourth quarter of 2013).

See accompanying notes to the consolidated financial statements.

Consolidated statements of cash flows

(In thousands of Canadian dollars)

Years ended December 31	2014	2013
Cash provided by (used in):		
Operating activities:		
Net income	$ 376,544	$ 374,657
Adjustments for:		
Amortization of intangible assets and depreciation of property and equipment	3,638	6,269
Expensing of deferred policy acquisition costs	53,050	46,058
Income taxes	134,079	136,430
Interest income	(171,582)	(174,046)
Dividend income	(6,010)	(9,168)
Net investment gains	(21,875)	(36,792)
Interest expense	23,686	22,926
Share-based compensation expense	6,305	11,232
	397,835	377,566
Change in non-cash balances related to operations:		
Net cash resulting from termination of the government guarantee fund	—	30,159
Accrued investment income and other receivables	(1,155)	(7,636)
Collateral receivable under reinsurance agreement	—	(28,482)
Prepaid assets	211	(1,222)
Subrogation recoverable	8,478	15,806
Deferred policy acquisition costs	(66,912)	(52,174)
Accounts payable and accrued liabilities	7,787	8,091
Loss reserves	(1,895)	(22,010)
Unearned premium reserves	74,800	(61,373)
Accrued net benefit liabilities under employee benefit plans	2,830	3,217
	421,979	261,942
Cash generated from (used in) operating activities:		
Interest received from bonds and debentures	184,615	190,523
Dividends received from equity investments	6,057	9,722
Interest paid on long-term debt	(21,598)	(22,505)
Income taxes paid	(390,013)	(72,243)
Stock options settled in cash	(1,752)	(1,178)
Net cash generated from operating activities	199,288	366,261
Financing activities:		
Net proceeds from issuance of long-term debt	158,635	—
Repayment of long-term debt	(150,000)	—
Dividends paid	(177,652)	(127,368)
Repurchase of common shares	(75,009)	(105,100)
Proceeds from exercise of stock options	1,924	1,888
Net cash used in financing activities	(242,102)	(230,580)
Investing activities:		
Purchase of short-term investments	(317,096)	(182,470)
Proceeds from sale or maturities of short-term investments	271,812	232,835
Purchase of bonds	(1,371,268)	(1,672,158)
Proceeds from sale or maturities of bonds	1,405,182	1,283,327
Purchase of equity investments	(58,126)	(85,739)
Proceeds from sale of equity investments	93,378	257,360
Purchase of intangible assets and property and equipment	(4,385)	(3,000)
Net cash generated from (used in) investing activities	19,497	(169,845)
Decrease in cash and cash equivalents	(23,317)	(34,164)
Cash and cash equivalents, beginning of year	213,692	247,856
Cash and cash equivalents, end of year	$ 190,375	$ 213,692

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except per share amounts) Years ended December 31, 2014 and 2013

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"), formerly Genworth Canada Holdings I Limited, Genworth Canada Holdings II Company ("Holdings II"), formerly Genworth Canada Holdings II Limited and MIC Holdings F Company ("Fco"). During the year ended December 31, 2014, MIC Holdings E Company ("Eco") 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 ("Genworth Mortgage Insurance Canada" or the "Insurance Subsidiary") through Holdings I and Holdings II. These consolidated financial statements as at and for the year ended December 31, 2014 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"), formerly PMI Mortgage Insurance Company. 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 and MICICC are regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI") as well as applicable provincial financial services regulators.

Effective January 1, 2013, the Company is subject to regulation under the Protection of Residential Mortgage or Hypothecary Insurance Act ("PRMHIA"), a legislative framework that replaced the Government Guarantee Agreement. Under the terms of PRMHIA, the Canadian federal government guarantees the benefits payable under eligible mortgage insurance policies issued by the Company, less 10% of the original principal amount of each insured loan, in the event that the Company fails to make claim payments with respect to that loan due to its bankruptcy or insolvency. This level of guarantee remains unchanged from the level of guarantee provided under the Government Guarantee Agreement.

2. Basis of preparation

(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 9, 2015.

(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 and equity investments 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.

2. Basis of preparation (continued)

(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.

(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 assumed 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.

(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.

(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.

3. Significant accounting policies (continued)

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, 2014 and 2013 (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.

(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, 2014 and 2013, the Company classifies bonds and debentures, short-term investments and equity investments 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 fixed income investment or the cost of an equity investment. 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.

(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 bonds and debentures and equity investments 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.

(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 equity investments 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.

(h) Property plant 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.

3. Significant accounting policies (continued)

(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.

(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:

(a) 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.

(b) Subsequent expenditures

Subsequent expenditures that increase application software functionality 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.

(c) 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.

(j) Impairment

(i) Impairment of financial assets:

A financial asset not carried at FVTPL is assessed at each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired include default or delinquency by the debtor, indications that the issuer of a security will enter bankruptcy, economic conditions that correlate with defaults or the disappearance of an active market for a security, a significant or prolonged decline in fair value of an equity investment below its cost, or lack of intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

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 debt security 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. 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 charged or credited directly to 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.

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

The Company adopted the amendments to IAS 19 – Employee benefits ("IAS 19") (amended 2011) on January 1, 2013.

IAS 19 (amended 2011) requires the net defined benefit liability to be recognized in the statement of financial position without any deferral of actuarial gains and losses and prior service costs as previously allowed. Prior service costs are recognized in net income when incurred. Re-measurements consisting of actuarial gains and losses are recognized immediately in OCI.

IAS 19 (amended 2011) clarifies that benefits are classified as long-term employee benefits if payments are not expected to be made within the next 12 months.

The standard also requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit or recognizes restructuring costs within the scope of IAS 37 – Provisions, contingent liabilities and contingent assets ("IAS 37").

The adoption of IAS 19 (amended 2011) at January 1, 2013 did not result in any measurement adjustments to the Company's employee benefits or changes in the classification of employee benefits on the Company's consolidated statements of financial position.

(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.

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.

(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 employees choose shares when these 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 total return swaps are recognized in employee compensation expense in the statement of income.

(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

The Company adopted IFRS 13 – Fair value measurement ("IFRS 13"), effective January 1, 2013. IFRS 13 establishes a single framework for measuring fair value when such measurements are required or permitted by other IFRSs.

IFRS 13 defines fair value 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. The application of the new fair value measurement guidance had no impact on the measurement of the Company's assets and liabilities. IFRS 13 also requires the fair value hierarchy, which was introduced by IFRS 7 – Financial instruments: disclosures ("IFRS 7"), to be 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

(a) Changes in accounting standards effective January 1, 2014

The following amendments to existing standards have been issued by the IASB and are effective for annual periods beginning on or after January 1, 2014.

(i) Amendment to IAS 32 – Financial instruments: presentation ("IAS 32"):

The amendment to IAS 32 clarifies the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendment clarifies that an entity has a legally enforceable right to set-off if that right is not contingent on a future event and is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The adoption of the amendments to IAS 32 did not have a material impact on the Company's consolidated financial statements.

(ii) Amendment to IAS 36 – Impairment of assets ("IAS 36"):

The amendment to IAS 36 introduces additional disclosure requirements, which are applicable when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions, and valuation techniques used which are in line with the disclosures required by IFRS 13 – Fair value measurements. The amendment requires retrospective application.

The adoption of the amendments to IAS 36 did not have a material impact on the Company's consolidated financial statements.

(iii) International Financial Reporting Interpretation Committee 21 – Levies ("IFRIC 21"):

IFRIC 21 addresses the issue of when to recognize a liability to pay a levy. The interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by the legislation. The interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statement preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. IFRIC 21 requires retrospective application.

The adoption of IFRIC 21 did not have a material impact on the Company's consolidated financial statements as the Company has not incurred levies.

(b) Future accounting standards

The following new standards have been issued by the IASB and are effective after December 31, 2014.

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

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 – Financial instruments: recognition and measurement ("IAS 39"). The new standard includes revised guidance on the classification and measurement of financial assets, including impairment, and supplements the new hedge accounting principles published in 2013.

Recognition and derecognition:

IFRS 9 retains, largely unchanged, the requirements of IAS 39 relating to scope and recognition and derecognition of financial instruments.

Classification and measurement of financial assets and financial liabilities:

Financial assets that are debt instruments are classified and measured at Amortized Cost, Fair Value Through Other Comprehensive Income ("FVOCI") or FVTPL based on the business model in which they are held and the characteristics of their contractual cash flows. If classifying a debt instrument at amortized cost or FVOCI would create or enlarge an accounting mismatch in income, an entity can make an irrevocable election to classify it at FVTPL if this would eliminate or reduce the mismatch.

All equity investments are classified and measured at FVTPL. However, for an equity investment that is not held for trading, an entity may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains or losses) in OCI. These changes in fair value are not subsequently reclassified to income under any circumstances.

IFRS 9 retains almost all of the existing requirements from IAS 39 for the classification and measurement of financial liabilities. However, the gain or loss on a financial liability designated at FVTPL that is attributable to changes in an entity's own credit risk is presented in OCI, unless presentation in OCI creates or enlarges an accounting mismatch. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to income.

Impairment:

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected loss" model. The new model applies to financial assets that are not measured at FVTPL with the exception of equity investments. The model uses a dual measurement approach, under which a loss allowance is measured as either 12-month expected credit losses or lifetime expected credit losses. The measurement basis generally depends on whether there has been a significant increase in credit risk since initial recognition.

Hedge accounting:

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is no longer required. The work on macro hedging by the IASB is still at a preliminary stage.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted.

The Company is currently evaluating the impact of IFRS 9 on its financial assets and financial liabilities.

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

The IASB issued a revised exposure draft ED/2013/7 Insurance Contracts (the "revised ED") on June 21, 2013. The revised ED builds upon proposals published in 2010 and proposes a new standard for insurance contracts that would replace IFRS 4. The revised proposals represent the first comprehensive accounting model for insurance contracts and aim to provide a consistent basis for accounting for insurance contracts and to eliminate the current diversity that exists in insurance contract accounting.

During 2014, the IASB conducted re-deliberations on the revised ED and made a number of key decisions to address concerns and incorporate feedback of constituents and other stakeholders. The final standard is expected in 2015, with implementation not expected before 2019.

The Company continues to monitor and assess the impact of adoption of the revised standard.

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 in an unrealized loss position for objective evidence of impairment.

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

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

(b) Estimates

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. The actuarial forecasting techniques incorporate economic assumptions that impact future losses and loss development including unemployment rates, interest rates and expected changes in house prices.

(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. Accordingly, case reserves include a provision for adverse development, primarily to address potential decline in property values.

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 (derived from an independent calculation of the 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 for sensitivity.

(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.

(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:

	2014	2013
Unearned premium reserves, beginning of year	$ 1,723,768	$ 1,785,141
Net premiums written during the year	639,761	511,844
Net premium earned during the year	(564,961)	(573,217)
Unearned premium reserves, end of year	$ 1,798,568	$ 1,723,768

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. The actuarial forecasting technique used to establish the loss emergence pattern also incorporates economic assumptions that impact future losses and loss development including unemployment rates, interest rates, and expected changes in house prices.

There is inherent risk that future economic conditions could differ, perhaps significantly, from the best estimates made.

The Company's 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, 2014 and 2013 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:

	2014	2013
Case reserves	$ 75,178	$ 78,100
Incurred but not reported reserves	35,365	37,038
Discounting	(1,936)	(2,238)
Provision for adverse deviation	6,886	7,488
Loss reserves	$ 115,493	$ 117,388

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

	2014	2013
Loss reserves, beginning of year	**$ 117,388**	$ 139,398
Claims paid during the year	**(113,005)**	(163,877)
Net losses on claims incurred during the year:		
Losses on claims related to the current year	**118,498**	132,299
Losses (recoveries) on claims related to prior years	**(7,388)**	9,568
Loss reserves, end of year	**$ 115,493**	$ 117,388

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).

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Claims incurred at the end of the default year	$ 52,845	$ 70,994	$ 102,549	$ 148,493	$ 196,586	$ 175,189	$ 172,200	$ 143,388	$ 132,299	$ 118,498	
Claims incurred one year later	29,670	46,971	106,468	200,807	218,890	193,820	193,226	141,957	128,043	—	
Claims incurred two years later	30,542	54,352	112,224	204,706	247,663	217,034	196,377	140,572	—	—	
Claims incurred three years later	31,485	55,461	115,632	209,850	252,041	218,884	195,903	—	—	—	
Claims incurred four years later	31,431	56,072	115,816	212,615	255,282	218,088	—	—	—	—	
Claims incurred five years later	31,245	55,701	115,427	212,595	254,725	—	—	—	—	—	
Current estimate of claims incurred	$ 31,245	$ 55,701	$ 118,344	$ 212,759	$ 254,725	$ 218,088	$ 195,903	$ 140,572	$ 128,043	$ 118,498	$1,473,878
Cumulative payments to date	31,245	55,701	118,344	212,182	254,307	217,863	195,432	138,001	113,670	21,640	1,358,385
Current loss reserves	$ —	$ —	$ —	$ 577	$ 418	$ 225	$ 471	$ 2,571	$ 14,373	$ 96,858	$ 115,493
Current estimate of surplus (deficiency)	$ 21,600	$ 15,293	$ (15,795)	$ (64,266)	$ (58,139)	$ (42,899)	$ (23,703)	$ 2,816	$ 4,256	$ —	
Surplus (deficiency) of initial gross loss reserve	41%	22%	(15)%	(43)%	(30)%	(24)%	(14)%	2%	3%	—	

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.

6. Insurance contracts (continued)

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 policyholder behaviour 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.

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.

2014 Sensitivity factor	**Change in assumptions**	**Impact on income before income taxes**	**Impact on shareholders' equity**
Claim frequency	**+10%**	**$ (22,822)**	**$ (16,820)**
	-10%	**22,822**	**16,820**
Claim severity	**+10%**	**(22,822)**	**(16,820)**
	-10%	**22,822**	**16,820**

(c) Subrogation recoverable

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

	2014	2013
Subrogation rights related to real estate, beginning of year	$ 55,968	$ 66,890
Subrogation rights related to real estate acquired as a result of settling claims, at fair value	211,140	271,885
Change in market value of real estate on hand	(10,168)	(14,719)
Subrogation rights related to real estate disposed of during the year	(210,745)	(268,088)
Subrogation rights related to real estate, end of year	46,195	55,968
Borrower recoveries, beginning of year	19,486	24,370
Net estimated borrower recoveries recognized	8,036	1,818
Borrower recoveries received	(6,741)	(6,702)
Borrower recoveries, end of year	20,781	19,486
Subrogation recoverable, end of year	$ 66,976	$ 75,454

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 quarterly 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:

	2014	2013
Deferred policy acquisition costs, beginning of year	$ 158,427	$ 152,311
Policy acquisition costs deferred during the year	66,912	52,174
Deferred policy acquisition costs expensed during the year	(53,050)	(46,058)
Net change in deferred policy acquisition costs during the year	13,862	6,116
Deferred policy acquisition costs, end of year	$ 172,289	$ 158,427

Effective January 1, 2013, in conjunction with receiving credit support in the form of the Government of Canada Guarantee, as prescribed in PRMHIA, the Company is subject to a risk fee equal to 2.25% of gross premiums written excluding assumed reinsurance premiums as disclosed in note 3(b)(ii). The Company records the risk fee in premium taxes and underwriting fees in the consolidated statements of income. The risk fee is a deferrable expense which is deferred and expensed in proportion to and over the periods in which premiums are earned.

6. Insurance contracts (continued)

(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 25% 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 has the same terms as the terminated agreement except that premiums under the new agreement are 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. These premium rates are consistent with current reinsurance market rates.

During the year ended December 31, 2014, the Company recognized $2,086 of premiums and incurred no losses under the reinsurance agreements (2013 – $171 of premiums recognized and no losses incurred).

As at December 31, 2014, the Company has posted collateral equal to the maximum exposure of 30,000 Australian dollars, equivalent to $28,446 under its reinsurance agreement (2013 – 30,000 Australian dollars, equivalent to $28,482). The collateral is recorded as collateral receivable under reinsurance agreement on the Company's consolidated statements of financial position. Re-measurement adjustments arising on translation of the collateral and any reinsurance receivable balances from Australian dollars to Canadian dollars are recognized in net investment gains (losses).

7. Financial risk management

During the year ended December 31, 2014, the Company 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 did not result in a significant change to the Company's practices of monitoring, evaluating and managing risks.

(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'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, 2014 compared to December 31, 2013.

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.

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. 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, updates the case reserves as appropriate and maintains a supplemental loss reserve for potential adverse development that may occur during the period from borrower default date to the claim settlement date. Management has established procedures to evaluate the appropriateness of loss reserves, which include a review of the loss reserves by the Company's actuary.

7. Financial risk management (continued)

(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. 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 gross premiums written.

Gross premiums written		2014		2013
Ontario	$ 246,560	39%	$ 195,873	38%
Alberta	165,908	26%	124,591	24%
British Columbia	75,428	12%	56,742	11%
Quebec	70,742	11%	68,026	14%
Other	81,123	12%	66,612	13%
	$ 639,761	100%	$ 511,844	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:

The Company is exposed to reinsurance risk through the reinsurance agreements described in note 6(e). As at December 31, 2014, the Company has maximum liability exposure of 30,000 Australian dollars or $28,446 (2013 – 30,000 Australian dollars or $28,482).

(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.

The total credit risk exposure at December 31, 2014 is $5,208,116 (2013 – $5,112,289) and comprises $84,933 (2013 – $39,649) of short-term investments, $30,099 (2013 – $31,561) of accrued investment income and other receivables, $303 (2013 – nil) of derivative financial instrument assets, $4,997,359 (2013 – $4,937,143) of bonds and debentures, $66,976 (2013 – $75,454) of subrogation recoverable and $28,446 (2013 – $28,482) of collateral receivable under reinsurance agreement.

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, Standard and Poor's, or Moody's.

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

		2014		2013
Credit rating	Amount	Carrying value %	Amount	Carrying value %
AAA	$ 1,946,510	38.3	$ 1,935,374	38.9
AA	1,098,982	21.6	1,016,365	20.4
A	1,690,528	33.3	1,664,517	33.4
BBB	346,272	6.8	353,199	7.1
BB	—	—	7,337	0.2
	$ 5,082,292	100.0	$ 4,976,792	100.0

As at December 31, 2014, 93.2% of the Company's investment portfolio was rated 'A' or better, compared to 92.7% at December 31, 2013.

The Company did not hold any impaired financial assets at December 31, 2014 and 2013.

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 and short-term investment portfolio by geographic region and by industry.

	2014		2013	
By country of issuance:				
Canada	**$ 4,735,080**	**93.2%**	$ 4,829,666	97.0%
Other	**347,212**	**6.8%**	147,126	3.0%
	$ 5,082,292	**100.0%**	$ 4,976,792	100.0%
By industry:				
Government	**$ 2,752,370**	**54.1%**	$ 2,696,097	54.2%
Bank, insurance, and other financial institutions	**1,142,371**	**22.5%**	1,280,776	25.7%
Energy	**252,453**	**5.0%**	310,682	6.3%
Infrastructure	**240,940**	**4.7%**	229,607	4.6%
All other sectors	**694,158**	**13.7%**	459,630	9.2%
	$ 5,082,292	**100.0%**	$ 4,976,792	100.0%

The Company has invested 22.5% (2013 – 24.7%) 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, 2014 the Company's net derivative obligations were $22,995 (2013 – $2,668) and the Company has pledged a net amount of $22,418 (2013 – $3,108) of Canadian federal government securities as collateral under the master derivative agreements. The Company had minimal derivative-related credit risk at December 31, 2014 (2013 – nil) 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, 2014, the Company has cash and cash equivalents of $190,375 (2013 – $213,692) and short-term investments of $84,933 (2013 – $39,649).

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
2014	**$ 546,316**	**$ 1,208,632**	**$ 1,269,674**	**$1,418,274**	**$ 639,396**	**$ 5,082,292**
2013	$ 734,901	$ 1,262,241	$ 1,120,057	$1,339,983	$ 519,610	$ 4,976,792

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
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**	**79**	**23,298**
2013:						
Non-derivative financial liabilities:						
Accounts payable and accrued liabilities	$ 31,219	$ —	$ —	$ —	$ —	$ 31,219
Loss reserves (at Actuarial Present Value)	67,034	50,354	—	—	—	117,388
Long-term debt	—	150,000	—	275,000	—	425,000
Derivative financial liabilities:						
Derivative financial instruments	15	—	362	2,291	—	2,668

(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 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.

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.

As at December 31, 2013, 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 $173,000, representing 3.48% of the $4,976,792 fair value of these investments, and decrease the value of loss reserves by $899. 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 $187,000 representing 3.76% of the fair value, and increase the value of loss reserves by approximately $917.

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 fixed income investments 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, 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.

As at December 31, 2013, the Company had a total investment in common shares of $184,422. Management estimates that a 10% increase in the equity price index would increase the market value of the common shares by $12,725 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 equity investment issuers and its aggregate exposure to equities.

(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 and from collateral pledged under its reinsurance agreement denominated in Australian dollars. The Company uses foreign exchange forward contracts and cross currency interest rate swaps to mitigate currency risk.

7. Financial risk management (continued)

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

	2014	2013
Collateral receivable under reinsurance agreement denominated in Australian dollars	**$ 28,446**	$ 28,482
Bonds and debentures denominated in U.S. dollars[1]	**347,212**	147,126
Total financial assets exposed to currency risk	**375,658**	175,608
Less: foreign exchange forward contract notional amount	**254,607**	175,790
Less: cross currency interest rate swap notional amount	**120,558**	—
Derivative financial instrument notional amount	**375,165**	175,790
Total net currency exposure on financial assets	**$ 493**	$ (182)

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

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 (2013 – 175%). In addition, the Company has established an internal capital ratio target for the Insurance Subsidiary of 185% (2013 – 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% MCT 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 will not have a significant impact to the Company's MCT.

As at December 31, 2014, the Insurance Subsidiary had an MCT ratio of 225% (2013 – 223%) 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 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:

	December 31, 2014				December 31, 2013			
	Fair value	**Amortized cost/cost**	**Unrealized gain**	**% of total fair value**	Fair value	Amortized cost/cost	Unrealized gain	% of total fair value
Cash and cash equivalents:								
Canadian federal government treasury bills	**$ 135,628**	**$ 135,628**	**$ —**	**2.5**	$ 194,372	$ 194,372	$ —	3.6
Cash	**54,747**	**54,747**	**—**	**1.0**	19,320	19,320	—	0.4
	190,375	**190,375**	**—**	**3.5**	213,692	213,692	—	4.0
AFS investments:								
Short-term investments:								
Canadian federal government treasury bills[1]	**84,933**	**84,933**	**—**	**1.6**	39,649	39,649	—	0.7
	84,933	**84,933**	**—**	**1.6**	39,649	39,649	—	0.7
Government bonds and debentures:								
Canadian federal government	**1,769,540**	**1,696,877**	**72,663**	**32.5**	1,809,970	1,766,510	43,460	33.7
Canadian provincial and municipal government	**897,897**	**829,461**	**68,436**	**16.5**	846,478	811,667	34,811	15.7
	2,667,437	**2,526,338**	**141,099**	**49.0**	2,656,448	2,578,177	78,271	49.4
Corporate bonds and debentures:								
Financial	**1,142,371**	**1,096,582**	**45,789**	**21.0**	1,280,776	1,227,442	53,334	23.8
Energy	**252,453**	**234,335**	**18,118**	**4.6**	310,682	300,509	10,173	5.8
Infrastructure	**240,940**	**226,616**	**14,324**	**4.5**	229,607	220,788	8,819	4.3
All other sectors	**568,746**	**532,185**	**36,561**	**10.4**	451,382	442,795	8,587	8.4
	2,204,510	**2,089,718**	**114,792**	**40.5**	2,272,447	2,191,534	80,913	42.3
Asset backed bonds[2]	**125,412**	**119,930**	**5,482**	**2.3**	8,248	8,076	172	0.2
Total AFS bonds and debentures	**4,997,359**	**4,735,986**	**261,373**	**91.8**	4,937,143	4,777,787	159,356	91.9
Equity investments:								
Energy	**28,756**	**26,924**	**1,832**	**0.5**	38,322	34,006	4,316	0.7
Financial	**45,074**	**37,088**	**7,986**	**0.8**	46,662	41,432	5,230	0.9
Communications	**16,562**	**14,823**	**1,739**	**0.3**	21,432	16,551	4,881	0.4
All other sectors	**80,064**	**63,821**	**16,243**	**1.5**	78,006	68,866	9,140	1.4
Total AFS equity investments	**170,456**	**142,656**	**27,800**	**3.1**	184,422	160,855	23,567	3.4
Total investments	**$ 5,443,123**	**$ 5,153,950**	**289,173[3]**	**100.0**	$ 5,374,906	$5,191,983	182,923[3]	100.0

[1] As at December 31, 2014, Canadian federal government bonds includes $22,418 in collateral posted for the benefit of the Company's courterparties to its derivative financial instrument contracts, as described in the derivative financial instruments section of note 9. As at December 31, 2013, Canadian federal government treasury bills included $3,108 in collateral posted for the benefit of the Company's courterparties to its derivative financial instrument contracts.

[2] As at December 31, 2014, asset backed bonds includes $117,342 of collateralized loan obligations (December 31, 2013 – nil).

[3] Unrealized gains include unrealized foreign exchange gains of $30,044 as at December 31, 2014 (December 31, 2013 – $6,034).

9. Investments (continued)

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

	2014	2013
Terms to maturity:		
Federal, provincial and municipal bonds and debentures and short-term investments:		
1 year or less	**$ 288,499**	$ 439,368
1–3 years	**675,912**	760,917
3–5 years	**768,565**	531,238
5–10 years	**777,605**	746,184
Over 10 years	**241,789**	218,390
	2,752,370	2,696,097
Corporate bonds and debentures and asset backed bonds:		
1 year or less	**257,817**	295,533
1–3 years	**532,720**	501,324
3–5 years	**501,109**	588,819
5–10 years	**640,669**	593,799
Over 10 years	**397,607**	301,220
	2,329,922	2,280,695
	$ 5,082,292	$ 4,976,792

(a) Investments denominated in foreign currencies

Corporate bonds and debentures and asset backed bonds include $229,870 (2013 – $147,126) of emerging market bonds and $117,342 of collateralized loan obligations ("CLOs") (2013 – nil) 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.

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.

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

2014	Net fair value	Notional amount: 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[2]	156	—	—	—	—	—
Total	$ (22,995)	$ 29,322	$ 126,310	$ 16,500	$ 203,033	$ 375,165

2013	Net fair value	Notional amount: 1 year or less	1–3 years	3–5 years	Over 5 years	Total
Foreign currency forwards[1]	$ (2,668)	$ 28,500	$ —	$ 13,710	$ 133,580	$ 175,790
Cross currency interest rate swaps	—	—	—	—	—	—
Total	$ (2,668)	$ 28,500	$ —	$ 13,710	$ 133,580	$ 175,790

(1) As at December 31, 2014, foreign currency forwards includes $15,049 derivative financial instrument liabilities and $147 derivative financial instrument assets. (December 31, 2013 – all foreign currency forwards were in a liability position). As at December 31, 2014, all cross currency interest rate swaps were in a liability position.

(2) Details of equity total return swaps are disclosed in note 14.

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, 2014, the Company had posted collateral of $22,418 in the form of Canadian federal government bonds for the benefit of its counterparties to the foreign currency forwards and cross currency interest rate swaps (2013 – $3,108 in the form of Canadian federal government treasury bills posted for the benefit of counterparties to the foreign currency forwards).

(c) 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.

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.

During the year ended December 31, 2014, the Company added equity investments to its securities lending program.

As at December 31, 2014, the Company had loaned AFS bonds and debentures with a fair value of $367,190 (2013 – $243,141) and equity investments with a fair value of $63,753 (2013 – nil) and has accepted eligible securities as collateral with a fair value of $455,029 (2013 – $257,443).

10. Income taxes

The provision for income taxes comprises the following:

	2014	2013
Current tax:		
Current income taxes	$ 137,605	$ 375,370
Current income tax adjustment in respect of prior years	(69)	532
	137,536	375,902
Deferred tax:		
Origination and reversal of temporary differences	(3,816)	(241,561)
Impact of change in income tax rates	359	2,089
	(3,457)	(239,472)
Total income tax expense	$ 134,079	$ 136,430

Income taxes charged (credited) to OCI comprise the following:

	2014	2013
Income taxes related to net gains or losses on AFS financial assets	$ 21,201	$ (36,567)
Income taxes related to re-measurement of employee benefit plan obligations	(1,834)	899
Total income taxes charged (credited) in OCI	$ 19,367	$ (35,668)

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

	2014	2013
Income before income taxes	$ 510,623	$ 511,087
Combined basic Canadian federal and provincial income tax rate	26.30%	26.30%
Income tax expense based on statutory rate	$ 134,294	$ 134,416
Increase (decrease) in income tax resulting from:		
Non-taxable income	(343)	(220)
Effect of increase in income tax rates on deferred income taxes	359	2,089
Other	(231)	145
Income tax expense	$ 134,079	$ 136,430

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.

The difference in the effective income tax rate of 26.69%, implicit in the $136,430 provision for income taxes in 2013 from the Company's statutory income tax rate of 26.30%, was primarily attributable to a higher income tax rate applicable to deferred income.

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

	2014	2013
Deferred tax assets:		
Employee benefits	$ 11,917	$ 8,949
Loss reserves	1,666	1,714
Tax losses available for carry forward	10,079	9,149
Financing costs	916	34
	24,578	19,846
Deferred tax liabilities:		
Investments	(1,619)	(1,896)
Policy reserves	(56,002)	(56,041)
Property and equipment and intangible assets	(2,079)	(2,322)
	(59,700)	(60,259)
Net deferred tax liability	$ (35,122)	$ (40,413)

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

	2014	2013
Balance, beginning of year	$ 40,413	$ 296,298
Recovery for the year	(3,457)	(239,472)
OCI recovery for the year	(1,834)	(16,413)
Balance, end of year	$ 35,122	$ 40,413

All deferred tax assets have been recognized as at December 31, 2014 and 2013 because management 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 manager's 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, a defined benefit supplemental executive retirement plan ("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. In the year ended December 31, 2014, the Company added a compensation recoupement policy 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 by the later of five years from July 7, 2009, the date of the Company's Initial Public Offering or 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.

Compensation for the Company's seven key management personnel and six independent directors (2013 – seven key management personnel and six independent directors) is comprised of the following:

	2014	2013
Short-term employee benefits	**$ 4,911**	$ 4,397
Post-employment benefits	**700**	697
Share-based compensation	**2,207**	3,411
Termination benefits	**—**	—
Director fees	**617**	548
Total compensation	**$ 8,435**	$ 9,053

(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 F Company ("Fco")	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%

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 $5,247 for the year ended December 31, 2014, recorded in office expenses in the consolidated statements of income (2013 – $5,673). The balance payable for related party services at December 31, 2014 is $317 (2013 – $312) and is reported in accounts payable and accrued liabilities in the consolidated statements of financial position.

During the year ended December 31, 2014, the Company repurchased 1,873,023 (2013 – 3,903,117) of its own common shares for cancellation on the open market for an aggregate purchase price of $75,000 (2013 – $105,000). Genworth Financial Inc., through its subsidiaries, participated proportionately in the share purchase transaction and maintained a 57.3% (2013 – 57.4%) ownership interest in the Company. See note 18 for additional disclosure on the share repurchase transactions.

Effective December 1, 2014, the Company, through its indirect subsidiary MICICC, entered into a retrocession agreement with a third party reinsurance company under which the Company assumed reinsurance risk for approximately 25% 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 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 four years.

Future minimum lease commitments at December 31, 2014 and 2013 are as follows:

	2014	2013
Less than 1 year	**$ 2,542**	$ 2,347
Later than 1 year but less than 5 years	**4,080**	5,456
	$ 6,622	$ 7,803

Lease payments recognized as an expense for the year ended December 31, 2014 were $3,127 (2013 – $3,087).

13. Employee benefit plans

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. Contributions are made on a bi-weekly basis.

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 Supplemental Employee Retirement Plan ("SERP") and a defined benefit plan for non-pension post-retirement benefits.

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, 2014 and 2013 are based on plan membership data as at the respective period ends. The weighted average duration of the SERP is 22 years. For the non-pension post retirement benefits, actuarial valuations for the years ended December 31, 2014 and 2013 are based on plan membership data as at August 1, 2012. The weighted average duration of the non-pension post-retirement benefit plan is 27 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.

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	
	2014	2013	**2014**	2013	**2014**	2013
Accrued net benefit liabilities under employee benefit plans	**$ 19,908**	$ 13,830	**$ 16,399**	$ 12,689	**$ 36,307**	$ 26,519

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

	SERP		Non-pension post-retirement benefits		Total benefit liabilities	
	2014	2013	**2014**	2013	**2014**	2013
Accrued net benefit liabilities of active plan members	**$ 14,738**	$ 9,332	**$ 14,278**	$ 10,974	**$ 29,016**	$ 20,306
Accrued net benefit liabilities of retirees and deferred vested benefit recipients	**5,170**	4,498	**2,121**	1,715	**7,291**	6,213
Accrued net benefit liabilities under employee benefit plans	**$ 19,908**	$ 13,830	**$ 16,399**	$ 12,689	**$ 36,307**	$ 26,519

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 benefits	
	2014	2013	**2014**	2013	**2014**	2013
Defined benefit expense:						
Benefits earned by employees	**$ 705**	$ 870	**$ 1,179**	$ 1,200	**$ 1,884**	$ 2,070
Plan settlements	**—**	—	**—**	—	**—**	—
Interest cost on accrued benefit liability	**687**	675	**630**	606	**1,317**	1,281
Defined benefit expense for the year	**1,392**	1,545	**1,809**	1,806	**3,201**	3,351
Defined contribution expense for the year	**2,646**	2,567	**—**	—	**2,646**	2,567
Total pension and non-pension post-retirement benefit expense for the year	**$ 4,038**	$ 4,112	**$ 1,809**	$ 1,806	**$ 5,847**	$ 5,918

The actuarial losses recognized in the consolidated statements of comprehensive income relating to the SERP are $4,905 for the year ended December 31, 2014 (2013 – actuarial gains of $2,364). The actuarial losses recognized in the consolidated statements of comprehensive income relating to the non-pension post-retirement benefits are $2,008 (2013 – actuarial gains of $1,052).

13. Employee benefit plans (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	
	2014	2013	**2014**	2013	**2014**	2013
Accrued net benefit liabilities under employee benefit plans, beginning of year	**$ 13,830**	$ 14,728	**$ 12,689**	$ 11,991	**$ 26,519**	$ 26,719
Benefits earned by employees during the year	**705**	870	**1,179**	1,200	**1,884**	2,070
Interest costs on accrued liability incurred during the year	**687**	675	**630**	606	**1,317**	1,281
Plan settlements recognized during the year	**—**	—	**—**	—	**—**	—
Benefits paid to pensioners during the year	**(219)**	(79)	**(107)**	(56)	**(326)**	(135)
Actuarial losses (gains) from plan re-measurement	**4,905**	(2,364)	**2,008**	(1,052)	**6,913**	(3,416)
Accrued net benefit liabilities under employee benefit plans	**$ 19,908**	$ 13,830	**$ 16,399**	$ 12,689	**$ 36,307**	$ 26,519

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

	SERP		Non-pension post-retirement benefits		Total benefit liabilities	
	2014	2013	**2014**	2013	**2014**	2013
Actuarial losses (gains):						
Experience losses (gains)	**$ 1,210**	$ (966)	**$ (46)**	$ 58	**$ 1,164**	$ (908)
Changes in assumptions:						
Financial assumptions	**3,577**	(2,294)	**2,639**	(1,379)	**6,216**	(3,673)
Demographic assumptions	**118**	896	**(585)**	269	**(467)**	1,165
Total changes in assumptions	**3,695**	(1,398)	**2,054**	(1,110)	**5,749**	(2,508)
	$ 4,905	$ (2,364)	**$ 2,008**	$ (1,052)	**$ 6,913**	$ (3,416)

Defined benefit plan assumptions:

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

	SERP		Non-pension post-retirement benefits	
	2014	2013	**2014**	2013
Discount rate	**4.15%**	5.00%	**4.15%**	5.00%
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 CPM RPP 2014 Private table with generational mortality improvements using Scale CPM-B**	75% of male rates and 92% of female rates from the CPM RPP 2014 Private sector table with improvement scale CPM-A	**CPM RPP 2014 Private table with generational mortality improvements using Scale CPM-B**	CPM RPP 2014 Private sector table with improvement scale CPM-A
Assumed overall health care cost trend rate	**n/a**	n/a	**8.33%**	8.33%[1]

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

The following sensitivity analyses demonstrate the impact of a reasonable possible change in each significant valuation assumption as at December 31, 2014 and 2013 on the benefit obligations.

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)**

13. Employee benefit plans (continued)

2013	SERP	Non-pension post-retirement benefits
Increase (decrease) in benefit obligations:		
Discount rate:		
Impact of 1% increase	$ (2,515)	$ (2,370)
Impact of 1% decrease	3,283	3,104
Change in rate of compensation increase:		
Impact of 1% increase	1,588	n/a
Impact of 1% decrease	(1,422)	n/a
Mortality rate:		
Impact of 1 additional year of life expectancy	294	197
Impact of 1 less year of life expectancy	(318)	(186)
Assumed overall health care cost trend rate:		
Impact of 1% increase	n/a	976
Impact of 1% decrease	n/a	(989)

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

Benefit plan cash flows:

The Company makes contributions to the defined contribution pension plan on a bi-weekly basis. 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 post-retirement benefits	
	2014	2013	**2014**	2013
Benefits paid for defined benefit plans	**$ 219**	$ 79	**$ 107**	$ 56
Contribution to defined contribution plan	**2,646**	2,567	**—**	—
	$ 2,865	$ 2,646	**$ 107**	$ 56

The Company expects to contribute the following amounts to its employee benefit plans during the annual period beginning after December 31, 2014:

Defined contribution plan	$ 2,177
SERP	298
Non-pension post-retirement benefit plan	129
Total	$ 2,604

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 recognizes restructuring costs within the scope of IAS 37. The Company has not incurred such termination benefits in the years ended December 31, 2014 and 2013.

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, 2014 is $19.00 to $32.88 (2013 – $19.00 to $27.12).

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. RSU grants issued in 2014 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 average annual earnings growth, return on equity, underwriting income, investment income and basic earnings per share. 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.

During the year ended December 31, 2013, the Company introduced EDSUs as part of its share-based compensation plans. 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.

Employees 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.

During the year ended December 31, 2014, the Company added a compensation recoupement policy 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.

During the year ended December 31, 2014, the Company entered 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. 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.

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

14. Share-based compensation (continued)

As at December 31, 2014, the Company has 1,741,938 common shares remaining that are available for distribution.

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

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**	**—**

2013	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	1,027,130	$ 21.89	$ 2,173	96,216	$ 2,173	34,412	$ 778	46,756	$ 1,056	—	$ —
Granted	100,200	23.79	—	51,832	1,236	8,515	241	45,221	1,093	20,153	636
Dividend equivalents granted	—	—	—	5,290	124	1,809	42	3,635	88	—	—
Exercised	(91,572)	20.62	(942)	(45,717)	(1,146)	—	—	(20,440)	(510)	—	—
Forfeited	(48,850)	23.50	(453)	(2,307)	(56)	—	—	(3,634)	(88)	—	—
Changes in fair value	—	—	8,420	—	1,527	—	578	—	981	—	102
Outstanding, as at December 31	986,908	$ 22.12	$ 9,198	105,314	$ 3,858	44,736	$ 1,639	71,538	$ 2,620	20,153	$ 738
Exercisable, as at December 31	749,813	$ 21.56	$ 7,331	—	$ —	44,736	$ 1,639	—	$ —	—	$ —
Weighted average remaining contractual life (years)	6.5	—	—	1.4	—	—	—	1.9	—	3.8	—

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 the fair values of the Options are as follows:

	2014	2013
Share price at reporting date	**$ 36.98**	$ 36.63
Weighted average exercise price per share	**$ 23.48**	$ 22.12
Expected volatility	**22.41%**	13.21%
Option life (years)	**6.0**	6.0
Expected dividend yield	**3.79%**	3.82%
Risk-free interest rate	**1.02%**	1.21%

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 historical experience of affiliated companies. 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 $10,289 as at December 31, 2014 (2013 – $9,198).

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 management's best estimate of the outcome of service and performance conditions.

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

	2014	2013
Expense arising from:		
Options	**$ 2,923**	$ 6,773
RSUs	**1,461**	2,314
PSUs	**1,462**	1,237
EDSUs	**267**	47
DSUs	**348**	861
Net effect of equity total return swap	**$ (156)**	$ —
Net share-based compensation expense	**$ 6,305**	$ 11,232

	2014	2013
Total carrying amount of liabilities for cash-settled arrangements	**$ 16,764**	$ 14,317
Total intrinsic value of liability for vested benefits	**$ 13,509**	$ 14,257

15. Intangible assets

The Company's intangible assets are summarized as follows:

Cost	Computer software
Balance at January 1, 2013	$ 33,264
Acquisitions – externally purchased	3,001
Balance at December 31, 2013	36,265
Acquisitions – externally purchased	3,338
Balance at December 31, 2014	**$ 39,603**

Amortization and impairment losses	Computer software
Balance at January 1, 2013	$ 23,524
Amortization for the year	5,427
Balance at December 31, 2013	28,951
Amortization for the year	3,191
Balance at December 31, 2014	**$ 32,142**

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

Carrying amounts	Computer software
At December 31, 2013	$ 7,314
At December 31, 2014	**7,461**

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 $166,924, representing 26.1% of the Company's total gross premiums written for the year ended December 31, 2014 (2013 – gross premiums written from two major lenders that accounted for more than 10% of the Company's gross premiums written was $152,444 or 29.8%).

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 1.6% (2013 – 1.3%) to the last year of the multi-year plan cash flow estimate. The growth rates at December 31, 2014 and 2013 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 13.8% (2013 – 14.1%) was applied in determining the recoverable amount of the unit. The discount rates as at December 31, 2014 and 2013 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, 2014 (2013 – nil).

18. Share capital

The share capital of the Company comprises the following:

	2014	2013
Authorized:		
Unlimited common shares with nominal or no par value[1]		
1 special share[2]		
Issued:		
93,147,778 common shares (2013 – 94,910,880)	**$ 1,384,558**	$ 1,408,213
1 special share	**—**	—
	$ 1,384,558	$ 1,408,213

[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 common 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.

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

	2014	2013
Common shares, January 1	**94,910,880**	98,698,018
Common shares issued in connection with share-based compensation plans	**109,921**	115,979
Common shares retired under share repurchase	**(1,873,023)**	(3,903,117)
Common shares, December 31	**93,147,778**	94,910,880

At December 31, 2014, subsidiaries of Genworth Financial Inc. owned 53,395,420 common shares of the Company or approximately 57.3% (2013 – 54,469,098 or approximately 57.4%).

Share repurchase:

2014:

During the year ended December 31, 2014, 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 4,746,504 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 will conclude on the earlier of May 4, 2015 and the date on which the Company has 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.

2013:

During the year ended December 31, 2013, 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 4,937,078 shares representing approximately 5% of its then outstanding common shares.

Purchases of common shares under the NCIB may have commenced on or after May 17, 2013 and concluded on the earlier of May 2, 2014 and the date on which the Company had purchased the maximum number of shares under the NCIB.

During the year ended December 31, 2013, under the terms of the NCIB, the Company purchased 3,903,117 common shares for cancellation on the open market for an aggregate price of $105,100. The Company's majority shareholder, Genworth Financial Inc. through its subsidiaries, participated proportionately in the share purchase transaction and maintained a 57.4% ownership interest in the Company.

Shares purchased under the NCIBs were recognized as a reduction to share capital equal to the average carrying value of the common shares repurchased for cancellation. Any difference between the aggregate purchase price and the average carrying value of the common shares was recorded in retained earnings. Certain expenses incurred in connection with the NCIBs were recorded in retained earnings.

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 additional 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 2	Series 3
Date issued	June 29, 2010	December 16, 2010	April 1, 2014
Maturity date	June 15, 2020	December 15, 2015	April 1, 2024
Principal amount	$ 275,000	$ 150,000	$ 160,000
Fixed annual rate	5.68%	4.59%	4.242%
Semi-annual interest payment due each period on:	June 15	June 15	October 1
	December 15	December 15	April 1

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

	Series 1	**Series 2**	**Series 3**	**Total**
Carrying value	**$ 273,418**	**$ —**	**$ 158,719**	**$ 432,137**
Fair value	**310,896**	**—**	**165,579**	**476,475**

	Series 1	Series 2	Series 3	Total
Carrying value	$ 273,181	$ 149,586	$ —	$ 422,767
Fair value	300,152	156,033	—	456,185

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 $23,686 and $22,926 for the years ended December 31, 2014 and 2013, respectively, with accrued interest payable of $2,429 at December 31, 2014 (2013 – $1,076).

20. Earnings per share

Basic earnings per share have been calculated using the weighted average number of shares outstanding of 94,787,064 (2013 – 97,049,781). Diluted earnings per share have been calculated using the diluted weighted average number of shares outstanding of 94,966,380 (2013 – 97,067,722). 1,001,764 Options, 4,346 RSUs and 17,845 PSUs (2013 – 986,908 Options, 105,314 RSUs, 31,394 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 due to the cash settlement option.

Earnings per share are computed below:

	2014	2013
Basic earnings per share:		
Net income	**$ 376,544**	$ 374,657
Diluted earnings per share:		
Re-measurement amount net of income taxes	**106**	17
Earnings for the purpose of diluted earnings per share	**$ 376,650**	$ 374,674
Basic common shares outstanding, beginning of year:	**94,910,880**	98,698,018
Effect of share-based compensation exercised during the year	**73,071**	62,011
Effect of repurchase of common shares during the year	**(196,887)**	(1,710,248)
Weighted average basic common shares outstanding, end of year	**94,787,064**	97,049,781
Basic net earnings per share	**$ 3.97**	$ 3.86
Diluted earnings per share:		
Basic weighted average common shares outstanding	**94,787,064**	97,049,781
Effect of share-based compensation during the year	**179,316**	17,941
Diluted weighted average common shares outstanding, end of year	**94,966,380**	97,067,722
Diluted net earnings per share	**$ 3.97**	$ 3.86

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, 2014 and 2013.

	2014	2013
Assets:		
Collateral under reinsurance agreement	**$ 28,446**	$ 28,482
Bonds and debentures	**4,535,976**	4,241,891
Equity investments	**170,456**	184,422
Subrogation recoverable	**14,324**	13,366
Total assets	**4,749,202**	4,468,161
Liabilities:		
Loss reserves	**57,080**	50,354
Derivative financial instruments	**23,298**	2,653
Accrued net benefit liabilities under employee benefit plans	**35,880**	26,222
Long-term debt	**432,137**	422,767
Total liabilities	**548,395**	501,996
Net assets due after one year	**$ 4,200,807**	$ 3,966,165

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 financial instruments. The hierarchy of inputs is summarized below:

- Level 1 – inputs used to value the financial instruments are unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs used to value the financial instruments 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 instruments are not based on observable market data.

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.

2014	Carrying amount				Fair value		
	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	—
Equity investments	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	$ —

2013	Carrying amount				Fair value		
	AFS	FVTPL	Loans and receivables	Other financial liabilities	Level 1	Level 2	Level 3
Financial assets measured at fair value:							
Short-term investments	$ 39,649	$ —	$ —	$ —	$ 39,649	$ —	$ —
Bonds and debentures	4,937,143	—	—	—	—	4,937,143	—
Equity investments	184,422	—	—	—	184,422	—	—
	5,161,214	—	—	—	224,071	4,937,143	—
Financial assets not measured at fair value:							
Cash and cash equivalents	—	—	213,692	—	—	—	—
Accrued investment income and other receivables	—	—	31,561	—	—	—	—
Collateral receivable under reinsurance agreement	—	—	28,482	—	—	—	—
	—	—	273,735	—	—	—	—
Financial liabilities measured at fair value:							
Derivative financial instruments	—	(2,668)	—	—	—	(2,668)	—
Financial liabilities not measured at fair value:							
Accounts payable and accrued liabilities	—	—	—	(31,219)	—	—	—
Long-term debt	—	—	—	(422,767)	—	(456,185)	—
	—	—	—	(453,986)	—	(456,185)	—
Total	$ 5,161,214	$ (2,668)	$ 273,735	$ (453,986)	$ 224,071	$ 4,478,290	$ —

22. Fair value measurement (continued)

During the years ended December 31, 2014 and 2013, 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 equity investments, 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, 2014 and 2013.

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 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 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.

Glossary

Certain terms and abbreviations used in these documents are defined below.

"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 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.

"book value per share including AOCI (basic)" means the per share amount of shareholders' equity including 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.

"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.

"delinquency ratio" means the ratio (expressed as a percentage) of the total number of delinquent loans to the total original 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.

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

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

"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 an MCT ratio of regulatory capital available to regulatory capital required using a defined methodology prescribed by OSFI in monitoring the adequacy of a company's capital. The MCT ratio is a key metric of the adequacy of the Company's capital in comparison to regulatory requirements and is used for comparisons to other mortgage insurers and internal targets.

"net operating income" means net income excluding after-tax net realized gains (losses) on sale of investments and unrealized gains (losses) on Fair Value Through Profit or Loss ("FVTPL") securities. Net operating income estimates the recurring after-tax earnings from core business activities and is an 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 return on equity" means the net operating income for a period divided by the average of the beginning and ending shareholders' equity, excluding AOCI, for such period. For quarterly results, the operating return is the annualized operating return on equity using the average of beginning and ending shareholders' equity, excluding AOCI, for such quarter. Operating return on equity is an indicator of return on equity from the core business activities.

"severity on claims paid" or "severity ratio" means the ratio (expressed as a percentage) of the dollar amount of paid claims during a specified period on insured loans to the original insured mortgage amount relating to such loans. The main determinants of the severity ratio are the loan-to-value (original balance of a mortgage loan divided by the original value of the mortgaged property), age of the mortgage loan, the value of the underlying property, accrued interest on the loan, expenses advanced by the insured and foreclosure expenses. Severity on claims paid ratio measures the size of the average loss on a paid claim relative to the original insured mortgage amount and is used to assess the potential loss exposure related to insurance in force and for comparison to industry benchmarks and internal targets.

The Company's full glossary is posted on the Company's website at http://investor.genworthmicanada.ca and can be accessed by clicking on the "Glossary" link under Investor Resources in the bottom footer of the homepage.

Five-year financial review

Key financial metrics

Years ended December 31 *(in millions, unless otherwise specified)*	2014	2013	2012	2011	2010
Income statement data					
Gross premiums written	$ 640	512	$ 560	$ 545	$ 564
Net premiums earned	565	573	589	612	621
Underwriting revenues	565	573	589	612	621
Losses	111	142	194	225	206
Expenses	107	113	105	101	103
Investment income	195	215	181	179	183
Impact of the reversal of government guarantee fund exit fees	0	0	186	0	0
Interest expense	(31)	(23)	(23)	(23)	(8)
Pre-tax income	511	511	635	443	486
Net income	377	375	470	323	348
Net operating income	366	349	462	318	343
Balance sheet data					
Cash and investments	5,443	5,375	5,379	5,063	5,135
Total assets	5,770	5,691	5,734	5,393	5,398
Unearned premium reserves	1,799	1,724	1,785	1,824	1,902
Debt	432	423	422	422	422
Total liabilities	2,499	2,604	2,697	2,710	2,810
Shareholders' equity	3,271	3,087	3,037	2,683	2,589
AOCI	185	124	221	215	124
Shareholders' equity, excluding AOCI	3,086	2,963	2,816	2,468	2,464
Key ratios and other items					
Loss ratio	20%	25%	33%	37%	33%
Expense ratio	19%	20%	18%	17%	17%
Combined ratio	39%	44%	51%	53%	50%
Operating return on equity	12%	12%	17%	13%	14%
Adjusted operating return on equity	12%	12%	13%	13%	14%
MCT ratio	225%	223%	170%	162%	156%
Delinquency ratio	0.10%	0.12%	0.14%	0.20%	0.26%
Severity ratio	29%	30%	32%	32%	27%
Leverage	12%	12%	12%	14%	14%
Operating earnings per share (diluted)	$ 3.86	3.60	$ 4.67	$ 3.08	$ 3.02
Adjusted operating earnings per share (diluted)	$ 3.86	3.60	$ 3.43	$ 3.08	$ 3.02
Book value per share (diluted, exc. AOCI)	$ 33.04	31.22	$ 28.40	$ 24.78	$ 23.27
Book value per share (diluted, incl. AOCI)	$ 35.02	32.53	$ 30.62	$ 26.94	$ 24.44

2013 and 2014 quarterly information

(For the quarter ended, in millions, unless otherwise specified)				**2014**				2013
	Q4'14	**Q3'14**	**Q2'14**	**Q1'14**	Q4'13	Q3'13	Q2'13	Q1'13
Net premiums written	**$ 178**	**$ 217**	**$ 160**	**$ 84**	$ 129	$ 161	$ 137	$ 84
Net premiums earned	**143**	**140**	**141**	**141**	142	143	143	144
Underwriting revenues	**143**	**140**	**141**	**141**	142	143	143	144
Losses on claims	**37**	**30**	**17**	**28**	31	32	35	44
Expenses	**30**	**24**	**27**	**27**	33	27	26	26
Net underwriting income	**76**	**87**	**97**	**86**	78	84	82	74
Investment income	**47**	**51**	**49**	**49**	56	51	59	50
Fee on early retirement of long term debt			**(7)**					
Interest expense	**(6)**	**(6)**	**(7)**	**(6)**	(6)	(6)	(6)	(6)
Net income	**86**	**98**	**97**	**95**	93	96	98	88
Adjustment to net income net of taxes:								
Fee on early retirement of long term debt			**5**					
Net investment gains	**(3)**	**(6)**	**(4)**	**(4)**	(8)	(5)	(10)	(3)
Net operating income	**84**	**93**	**99**	**91**	85	91	88	85
Loss ratio	**26%**	**21%**	**12%**	**20%**	22%	22%	25%	31%
Expense ratio	**21%**	**17%**	**19%**	**19%**	23%	19%	18%	18%
Combined ratio	**47%**	**38%**	**31%**	**39%**	45%	41%	43%	49%
Operating earnings per share diluted	**$ 0.89**	**$ 0.95**	**$ 1.04**	**$ 0.96**	$ 0.9	$ 0.94	$ 0.89	$ 0.86

the board of directors

Our Board of Directors has the mandate to supervise the management and affairs of the Company. The Board, directly and through its committees, provides direction to ensure the best interests of the Company and its shareholders are maintained.

Brian Hurley Executive Chairman

Mr. Hurley is past-President and CEO of Genworth Canada and currently the Company's Executive Chairman. He joined General Electric in 1981 and held various senior management positions in numerous GE divisions, including President and CEO of Genworth Financial Mortgage Insurance Company Canada and President, Genworth International.

Sidney Horn(1)(2)(4)(5)

Mr. Horn has been a director of Genworth Financial Mortgage Insurance Company Canada since 1995. He is Chair of the Compensation and Nominating Committee and is the Company's Lead Director. Mr. Horn is a partner at Stikeman Elliott LLP and specializes in commercial, corporate and securities law.

Angel Mas

Mr. Mas is President & CEO of Genworth Financial's European Mortgage Insurance business and is responsible for Genworth's MI business in Mexico. Prior to this role, Mr. Mas was Managing Director & Commercial Leader of Genworth's Lifestyle Protection business. He joined Genworth's former parent company, GE, in 1996.

Brian Kelly(1)(3)(5)

Mr. Kelly has been a director of Genworth Financial Mortgage Insurance Company Canada since 2004 and Chair of its Audit Committee since 2005. Between 1972 and 1998, Mr. Kelly held various financial management positions within several General Electric businesses, including Chief Financial Officer of two General Electric Canada businesses. He is a member of the Board of Directors of Peterborough & District Affiliate of Habitat for Humanity.

Samuel Marsico(3)

Mr. Marsico is the Senior Vice-President and Chief Risk Officer for Genworth Financial Inc., Global Mortgage Insurance. He joined Genworth Financial Mortgage Insurance in August 1997 as Chief Financial Officer and has held various senior management positions. Mr. Marsico is Chair of the Risk, Capital and Investment Committee. He holds a CPA designation.

Heather Nicol

Ms. Nicol joined the board of Genworth Financial Mortgage Insurance Company Canada in June 2011. She has held several senior financial management positions including Chief Financial Officer for the MaRS Discovery District and for Chapters Online, as well as Vice-President for BMO Nesbitt Burns. She is also a founding board member of Desjardins Credit Union.

Leon Roday(2)

Mr. Roday is the Executive Vice-President, General Counsel and Secretary of Genworth Financial Inc. Mr. Roday is also a Director of Genworth Financial Mortgage Insurance Pty Limited in Australia. Prior to joining Genworth Financial Inc. in 1996, he was a partner at LeBoeuf, Lamb, Greene, and McRae, a U.S. law firm, for 14 years. Mr. Roday is a member of the New York State and Virginia bar associations.

Jerome Upton(3)

Mr. Upton is the Chief Financial & Operations Officer, Global Mortgage Insurance, Genworth Financial, Inc. He joined Genworth in 1998 from KPMG Peat Marwick and has held various senior financial management positions within the company.

John Walker(5)

Mr. Walker has been a director of Genworth Financial Mortgage Insurance Company Canada since 1996. He is a founding partner at Walker Sorensen LLP, specializing in advising insurance and reinsurance companies. He has served as a member of the board of directors of a number of financial institutions, including TD Trust Company and Concordia Life Insurance Company.

Genworth Financial Mortgage Insurance Company Canada Board Members

All of the people listed as being directors of Genworth MI Canada Inc. are also directors of Genworth Financial Mortgage Insurance Company Canada. In addition to such people the following individuals are also directors of Genworth Financial Mortgage Insurance Company Canada:

Genworth Financial Mortgage Insurance Company Canada's board of directors has three (3) committees, an Audit Committee, comprised of the same members as the Company's Audit Committee; a Conduct Review Committee, comprised of Brian Kelly, Jerome Upton and John Walker; and a Risk, Capital and Investment Committee comprised of the same members as the Company's Risk, Capital and Investment Committee.

Robert Gillespie(1)(2)(5)

Mr. Gillespie has been a director of Genworth Financial Mortgage Insurance Company Canada since 1995. After holding numerous management positions with General Electric Canada Inc., he held the position of Chairman and Chief Executive Officer of General Electric Canada Inc. from 1992 to 2005. In the past, Mr. Gillespie was a director of Wescam Inc., Spinrite Income Fund and Husky Injection Molding Systems Ltd.

David Gibbins

Mr. Gibbins has been a director of Genworth Financial Mortgage Insurance Company Canada since 2007. He is also a director of Greenfield Financial Group, a Canadian listed public company involved in asset-based lending, and also sits on the boards of two private corporations. He has held senior management positions with RBC Capital Markets.

(1) Audit Committee (2) Compensation and Nominating Committee (3) Risk, Capital and Investment Committee (4) Lead Director (5) Independent

Exchange listing
The Toronto Stock Exchange:
Common shares (MIC)

Common shares
As at December 31, 2014, there were 93,147,778 common shares outstanding.

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:

Samantha Cheung
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 4, 2015
Time: 10:30 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 of 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.)

Genworth MI Canada Inc.
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
11/05/14	11/17/14	11/28/14	$0.39
07/29/14	08/15/14	08/29/14	$0.35
04/29/14	05/15/14	05/30/14	$0.35
02/04/14	02/14/14	02/28/14	$0.35

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 MI Canada Annual Report

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

All dollar amounts in this report are in Canadian dollars unless stated otherwise. This Annual Report is published for the financial year ended December 31, 2014.

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

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