SMARTER MI

PEOPLE POWERED
DATA DRIVEN

At Genworth Canada, we employ 280 of the smartest and most dedicated people in the mortgage default insurance industry. We support them with smart technology that taps into our proprietary database to enable evidence based decision making.

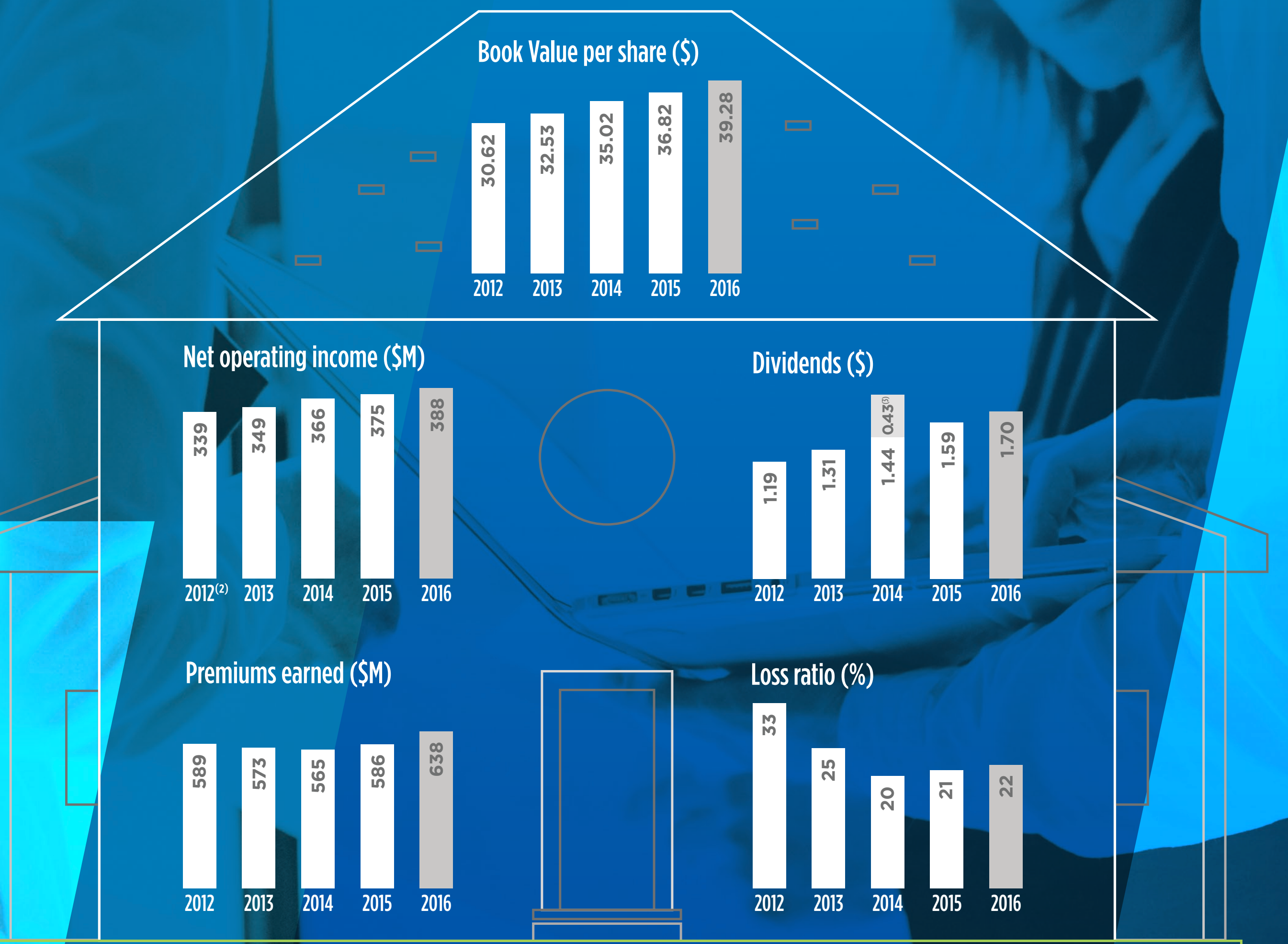
Why does this matter? Because in our business, Smarter MI means faster, better growth at lower risk.

And that matters to all of us.

FIVE YEAR FINANCIAL HIGHLIGHTS

($ millions, except per share data or otherwise noted)	**2016**	2015	2014	2013	2012
Financial results					
Premiums written	**760**	809	640	512	560
Premiums earned	**638**	586	565	573	589
Net operating income	**388**	375	366	349	462 [1]
Net income	**417**	398	377	375	470
Total assets	**6,612**	6,239	5,770	5,691	5,734
Total shareholders' equity	**3,649**	3,420	3,271	3,087	3,037
Other financial measures					
Loss ratio	**22%**	21%	20%	25%	33%
Expense ratio	**19%**	18%	19%	20%	18%
Combined ratio	**41%**	39%	39%	44%	51%
Minimum Capital Test ratio	**245%**	234%	225%	223%	170%
Operating return on equity	**11%**	12%	12%	12%	17% [1]
Per share data					
Book value per share (diluted, incl. AOCI)	**39.28**	36.82	35.02	32.53	30.62
Operating earnings per share (diluted)	**4.23**	4.05	3.86	3.60	4.67 [1]
Dividends per share	**1.70**	1.59	1.87	1.31	1.19

[1] Adjusted for the impact of the government guarantee fund exit reversal fee, net operating income, operating return on equity, and operating earnings per share (diluted) would have been $339 million, 13%, and $3.43, respectively.



[2] Adjusted for the impact of the government guarantee fund exit fee reversal in 2012. Including the impact of the government guarantee exit reversal fee, net operating income was $462 million.
[3] Special dividend.

LETTER TO SHAREHOLDERS

Stuart Levings
President and CEO

Dear Fellow Shareholders,

2016 was a year of significant change, both in terms of the economic environment, but also from a regulatory and mortgage rule perspective. Oil prices declined from relative stability in 2015 to a low of US$27 per barrel in early January, before bouncing back to the US$45 to US$50 per barrel range. Alberta's unemployment rate hit a 22 year high at 9.0% as the low oil prices continued to impact investment and employment in that region. At the same time, housing markets across Canada continued to diverge, with the Vancouver and Toronto markets reaching new highs, as the rest of the country remained flat to modestly up from the prior year. We saw a renewed focus on the part of the government to address growing concerns around consumer indebtedness, taxpayer exposure to mortgage risk and overheated housing markets. This focus resulted in a number of changes in the rules that determine which loans are eligible for mortgage insurance, as well as the introduction of a new, more risk sensitive capital model from our regulator.

Despite these challenges, the business was able to deliver strong results, demonstrating the resilience of our proven business model, focused on prudent risk management, a high quality, well diversified insurance portfolio and a best-in-class customer experience philosophy. In this letter, I address some performance highlights and share insights into our current outlook, opportunities and strategic priorities for 2017.

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

PEOPLE POWERED

At Genworth Canada, our people are one of the Company's critical competitive strengths. Over our 22 year history, we have developed a culture of collaboration, innovation and customer centricity which has greatly contributed to our success.

Our leadership team has extensive experience managing a mortgage insurance business through varying economic cycles. Equally important, our 280 employees are very dedicated and engaged as reflected in our employee engagement score, which came in at above 80% for each of the last four years. This high level of employee engagement compares favourably to the global benchmark for high performing companies of 69%.

The Genworth Canada team is committed to providing a superior customer experience in an ever changing, competitive, economic and regulatory landscape. We continue to be agile by leveraging our deep expertise in mortgage originations, underwriting, risk management and loss mitigation. An experienced employee base is critical to our success, and we are proud that 55% of our employees have been with the Company over seven years and almost 40% have been with the Company more than 10 years.

The Genworth Canada culture uniquely positions the Company to be a thought leader on housing and mortgage related issues and a valued business advisor for our customers. In the past year, we demonstrated our thought leadership as we navigated the many regulatory and market changes during the course of 2016. Specifically, we have been actively engaged with both the Department of Finance and OFSI regarding the government guarantee mortgage rule changes, new regulatory capital framework and the government's risk sharing consultation.

In summary, we are truly "People Powered" and greatly value the contributions of our people in making Genworth Canada a success.

DATA DRIVEN

At Genworth Canada, our decisions are informed and driven by rich mortgage performance data. With over 20 years of this data, we continue to develop new applications, extract new insights and create value.

Our risk management, actuarial and modeling teams are at the forefront of our data analytics and predictive modeling efforts. We are focused on using data driven analysis on multiple fronts to drive continuous improvement in our business performance, including:

- Understanding underlying drivers of loss performance;
- Forecasting loss performance;
- Stress testing under a variety of economic scenarios;
- Enhancing our risk selection process in our underwriting function;
- Developing new loss mitigation strategies;
- Targeting our sales efforts to maximize our sales effectiveness;
- Pricing portfolio insurance; and
- Managing capital efficiency.

We believe that our data driven approach is a key competitive differentiator that contributes to our role as a thought leader in the mortgage space. Recognizing the importance of data analytics, Genworth Canada continues to invest in this area and to proactively share our insights with our customers, regulator and other key constituents.

While most companies rely solely on technology and tools, we understand that it is our people power that translates the data and statistics into insights and trends that lead to tangible business results in the form of market share gains, reduced losses on claims and an enhanced customer experience. As a data driven organization, we select the right tools, people and performance metrics to maintain a data driven culture to maximize our business potential.

Delivering consistently strong performance

Performance can be measured by a number of factors, including top-line growth, loss ratio, return on equity and book value per share. In 2016, we took a number of targeted underwriting actions to drive the appropriate balance between our risk appetite and commercial objectives that resulted in a smaller, but higher quality total transactional insurance volume for the year. At the same time, certain mortgage rule changes referenced earlier drove an increase in demand for portfolio insurance on high quality, well diversified pools of low loan-to-value mortgages, which helped to offset some of the lower transactional insurance premium volumes. For the year, we wrote a total of $63.1 billion in new insurance and ended the year with $6.6 billion in total assets and $3.6 billion in shareholders' equity.

Overall, robust housing markets, a strong market share position and higher transactional premium rates helped drive $760 million in net premiums written from transactional and portfolio mortgage insurance.

Our 2016 results provided tangible value to our shareholders. Compared to 2015, we delivered increases across a number of key metrics, including:

- 4 per cent higher operating earnings per share
- 7 per cent increase in book value per share, and
- 7 per cent increase in annual dividends paid to shareholders

Our comprehensive risk appetite framework and rigorous underwriting approach helps to reduce performance volatility and during favourable economic environments, delivers very positive results, as evidenced by our 22 per cent loss ratio for the year. As a result of our risk management focus, we continued to see improved quality and diversification in our portfolio, with high credit scores and stable debt service ratios among our insured borrowers. Our 2016 loss ratio result also reflects the important contribution from our proactive loss-mitigation programs, particularly in the oil-exposed regions.

Part of our success must be attributed to our customer-centric culture, bolstered by our employees' in-depth industry knowledge. Our people, and a focus on innovation and collaboration, have made Genworth Canada a well-recognized thought leader in the housing and mortgage market. Our business is powered by our team of talented and dedicated people, and will be for years to come.

Adapting to varying economic conditions

Our business is built to perform well over a long-term business cycle. We manage our risk extensively and perform regular stress tests to evaluate our performance under a variety of economic scenarios in order to validate our risk appetite. We invest time and resources in the monitoring and analytics needed to help mitigate the effects of potential or emerging risks.

There are a number of key themes that define our current environment. On the economic front, we see cautious optimism as it relates to economic growth, with early signs of stabilization in Alberta, positive momentum in Quebec and on-going strength in Ontario and British Columbia. We recognize that the housing market remains trifurcated, with weakness in oil-producing regions, on-going appreciation in the Greater Toronto Area and relative stability in the rest of the country. We're beginning to see signs of a much needed slow-down in the Vancouver region, where resales have slowed following the introduction of the foreign buyer's tax. Generally, first-time homebuyers continue to face affordability pressure in the major housing markets, caused by rising prices and changes in mortgage qualifying criteria. As housing markets begin to slow and the economy continues to perform, we expect these pressures to ease somewhat over the next few years.

We are uniquely positioned to analyze, monitor and adapt to the macroeconomic environment as evidenced by the financial and operational success we've enjoyed over the past number of years. Our decisions are data driven, supported by a sound understanding of our market and backed by over twenty years of mortgage performance data. This data represents the key input in modeling mortgage performance for stress testing, risk selection and pricing purposes.

Supporting sound regulatory policy

The mortgage finance market has been subjected to a great deal of regulatory review and oversight in the last decade. Since 2008, a number of policy actions have been taken to reduce government and taxpayer risk. The impact of these changes is a higher-quality insurance portfolio in a smaller mortgage insurance market. The mortgages we insure today reflect more fiscally prudent borrowers with stronger credit profiles. We are pleased that policy makers continually review the safety and soundness of the nation's diverse housing markets, and applaud the recent measures taken by the British Columbia and Ontario governments, aimed at stabilizing local housing markets and improving long term affordability.

This past February, Genworth Canada responded to a request for comment from the Department of Finance with respect to a risk sharing proposal, whereby lenders would be required to retain a portion of any loss on an insured mortgage. In our response, we noted that the wide-ranging, significant structural changes being proposed are not likely to strengthen the stability and efficiency of the market and as such, recommended that they not be implemented.

That said, we are pleased to see that all levels of government acknowledge the importance of keeping a close watch on the housing market, and we will continue with our proactive government relations strategy to maintain and strengthen our position as a leading industry expert and advisor to government officials and policy makers.

In the first quarter of 2017, the Company announced premium rate increases for transactional mortgage insurance products, reflecting higher regulatory capital requirements which became effective at the beginning of 2017. The average transactional premium rate increase is approximately 18% to 20% and should have a positive impact on our operating ROE.

Building stronger communities across Canada

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

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

In 2016 Genworth Canada donated over $800,000 in contributions to support affordable housing, food and shelter, medical research, financial literacy and other important causes. In addition, our employees volunteered more than 3,500 hours in support of charities across the country, and raised more than $75,000 through fundraising and personal donations.

You can find out more about our commitment to building stronger communities across Canada in our 2016 Public Accountability Statement.

Leadership Team, Genworth Financial Mortgage Insurance Company Canada:

From left to right: Philip Mayers, Senior Vice President, Chief Financial Officer; Debbie McPherson, Senior Vice President, Sales & Marketing; Stuart Levings, President and CEO; Mary-Jo Hewat, Senior Vice President, Human Resources and Facilities; Winsor Macdonell, Senior Vice President, General Counsel and Secretary; Craig Sweeney, Senior Vice President, Chief Risk Officer

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Looking forward to the future

Our proven business model positions us well for the future. As we strive to deliver solid returns to our shareholders, we remain focused on the following key strategic priorities in 2017:

- invest in process innovation to drive prudent market share expansion,
- continue to exercise dynamic risk management and proactive loss mitigation,
- leverage our data and wealth of mortgage experience to influence our regulatory environment,
- maintain an efficient capital structure to ensure capital strength while maximizing ROE, and;
- enhance the overall customer experience.

The cornerstone of our success can be attributed to the depth and breadth of experience of our leadership team, the knowledge, skills and commitment of our employees and the trust and loyalty of our customers and stakeholders.

Thank you for your ongoing confidence and support.

Stuart

Stuart Levings

President and Chief Executive Officer

Brian Hurley
Executive Chairman

To all of our stakeholders,

We appreciate your continued support. As your Board of Directors, we take great pride in our successful mortgage insurance business which has served Canadians well for over two decades. Genworth Canada has helped over one million households achieve responsible homeownership during this period. As well, we continue to provide unique value to our customers and key stakeholders. The Board functions to serve all key constituents, and provides a critical stewardship role to the business.

Corporate governance focus

Housing markets continued to be at the forefront in the media in 2016, with numerous pertinent housing policies under review. As a meaningful component of the nation's GDP, housing has remained a top priority for government and private sector stakeholders. Our business remained agile throughout, with a rigorous focus on continuing to provide a best-in-class mortgage insurance experience for all key stakeholders. With this in mind, corporate governance continues to be a top priority for our Board of Directors. The Board worked in partnership with our deeply experienced management team, and we continued our oversight role, reviewing and shaping the business' strategic objectives and focus. Our Board continues to be bolstered by seasoned professionals. We recently welcomed Neil Parkinson to our Board. Neil brings over three decades of experience in the insurance and financial services field, most recently having served as a senior executive with a major accounting firm. He has also had senior roles with vital regulatory advisory committees. We also look forward to Sharon Giffen joining the Board, as she brings a wealth of actuarial experience, having served in senior actuarial positions in the private sector as well as in leadership roles with the Canadian Institute of Actuaries. Finally, I want to extend sincere gratitude to Heather Nicol and John Walker for their years of dedicated service with the Board.

Changing regulatory environment

In the latter half of 2016, we saw numerous changes from both the federal government and the Company's regulator, the Office of the Superintendent of Financial Institutions. The Board supported management in their role and

Directors of Genworth MI Canada Inc. and its operating subsidiary, Genworth Financial Mortgage Insurance Company Canada:

From left to right: Rohit Gupta, David Gibbins, Andrea Bolger, Jerome Upton, Sidney Horn, Leon Roday, Brian Kelly, Heather Nicol, Brian Hurley, Sharon Giffen, Stuart Levings, Neil Parkinson and John Walker

also leveraged their relationships with regulatory and government stakeholders for the advancement of the Company's objectives. The Board operates in an oversight capacity, and remains particularly focused on monitoring progress rather than dictating policy to management and employees. While business can often be affected by short-term volatility, both senior management and the Board are well-aligned in the view that the business should be managed for the long-term. Together, we have a clear emphasis on delivering value for all stakeholders.

Risk management focus

Risk management remains at the forefront of our business, and we constantly sharpen our approach with respect to this critical element. Last year was no different as we continued to refine our appetite for various risks. As a business, we improved the overall quality of our insurance portfolio which will have a lasting benefit for years to come. In my view, the Board must continue to take both a prudential and proactive role in terms of discerning the appropriate balance between risk appetite and commercial goals.

Sustainable stakeholder value

We remain highly focused on generating and sustaining shareholder value. This will continue to be our focus in 2017. I would like to thank my fellow Board members and senior management for all their hard work throughout the year. In addition, I'd like to thank all our customers, key stakeholders and employees, who will power this Company for years to come.

Brian Hurley
Executive Chairman

Shareholder Information

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

Common shares
As at December 31, 2016, there were 91,864,100 common shares (basic) outstanding.

Independent auditors
KPMG LLP
Bay Adelaide Centre
333 Bay Street, Suite 4600
Toronto, Ontario M5H 2S5

Registrar and transfer agent
Canadian Stock Transfer Company, Inc.
320 Bay Street, P.O. Box 1
Toronto, Ontario M5H 4A6
Tel: 416-643-5000
Fax: 416-643-5570
www.canstockta.com

All inquiries related to address changes, elimination of multiple mailings, transfer of MIC shares, dividends or other shareholder account issues should be forwarded to the offices of Canadian Stock Transfer Company.

Investor relations
Shareholders, security analysts and investment professionals should direct inquiries to:

Jonathan A. Pinto
Vice-President, Investor Relations
investor@genworth.com

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, Genworth Financial Mortgage Insurance Company Canada.

The Company holds a conference call following the release of its quarterly results. These calls are archived in the Investor section of the Company's website.

Annual general meeting of shareholders
Date: Thursday, June 8th, 2017
Time: 10:00 AM
Location: Fairmont Royal York (Salon 1, 19th Floor)
100 Front Street W, Toronto, ON M5J 1E3

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.

Common share dividend policy
The declaration and payment of dividends and the amount thereof are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flow and other factors the Board considers relevant from time to time.

Eligible dividend designation
For purposes of the dividend tax credit rules contained in the Income Tax Act (Canada) and any corresponding provincial or territorial tax legislation, all dividends (and deemed dividends) paid by Genworth MI Canada Inc. to Canadian residents are designated as eligible dividends. Unless stated otherwise, all dividends (and deemed dividends) paid by the Company hereafter are designated as eligible dividends for the purposes of such rules.

Information for shareholders outside Canada
Dividends paid to residents in countries with which Canada has bilateral tax treaties are generally subject to the 15% Canadian non-resident withholding tax. There is no Canadian tax on gains from the sale of shares (assuming ownership of less than 25%) or debt instruments of the Company owned by non-residents not carrying on business in Canada. (No government in Canada levies estate taxes or succession duties.)

Contact
Investor Relations
Email: investor@genworth.com
Genworth MI Canada
2060 Winston Park Drive, Suite 300
Oakville, Ontario L6H 5R7
Tel: 905.287.5300
Fax: 905.287.5472
www.genworth.ca

Genworth MI Canada Inc.

Management's Discussion and Analysis

For the year ended December 31, 2016

Interpretation

The current 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 6, 2017 is prepared for the three and twelve months ended December 31, 2016. 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.

Caution regarding forward looking information and 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 (as defined herein) and legislation introduced in connection with the Protection of Residential Mortgage or Hypothecary Insurance Act ("**PRMHIA**") (as defined herein) 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 originations; the cyclical nature of the mortgage insurance industry; changes in government regulations and laws mandating mortgage insurance; the acceptance by the Company's lenders of new technologies and products; the Company's ability to attract lenders and develop and maintain lender relationships; the Company's competitive position and its expectations regarding competition from other providers of mortgage insurance in Canada; anticipated trends and challenges in the Company's business and the markets in which it operates; changes in the global or Canadian economies; a decline in the Company's regulatory capital or an increase in its regulatory capital requirements; loss of members of the Company's senior management team; potential legal, tax

and regulatory investigations and actions; the failure of the Company's computer systems; and potential conflicts of interest between the Company and its majority shareholder, Genworth Financial, Inc.

This is not an exhaustive list of the factors that may affect any of the Company's forward-looking statements. Some of these and other factors are discussed in more detail in the Company's Annual Information Form (the "**AIF**") dated March 16, 2016. 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 System for Electronic Document Analysis and Retrieval ("**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 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. The Company's key performance indicators and certain other information included in this MD&A include non-IFRS financial measures. Such non-IFRS financial measures used by the Company to analyze performance include interest and dividend income, net of investment expenses, net operating income, operating earnings per common share (basic) and operating earnings per common share (diluted).

Other non-IFRS financial measures used by the Company to analyze performance for which no comparable IFRS measure is available include insurance in-force, new insurance written, loss ratio, expense ratio, combined ratio, operating return on equity, investment yield and Minimum Capital Test ("**MCT**") ratio. The Company believes that these non-IFRS financial measures provide meaningful supplemental information regarding its performance and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making. Non-IFRS financial measures do not have standardized meanings and are unlikely to be comparable to any similar measures presented by other companies.

See the "Non-IFRS financial measures" section at the end of this MD&A for a reconciliation of net operating income to net income, investment income to interest and dividend income, net of investment expenses, operating earnings per common share (basic) to earnings per common share (basic) and operating earnings per common share (diluted) to earnings per common share (diluted).

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

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Business profile

Business background

Genworth Canada is the largest private-sector residential mortgage insurer in Canada and has been providing mortgage default insurance in the country since 1995. The Company has built a broad underwriting and distribution platform across the country that provides customer-focused products and support services to the vast majority of Canada's residential mortgage lenders and originators. Genworth Canada underwrites mortgage insurance for residential properties in all provinces and territories of Canada and has the leading market share among private mortgage insurers. The Canada Mortgage and Housing Corporation ("**CMHC**"), a crown corporation, is the Company's main competitor.

The Company offers both transactional and portfolio mortgage insurance.

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

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

Seasonality

The transactional mortgage insurance business is seasonal. Premiums written vary each quarter, while premiums earned, investment income, underwriting and administrative expenses tend to be relatively stable from quarter to quarter. The variations in premiums written are driven by mortgage origination activity and associated transactional new insurance 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, changes in employment levels and characteristics of the insurance in-force portfolio, such as size, age, seasonality and geographic mix of delinquencies. Typically, losses on claims increase during the winter months, due primarily to an increase in new delinquencies, and decrease during the spring and summer months.

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

Distribution and marketing

The Company works with lenders, mortgage brokers and real estate agents across Canada to make homeownership more accessible 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 have been the largest mortgage originators in Canada and provide the majority of financing for residential mortgages.

Overview

Fourth quarter financial highlights

Table 1: Selected financial information

	Fourth Quarter		Full Year	
(in millions of dollars, unless otherwise specified)	**2016**	2015	**2016**	2015
Premiums written	**$ 171**	$ 213	**$ 760**	$ 809
Premiums earned	**$ 164**	$ 151	**$ 638**	$ 586
Losses on claims	**29**	35	**139**	122
Expenses	**33**	27	**124**	108
Total losses on claims and expenses	**62**	62	**263**	230
Net underwriting income	**103**	90	**375**	356
Interest and dividend income, net of investment expenses	**46**	44	**176**	169
Net investment gains	**47**	3	**38**	32
Investment income	**93**	47	**214**	201
Interest expense	**6**	6	**23**	23
Income before income taxes	**190**	131	**566**	534
Net income	**$ 140**	$ 98	**$ 417**	$ 398
Net operating income [1]	**$ 105**	$ 95	**$ 388**	$ 375
Weighted average number of common shares outstanding				
Basic	**91,856,165**	91,795,125	**91,828,701**	92,296,521
Diluted [2]	**92,266,264**	92,218,209	**91,874,244**	92,771,849
Earnings per common share				
Earnings per common share (basic)	**$ 1.52**	$ 1.06	**$ 4.54**	$ 4.32
Earnings per common share (diluted) [2]	**$ 1.52**	$ 1.03	**$ 4.54**	$ 4.22
Selected non-IFRS financial measures [1]				
Operating earnings per common share (basic)	**$ 1.15**	$ 1.04	**$ 4.23**	$ 4.07
Operating earnings per common share (diluted) [2]	**$ 1.14**	$ 1.03	**$ 4.23**	$ 4.05
Insurance in-force [3]	**$ 464,291**	$ 404,963	**$ 464,291**	$ 404,963
Transactional new insurance written	**$ 5,120**	$ 6,231	**$ 21,171**	$ 25,243
Portfolio new insurance written	**$ 4,918**	$ 9,595	**$ 41,881**	$ 25,696
Loss ratio	**18%**	23%	**22%**	21%
Expense ratio	**20%**	18%	**19%**	18%
Combined ratio	**38%**	41%	**41%**	39%
Operating return on equity	**12%**	12%	**11%**	12%
MCT ratio	**245%**	234%	**245%**	234%
Delinquency ratio [4]	**0.10%**	0.10%	**0.10%**	0.10%

Note: Amounts may not total due to rounding.

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

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

[3] The Company estimates that the outstanding balance of insured mortgages was approximately $223 billion as at December 31, 2016.

[4] Based on original insured loans in-force for which coverage terms have not expired and excludes delinquencies that have been incurred but not reported.

Key fourth quarter financial metrics:

The Company reported net income of $140 million and net operating income of $105 million in the fourth quarter of 2016, as compared to $98 million and $95 million, respectively, in the same quarter in the prior year.

- Premiums written of $171 million decreased by $42 million, or 20%, as compared to the same quarter in the prior year. Premiums written from transactional insurance of $149 million were lower by $32 million, or 17%, from the prior year's period due to an 18% decrease in new insurance written, primarily as a result of targeted underwriting changes in select markets and a smaller transactional insurance market size. Premiums written of $22 million from portfolio insurance were lower by $10 million, or 32%, from the prior year's period. The volume of portfolio insurance varies from quarter to quarter based on lender demand.

- Premiums earned of $164 million were $13 million, or 9%, higher than the same quarter in the prior year due to the relatively larger contributions from premiums written in the 2015 and 2016 books of business.

- Losses on claims of $29 million were $6 million, or 17%, lower than the same quarter in the prior year, primarily due to strong economic conditions in the Pacific region and favourable development from Québec case reserves, partially offset by pressure in oil-producing regions. The loss ratio was 18% for the quarter as compared to 23% in the same quarter in the prior year.

- Expenses of $33 million were $6 million, or 22%, higher than the same quarter in the prior year, primarily due to higher share-based compensation expense. The expense ratio for the quarter was 20%, as compared to 18% in the same quarter in the prior year, consistent with the Company's expected operating range of 18% to 20%.

- Investment income, excluding net investment gains, of $46 million was $2 million, or 4%, higher than the same quarter in the prior year, primarily due to an increase in the amount of invested assets.

- Net investment gains of $47 million, primarily from net gains on derivatives and foreign exchange, are $44 million higher than the same quarter in the prior year. The increase is primarily from the impact of movement in interest rates on the Company's interest rate swaps, as well as movement in foreign exchange rates on the Company's invested assets denominated in U.S. dollars. These gains are largely offset by decreases in fair value of available for sale assets in other comprehensive income **("OCI").**

Key 2016 financial metrics:

The Company reported 2016 net income of $417 million and net operating income of $388 million, as compared to $398 million and $375 million, respectively, in the prior year. The prior year's net income and net operating income included a non-recurring favourable tax item of $5 million.

- Premiums written of $760 million decreased by $49 million, or 6%, in 2016 as compared to the prior year. Premiums written from transactional insurance of $619 million were lower by $86 million, or 12%, primarily due to a 16% decrease in new insurance written, as a result of targeted underwriting changes in select areas and a smaller transactional insurance market size. This was partially offset by a 5% increase in the average transactional insurance premium rate resulting from the June 2015 premium rate increase. Portfolio insurance premiums written of $140 million were higher by $37 million, which was driven by higher demand from lenders prior to the July 1, 2016 regulatory changes, which generally limits portfolio insurance to only those mortgages that will be used in government securitization programs.

- Premiums earned of $638 million increased by $52 million, or 9%, in 2016 as compared to the prior year due to the relatively larger contributions from premiums written in the 2015 and 2016 books of business. The unearned premiums reserve was $2.1 billion at December 31, 2016, up $122 million, or 6%, from December 31, 2015.

- Losses on claims of $139 million were $17 million, or 14%, higher in 2016 as compared to the prior year, primarily due to an increase in new delinquencies, net of cures, and an increase in the average reserve per delinquency in oil-producing regions.

- Expenses of $124 million increased by $16 million, or 14%, in 2016 as compared to the prior year primarily due to share-based compensation expense. The expense ratio was 19% as compared to 18% in the prior year, consistent with the Company's expected operating range of 18% to 20%.

- Investment income, excluding net investment gains, of $176 million was $7 million, or 4%, higher than the prior year due to an increase in invested assets. The Company's investment portfolio had a market value of $6.2 billion at December 31, 2016 and earned an investment yield of 3.2% in 2016.

The regulatory capital ratio or MCT ratio was approximately 245%, 11 percentage points higher than the prior year's period and 25 percentage points higher than the Company's operating MCT holding target of 220%.

2016 performance against strategic priorities

The Company met or exceeded the majority of its key strategic priorities for the year ended December 31, 2016 highlighted by the following accomplishments:

- Maintained strong insurance portfolio quality with an average transactional credit score of 751;
- Grew net operating income by 3.4%; and
- Achieved an operating return on equity of 11%.

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

2016 Objective	Performance
Premiums Written and Premiums Earned	
Flat or modestly lower premiums written from transactional insurance compared to 2015 as the full year impact of the June 2015 price increase partially offsets the impact of an expected decline in mortgage originations.	Transactional premiums written decline: **12%** Premiums written from transactional insurance declined by 12% year-over-year primarily due to a 5% – 10% smaller high loan-to-value mortgage originations market as estimated by the Company and a modestly lower market share resulting from targeted underwriting actions in select markets.
Total premiums written moderately higher compared to 2015, primarily due to higher portfolio insurance volumes.	Total premiums written decline: **6%** Total premiums written declined by 6% year-over-year as the 36% increase in premiums written from portfolio insurance was more than offset by the decrease from transactional insurance.
Moderate growth in premiums earned of 5% or greater for the full year.	Premiums earned growth: **9%**
Losses on Claims	
Proactive risk management and focused loss mitigation strategies: • Loss ratio range of 25% to 40% • Workout penetration rate greater than 55%	Loss ratio: **22%** Workout penetration rate: **57%** The Company achieved a loss ratio of 22%, 3 percentage points below the lower end of the Company's anticipated range of 25 to 40% for 2016. The loss ratio performance was favorably impacted by strong home price appreciation, stable unemployment, resilience in oil-producing regions and continued strong underwriting discipline. The workout penetration rate of 57% was 2 percentage points higher than the target of 55%.

2016 Objective	Performance
Portfolio Quality and Risk Management	
Maintain a high quality insurance portfolio through prudent underwriting guidelines, proactive risk management and disciplined underwriting: • Average transactional credit score of greater than 735 • Average transactional gross debt service ratio of less than 26% • Average transactional credit score below 660 of less than 5%	Average transactional credit score: **751** Average transactional gross debt service ratio: **24%** Average transactional credit score below 660: **3%** The Company originated a high quality insurance portfolio with an 8-point average credit score year-over-year improvement to 751 primarily due to a smaller proportion of credit scores below 660. Gross debt service ratio was stable at 24%.
Capital Management	
Proactively manage capital to balance capital strength, flexibility and efficiency: • Ordinary dividend payout ratio of 35% to 45% • Debt-to-total capital ratio of less than or equal to 15% • MCT ratio modestly above 220%	Ordinary dividend payout ratio: **40%** Debt-to-total capital ratio as at December 31, 2016: **11%** MCT ratio as at December 31, 2016: **245%** The Company maintained a strong and efficient capital base with an MCT ratio of 245%, 25 percentage points above the holding target, increased ordinary dividends by 5%, and maintained capital flexibility through $180 million in liquid investments and entering into a $100 million undrawn credit facility. On January 1, 2017, a new regulatory capital framework took effect and the pro forma MCT ratio under the new regulatory capital framework is 158% to 162% compared to the new PRMHIA minimum and regulatory supervisory ratio of 150%. The Company has established an internal target of 157% under the new regulatory capital framework. See "Recent business and regulatory developments" for further information.
Investments 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.	The Company maintained a high quality investment portfolio including an allocation of 91% to investment grade bonds and debentures and a modest increase in preferred shares. Overall, the Company achieved an average investment yield of 3.2%.

Recent business and regulatory developments

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 January 17, 2017, the Company announced it will increase its transactional mortgage insurance premium rates for homebuyers. The new pricing is a reflection of higher regulatory capital requirements that came into effect on January 1, 2017 and supports the long-term safety and sustainability of the Canadian housing finance system.

The new premium rates on transactional new insurance written for standard owner-occupied purchase applications submitted on or after March 17, 2017 are as follows:

Transactional New Insurance Written Loan-to-Value Ratio	Standard Premium (Prior to March 17, 2017)	Standard Premium (Effective March 17, 2017)
Up to and including 65%	0.60%	0.60%
Up to and including 75%	0.75%	1.70%
Up to and including 80%	1.25%	2.40%
Up to and including 85%	1.80%	2.80%
Up to and including 90%	2.40%	3.10%
Up to and including 95%	3.60%	4.00%
90.01% to 95% (Non-Traditional Payment Program)	3.85%	4.50%

Based on the expected loan-to-value mix, the average transactional premium rate increase is approximately 18% to 20% and is expected to result in an average transactional premium rate of 330 to 335 basis points for 2017, compared to 293 basis points in 2016. The average transactional premium rate after 2017 is expected to be 345 to 350 basis points. The Company believes the new premium rates adequately reflect the increased capital requirements and allows the Company to earn the targeted operating return of equity of 13% on new business.

Similarly, the Company has increased its premium rates for portfolio insurance as a result of the higher regulatory capital that came into effect on January 1, 2017. There may be a one-time increase in portfolio insurance volumes in the first quarter of 2017, as the Company ended 2016 with a number of pending portfolio applications which are expected to close in early 2017.

Changes to the mortgage insurance rules

On October 3, 2016, the Minister of Finance announced a number of changes in the Canadian housing finance system. Building on measures announced in late 2015, the government will:

- Bring consistency to mortgage insurance rules by standardizing eligibility criteria for high- and low- loan-to-value ratio insured mortgages, including a mortgage rate stress test;
- Improve tax fairness by closing loopholes surrounding the capital gains tax exemption on the sale of a principal residence; and
- Consult on how to better protect taxpayers by ensuring that the distribution of risk in the housing finance system is balanced.

Key changes to the mortgage insurance rules are described below.

Applying a Mortgage Rate Stress Test to All Insured Mortgages

Effective October 17, 2016, all insured homebuyers must qualify for mortgage insurance at an interest rate that is the greater of their contract mortgage rate or the Bank of Canada's conventional five-year fixed posted rate, which is currently 4.64%. This requirement

was already in place for high loan-to-value ratio insured mortgages with variable interest rates or fixed interest rates with terms less than five years. To qualify for mortgage insurance, borrower debt-servicing ratios cannot exceed the maximum allowable levels of 39% and 44%, for gross debt service ratio and total debt service ratio, respectively.

Changes to Low-Ratio Mortgage Insurance Eligibility Requirements

Effective November 30, 2016, for insured mortgages with a loan-to-value ratio less than or equal to 80%, the following mortgage insurance criteria applies to both transactional mortgage insurance loans and portfolio mortgage insurance loans:

1. A loan whose purpose includes the purchase of a property or subsequent renewal of such a loan;
2. A maximum amortization length of 25 years commencing from when the loan was originally made;
3. A property value below $1,000,000;
4. For variable-rate loans that allow fluctuations in the amortization period, loan payments that are recalculated at least once every five years to conform to the established amortization schedule;
5. A minimum credit score of 600 at the time the loan is approved;
6. A maximum gross debt service ratio of 39% and a maximum total debt service ratio of 44% at the time the loan is approved, calculated by applying the greater of the mortgage contract rate or the Bank of Canada conventional five-year fixed posted mortgage interest rate; and,
7. If the property is a single unit, it must be owner-occupied.

Impact of Changes Related to Mortgage Rate Stress Tests and Low-Ratio Mortgage Insurance Eligibility Requirements

Based on the Company's review of the mortgage insurance eligibility rule changes announced October 3, 2016, it expects that the transactional market size and its transactional new insurance written in 2017 may decline by approximately 15% to 25%, reflecting expected changes to borrower home buying patterns, including the purchase of lower-priced properties and/or larger downpayments.

The Company also expects that portfolio new insurance written in 2017 may decline by approximately 25% to 35% as compared to the normalized run rate after the July 1, 2016 regulatory changes for portfolio insurance. The new mortgage rules prohibit insuring low loan-to-value refinances and most investor mortgages originated by lenders on or after October 17, 2016.

The impact on any future premiums written from the smaller market size will be partially offset by the premium rate increase in March 2017, in response to the higher capital requirements arising from OSFI's new capital framework. With an unearned premiums reserve of $2.1 billion as at December 31, 2016, premiums earned in the next 12 to 18 months will continue to benefit from the relatively higher level of premiums written in 2014 through 2016. As a result, there should be limited near-term impact on the level of premiums earned.

Forthcoming Consultation on Lender Risk Sharing

On October 21, 2016, the government launched a public consultation on a policy option that would require mortgage lenders to manage a portion of loan losses on insured mortgages that default, known as "lender risk sharing". This could transfer some risk borne by mortgage insurers to lenders. The comment period for this consultation ends on February 28, 2017. The Company will participate in the consultation; however, the Company believes it is premature to determine the potential impact of this process and its ultimate outcome.

Portfolio mortgage insurance

Effective July 1, 2016, portfolio mortgage insurance is only available on mortgages used in CMHC securitization programs and is prohibited on mortgages used in private securitizations after a phase-in period for existing private securitizations. The government announced these amendments on February 3, 2016 in the "*Eligible Mortgage Loan Regulations"* and the *"Insurable Housing Loan Regulations"* also referred to as the "Portfolio Insurance Purpose Test". Although it is difficult to determine the long term impact of these changes at this time, the Company believes that the regulations may result in a decrease in demand for portfolio mortgage insurance.

Changes to the regulatory capital framework

On December 15, 2016, OSFI released the final capital advisory titled "*Capital Requirements for Federally Regulated Mortgage Insurers"*. This advisory provides a new standard framework for determining the capital requirements for residential mortgage insurance companies. The new framework is more risk sensitive and incorporates additional risk attributes, including credit score, remaining amortization and outstanding loan balance. The advisory came into effect on January 1, 2017, replacing OSFI's advisory, "*Interim Capital Requirements for Mortgage Insurance Companies"*, which had been in effect since January 2015.

The advisory focuses on capital requirements for insurance risk, which consists primarily of:

i. A base requirement that applies to all insured mortgages at all times; plus
ii. A supplementary requirement that applies only to mortgages originated during periods when the housing market for the region that corresponds to the mortgage has a house price-to-income ratio that exceeds a specified threshold (with this supplementary requirement not applying to mortgages insured prior to January 1, 2017); less
iii. Premium liabilities, consisting of unearned premiums reserve and the reserve for incurred but not reported (IBNR) claims.

The advisory states that:

i. By using outstanding loan balance as the exposure measure, a mortgage's actual pay down rate is captured and capital is only held against insured mortgages that are still outstanding;
ii. By using a modified loan-to-value ratio (outstanding loan balance/original property value), the borrower's equity position in the property is better captured;
iii. Differentiating requirements by borrower credit score ensures that more capital is held for borrowers who have a greater risk of default;
iv. Differentiating requirements by remaining amortization recognizes the importance of the expected future pay-down rate and progression of the borrower's equity position.

Supplementary capital will be tied to the behavior of property prices, both in terms of recent housing price trends and the behavior of housing prices relative to household incomes. The Teranet – National Bank House Price Index^{TM} ("**Teranet Index**") is used to measure house prices and Statistics Canada household disposable income and population data are used to measure per capita income. The Supplementary Capital Requirement Indicators ("**SCRIs**"), based primarily on the ratio of the Teranet Index for a metropolitan area index to the national per capita income, is compared to a prescribed threshold value for that particular area. For a mortgage loan originated in any period after January 1, 2017, where the SCRI exceeds the threshold value for a metropolitan area, supplementary capital applies for the life of that mortgage. SCRI thresholds are calculated on a one quarter lag based on availability of household disposable income and population data.

The Company has reviewed the methodology for calculating SCRIs and observed that Calgary, Edmonton, Toronto, Vancouver and Victoria are breaching their SCRI thresholds, as prescribed by OSFI, at the end of the third quarter of 2016. These metropolitan areas represented approximately 35% - 40% of transactional new insurance written in 2016.

The advisory also includes a phase-in period to allow for a smooth transition to the new standard framework. For the segments of Genworth Canada's insurance in-force listed below, these transition arrangements will keep the required capital unchanged from the 2016 MCT guideline level at 220% MCT ratio at December 31, 2016 until such time as the required capital under the new standard framework at the OSFI Supervisory MCT Target of 150% is less than the aforementioned required capital at a 220% MCT ratio:

- Transactional insured mortgages originated prior to December 31, 2016 with original amortizations greater than twenty-five years; and
- Portfolio insured mortgages for which the application for portfolio insurance was received prior to December 31, 2016 and the effective date of insurance is prior to March 31, 2017.

Additionally, the advisory provides for a three year phase-in period of the rising impact on capital required for operational risk.

Under the new capital framework, the holding target of 220% has been recalibrated, under PRMHIA, to the OSFI Supervisory MCT Target of 150% and the minimum MCT under PRMHIA has been reduced to 150%. Based on the new framework, the Company estimates that its pro forma MCT ratio as at December 31, 2016 would have been in the range of 158% to 162%. As a result, the Company was compliant with the new framework upon its implementation on January 1, 2017.

It is important to note that further changes to the new standard framework may be made by OSFI as a result of comments and input it receives in the future. The Company continues to work with OSFI to further refine this new standard framework in specific areas, including the proposed, but deferred, requirement to update credit scores.

Additional property tax on purchases of residential property in Metro Vancouver by foreign buyers

In order to help improve housing affordability, on July 25, 2016, the British Columbia government introduced a four-pronged plan that includes an additional land transfer tax on foreign buyers. As of August 2, 2016, foreign individuals and corporations are subject to an additional 15% land transfer tax on the purchase of residential property in Metro Vancouver. The Company does not expect these changes to have a material impact on its business, as foreign borrowers are typically not eligible for high loan-to-value mortgage insurance.

Financial strength ratings

On August 18, 2016, Standard & Poor's ("**S&P**") affirmed the Insurance Subsidiary's A+ rating with a stable outlook and the Company's BBB+ rating with a stable outlook.

On May 17, 2016, DBRS confirmed the Insurance Subsidiary's AA financial strength rating with a stable trend. DBRS downgraded the Company's issuer rating and senior unsecured debentures rating one notch to A (high) with a stable trend citing "DBRS's concern that there is now a greater risk that OSFI, in a stressed mortgage market situation, may place restrictions on dividend payments from the Insurance Company." [1]

Dividends

On November 25, 2016, the Company paid a quarterly dividend of $0.44 per common share.

Share repurchase

On April 28, 2016, 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 4,589,958 shares representing approximately 5% of its outstanding common shares as of April 25, 2016. Purchases of common shares under the NCIB may commence on or after May 5, 2016 and will conclude on the earlier of May 4, 2017 and the date on which the Company has purchased the maximum number of shares under the NCIB.

The Company's prior NCIB, which commenced on April 28, 2015, expired on May 4, 2016. The Company did not purchase any shares under either NCIB during the three and twelve months ended December 31, 2016. The Company had made purchases of $50 million in 2015 pursuant to the NCIB.

E-21 – Operational Risk Management Guideline

In June 2016, OSFI released its E-21 Operational Risk Management Guideline (the "**E-21 Guideline**"). In the E-21 Guideline, OSFI defines operational risk "as the risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events. This includes legal risk but excludes strategic and reputational risk". The E-21 guideline sets out four principles: i) integrated and documented operational risk management framework; ii) support of a corporate governance structure including a risk appetite statement; iii) use of a "three lines of defense" approach to ensure accountability; and iv) comprehensive identification and assessment process. The E-21 Guideline is generally consistent with the Company's current operational risk management framework.

[1] DBRS May 17, 2016 press release: DBRS Confirms Ratings on Genworth Financial Mortgage Insurance Company Canada and Downgrades Genworth MI Canada Inc.

Maximum outstanding insured exposure for all private insured mortgages

The Company estimates that its outstanding insured mortgage balances as at December 31, 2016 was $223 billion, or 48% of the original insured amount. On December 15, 2016, the maximum outstanding insured exposure for all private insured mortgages permitted by PRMHIA was increased to $350 billion from the previous maximum of $300 billion. The Company estimates, that as at September 30, 2016, the outstanding insured mortgage balances for all privately insured mortgages was $282 billion.

Credit facility

During the second quarter of 2016 the Company entered into a $100 million senior unsecured revolving credit facility, which matures on May 20, 2019. The Company has not drawn on the credit facility as at December 31, 2016. The credit facility provides further financial flexibility in an efficient and cost effective manner.

Genworth Financial, Inc. transaction

On October 21, 2016, Genworth Financial, Inc., the Company's majority shareholder, entered into a definitive agreement with China Oceanwide Holdings Group Co., Ltd., a limited liability company incorporated in the People's Republic of China ("China Oceanwide"), under which China Oceanwide has agreed to acquire all of the outstanding shares of Genworth Financial Inc. through a merger. Upon completion of the transaction, Genworth Financial, Inc. will be a standalone subsidiary of China Oceanwide. The transaction is subject to approval by the shareholders of Genworth Financial Inc. as well as other closing conditions, including the receipt of required regulatory approvals.

Economic environment

The mortgage insurance business is influenced by macroeconomic conditions. Specifically, the level of premiums written is influenced by economic growth, interest rates, unemployment, housing activity, home prices and government policy among other factors. Losses on claims are primarily impacted by unemployment rates, home prices and housing activity.

Key Macroeconomic Factors Influencing Business Performance	
Full Year 2016 or as at December 31, 2016	**Full Year 2017 or as at December 31, 2017 Estimate**
Housing Resales Y/Y: **6.3%**[1]	Housing resales Y/Y: **(3.3)%**[1]
National Composite House Price Index change: **12.3%**[2]	National Composite House Price Index change: **-1% to +1%**[2]
Average Oil Price: **US $43**[3]	Average Oil Price: **US $50 to $60**[3]
5 year Government of Canada Bond Yields: **1.11%**[4]	5 year Government of Canada Bond Yields: **1.30% to 1.50%**[4]
GDP Estimate **1.3%**[5]	GDP Estimate **2.1%**[5]
Average Unemployment **7.0%**[6]	Average Unemployment **7.0% to 7.5%**[6]

Macroeconomic environment

The Bank of Canada estimates economic growth, as measured by real Canadian Gross Domestic Product (“GDP”), to be 1.3% in 2016 and 2.1% in 2017. The expected improvement in GDP reflects higher oil prices, stronger exports related to a weaker Canadian dollar, steady consumer spending and increased government investment on infrastructure projects, partially offset by lower residential housing demand.

The overnight interest rate in Canada remained flat at 0.50% in 2016 and is not expected to increase in 2017. The 5-year Government of Canada bond yield has risen approximately 50 basis points since October, to 1.11% as at December 2016 in response to global economic events and is expected to continue to rise modestly in 2017.

Canada’s unemployment rate was at 6.9% at the end of the fourth quarter of 2016 and averaged 7.0% in 2016. The average oil price for 2016 was US$43, recovering from its historic low in early 2016. The Company estimates that the average unemployment rate will be between 7.0% and 7.5% for 2017 and oil prices will be in the range of US$50 and US$60 for the year.

Housing market

Home resales for the full year 2016 were up 6.3% as compared to the prior year and the National Composite House Price Index increased by 12.3% in 2016. These increases were driven primarily by strong housing markets in British Columbia and Ontario, partially offset by continued weakness in the oil-producing regions.

The Canadian Real Estate Association expects housing resales to decline by 3.3% in 2017 and the Company expects the National Composite House Price Index for 2017 to be in the range of 1% to -1%. Recently announced federal mortgage rule changes with respect to mortgage insurance qualification and a modest increase in mortgage rates are expected to adversely impact first time homebuyers.

[1] Canadian Real Estate Association (“CREA”)
[2] Teranet – National Bank Home Price Index (2016); Management estimate (2017)
[3] U.S. Energy Information Administration - WTI Light Crude Oil US$/barrel (2016); Management estimate (2017)
[4] Bloomberg
[5] Monetary Policy Report, January 2017; 2016 Real GDP quarter over quarter percentage change at annual rates and 2017 estimate
[6] Statistics Canada – Labour Force Survey (2016); Management estimate (2017).

2017 objectives

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

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

The Company's long term objective is to enhance shareholder value by achieving a return on equity that exceeds its cost of capital and by increasing net income over time. The Company's priorities to achieve its long-term objective are identified below:

2017 Objectives

Premiums Written and Premiums Earned

Moderate decline in premiums written despite expected higher premium rates.

- The Company expects that the transactional market size and its transactional new insurance written in 2017 may decline by approximately 15% to 25% as a result of regulatory changes that took effect in the fourth quarter of 2016. Transactional premiums written are expected to be moderately lower compared to 2016, primarily due to a smaller mortgage originations market partially offset by the average transactional premium rate increase of approximately 18% to 20% which is expected to result in an average transactional premium rate of 330 to 335 basis points for 2017, compared to 293 basis points in 2016.
- Portfolio insurance premiums written are expected to be significantly lower compared to 2016, primarily due to the prohibition on government guaranteed mortgage insurance on refinance mortgages originated after November 30, 2016 and the impact of the July 1, 2016 regulatory change, or purpose test rule, which restricts the use of portfolio mortgage insurance.
- The Company expects that the average premium rate for portfolio insurance will increase substantially as a result of the new capital framework that became effective January 1, 2017.

Modest increase in premiums earned due to seasoning of recent books of business

Given the single upfront premium model, the Company is generally able to reliably estimate the proportion of unearned premiums that will be earned into revenues as premiums earned as long as there are no significant changes to the Company's current premiums recognition curve. The Company expects to earn between $615 and $625 million of premiums earned in 2017 from the unearned premiums reserve of $2.1 billion as at December 31, 2016. In addition, premiums earned in 2017 will benefit from the portion of 2017 premiums written that will be earned in 2017.

Losses on Claims

Proactive risk management and focused loss mitigation strategies:

- Loss ratio range of 25% to 35%
- Workout penetration rate greater than 55%

Portfolio Quality and Risk Management

Maintain a high quality insurance portfolio through prudent underwriting guidelines, proactive risk management and disciplined underwriting:

- Average transactional credit score of greater than 735
- Average transactional credit score below 660 of less than 5%

Capital Management

Prudently manage capital to balance capital strength, flexibility and efficiency:

- Ordinary dividend payout ratio of 35% to 45%
- Debt-to-total capital ratio of less than or equal to 15%
- MCT ratio in the range of 160% to 165%

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.

- Investment income expected to be modestly higher as a result of higher average assets

Fourth Quarter Review

Table 2: Results of operations

	Fourth Quarter				Full Year			
(in millions of dollars, unless otherwise specified)	**2016**	2015	Change		**2016**	2015	Change	
Premiums written	**$ 171**	$ 213	$ (42)	(20)%	**$ 760**	$ 809	$ (49)	(6)%
Premiums earned	**$ 164**	$ 151	$ 13	9%	**$ 638**	$ 586	$ 52	9%
Losses on claims and expenses:								
Losses on claims	**29**	35	(6)	(17)%	**139**	122	17	14%
Expenses	**33**	27	6	22%	**124**	108	16	14%
Total losses on claims and expenses	**62**	62	-	-	**263**	230	33	14%
Net underwriting income	**103**	90	13	15%	**375**	356	19	5%
Investment income:								
Interest and dividend income, net of investment expenses	**46**	44	2	4%	**176**	169	7	4%
Net investment gains	**47**	3	44	NM	**38**	32	6	20%
Investment income	**93**	47	45	96%	**214**	201	13	6%
Interest expense	**6**	6	-	-	**23**	23	-	-
Income before income taxes	**190**	131	58	44%	**566**	534	31	6%
Provision for income taxes	**50**	34	16	48%	**149**	136	13	10%
Net income	**$ 140**	$ 98	$ 42	43%	**$ 417**	$ 398	$ 19	5%
Adjustment to net income, net of taxes:								
Net investment (gains) losses	**(35)**	(3)	(32)	NM	**(29)**	(23)	(6)	25%
Net operating income [1]	**$ 105**	$ 95	$ 10	11%	**$ 388**	$ 375	$ 13	3%
Effective tax rate	**26.1%**	25.6%	-	0.6 pts	**26.3%**	25.4%	-	0.9 pts
Selected non-IFRS financial measures [1]								
Transactional new insurance written	**$ 5,120**	$ 6,231	$ (1,111)	(18)%	**$ 21,171**	$ 25,243	$ (4,072)	(16)%
Portfolio new insurance written	**$ 4,918**	$ 9,595	$ (4,677)	(49)%	**$ 41,881**	$ 25,696	$ 16,185	63%
Loss ratio	**18%**	23%	-	(5) pts	**22%**	21%	-	1 pts
Expense ratio	**20%**	18%	-	2 pts	**19%**	18%	-	1 pts
Combined ratio	**38%**	41%	-	(3) pts	**41%**	39%	-	2 pts
Operating return on equity	**12%**	12%	-	- pts	**11%**	12%	-	- pts
Investment yield	**3.2%**	3.3%	-	(0.1) pts	**3.2%**	3.3%	-	(0.1) pts

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

Table 3: New insurance written, premiums written and premiums earned

	Fourth Quarter				Full Year			
(in millions of dollars, unless otherwise specified)	**2016**	2015	Change		**2016**	2015	Change	
New insurance written								
Transactional	**$ 5,120**	$ 6,231	$ (1,111)	(18)%	**$ 21,171**	$ 25,243	$ (4,072)	(16)%
Portfolio	**4,918**	9,595	(4,677)	(49)%	**41,881**	25,696	16,185	63%
Total	**$ 10,038**	$ 15,826	$ (5,787)	(37)%	**$ 63,051**	$ 50,938	$ 12,113	24%
Premiums written								
Transactional	**149**	181	(32)	(17)%	**619**	705	(86)	(12)%
Portfolio	**22**	32	(10)	(32)%	**140**	104	37	36%
Total	**$ 171**	$ 213	$ (42)	(20)%	**$ 760**	$ 809	$ (49)	(6)%
Average premium rate (in basis points)								
Transactional	**292**	290	2	1%	**293**	279	14	5%
Portfolio	**45**	34	11	33%	**34**	40	(7)	(17)%
Total	**171**	135	36	27%	**121**	158	(38)	(24)%
Premiums earned	**$ 164**	$ 151	$ 13	9%	**$ 638**	$ 586	$ 52	9%

Note: Amounts may not total due to rounding.

Current quarter

Transactional new insurance written was $5.1 billion in the fourth quarter of 2016, representing a decrease of $1.1 billion, or 18%, as compared to the same quarter in the prior year. This decrease resulted primarily from targeted underwriting changes in select markets and a smaller transactional insurance originations market. New insurance written from portfolio insurance was $4.9 billion in the fourth quarter of 2016, as compared to $9.6 billion in the prior year. The volume and mix of portfolio insurance varies from quarter to quarter based on lender demand.

Premiums written from transactional insurance were $149 million in the fourth quarter of 2016, a decrease of $32 million, or 17%, as compared to the prior year's period. The $32 million decrease was primarily due to lower volumes of transactional insurance business. Premiums written from portfolio insurance were $22 million in the fourth quarter of 2016 as compared to $32 million in the prior year's period.

Premiums earned increased by $13 million, or 9%, to $164 million in the fourth quarter of 2016, as compared to the prior year's period due to the relatively larger contributions from premiums written in 2015 and 2016.

Full year

In 2016, transactional new insurance written was $21.2 billion, a decrease of $4.1 billion, or 16%, as compared to the prior year primarily as a result of targeted underwriting changes in select markets and a smaller transactional insurance originations market. New insurance written from portfolio insurance was $41.9 billion in 2016, as compared to $25.7 billion in the prior year. This increase was driven by higher demand from lenders prior to the July 1, 2016 regulatory changes which generally limits portfolio insurance to only those mortgage that will be used in government securitization programs.

Premiums written from transactional insurance were $619 million for the full year of in 2016, a decrease of $86 million, or 12%, as compared to the prior year. The $86 million decrease was primarily due to lower volumes of transactional insurance, partially offset by a 5% increase in the average premium rate to 2.93% as a result of the June 2015 premium rate increase. Premiums written from portfolio insurance were $140 million in 2016, an increase of $37 million or 36%, due to higher volumes of portfolio insurance. The average portfolio insurance premium rate of 0.34% in 2016 reflects the high quality portfolio and higher proportion of portfolio insured mortgages with loan-to-values below 65%.

Premiums earned increased by $52 million, or 9%, to $638 million in 2016, as compared to the prior year due to higher premiums earned from the relatively larger contributions from the 2014, 2015 and 2016 books of business.

Table 4: Losses on claims

	Fourth Quarter				Full Year			
	2016	2015	Change		**2016**	2015	Change	
New delinquencies	**1,228**	1,198	30	3%	**4,940**	4,466	474	11%
Cures	**792**	711	81	11%	**3,091**	2,788	303	11%
New delinquencies, net of cures	**436**	487	(51)	(10)%	**1,849**	1,678	171	10%
Average reserve per delinquency (in thousands of dollars)	**$ 79**	$ 72	$ 7	10%	**$ 79**	$ 72	$ 7	10%
Losses on claims (in millions of dollars)	**$ 29**	$ 35	$ (6)	(17)%	**$ 139**	$ 122	$ 17	14%
Loss ratio	**18%**	23%	-	(5) pts	**22%**	21%	-	1 pts

Note: Amounts may not total due to rounding.

Current quarter

New delinquencies, net of cures, of 436 were 51 lower than the same quarter in the prior year primarily due to a decrease of 65 largely from non-oil producing regions of Canada, partially offset by a modest increase of 14 in Alberta. The decrease of 65 new delinquencies net of cures included 28 in Québec, 18 in the Pacific region and 14 in Ontario, which was consistent with strong or improving economic conditions in these regions. The Atlantic region decreased marginally by 5 and the Prairies region did not change. The increase of 14 delinquencies in Alberta consisted of an increase in new reported delinquencies of 127 due to economic and housing market pressure which was largely offset by an increase in cures of 113.

Average reserve per delinquency increased by approximately $7 thousand primarily due to a shift in regional mix towards oil-producing regions with higher average insured amounts and modest declines in house prices.

The resulting loss ratio was 18% in the fourth quarter of 2016, 5 percentage points lower than the same period in the prior year due to lower losses on claims and higher earned premium.

Full year

In 2016, new delinquencies, net of cures, of 1,849 were 171 higher than the prior year primarily due to pressure in oil-producing regions with an increase of 391 in Alberta, 82 in the Prairies region, and 2 in the Atlantic region, partially offset by a decrease of 137 in Ontario, 99 in Québec and 68 in the Pacific region consistent with strong or improving economic conditions in these regions.

Average reserve per delinquency increased by approximately $7 thousand primarily due to a shift in regional mix towards oil-producing regions with higher average insured amounts and modest declines in house prices, partially offset by favourable development from Québec case reserves related to improving economic conditions in this region.

The resulting loss ratio was 22% in 2016, 1 percentage point higher than the prior year due to higher losses on claims partially offset by higher earned premium.

Table 5: Expenses

	Fourth Quarter				Full Year			
(in millions of dollars, unless otherwise specified)	**2016**	2015	Change		**2016**	2015	Change	
Expenses								
Premium taxes and underwriting fees	**$ 13**	$ 15	$ (2)	(13)%	**$ 58**	$ 60	$ (2)	(3)%
Employee compensation	**12**	9	3	36%	**49**	40	9	23%
Other	**9**	8	1	10%	**30**	29	1	4%
Expenses before net change in deferred policy acquisition costs	**34**	32	2	6%	**138**	129	9	7%
Net change in deferred policy acquisition costs	**(1)**	(5)	4	(75)%	**(14)**	(21)	7	(34)%
Total	**$ 33**	$ 27	$ 6	22%	**$ 124**	$ 108	$ 16	14%
Expense ratio	**20%**	18%	-	2 pts	**19%**	18%	-	1 pts

Note: Amounts may not total due to rounding.

Current quarter

Expenses, before net change in deferred policy acquisition costs, increased by $2 million, or 6%, to $34 million in the fourth quarter of 2016 as compared to the same quarter in the prior year. The increase was primarily due to a $3 million increase in employee compensation, including higher share based compensation, and a moderate increase in other expenses of $1 million, which consists primarily of professional fees and office expenses, partially offset by a $2 million decrease in premium taxes and underwriting fees related to lower levels of premiums written. Total expenses increased by $6 million primarily due to a $4 million increase in the net change in deferred policy acquisition costs, largely from the amortization of previously deferred policy acquisition costs in line with higher premiums earned and the increase in non-deferrable expenses including share based compensation in the current quarter.

The expense ratio increased 2 percentage points to 20% for the fourth quarter of 2016, as compared to the same quarter in the prior year due to higher expenses, partially offset by higher earned premium.

Full year

Expenses before net change in deferred policy acquisition costs increased by $9 million, or 7%, to $138 million in 2016 as compared to the prior year. The increase was primarily due to a $9 million increase in employee compensation, including higher share based compensation, and a moderate increase in other expenses of $1 million, which consists primarily of professional fees and office expenses, partially offset by a $2 million decrease in premium taxes and underwriting fees related to lower levels of premiums written. Total expenses increased by $16 million due to a $7 million increase in the net change in deferred policy acquisition costs, largely from the amortization of previously deferred policy acquisition costs in line with higher premiums earned and the increase in non-deferrable expenses including share based compensation expense.

The expense ratio increased 1 percentage point to 19% in 2016 as compared to the prior year due to higher expenses partially offset by higher earned premium.

Table 6: Investment income

	Fourth Quarter							Full Year						
(in millions of dollars, unless otherwise specified)		**2016**		2015		Change			**2016**		2015		Change	
Interest and dividend income, net of investment expenses	**$**	**46**	$	44	$	2	4%	**$**	**176**	**$**	169	$	7	4%
Net realized gains /(losses) on sale of investments		**1**		(2)		3	NM		**3**		23		(20)	(87)%
Net gains on derivatives and foreign exchange		**46**		5		41	NM		**38**		9		29	NM
Impairment loss		**-**		-		-	NM		**(3)**		-		(3)	NM
Investment income	**$**	**93**	$	47	$	45	95%	**$**	**214**	**$**	201	$	13	6%
Invested assets, end of period	**$**	**6,226**	$	5,917	$	309	5%	**$**	**6,226**	**$**	5,917	$	309	5%
Investment yield, average over period		**3.2%**		3.3%		-	(0.1) pts		**3.2%**		3.3%		-	(0.1) pts

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

Current quarter

Interest and dividend income, net of investment expenses, increased by $2 million, or 4%, to $46 million in the fourth quarter of 2016, primarily due to an increased level of invested assets and higher dividend income, partially offset by the impact of the low interest rate environment on the reinvestment of fixed income maturities. The average investment yield for the quarter was 3.2%, as compared to 3.3% in the prior year's period. Invested assets increased by $309 million as a result of premiums written in 2016.

The Company recorded $1 million of net realized gains in the fourth quarter of 2016 primarily due to the sale of fixed income securities as compared to $2 million of net realized loss in the same period in the prior year.

Net gains on derivatives and foreign exchanges were $46 million in the fourth quarter of 2016, as compared to $5 million in the same period in the prior year, an increase of $41 million. The increase is primarily from the impact of movement in interest rates on the Company's interest rate swaps as well as movement in foreign exchange rates on the Company's invested assets denominated in U.S. dollars partially offset by foreign exchange-related derivatives activity. These gains are largely offset by decreases in fair value of available for sale assets in OCI.

Full year

Interest and dividend income, net of investment expenses, increased by $7 million, or 4%, to $176 million in 2016, primarily due to an increased level of invested assets and higher dividend income, partially offset by the impact of the low interest rate environment on the reinvestment of fixed income maturities as compared to the prior year. The average investment yield for 2016 was 3.2%, as compared to 3.3% in the prior year. Invested assets increased by $309 million as a result of premiums written in 2016.

The Company recorded $3 million of realized gains in 2016 primarily from the sales of fixed income securities as compared to $23 million of realized gains, primarily from the sale of its common shares holdings, in the prior year.

Net gains on derivatives and foreign exchanges were $38 million in 2016, as compared to $9 million in the prior year, an increase of $29 million. The increase is primarily from the impact of movement in interest rates on the Company's interest rate swaps and foreign exchange-related derivatives activity partially offset by movement in foreign exchange rates on the Company's invested assets denominated in U.S. dollars.

The Company also recorded an impairment loss of $3 million on a Brazilian bond.

Table 7: Net Income

	Fourth Quarter				Full Year			
(in millions of dollars, unless otherwise specified)	**2016**	2015	Change		**2016**	2015	Change	
Income before income taxes	**$ 190**	$ 131	$ 58	44%	**$ 566**	$ 534	$ 31	6%
Provision for income taxes	**50**	34	16	48%	**149**	136	13	10%
Net income	**$ 140**	$ 98	$ 42	43%	**$ 417**	$ 398	$ 19	5%
Effective tax rate	**26.1%**	25.6%	-	0.6 pts	**26.3%**	25.4%	-	0.9 pts

Note: Amounts may not total due to rounding.

Current quarter

The effective tax rate was 26.1% in the fourth quarter of 2016, an increase of approximately 0.6 percentage points from 25.6% in the prior year's period. The increase was primarily the result of an increase in tax rates in certain provinces and higher non-deductible items partially offset by higher non-taxable dividend income in the current year's period.

Net income increased by $42 million, or 43%, to $140 million, primarily as a result of higher investment income, higher earned premium and lower losses on claims partially offset by higher expenses.

Full year

The effective tax rate was 26.3% in 2016, an increase of approximately 0.9 percentage points from 25.4% in the prior year. The increase was primarily the result of an approximately $5 million favourable non-recurring tax adjustment related to prior years that was recorded in the first quarter of 2015, an increase in tax rates in certain provinces in 2016, and higher non-deductible items partially offset by higher non-taxable dividend income in 2016.

Net income increased by $19 million, or 5%, to $417 million, in 2016 primarily as a result of higher earned premium and higher investment income, partially offset by higher losses on claims, higher expenses, and the prior period favourable tax adjustment.

Summary of annual information

Table 8 presents select income statement line items and certain key performance indicators for the last three years.

Table 8: Summary of Annual Information

(in millions of dollars, unless otherwise specified)	**2016**	2015	2014
Net premiums written	**$760**	$809	$640
Net premiums earned	**638**	586	565
Losses on claims	**139**	122	111
Expenses	**124**	108	107
Net underwriting income	**375**	356	346
Investment income	**214**	201	195
Net income	**417**	398	377
Adjustment to net income net of taxes:			
Fee on early redemption of long term debt	**-**	-	5
Net investment gains	**(29)**	(23)	(16)
Net operating income[1]	**$388**	$375	$366
Earnings per common share:			
Earnings per common share (basic)	**$4.54**	$4.32	$3.97
Earnings per common share (diluted)	**$4.54**	$4.22	$3.97
Selected non-IFRS financial measures[1]			
Loss ratio	**22%**	21%	20%
Expense ratio	**19%**	18%	19%
Combined ratio	**41%**	39%	39%
Operating earnings per common share (basic)[2]	**$4.23**	$4.07	$3.86
Operating earnings per common share (diluted)[2]	**$4.23**	$4.05	$3.86
Operating return on equity	**11%**	12%	12%

Note: Amounts may not total due to rounding

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

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

Table 9: Statement of Financial Position Highlights

(in millions of dollars, unless otherwise specified)	**2016**	2015	2014
Total investments	**$6,226**	$5,917	$5,443
Other assets	**319**	261	260
Subrogation recoverable	**67**	61	67
Total assets	**6,612**	6,239	5,770
Unearned premiums reserves	**2,143**	2,021	1,799
Loss reserves	**163**	132	115
Long-term debt	**433**	433	432
Other liabilities	**224**	234	153
Total liabilities	**2,963**	2,819	2,499
Shareholders' equity excluding Accumulated other comprehensive income ("AOCI")	**3,556**	3,293	3,086
AOCI	**93**	127	185
Shareholders' equity	**3,649**	3,420	3,271
Total liabilities and shareholders' equity	**6,612**	6,239	5,770
Book value per common share			
Number of common shares outstanding (basic)	**91,864,100**	91,795,125	93,147,778
Book value per common share including AOCI (basic)	**$39.72**	$37.26	$35.12
Book value per common share excluding AOCI (basic)	**$38.71**	$35.88	$33.13
Number of common shares outstanding (diluted) [1]	**92,885,377**	92,872,626	93,403,036
Book value per common share including AOCI (diluted) [1]	**$39.28**	$36.82	$35.02
Book value per common share excluding AOCI (diluted) [1]	**$38.28**	$35.46	$33.04
Dividends paid per common for the full year ended	**$1.70**	$1.59	$1.87

Note: Amounts may not total due to rounding.
[1] The difference between basic and diluted number of common shares outstanding, book value per common share including AOCI and book value per common share excluding AOCI is caused by the potentially dilutive impact of share-based compensation awards.

Summary of quarterly results

Table 10: Summary of quarterly results

(in millions of dollars, unless otherwise specified)	**Q4'16**	Q3'16	Q2'16	Q1'16	Q4'15	Q3'15	Q2'15	Q1'15
Premiums written	**$ 171**	$ 223	$ 249	$ 117	$ 213	$ 260	$ 205	$ 130
Premiums earned	**$ 164**	162	158	154	151	148	144	143
Losses on claims	**29**	41	32	37	35	31	25	31
Expenses	**33**	33	30	28	27	28	29	24
Net underwriting income	**103**	88	95	88	90	89	90	87
Investment Income	**93**	52	33	37	47	39	58	57
Net income	**140**	98	91	88	98	90	103	107
Adjustment to net income net of taxes:								
Net investment (gains) losses	**(35)**	(5)	8	3	(3)	3	(12)	(11)
Net operating income [1]	**$ 105**	$ 93	$ 99	$ 91	$ 95	$ 92	$ 92	$ 97
Earnings per common share:								
Earnings per common share (basic)	**$1.52**	$ 1.07	$ 0.99	$ 0.96	$ 1.06	$ 0.98	$ 1.12	$ 1.15
Earnings per common share (diluted) [2]	**$1.52**	$ 1.07	$ 0.99	$ 0.96	$ 1.03	$ 0.96	$ 1.12	$ 1.08
Selected non-IFRS financial measures [1]								
Loss ratio	**18%**	25%	21%	24%	23%	21%	17%	22%
Expense ratio	**20%**	20%	19%	19%	18%	19%	20%	17%
Combined ratio	**38%**	45%	40%	42%	41%	40%	37%	39%
Operating earnings per common share (basic)	**$1.15**	$ 1.02	$ 1.07	$ 1.00	$ 1.04	$ 1.01	$ 0.99	$ 1.04
Operating earnings per common share (diluted) [2]	**$1.14**	$ 1.02	$ 1.07	$ 0.99	$ 1.03	$ 1.00	$ 0.99	$ 1.03
Operating return on equity	**12%**	11%	12%	11%	12%	12%	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.

The Company's key financial measures for each of the last eight quarters are summarized in table 10 above. These highlights illustrate the Company's profitability, return on equity, loss ratio, expense ratio and combined ratio. The transactional mortgage insurance business is seasonal. Premiums written vary each quarter, while premiums earned, investment income, underwriting and administrative expenses tend to be relatively stable from quarter to quarter. The variations in premiums written are driven by mortgage origination activity and associated mortgage insurance policies written, which typically peak in the spring and summer months, in addition to changes in market share and premium rates. Portfolio mortgage insurance volume and mix varies from quarter to quarter based on lender demand. 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 loan 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. In the third quarter of 2016, losses increased significantly from the prior quarter, and the same quarter in the prior year, primarily due to an increase in new delinquencies in Alberta specifically related to wild fires in the Fort McMurray area. In the fourth quarter of 2016 losses, decreased from the prior quarter, and the same quarter in the prior year, primarily due to an increase in cures in Alberta.

The Company's financial results for the fourth quarter of 2016 were driven by increasing premiums earned in recent quarters, a relatively consistent expense ratio and a lower loss ratio compared to the prior year.

Reserve development analysis

Table 11 below shows the one-year development of the Company's loss reserves for the five most recent completed years.

Table 11: Reserve Development Analysis

	As at December 31				
(in millions, unless otherwise specified)	**2016**	2015	2014	2013	2012
Total loss reserves, at the beginning of the year	**$132**	$115	$118	$139	$169
Loss reserves for prior years' delinquent loans, remaining at the end of the year (A)	**22**	23	16	10	26
Change in loss reserves for prior years' delinquent loans	**109**	93	101	129	143
Paid claims for prior years' delinquent loans	**(91)**	(82)	(94)	(139)	(193)
Favourable (unfavourable) development	**$18**	$11	$7	($10)	($51)
As a percentage of total loss reserves, at the beginning of the year	**14%**	10%	7%	-7%	-30%
Loss reserves for current year's delinquent loans, at the end of the year (B)	**141**	109	99	108	113
Total loss reserves at the end of the year (A+B)	**$163**	$132	$115	$118	$139

Note: Amounts may not total due to rounding.

The Company's loss-reserving methodology, including reserve development, is reviewed on a quarterly 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 favourable reserve development in 2016 of $18 million, or 14% of the total loss reserves at the beginning of the year. The province of Québec experienced $11 million of the favourable development due to improving economic conditions. Favourable development also occurred in Ontario and the Pacific and Atlantic regions offsetting modest unfavorable development in Alberta and the Prairies.

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

Financial condition

Financial instruments

As at December 31, 2016, the Company had total cash and cash equivalents and invested assets of $6.2 billion in its investment portfolio. All of the Company's invested assets are classified as available-for-sale ("**AFS**") with the exception of cash and cash equivalents, and accrued investment income and other receivables which are classified as loans and receivables, and derivative financial instruments which are classified as Fair Value through Profit and Loss. 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.

Table 13: Invested assets by asset class for the portfolio

Asset Class	**As at December 31, 2016**			**As at December 31, 2015**		
(in millions of dollars, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains[2] (losses)**	Fair value	%	Unrealized gains[2] (losses)
Collateralized loan obligations	**$ 207**	**3%**	**$ 27**	$ 178	3%	$ 32
Corporate bonds and debentures:						
Financial	**910**	**15%**	**24**	923	16%	33
Energy	**356**	**6%**	**19**	264	4%	18
Infrastructure	**101**	**2%**	**5**	117	2%	7
All other sectors	**930**	**15%**	**56**	733	12%	65
Total corporate bonds and debentures	**2,297**	**37%**	**105**	2,037	34%	124
Short-term investments:						
Canadian federal government treasury bills [1]	**206**	**3%**	**-**	78	1%	-
Total short term investments	**206**	**3%**	**-**	78	1%	-
Government bonds and debentures:						
Canadian federal government [1]	**1,976**	**32%**	**45**	1,963	33%	79
Canadian provincial and municipal governments	**988**	**16%**	**55**	1,023	17%	74
Total government bonds and debentures	**2,964**	**48%**	**100**	2,986	50%	152
Preferred shares:						
Financial	**247**	**4%**	**(16)**	155	3%	(20)
Energy	**80**	**1%**	**1**	33	1%	(6)
All other sectors	**99**	**2%**	**(4)**	59	1%	(7)
Total preferred shares	**426**	**7%**	**(19)**	248	4%	(33)
Total invested assets	**$ 6,100**	**98%**	**$ 212**	$ 5,527	93%	$ 276
Cash and cash equivalents	**126**	**2%**	**-**	391	7%	-
Total investments	**$ 6,226**	**100%**	**$ 212**	$ 5,917	100%	$ 276
Accrued investment income and other receivables	**47**	**-**	**-**	28	-	-
Derivative financial instruments (assets)	**39**	**-**	**-**	-	-	-
Total Invested assets, accrued investment income and other receivables	**$ 6,312**	**-**	**-**	$ 5,946	-	-
Derivative financial instruments (liabilities)	**(43)**	**-**	**-**	(84)	-	-
Total Invested assets, accrued investment income and net derivative financial instruments	**$ 6,269**	**-**	**-**	$ 5,862	-	-

Note: Amounts may not total due to rounding.

[1] Canadian federal government bonds and treasury bills includes $3 million (December 31, 2015 - $85 million) in collateral posted for the benefit of the Company's counterparties to its derivative financial instrument contracts.

[2] Unrealized gains include unrealized foreign exchange gains of $79 million (December 31, 2015- $97 million).

Unrealized gains on AFS securities in the portfolio were $212 million, which included $79 million of unrealized foreign exchange gains. Unrealized gains decreased by $64 million from the end of 2015 primarily as a result of rising interest rates during 2016 leading to a decline in the value of fixed income securities partially offset by an increase in preferred share values.

The Company's average investment yield for the fourth quarter of 2016 and full year was 3.2%, which included the favourable impact of non-taxable dividend income from its preferred shares.

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

Table 14: Invested assets by credit rating for the portfolio

Credit Rating	**As at December 31, 2016**			**As at December 31, 2015**		
(in millions of dollars, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains (losses)**	**Fair value**	**%**	**Unrealized gains (losses)**
Cash and cash equivalents	**$ 126**	**2%**	**$ -**	$ 391	7%	-
AAA	**2,262**	**39%**	**49**	2,160	38%	90
AA	**1,164**	**20%**	**75**	1,024	18%	93
A	**1,687**	**29%**	**66**	1,703	30%	87
BBB	**539**	**9%**	**37**	387	7%	37
Below BBB	**22**	**0%**	**4**	5	-	1
Total investments (excluding preferred shares)	**$ 5,800**	**100%**	**$ 231**	$ 5,670	100%	308
Preferred shares						
P2	**338**	**79%**	**(19)**	227	92%	(32)
P3	**88**	**21%**	**-**	20	8%	(1)
Total Preferred shares	**426**	**100%**	**(19)**	248	100%	(33)
Total invested assets and cash and cash equivalents	**$ 6,226**		**212**	$ 5,917		276

Note: Amounts may not total due to rounding.

Investment portfolio management

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

To diversify management styles and to broaden credit expertise, the Company has split these assets primarily among five 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.

Collateralized loan obligations

The Company held $207 million in asset-backed bonds as of December 31, 2016, up from $178 million as of December 31, 2015. These securities are floating rate collateralized loan obligations ("**CLOs**") denominated in U.S. dollars, of which 89% are rated AA and above and 11% are rated A.

Corporate bonds and debentures

As of December 31, 2016, approximately 37% of the investment portfolio was held in corporate bonds and debentures, up from 34% at December 31, 2015. 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 15% of the investment portfolio, or approximately 40% of the corporate bonds and debentures. The Company continuously monitors and repositions its exposure to the financial sector, which represents greater than 35% of the corporate issuances of fixed income securities in the Canadian marketplace. Energy sector exposure through corporate bonds and debentures represents $356 million or 6% of the investment portfolio, of which approximately $104 million, or 29%, are energy producers who have a direct price movement correlation to the underlying movement of energy pricing.

Securities rated BBB and below were $561 million, or 9% of invested assets, as of December 31, 2016.

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, 2016, 48% of the investment portfolio was invested in sovereign fixed income securities, consisting of 32% in federal fixed income securities and 16% in provincial fixed income securities, as compared to 50% as of December 31, 2015.

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 $206 million in Canadian federal government short-term treasury bills in the investment portfolio as of December 31, 2016 as compared to $78 million as of December 31, 2015.

Preferred shares

As of December 31, 2016, the Company held $426 million of preferred shares, of which the financial sector represented 58%. The Company believes that preferred shares have a comparable dividend yield to common shares and offer a more attractive risk and capital adjusted return profile to that of common shares under the current MCT guidelines. As a result of an increase in interest rates in 2016, the unrealized loss of $33 million at the end of December 31, 2015 declined to $19 million at the end of December 31, 2016. Energy sector exposure through preferred shares represents $80 million or 1% of the investment portfolio, of which approximately $11 million, or 13%, are energy producers who have a direct price movement correlation to the underlying movement of energy pricing.

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 $126 million as of December 31, 2016, a decrease of $265 million from the $391 million in cash holdings as of December 31, 2015. The decrease was primarily due to cash holdings in the fourth quarter of 2015 being higher as a result of the timing of investment maturities.

Liquidity

The purpose of liquidity management is to ensure there is sufficient cash to meet all of the Company's financial commitments and obligations. The Company has six primary sources of funds, consisting of premiums written from operations, investment income, cash and short-term investments, investment maturities or sales, proceeds from the issuance of debt and equity and a revolving credit facility. The Company believes it has the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill its cash requirements during the current financial year and in the future financial years.

Table 15: Summary of the Company's cash flows

	Twelve months ended December 31,	
(in millions of dollars)	**2016**	2015
Cash provided by (used in):		
Operating activities	**$ 544**	$ 653
Financing activities	**(155)**	(195)
Investing activities	**(654)**	(258)
Change in cash and cash equivalents	**(265)**	200
Cash and cash equivalents, beginning of period	**391**	190
Cash and cash equivalents, end of period	**$ 126**	$ 391

Note: Amounts may not total due to rounding.

The Company generated $544 million of cash flows from operating activities in 2016, as compared to $653 million in the prior year. Cash flow from operations in the current period were primarily the result of strong levels of premiums written, and interest income and dividends received on invested assets. As compared to the prior year, premiums written were moderately lower.

The Company utilized $155 million of cash flows for financing activities in 2016, primarily related to the payment of ordinary dividends of $1.70 per common share in 2016 as compared to $195 million primarily related to the payment of ordinary dividends of $1.59 per common share in 2015 as well as a $50 million repurchase of common shares under its NCIB in the prior year's period.

The Company utilized $654 million of cash flows from investing activities in 2016, primarily from the purchase of bonds and debentures, preferred shares and short-term investments, as compared to $258 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, 2016, the Company held liquid assets of $821 million, comprised of $126 million in cash and cash equivalents, and $695 million in bonds and debentures maturing within one year in order to maintain financial flexibility. Of the $821 million liquid assets, $180 million were held outside of the Insurance Subsidiary. As at December 31, 2016, the duration of the fixed income portfolio was 3.8 years.

In addition to cash and cash equivalents, 51%, or $3,170 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, 2016:

Table 16: Summary of the Company's contractual obligations

	Payment dates due by period *(in millions)*				
	1 year or less	1–3 years	3–5 years	Over 5 years	Total
Long-term debt[1]	—	—	$275	$160	$435
Accounts payable and accrued liabilities	$65	—	—	—	$65
Operating leases	$3	$10	—	—	$12
Loss reserves	$135	$29	—	—	$163
Total contractual obligations	**$203**	**$39**	**$275**	**$160**	**$676**

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

Operating lease expense for 2016 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, subject to exposure limits specified within the Company's investment policy guidelines, which have been approved by the Board.

The Company uses foreign currency forwards and cross currency interest rate swaps to mitigate foreign currency risk associated with bonds and collateralized loan obligations denominated in U.S. dollars. Foreign currency forwards and cross currency interest rate swaps are contractual obligations to exchange one currency for another at a predetermined future date.

The Company uses equity total return swaps to hedge a portion of its economic exposure from the changes in fair market value of the Company's common shares in relation to risks associated with share-based compensation expense.

The Company uses fixed for floating interest rate swaps in conjunction with the management of interest rate risk related to its fixed income securities. The interest rate swaps are derivative financial instruments in which the Company and its counterparty agree to exchange interest rate cash flows based on a specified notional amount from a fixed rate to a floating rate.

Table 17: Fair value and notional amounts of derivatives by terms of maturity, in Canadian dollars

				Notional Amount *(in millions)*				
	Derivative Asset	Derivative Liability	Net Fair value	1 year or less	1–3 years	3–5 years	Over 5 years	Total
December 31, 2016								
Foreign currency forwards	-	$(35)	$(35)	$161	$24	$50	$187	$422
Cross currency interest rate swaps	-	$(7)	$(7)	$19	$39	$71	$142	$271
Equity total return swaps	$1	-	$1	$21	-	-	-	$21
Interest rate swaps	$38	-	$38	-	-	$2,000	-	$2,000
Total	**$39**	**$(43)**	**$(4)**	**$201**	**$63**	**$2,121**	**$329**	**$2,714**
December 31, 2015								
Foreign currency forwards	-	$(45)	$(45)	$14	$26	$36	$213	$289
Cross currency interest rate swaps	-	$(37)	$(37)	$144	$28	$19	$34	$225
Equity total return swaps	-	$(2)	$(2)	$20	-	-	-	$20
Total	**-**	**$(84)**	**$(84)**	**$177**	**$54**	**$55**	**$247**	**$533**

Note: Amounts may not total due to rounding.

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 2016, the Company invested approximately $5 million in underwriting, loss mitigation and risk management technologies enhancements. The Company expects that future capital expenditures will continue to be allocated to underwriting, loss mitigation, and risk management technology improvements. The Company expects that capital expenditures in 2017 will be in the $3 million to $5 million range and it is anticipated that such expenditures will be funded primarily from operating cash flows.

Capital management

Minimum capital test

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

Under PRMHIA, the minimum MCT ratio for the Insurance Subsidiary was 175% for 2016. In conjunction with this requirement, the Insurance Subsidiary established an internal MCT target capital ratio of 185%. The Company manages its capital base to maintain a balance between capital strength, efficiency and flexibility. As at December 31, 2016, the Insurance Subsidiary's MCT ratio was approximately 245%, 25 percentage points higher than the Company's holding target of 220%.

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.

Table 18: MCT as at December 31, 2016 and as at December 31, 2015

(in millions, unless otherwise specified) **Minimum Capital Test**	As at December 31, 2016	As at December 31, 2015
Capital available	**$3,827**	$3,633
Capital required	**$1,560**	$1,552
MCT ratio	**245%**	234%

The Company's MCT estimate as at December 31, 2016 of 245% was 11 percentage points higher than the MCT as at December 31, 2015. The increase to capital available in 2016 was due primarily to the profitability which was partially offset by the Insurance Subsidiary's dividends and a decrease in unrealized gains in the investment portfolio. The increase in capital required in 2016 was primarily due to an increase in insurance margin risk from premiums written partially offset by a decrease in required capital for interest rate risk, as the Company entered into $2.0 billion of interest rate swaps. The Company uses fixed for floating interest rate swaps in conjunction with the management of interest rate risk related to its fixed income securities.

On December 15, 2016, OSFI released the final capital advisory titled "*Capital Requirements for Federally Regulated Mortgage Insurers*". This advisory provides a new standard framework for determining the capital requirements for residential mortgage insurance companies. The proposed framework is more risk sensitive and incorporates additional risk attributes, including credit score, remaining amortization and outstanding loan balance. The finalized advisory came into effect on January 1, 2017, replacing OSFI's current advisory, "*Interim Capital Requirements for Mortgage Insurance Companies*", which had been in effect since 2015.

Under the new capital framework, the holding target of 220% has been recalibrated to the OSFI Supervisory MCT Target of 150% and the minimum MCT under PRMHIA has been reduced to 150%. Based on the new framework, the Company has established an internal

MCT target of 157% for 2017 and estimates that its pro forma MCT ratio as at December 31, 2016 would have been in the range of 158% to 162%.

Debt

The Company proactively manages capital to balance capital strength, flexibility and efficiency. The Company currently has $433 million in long-term debt, issued in two series, with a debt-to-capital ratio as at December 31, 2016 of 11%.

Table 19: Details of the Company's long-term debt

(in millions unless otherwise specified)

Series	**Series 1**	**Series 3**
Timing of maturity	3–5 years	After 5 years
Principal amount outstanding	$275	$160
Date issued	June 29, 2010	April 1, 2014
Maturity date	June 15, 2020	April 1, 2024
Fixed annual rate	5.68%	4.242%
Semi-annual interest payments due each year on	June 15, December 15	October 1, April 1
Debenture Ratings		
S&P[1]	BBB+, (Stable)	BBB+, (Stable)
DBRS[1]	A (High), Stable	A (High), Stable

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

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

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

Credit facility

On May 20, 2016, the Company entered into a $100 million senior unsecured revolving credit facility, which matures on May 20, 2019. Any borrowings under the credit facility will bear interest at a rate per annum equal to, either a fixed rate based on a spread over Bankers' Acceptance or a variable rate based on a spread over the Lender Prime Rate. The Company will also pay a standby fee

based on the unused amount of the commitments. The credit facility includes customary representations, warranties, covenants, terms and conditions for transactions of this type.

As at December 31, 2016 there was no amount outstanding under the credit facility and all of the covenants were fully met.

Financial strength ratings

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

On August 18, 2016, Standard & Poor's ("**S&P**") affirmed the Insurance Subsidiary's A+ rating with a stable outlook and the Company's BBB+ rating with a stable outlook. S&P noted that the Company had a strong competitive position, low industry risk due to the Company's strong portfolio quality, tight regulation, extremely strong earnings and capitalization and adequate financial flexibility with a moderate risk due to monoline focus in a sector prone to capital and earnings volatility.

On May 17, 2016, DBRS confirmed the Insurance Subsidiary's AA financial strength rating with a stable trend citing "the Insurance Company's solid market position, seasoned insurance portfolio and advanced risk analytics, as well as its strong capital position relative to the capital required to meet insurance claim obligations. The confirmation also reflects the Company's strong capital adequacy as assessed through the application of the DBRS residential mortgage-backed securities (RMBS) model, assuming a runoff scenario." DBRS downgraded the Company's issuer rating and senior unsecured debentures rating one notch to A (high) with a stable trend citing "DBRS's concern that there is now a greater risk that OSFI, in a stressed mortgage market situation, may place restrictions on dividend payments from the Insurance Company."[2]

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

Capital transactions

Share repurchase

On April 28, 2016, the Company received approval by the Toronto Stock Exchange for the Company to undertake an NCIB. Pursuant to the NCIB, the Company can purchase, for cancellation, up to 4,589,958 shares representing approximately 5% of its outstanding common shares as at April 25, 2016. Purchases of common shares under the NCIB may commence on or after May 5, 2016 and will conclude on the earlier of May 4, 2017 and the date on which the Company has purchased the maximum number of shares under the NCIB.

The Company's prior NCIB which commenced on April 28, 2015, expired on May 4, 2016. The Company did not purchase any shares under either NCIB during the three and twelve months ended December 31, 2016. The Company had made purchases of $50 million in 2015 pursuant to the NCIB.

The Company's major shareholder, Genworth Financial, Inc., intends to participate proportionately to maintain its approximately 57.2% ownership interest in the Company throughout the course of the NCIB, if any shares are purchased. Shareholders may obtain a copy of the NCIB notice, without charge, by contacting the Company.

[2] DBRS May 17, 2016 press release: DBRS Confirms Ratings on Genworth Financial Mortgage Insurance Company Canada and Downgrades Genworth MI Canada Inc.

Restrictions on dividends and capital transactions

The Insurance Subsidiary is subject to certain restrictions with respect to dividend and capital transactions. The Insurance Companies Act (“**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

Table 20: Changes in the number of common shares outstanding at December 31, 2016 and December 31, 2015

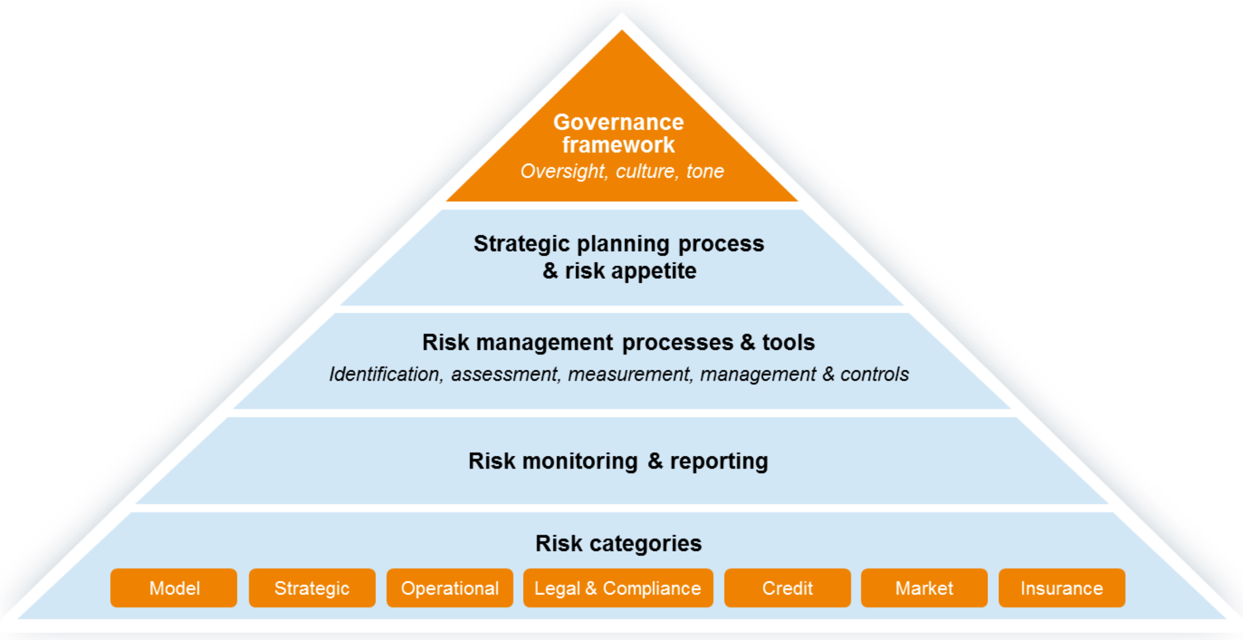
	December 31, 2016	December 31, 2015
Common shares, beginning of period (January 1)	**91,795,125**	**93,147,778**
Common shares issued in connection with share-based compensation plans	**68,975**	**101,543**
Common shares repurchased and cancelled	**-**	**(1,454,196)**
Common shares, end of period	**91,864,100**	**91,795,125**

At December 31, 2016, Genworth Financial, Inc. beneficially owned 52,562,042 common shares of the Company, or approximately 57.2% of the Company’s outstanding common shares, through its wholly-owned subsidiaries, Genworth Financial International Holdings LLC (“**GFIH**”), Genworth Mortgage Insurance Corporation (“**GMIC**”) and Genworth Mortgage Insurance Corporation of North Carolina (“**GMICNC**”) which held approximately 40.6%, 14.9% and 1.7% of the common shares of the Company, respectively.

Risk management

Enterprise risk management framework

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



Governance framework

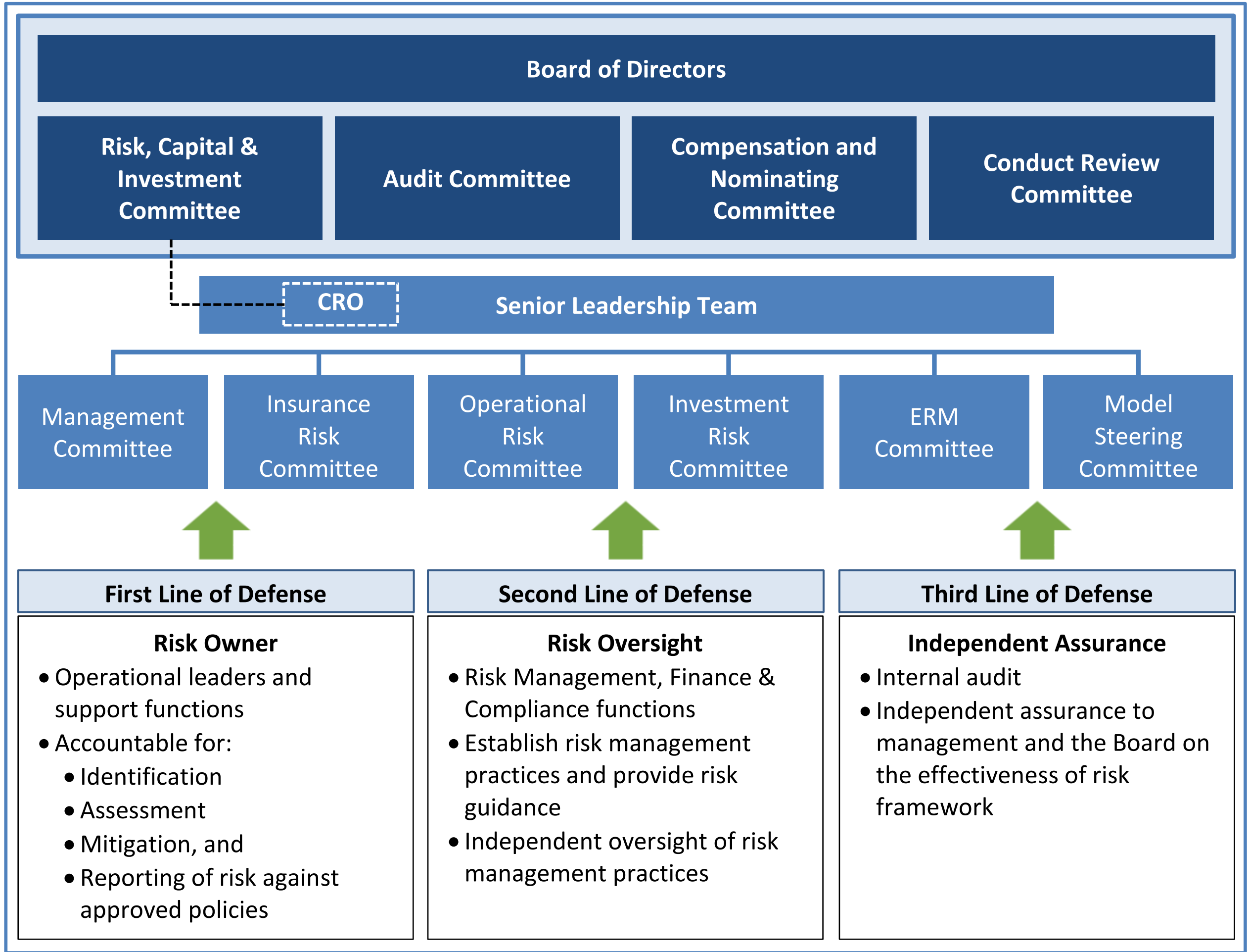
The Company's governance framework is designed to ensure the Board and management have effective oversight of the risks faced by the Company with clearly defined and articulated roles and responsibilities and inter-relationships. The governance framework is comprised of three core elements:

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

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

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

The Board and the board of directors of the Insurance Subsidiary use a '*three lines of defense*' approach to risk management, which serves to allocate accountability and responsibility for risk management within the various business functions, as outlined in the chart below.



Risk appetite framework

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

The purpose of the Risk Appetite Framework is to provide a framework for management and the Board for understanding the ultimate level of risk the Company is willing to undertake in pursuit of its strategic objectives with due regard to its commitments and regulatory boundaries. It articulates the desired balance between risk objectives, meeting customer needs 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 scenarios.

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 across the organization through its policies, limit structures and operating procedures.

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

Risk principles

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

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

The Company's ERM framework and internal control procedures are designed to reduce the level of volatility in its financial results. The Company's ERM framework is linked to its business strategy and decision making framework. One of the key tools is the Own Risk and Self-Assessment ("**ORSA**") framework. The key elements and considerations of ORSA include: the comprehensive identification and assessment of risks and the adequacy of the Company's risk management; the assessment of the Company's current and likely future capital needs and solvency positions in light of its risk assessments; the distinguishing of Board oversight and management responsibility for such processes; detailing related monitoring and reporting requirements; and detailing the Company's internal controls and objective review process and procedures for such risk assessments. The Company's ORSA is forward looking and is undertaken in conjunction with the Company's business and strategic planning.

Risk controls

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

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

Risk categories

Insurance risk

Genworth Canada's mortgage insurance risk management involves actively managing its borrower credit quality, product and geographic exposures. The Company carefully monitors portfolio concentrations by borrower credit quality, product and geography against pre-determined risk tolerances, taking into account the conditions of the housing market and economy in each region of Canada. For Genworth Canada-insured transactional mortgages in 2016, the average credit score increased 8 points to 751 and the average home price has increased to $325,000, or 1%, over the prior year. The average gross debt service ratio for the 2016 was stable at 24%, over the prior year, and is well below the new mortgage stress test threshold of 26%.

To the extent that home prices appreciate over time and/or the principal amount of the loan is paid down, the effective loan-to-value of the Company's insurance written in a given year decreases.

Table 21: Estimated effective loan-to-value % of the Company's outstanding mortgage insurance balances[1] by book of business

	As at December 31, 2016			As at December 31, 2015		
	Transactional	**Portfolio**	**Total**	Transactional	Portfolio	Total
2009 & prior	**44**	**21**	**41**	49	25	45
2010	**61**	**27**	**55**	67	32	61
2011	**65**	**34**	**59**	71	41	65
2012	**70**	**34**	**53**	76	42	59
2013	**74**	**39**	**56**	81	46	62
2014	**79**	**44**	**62**	87	53	69
2015	**84**	**50**	**64**	92	59	72
2016	**90**	**53**	**64**	-	-	-
Total	**69**	**46**	**58**	72	49	62

[1] This is based on the amounts reported by lenders surveyed, which represents the vast majority of insurance in-force.

Genworth Canada's extensive historical database and innovative information technology systems are important tools in its approach to risk management. The Company utilizes its proprietary transactional insurance 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 which is an indicator of the likelihood of a future claim. This evaluation criteria includes borrower credit score, loan type and amount, total debt service ratio, property type and loan-to-value. The Company believes these factors, as well as other considerations, significantly enhance the ability of the mortgage scoring model to predict the likelihood of a borrower default, as compared to reliance solely on borrower credit score. The Company also utilizes internally developed stochastic modelling to estimate projected losses on claims and to measure the severity of loss and delinquency rate sensitivity to both changes in the economic environment as well as individual loan or borrower attributes.

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

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

Market and credit risk

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

Credit risk

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

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

Liquidity risk

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

Market risk

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

Interest rate risk

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

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 did not hold any common shares as at December 31, 2016 and 2015.

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

Emerging markets risk

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

Counterparty risk

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

Financial reporting controls and accounting disclosures

Disclosure controls and procedures and internal controls over financial reporting

As required by National Instrument 52-109, the Company has in place disclosure controls and procedures and internal controls over financial reporting, designed under the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**") Framework (2013) to ensure the disclosure of all material information or changes relating to the Company to all members of the public in a fair and timely manner. Such controls and procedures ensure that all relevant material is gathered and reported to senior management (including the CEO, CFO and General Counsel) and the Company's management-level disclosure committee on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation and certification of the Company's disclosure controls and procedures and internal controls over financial reporting is done regularly under supervision by the Company's CEO and CFO in accordance with the requirements of National Instrument 52-109 of the Canadian Securities Administrators, and such certifications are available with the Company's filings on the SEDAR website at www.sedar.com. The certifications filed in connection with certain interim and annual financial disclosure documents, confirm that the CEO and CFO have concluded that the design and operation of the disclosure controls and procedures and internal controls over financial reporting were effective, for such periods. There were no changes in the Company's internal controls over financial reporting during the quarter or year ending December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's controls over financial reporting.

Changes in accounting standards and future accounting standards

The following amendment to existing standards has been issued by the IASB and is effective for annual periods beginning on or after January 1, 2016.

Amendments to IAS 1 - Presentation of financial statements ("IAS 1"):

In December 2014, the IASB issued certain narrow focus amendments to IAS 1 to clarify existing presentation and disclosure requirements. Amendments include the requirement to disaggregate line items on the Statement of Financial Position, Statement of Income and Statement of Comprehensive Income if disaggregation is helpful to users of the financial statements and to aggregate line items on the Statement of Financial Position if immaterial.

Adoption of the amendment on January 1, 2016 did not have a significant impact on the Company's consolidated financial statements.

Future accounting standards

IFRS 17 - Insurance contracts

IFRS 17 (previously IFRS 4 phase II) is intended to replace *IFRS 4: Insurance contracts.* Under the IFRS 17 model, insurance contract liabilities will be calculated as the present value of future insurance cash flows with a provision for risk. The discount rate will reflect current interest rates. If the present value of future cash flows would produce a gain at the inception of the contract, the model will also require a "contractual service margin" to offset the day one gain. The contractual service margin will amortize over the life of the contract. Certain types of contracts will be permitted to use a simplified unearned premium liability model until a claim is incurred. Additionally, for the contracts in which the cash flows are linked to underlying items, the liability value will reflect that linkage. There will also be a new income statement presentation for insurance contracts and additional disclosure requirements. IFRS 17 is anticipated to be released in the first half of 2017 and has an expected effective date of January 1, 2021.

The Company is assessing the impact of IFRS 17.

IFRS 9 - Financial instruments

In July 2014, the IASB published the final version of IFRS 9, which replaces *IAS 39 - Financial instruments: recognition and measurement*, and includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and a new general hedge accounting model. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces a single impairment model for financial instruments not measured at Fair Value through Profit or Loss that requires recognition of expected credit losses at initial recognition of a financial instrument and the recognition of lifetime expected credit losses if certain criteria are met. The new model for hedge accounting aligns hedge accounting with risk management activities.

While the new standard is generally effective for years beginning on or after January 1, 2018, on September 12, 2016, the IASB issued amendments to *IFRS 17 Insurance Contracts*, which permits eligible insurer optional transitional relief until the forthcoming insurance accounting standard is available for implementation. The options permit (a) entities whose predominant activity is issuing insurance contracts within the scope of IFRS 17 a temporary exemption to defer the implementation of IFRS 9, which may allow alignment of the implementation of IFRS 9 with the forthcoming insurance accounting standard, or alternatively (b) give entities issuing insurance contracts the option to remove from profit or loss the incremental volatility caused by changes in the measurement of specified financial assets upon application of IFRS 9. Entities that apply either of the options will be required to adopt IFRS 9 on the earlier of the date that IFRS 17 is effective and annual periods beginning on or after January 1, 2021. The Company has concluded that it is an eligible insurer that qualifies for the transitional relief.

The Company is evaluating the impact of IFRS 9 on its financial assets and financial liabilities and the optional transitional relief that permits deferral of the adoption of IFRS 9.

IFRS 16 - Leases

IFRS 16 was issued on January 13, 2016. The new standard will replace existing lease guidance in IFRS and related interpretations, and requires companies to bring most leases on-balance sheet. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Short-term leases and leases of low value items are optional exemptions under the standard. Lessor accounting remains similar to the current standards, where lessors classify leases as finance or operating leases. The new standard is effective for years beginning on or after January 1, 2019.

The Company is assessing the impact of IFRS 16.

Amendments to IFRS 2 – Share-based payments ("IFRS 2")

Amendments to IFRS 2 were published in June 2016, which clarify how to account for certain types of share-based payment transactions.

The amendments provide requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled

The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted if information is available without the use of hindsight.

The Company is currently assessing the impact of the amendments to IFRS 2.

Significant estimates and judgments

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

Accounting estimates

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

Premiums earned

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

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

Loss reserves

Loss reserves represent the amount needed to provide for the expected ultimate net cost of settling claims including adjustment expenses related to defaults by borrowers (both reported and unreported) that have occurred on or before the reporting date. Loss reserves are discounted to take into account the time value of money and include a supplemental provision for adverse deviation. 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.

IBNR is the Company's best estimate of losses that have been incurred but not reported from the time the first scheduled mortgage payment has been missed by a mortgage borrower. The Company establishes reserves for IBNR based on the reporting lag from the date of first missed payment to the reporting date for mortgages in default that have not been reported to the Company. IBNR is calculated using estimates of expected claim frequency and claim severity based on the most current available historical loss data, adjusted for seasonality.

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

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

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

Subrogation recoverable

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

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

Deferred policy acquisition costs

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

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

Accounting judgments

Objective evidence of impairment of AFS financial assets

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

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

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

Transactions with related parties

Services

The Company enters into related party transactions with Genworth Financial, Inc. and its subsidiaries. Services rendered by Genworth Financial, Inc. and subsidiaries consist of information technology, finance, human resources, legal and compliance, and other specified services. The services rendered by the Company and the Insurance Subsidiary relate mainly to financial reporting and tax compliance support services. These transactions are in the normal course of business and are at terms and conditions no less favourable than market. Balances owing for service transactions are non-interest bearing and are settled on a quarterly basis. The Company incurred net related party charges of approximately $6 million in 2016, relatively unchanged as compared to in the prior year.

Reinsurance

During the year ended December 31, 2015, the Company, through its indirect subsidiary MIC Insurance Company Canada, terminated its retrocession agreement with a third party reinsurance company that commenced on December 1, 2013, under which the Company assumed reinsurance risk for approximately 33% of the retroceded liabilities on claims paid by Genworth Financial Mortgage Insurance Pty Limited, an Australian company.

During the year ended December 31, 2016, the Company did not participate in reinsurance transactions and therefore no premiums were recognized or losses incurred in conjunction with reinsurance arrangements. During the year ended December 31, 2015, the Company recognized premiums of $2 million and incurred no losses.

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. The Company's key performance indicators and certain other information included in this MD&A include non-IFRS financial measures. Such non-IFRS financial measures used by the Company to analyze performance include net operating income, operating earnings per common share (basic), operating earnings per common share (diluted). 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.

Table 22: Non-IFRS financial measures reconciled to comparable IFRS measures for such periods

	Fourth Quarter		**Full Year**	
(in millions of dollars, unless otherwise specified)	**2016**	2015	**2016**	2015
Investment income	**$ 93**	$ 47	**$ 214**	$ 201
Adjustment to investment income:				
Net investment (gains)	**(47)**	(3)	**(38)**	(32)
Interest and dividend income, net of investment expenses	**$ 46**	$ 44	**176**	$ 169
Net income	**140**	98	**417**	398
Adjustments to net income, net of taxes:				
Net investment (gains)	**(35)**	(3)	**(29)**	(23)
Net operating income	**$ 105**	$ 95	**$ 388**	$ 375
Earnings per common share (basic)	**$ 1.52**	$ 1.06	**$ 4.54**	$ 4.32
Adjustment to earnings per common share, net of taxes:				
Net investment (gains)	**(0.38)**	(0.03)	**(0.31)**	(0.25)
Operating earnings per common share (basic)	**$ 1.15**	$ 1.04	**$ 4.23**	$ 4.07
Earnings per common share (diluted) [1]	**$ 1.52**	$ 1.03	**$ 4.54**	$ 4.22
Adjustment to earnings per common share, net of taxes:				
Share based compensation re-measurement amount	**0.00**	0.03	**0.00**	0.08
Net investment (gains)	**(0.38)**	(0.03)	**(0.31)**	(0.25)
Operating earnings per common share (diluted) [1]	**$ 1.14**	$ 1.03	**$ 4.23**	$ 4.05

Note: Amounts may not total due to rounding.

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

Other non-IFRS financial measures used by the Company to analyze performance for which no comparable IFRS measure is available include insurance in-force, new insurance written, loss ratio, expense ratio, combined ratio, operating return on equity, investment yield and MCT ratio.

Table 23: Non-IFRS financial measures for which no comparable IFRS measure is available

For a more meaningful description of the measure, refer to the "Non-IFRS financial measures glossary".

	Fourth Quarter		Full Year	
(in millions of dollars, unless otherwise specified)	**2016**	2015	**2016**	2015
Selected non-IFRS financial measures				
Insurance in force[1]	$ **464,291**	$ 404,963	$ **464,291**	$ 404,963
Transactional new insurance written	**5,120**	6,231	**21,171**	25,243
Portfolio new insurance written	**4,918**	9,595	**41,881**	25,696
Loss ratio	**18%**	23%	**22%**	21%
Expense ratio	**20%**	18%	**19%**	18%
Combined ratio	**38%**	41%	**41%**	39%
Operating return on equity	**12%**	12%	**11%**	12%
Investment yield	**3.2%**	3.3%	**3.2%**	3.3%
MCT ratio	**245%**	234%	**245%**	234%

[1] The Company estimates that the outstanding balance of insured mortgages was approximately $223 billion as at December 31, 2016.

Non-IFRS financial measures glossary

"**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.

"**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.

"**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 annualized investment income before investment fees and excluding net investment gains (losses) tax affected for dividends for such 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 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, unrealized gains (losses) on FVTPL securities and the cost of interest rate swaps representing the difference between the fixed rate and floating rate. Net operating income estimates the recurring after-tax earnings from core business activities and is an indicator of core operating performance.

"p**ortfolio new insurance written**" means the original principal balance of mortgages, insured during a specified period as part of a portfolio of mortgages that have a loan-to-value ratio equal to or less than 80% at the time the loan is insured. 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 during the period.

"**operating earnings per common share (diluted)**" means the net operating income divided by the diluted average common shares outstanding during the period. The Company excludes the impact of the share based compensation re-measurement amount from operating earnings per share (diluted) as it believes this results 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 invested capital in the core business activities.

"**transactional new insurance written**" means the original principal balance of mortgages, including any capitalized premiums, insured during a specified period predominantly on mortgages with a loan-to-value ratio of greater than 80% at the time the loan is originated. 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.

Other Glossary

"**accumulated other comprehensive income**" or "**AOCI**" is a component of shareholders' equity and reflects the unrealized gains and losses, net of taxes, related to available-for-sale assets. Unrealized gains and losses on assets classified as available-for-sale are recorded in the consolidated statement of comprehensive income and included in accumulated other comprehensive income until recognized in the consolidated statement of income.

"**available-for-sale**" or "**AFS**" means investments recorded at fair value on the balance sheet, using quoted market prices, with changes in the fair value of these investments included in AOCI.

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

"average premium rate" means the average premiums written collected divided by the new insurance written

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

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

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

"**book value per common share including AOCI (diluted)**" means the per common 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.

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

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

"**common shares**" means the issued and outstanding common shares of the Company.

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

"cures" means previously reported delinquent loans where the borrower has made all scheduled mortgage payments or a successful workout has been completed and the loan is no longer considered a delinquent loan.

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

"**deferred policy acquisition costs**" means the expenses incurred in the acquisition of new business, comprised of premium taxes and other expenses that relate directly to the acquisition of new business. Policy acquisition costs are only deferred to the extent that they are in excess of the service fees and can be expected to be recovered from unearned premium reserves. Deferred policy acquisition costs are amortized into income in proportion to and over the periods in which premiums are earned.

"**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.

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

"**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.

"**effective loan-to-value**" means a Company estimate based on the estimated balance of loans insured divided by the estimated fair market value of the mortgaged property using the Teranet - National Bank Home Price Index Composite 11.

"effective tax rate" means the ratio (expressed as a percentage) of provision for income taxes to income before income taxes for a specified period. The effective tax rate measures the actual amount of pre-tax income the Company pays in taxes and is a useful comparison to industry benchmarks and prior periods.

"**Fair Value through Profit or Loss**" or "**FVTPL**" means investments recorded at fair value on the statement of financial position with changes in the fair value of these investments recorded in income.

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

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

"**investment portfolio**" means invested assets (including cash and cash equivalents, short-term investments, bonds or other fixed income securities and equity investments.

"**loan-to-value ratio**" means the original balance of a mortgage loan divided by the original value of the mortgaged property.

"**loss adjustment expenses**" means all costs and expenses incurred by the Company in the investigation, adjustment and settlement of claims. Loss adjustment expenses include third-party costs as well as the Company's internal expenses, including salaries and expenses of loss management personnel and certain administrative costs.

"**losses on claims**" means the estimated amount payable under mortgage insurance policies during a specified period. A portion of reported losses on claims represents estimates of costs of pending claims that are still open during the reporting period, as well as estimates of losses associated with claims that have yet to be reported and the cost of investigating, adjusting and settling claims.

"**loss reserves**" means case reserves based on delinquencies reported to the Company, an estimate for losses on claims based on delinquencies that are IBNR, supplemental loss reserves for potential adverse developments related to claim severity and loss adjustment expenses representing an estimate for the administrative costs of investigating, adjusting and settling claims. Loss reserves are discounted to take into account the time value of money.

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

"net investment gains or losses" means the sum of net realized gains or losses on sales of investments, net gains or losses on derivatives and foreign exchanges and impairment losses.

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

"**ordinary dividend payout ratio**" means the ratio (expressed as a percentage) of the dollar amount of ordinary dividends paid during a specified period to shareholders as a percentage of net operating income over the same period. This is a measure of the proportion of net operating income returned to shareholders in the form of ordinary dividends.

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

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

"**premium written**" means gross payments received from insurance policies issued during a specified period.

"**sales, underwriting and administrative expenses**" means the cost of marketing and underwriting new mortgage insurance policies and other general and administrative expenses, including premium taxes, risk fee and net of the change in deferred policy acquisition costs.

"**severity**" means the dollar amount of losses on claims.

"**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.

"**total debt service ratio**" or "**TDSR**" means the borrowers' monthly debt servicing costs as a percentage of borrowers' monthly gross income.

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

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

"**unearned premiums reserve**" or "**UPR**" means that portion of premiums written that has not yet been recognized as revenue. Unearned premium reserves are recognized as revenue over the policy life in accordance with the expected pattern of loss emergence as derived from actuarial analysis of historical loss development.

"**workout penetration rate**" 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 rate 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 Assistance Program.

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

Consolidated Financial Statements
(In Canadian dollars)

GENWORTH MI CANADA INC.

Years ended December 31, 2016 and 2015

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. 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 International Financial Reporting Standards.

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 is responsible for approving the financial statements. The Audit Committee of the Board, comprising of independent 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 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

February 6, 2017
Toronto, Canada

KPMG LLP
Bay Adelaide Centre
333 Bay Street, Suite 4600
Toronto ON M5H 2S5
Canada
Tel 416-777-8500
Fax 416-777-8818

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, 2016 and 2015, 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.

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

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, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

February 6, 2017
Toronto, Canada

GENWORTH MI CANADA INC.

Consolidated Statements of Financial Position
(In thousands of Canadian dollars)

December 31, 2016 and 2015

	Notes	2016 (1) (2)	2015 (1) (2)
Assets			
Cash and cash equivalents	9	$ 126,072	$ 390,796
Short-term investments	9	206,099	78,178
Accrued investment income and other receivables		47,337	28,130
Derivative financial instruments	9	38,787	—
Bonds and debentures	9	5,468,170	5,200,715
Preferred shares	9	425,819	247,717
Total invested assets, accrued investment income and other receivables		6,312,284	5,945,536
Income taxes recoverable		—	15,670
Subrogation recoverable	6(c)	67,242	61,244
Prepaid assets		2,730	2,456
Property and equipment		1,683	1,088
Intangible assets	15	10,070	9,084
Deferred policy acquisition costs	6(d)	206,810	193,070
Goodwill	17	11,172	11,172
Total assets		$ 6,611,991	$ 6,239,320
Liabilities and Shareholders' equity			
Liabilities:			
Accounts payable and accrued liabilities		$ 64,987	$ 65,750
Income taxes payable		19,329	—
Loss reserves	6(b)	163,467	131,577
Share-based compensation liabilities	14	16,069	8,496
Derivative financial instruments	9	42,838	83,861
Long-term debt	19	432,891	432,504
Unearned premiums reserve	6(a)	2,142,903	2,020,993
Accrued net benefit liabilities under employee benefit plans	13	41,710	37,241
Deferred tax liabilities	10	39,217	39,005
Total liabilities		2,963,411	2,819,427
Shareholders' equity:			
Share capital	18	1,368,658	1,366,374
Retained earnings		2,186,988	1,926,949
Accumulated other comprehensive income		92,934	126,570
Total shareholders' equity		3,648,580	3,419,893
Total liabilities and shareholders' equity		$ 6,611,991	$ 6,239,320

(1) Refer to note 22 for a presentation of assets and liabilities expected to be recovered or settled after 12 months.

(2) Refer to note 9 for the invested assets that have been loaned under the Company's securities lending program

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

(signed) "Stuart Levings" Director

(signed) "Andrea Bolger" Director

GENWORTH MI CANADA INC.

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

Years ended December 31, 2016 and 2015

	Notes	2016	2015
Premiums written	6(a)(e)	$ 759,806	$ 808,621
Premiums earned	6(a)(e)	$ 637,896	$ 586,196
Losses on claims	6(b)	139,023	121,910
Expenses:			
Premium taxes and underwriting fees		58,462	59,968
Employee compensation		49,308	40,239
Office		18,725	17,382
Professional fees		5,221	4,818
Promotional and travel		4,856	5,319
Other		1,177	1,420
Total expenses		137,749	129,146
Net change in deferred policy acquisition costs	6(d)	(13,740)	(20,781)
		124,009	108,365
Net underwriting income		374,864	355,921
Investment income:			
Interest		162,226	164,864
Dividends		18,055	8,435
Net realized gains on sale of investments		3,127	23,089
Net gains on derivatives and foreign exchange		37,720	8,898
Impairment loss		(2,505)	—
		218,623	205,286
General investment expenses		(4,769)	(4,396)
		213,854	200,890
Interest expense	19	23,194	22,774
Income before income taxes		565,524	534,037
Income taxes:	10		
Current		148,146	132,595
Deferred		486	3,140
		148,632	135,735
Net income for the year attributable to owners of the Company		$ 416,892	$ 398,302
Earnings per share:	21		
Basic		$ 4.54	$ 4.32
Diluted		$ 4.54	$ 4.22

See accompanying notes to the consolidated financial statements.

GENWORTH MI CANADA INC.

Consolidated Statements of Comprehensive Income
(In thousands of Canadian dollars)

Years ended December 31, 2016 and 2015

	2016	2015
Net income	$ 416,892	$ 398,302
Other comprehensive loss:		
Items that will not be reclassified subsequently to income:		
Re-measurement of employee benefit obligations, net of income tax of $274 (2015 - $743)	(747)	2,028
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 $11,733 (2015 - $12,101)	(33,543)	(31,523)
Gains on AFS financial assets reclassified to income, net of income tax of $33 (2015 - $9,939)	(93)	(26,989)
Total other comprehensive loss for the period attributable to owners of the Company, net of income tax of $12,040 (2015 - $21,297)	(34,383)	(56,484)
Total comprehensive income attributable to owners of the Company	$ 382,509	$ 341,818

See accompanying notes to the consolidated financial statements.

GENWORTH MI CANADA INC.

Consolidated Statements of Changes in Equity
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2016 and 2015

	Share capital	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance at January 1, 2016	$ 1,366,374	$ 1,926,949	$ 126,570	$ 3,419,893
Comprehensive income:				
Net income	—	416,892	—	416,892
Other comprehensive loss	—	—	(34,383)	(34,383)
Total comprehensive income	—	416,892	(34,383)	382,509
Total transactions recognized directly in equity:				
Dividends on common shares[1]	—	(156,106)	—	(156,106)
Issuance of common shares	2,284	—	—	2,284
Re-measurement of employee benefit obligations, net of income tax	—	(747)	747	—
Total transactions recognized directly in equity	2,284	(156,853)	747	(153,822)
Balance at December 31, 2016	$ 1,368,658	$ 2,186,988	$ 92,934	$ 3,648,580

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

[1] The Company paid dividends of $0.42 per common share in the first, second, and third quarters and $0.44 per common share in the fourth quarter of 2016 ($0.39 per common share in the first, second and third quarters of 2015 and $0.42 per common share in the fourth quarter of 2015).

See accompanying notes to the consolidated financial statements.

GENWORTH MI CANADA INC.

Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

Years ended December 31, 2016 and 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Net income	$ 416,892	$ 398,302
Adjustments for:		
Amortization of intangible assets and depreciation of property and equipment	3,286	2,370
Expensing of deferred policy acquisition costs	62,980	58,120
Income taxes	148,632	135,735
Interest income	(162,226)	(164,864)
Dividend income	(18,055)	(8,435)
Net realized gains on sale of investments	(3,127)	(23,089)
Net gains on derivatives and foreign exchange	(37,720)	(8,898)
Impairment loss	2,505	—
Interest expense	23,194	22,774
Net share-based compensation expense	6,142	(309)
	442,503	411,706
Change in non-cash balances related to operations:		
Cash collateral received from the termination of reinsurance agreement	—	28,224
Accrued investment income and other receivables	(3,367)	(1,087)
Prepaid assets	(274)	468
Subrogation recoverable	(5,998)	5,732
Deferred policy acquisition costs	(76,720)	(78,901)
Accounts payable and accrued liabilities	(1,475)	9,965
Loss reserves	31,890	16,084
Unearned premiums reserve	121,910	222,425
Accrued net benefit liabilities under employee benefit plans	3,448	3,703
	511,917	618,319
Cash generated from (used in) operating activities:		
Interest received from bonds and debentures	171,298	176,484
Dividends received from preferred shares and common shares	16,764	9,028
Interest paid on long-term debt	(22,407)	(22,407)
Income taxes paid	(101,332)	(119,760)
Share-based compensation awards settled in cash	(2,107)	(1,849)
Settlement of derivative financial instruments	(29,979)	(6,983)
Net cash generated from operating activities	544,154	652,832
Financing activities:		
Dividends paid	(156,106)	(146,702)
Repurchase of common shares	—	(50,007)
Proceeds from exercise of stock options	1,599	1,843
Net cash used in financing activities	(154,507)	(194,866)
Investing activities:		
Purchase of short-term investments	(590,135)	(336,517)
Proceeds from sale or maturities of short-term investments	462,868	343,272
Purchase of bonds	(1,525,517)	(1,392,154)
Proceeds from sale or maturities of bonds	1,162,922	1,241,414
Purchase of preferred shares	(161,378)	(290,539)
Proceeds from sale of preferred shares	1,737	11,292
Purchase of common shares	—	(8,953)
Proceeds from sale of common shares	—	178,386
Purchase of intangible assets and property and equipment	(4,868)	(3,746)
Net cash used in investing activities	(654,371)	(257,545)
Increase (decrease) in cash and cash equivalents	(264,724)	200,421
Cash and cash equivalents, beginning of year	390,796	190,375
Cash and cash equivalents, end of year	$ 126,072	$ 390,796

See accompanying notes to the consolidated financial statements.

1. Reporting entity:

Genworth MI Canada Inc. (the "Company") was incorporated under the Canada Business Corporations Act on May 25, 2009 and is domiciled in Canada. The Company's shares are traded publicly 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 57.2% (December 31, 2015 - 57.3%) of the common shares of the Company.

On October 23, 2016, Genworth Financial Inc., the Company’s majority shareholder, entered into a definitive agreement with China Oceanwide Holdings Group Co., Ltd., a limited liability company incorporated in the People's Republic of China (“China Oceanwide”), under which China Oceanwide has agreed to acquire all of the outstanding shares of Genworth Financial Inc. through a merger. Upon completion of the transaction, Genworth Financial Inc. will be a standalone subsidiary of China Oceanwide. The transaction is subject to approval by the shareholders of Genworth Financial Inc. as well as other closing conditions, including the receipt of required regulatory approvals.

The Company holds a 100% ownership interest in the holding companies Genworth Canada Holdings I Company ("Holdings I"), Genworth Canada Holdings II Company ("Holdings II"), and MIC Holdings H Company ("Hco"). During the year ended December 31, 2016, MIC Holdings G Company ("Gco"), a wholly owned subsidiary of the Company, was wound up as part of a corporate reorganization undertaken by the Company. The Company also holds an indirect 100% ownership interest in Genworth Financial Mortgage Insurance Company Canada (the "Insurance Subsidiary") through Holdings I and Holdings II. These consolidated financial statements as at and for the year ended December 31, 2016 reflect the consolidation of the Company and these subsidiaries. Additional information on the reporting and consolidation structure is disclosed in note 11(b).

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

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.

The Insurance Subsidiary is also subject to regulation under the Protection of Residential Mortgage or Hypothecary Insurance Act ("PRMHIA"). Under the terms of PRMHIA, the Canadian federal government guarantees the benefits payable under eligible mortgage insurance policies issued by the Insurance Subsidiary, less 10% of the original principal amount of each insured loan, in the event that the Insurance Subsidiary fails to make claim payments with respect to that loan due to its bankruptcy or insolvency.

1. Reporting entity (continued):

The maximum outstanding insured exposure for all private insured mortgages, including those insured by other private mortgage insurance companies, under PRMHIA was increased from $300 billion to $350 billion during 2016.

2. Basis of presentation:

(a) Statement of compliance:

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

These consolidated financial statements were approved by the Board of Directors on February 6, 2017.

(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 preferred shares are measured at fair value;

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

(iii) 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;

(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

2. Basis of presentation (continued):

(b) Basis of measurement (continued):

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

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

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

3. Significant accounting policies:

(a) Basis of consolidation:

(i) Business combinations:

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

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

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

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

3. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

(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 premiums reserve:

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 premiums reserve. 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 premiums earned 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 the unearned premiums reserve.

(ii) Risk fee:

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

3. Significant accounting policies (continued):

(b) Insurance contracts (continued):

(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. 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 premiums reserve and are expensed in proportion to and over the periods in which the premiums are earned.

3. Significant accounting policies (continued):

(b) Insurance contracts (continued):

(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.

The Company does not have any reinsurance contracts in force at December 31, 2016 and 2015.

(c) Financial instruments:

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

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

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

(i) Cash and cash equivalents:

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

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(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 derivative financial instruments as FVTPL at December 31, 2016 and 2015.

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, 2016 and 2015, the Company classifies bonds and debentures, preferred shares and short-term investments in the AFS financial asset category.

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

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

(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.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(iv) Loans and receivables (continued):

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 and accrued investment income and other receivables.

(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 and accounts payable and accrued liabilities including balances due to the Company's majority shareholder and companies under common control.

(d) Securities lending:

The Company includes its invested assets in its securities lending program. Securities lending transactions are entered into on a fully collateralized basis. The transferred securities themselves are not derecognized on the consolidated statements of financial position given that the risks and rewards of ownership are not transferred from the Company to the counterparties in the course of such transactions. The securities are disclosed separately in note 9 of the consolidated financial statements on the basis that counterparties may resell or re-pledge the securities during the time that the securities are in their possession. Securities received from counterparties as collateral are not recorded on the consolidated statements of financial position given that the risk and rewards of ownership are not transferred from the counterparties to the Company in the course of such transactions and because cash collateral is not permitted as an acceptable form of collateral under the program.

3. Significant accounting policies (continued):

(e) Derivative financial instruments:

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

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

(f) Interest income:

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

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

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

(g) Dividend income:

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

3. Significant accounting policies (continued):

(h) Impairment:

(i) Impairment of financial assets:

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

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

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

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

3. Significant accounting policies (continued):

(h) Impairment (continued):

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

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.

(i) 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 recognized directly in OCI. Otherwise, except to the extent that they relate to a business combination, current and deferred taxes are recognized in income.

(i) Current tax:

Current taxes are recognized for estimated income taxes payable or recoverable for the current year and any adjustments to taxes payable in respect of prior years. 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.

3. Significant accounting policies (continued):

(i) Income taxes (continued):

(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.

(j) Employee benefits:

(i) Defined contribution pension plan:

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

3. Significant accounting policies (continued):

(j) Employee benefits (continued):

(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 ("NPPRB"). 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 NPPRB plans are performed as at December 31 of each year using the projected unit credit method and based on management's assumptions including assumptions on the discount rate, rate of compensation increase, mortality and the trend in the health care cost rate. For the NPPRB plan, membership data is updated every three years.

Obligations for the SERP are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of termination, death or retirement. Obligations for NPPRB 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.

3. Significant accounting policies (continued):

(j) Employee benefits (continued):

(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 Company has adopted liability settlement treatment for all of its share-based compensation awards because all such awards are either settled in cash or provide employees or the Company with the option of settlement in cash or shares of the Company.

The fair value of the share-based awards 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.

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

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

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

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

3. Significant accounting policies (continued):

(j) Employee benefits (continued):

(v) Termination benefits:

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

(k) 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.

(l) 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.

(m) Fair value measurement:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is applied to all fair value measurements including non-financial assets and liabilities that are measured at or based on fair value in the consolidated statements of financial position. The Company's fair value hierarchy is disclosed in note 23.

(n) 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, 2016:

The following amendment to existing standards has been issued by the IASB and is effective for annual periods beginning on or after January 1, 2016.

(i) Amendments to IAS 1 - Presentation of financial statements ("IAS 1"):

In December 2014, the IASB issued certain narrow focus amendments to IAS 1 to clarify existing presentation and disclosure requirements. Amendments include the requirement to disaggregate line items on the Statement of Financial Position, Statement of Income and Statement of Comprehensive Income if disaggregation is helpful to users of the financial statements and to aggregate line items on the Statement of Financial Position if immaterial.

Adoption of the amendment on January 1, 2016 did not have a significant impact on the Company's consolidated financial statements.

(b) Future accounting standards:

The following new standards have been issued by the IASB and are effective after December 31, 2016.

(i) Amendments to IAS 7 - Disclosure Initiative ("IAS 7"):

Amendments to IAS 7 were published in January 2016, which add disclosure requirements that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

The Company does not expect the amendments to have a material impact on the financial statements.

4. Changes in accounting standards (continued):

(b) Future accounting standards (continued):

(ii) Amendments to IAS 12 - Recognition of deferred tax assets for unrealized losses ("IAS 12"):

Amendments to IAS 12 were published in January 2016, which clarify the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences.

The amendments apply retrospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted.

The Company does not expect the amendments to have a material impact on the financial statements.

(iii) Amendments to IFRS 2 - Share-based payments ("IFRS 2"):

Amendments to IFRS 2 were published in June 2016, which clarify how to account for certain types of share-based payment transactions.

The amendments provide requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted if information is available without the use of hindsight.

The Company is currently assessing the impact of the amendments to IFRS 2.

4. Changes in accounting standards (continued):

(b) Future accounting standards (continued):

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

In July 2014, the IASB published the final version of IFRS 9, which replaces IAS 39 - Financial instruments: recognition and measurement. IFRS 9 consists of three parts which include guidance on the classification and measurement of financial instruments, impairment of financial assets, and a new general hedge accounting model.

(a) Classification - financial assets:

The Classification of financial assets is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. Financial assets can be classified as amortized cost when the objective of a business model is to receive contractual cash flows of principal and interest; fair value through other comprehensive income ("FVOCI") when the objective of the business model is to equally receive contractual cash flows of principal and interest and realize cash flows from the sale; or fair value through profit or loss ("FVTPL") for all other financial assets or when specified elections are made. For equity investments that are not held for trading, an irrevocable election can be made at initial recognition to present fair value changes permanently in OCI, meaning gains or losses are not reclassified to income when the investment is disposed of. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead the hybrid financial instrument as a whole is assessed for classification and measurement.

(b) Impairment - expected credit loss:

IFRS 9 introduces a single forward-looking expected credit loss model for financial instruments not measured at FVTPL. Under the expected credit loss model, loss allowances will be measured by either 12-month expected credit losses that result from possible default events within 12 months after the reporting date or lifetime expected credit losses that result from all possible default events over the expected life of a financial asset. Lifetime expected credit loss measurement applies if the credit risk of a financial asset has increased significantly since initial recognition and 12-month expected credit loss measurement applies if it has not.

4. Changes in accounting standards (continued):

(b) Future accounting standards (continued):

(iv) IFRS 9 - Financial instruments ("IFRS 9") (continued):

(c) Classification - financial liabilities:

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39, all fair value changes of liabilities designated at FVTPL are recognized in income, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to change in the credit risk of the liability is presented in OCI; and

- the remaining amount of change in the fair value is presented in income.

(d) Hedge accounting:

The new model for hedge accounting aligns hedge accounting with risk management objectives and strategy. An entity may choose to adopt the requirements under IFRS 9 or maintain the existing requirements of IAS 39.

While IFRS 9 is generally effective for years beginning on or after January 1, 2018, on September 12, 2016, the IASB issued amendments to IFRS 17 - Insurance contracts ("IFRS 17), which permit eligible insurers optional transitional relief until the forthcoming insurance accounting standard is available for implementation.

The options permit (a) entities whose predominant activity is issuing insurance contracts within the scope of IFRS 17 a temporary exemption to defer the implementation of IFRS 9, which may allow alignment of the implementation of IFRS 9 with the forthcoming insurance accounting standard, or alternatively (b) give entities issuing insurance contracts the option to remove from profit or loss the incremental volatility caused by changes in the measurement of specified financial assets upon application of IFRS 9. Entities that apply either of the options will be required to adopt IFRS 9 on the earlier of the date that IFRS 17 is effective and annual periods beginning on or after January 1, 2021. Additional financial statement disclosures will be required for insurers that apply either of the options. The Company has concluded that it is an eligible insurer that qualifies for the transitional relief. The Company intends to apply the optional transitional relief that permits deferral of the adoption of IFRS 9 . The Company is currently assessing the impact of IFRS 9 on its financial assets and financial liabilities.

4. Changes in accounting standards (continued):

(b) Future accounting standards (continued):

(v) IFRS 17 - Insurance contracts:

IFRS 17 (previously referred to as IFRS 4 phase II) is intended to replace IFRS 4: Insurance contracts. Under the IFRS 17 model, insurance contract liabilities will be calculated as the present value of future insurance cash flows with a provision for risk. The discount rate will reflect current interest rates. If the present value of future cash flows would produce a gain at the inception of the contract, the model will also require a "contractual service margin" to offset the day one gain. The contractual service margin will amortize over the life of the contract. Certain types of contracts will be permitted to use a simplified unearned premium liability model until a claim is incurred. Additionally, for contracts in which the cash flows are linked to underlying terms, the liability value will reflect that linkage. There will also be a new income statement presentation for insurance contracts and additional disclosure requirements.

IFRS 17 is anticipated to be released in the first half of 2017 and has an expected effective date of January 1, 2021.

The Company is currently assessing the impact of IFRS 17.

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

IFRS 16 was issued on January 13, 2016. The new standard will replace existing lease guidance in IFRS and related interpretations, and introduces a new accounting model which requires companies to bring most leases on-balance sheet. A lessee recognizes a a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Short-term leases and leases of low value items are optional exemptions under the standard. Lessor accounting remains similar to the current standard, where lessors classify leases as finance or operating leases.

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

The Company is currently assessing the impact of IFRS 16.

5. Significant judgments and estimates:

(a) Judgments:

Significant judgments made in applying accounting policies are as follows:

Objective evidence of impairment of AFS financial assets:

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

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

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

(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.

5. Significant judgments and estimates (continued):

(b) Estimates (continued):

(i) Premiums earned (continued):

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

(ii) Losses:

Loss reserves represent the amount needed to provide for the expected ultimate net cost of settling claims including adjustment expenses related to defaults by borrowers (both reported and unreported) that have occurred on or before the reporting date. Loss reserves are discounted to take into account the time value of money and include a supplemental provision for adverse deviation. 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.

IBNR is the Company's best estimate of losses that have been incurred but not reported from the time the first scheduled mortgage payment has been missed by a mortgage borrower. 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.

5. Significant judgments and estimates (continued):

(b) Estimates (continued):

(ii) Losses (continued):

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

The process for the establishment of loss reserves relies on the judgment and opinions of a number of individuals, on historical precedent and trends, on prevailing legal and economic trends and on expectations as to future developments. This process involves risks that actual results will deviate, perhaps substantially, from the best estimates made.

These risks vary in proportion to the length of the estimation period and the volatility of each component comprising the liability. Refer to note 6(b) for sensitivity analyses that quantify the exposure to changes in key loss assumptions.

(iii) Subrogation recoverable:

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

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

(iv) Deferred policy acquisition costs:

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

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

6. Insurance contracts:

(a) Premiums and unearned premium reserves:

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

	2016	2015
Unearned premium reserves, beginning of year	$ 2,020,993	$ 1,798,568
Premiums written during the year	759,806	808,621
Premiums earned during the year	(637,896)	(586,196)
Unearned premium reserves, end of year	$ 2,142,903	$ 2,020,993

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. The effective risk of loss diminishes significantly subsequent to the first five years after policy inception due to normal amortization of the loan's principal balance from mortgage payments and potential home price appreciation that would require a significant stress event to cause the home price to drop below the outstanding loan balance and result in a loss to the insurer. 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 Company's appointed actuary performs a liability adequacy test on the Company's unearned premiums reserve 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, 2016 and 2015 identified a surplus in the Company's unearned premiums reserve and thus no premium deficiency reserve is required at these reporting dates.

6. Insurance contracts (continued):

(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:

	2016	2015
Case reserves	$ 102,753	$ 83,962
Incurred but not reported reserves	53,305	41,591
Discounting	(1,940)	(1,502)
Provision for adverse deviation	9,349	7,526
Total loss reserves	$ 163,467	$ 131,577

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

	2016	2015
Loss reserves, beginning of year	$ 131,577	$ 115,493
Claims paid during the year	(107,133)	(105,826)
Net losses on claims incurred during the year:		
Losses on claims related to the current year	156,910	132,945
Recoveries on claims related to prior years	(17,887)	(11,035)
Loss reserves, end of year	$ 163,467	$ 131,577

Claims development:

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

6. Insurance contracts (continued):

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

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Claims incurred at the end of the default year	$102,549	$148,493	$196,586	$175,189	$172,200	$143,388	$132,299	$118,498	$132,945	$156,910	
Claims incurred one year later	106,468	200,807	218,890	193,820	193,226	141,957	128,042	112,834	119,428	—	
Claims incurred two years later	112,224	204,706	247,663	217,034	196,377	140,572	126,540	109,894	—	—	
Claims incurred three years later	115,632	209,850	252,041	218,884	195,903	140,196	126,293	—	—	—	
Claims incurred four years later	115,816	212,615	255,282	218,088	194,969	139,809	—	—	—	—	
Claims incurred five years later	115,427	212,595	254,725	217,036	194,383	—	—	—	—	—	
Claims incurred six years later	115,427	212,595	253,795	217,624	—	—	—	—	—	—	
Claims incurred seven years later	115,427	212,595	252,995	—	—	—	—	—	—	—	
Claims incurred eight years later	115,427	212,595	—	—	—	—	—	—	—	—	
Claims incurred nine years later	115,427	—	—	—	—	—	—	—	—	—	
Current estimate of claims incurred	$115,427	$212,595	$252,995	$217,624	$194,383	$139,809	$126,293	$109,894	$119,428	$156,910	$1,645,358
Cumulative payments to date	$115,427	$212,595	$252,995	$216,877	$194,225	$139,557	$126,101	$106,780	$95,691	$21,643	$1,481,891
Current loss reserves	$ —	$ —	$ —	$747	$158	$252	$192	$3,114	$23,737	$135,267	$163,467
Current estimate of surplus (deficiency)	$(12,878)	$(64,102)	$(56,409)	$(42,435)	$(22,183)	$3,579	$6,006	$8,604	$13,517	$ —	
Surplus (deficiency) of initial gross loss reserve	(13)%	(43)%	(29)%	(24)%	(13)%	2%	5%	7%	10%	—	

6. Insurance contracts (continued):

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

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

Key methodologies and assumptions:

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

(i) Claim frequency:

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

(ii) Claim severity:

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

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

6. Insurance contracts (continued):

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

Sensitivity:

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

2016 Sensitivity factor	Change in assumptions	Impact on income before income taxes	Impact on shareholders' equity
Claim frequency	+10%	$ (28,748)	$ (21,043)
	-10%	28,748	21,043
Claim severity	+10%	(28,748)	(21,043)
	-10%	28,748	21,043

6. Insurance contracts (continued):

(c) Subrogation recoverable:

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

	2016	2015
Subrogation rights related to real estate, beginning of year	$ 43,223	$ 46,195
Subrogation rights related to real estate acquired as a result of settling claims, at fair value	204,800	195,703
Change in market value of real estate on hand	(1,077)	(4,718)
Subrogation rights related to real estate disposed of during the year	(195,721)	(193,957)
Subrogation rights related to real estate, end of year	51,225	43,223
Borrower recoveries, beginning of year	18,021	20,781
Net estimated borrower recoveries recognized	4,486	5,086
Borrower recoveries received	(4,439)	(5,625)
Discounting	(752)	(775)
Provision for adverse deviation	(1,299)	(1,446)
Borrower recoveries, end of year	16,017	18,021
Subrogation recoverable, end of year	$ 67,242	$ 61,244

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

6. Insurance contracts (continued):

(d) Deferred policy acquisition costs:

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

		2016		2015
Deferred policy acquisition costs, beginning of year	$	193,070	$	172,289
Policy acquisition costs deferred during the year		76,720		78,901
Deferred policy acquisition costs expensed during the year		(62,980)		(58,120)
Net change in deferred policy acquisition costs during the year		13,740		20,781
Deferred policy acquisition costs, end of year	$	206,810	$	193,070

(e) Reinsurance:

During the year ended December 31, 2016, the Company did not participate in reinsurance transactions and therefore no premiums were recognized and no losses were incurred in conjunction with reinsurance agreements.

During the year ended December 31, 2015, the Company recognized permiums of $1,802 and incurred no losses.

During the year ended December 31, 2015, the Company, through its indirect subsidiary, MICICC, terminated its retrocession agreement with a third party reinsurance company that commenced on December 1, 2013, under which the Company assumed reinsurance risk for approximately 33% of the retroceded liabilities on claims paid by Genworth Financial Mortgage Insurance Pty Limited, an Australian company (“Genworth Australia”).

7. Financial risk management:

The Insurance Subsidiary maintains 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 Company's risk management framework facilitates compliance with ORSA through the identification and assessment of risks, and the ongoing monitoring and management of 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, 2016 compared to December 31, 2015.

(a) Insurance risk:

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

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

(i) Pricing risk:

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

7. Financial risk management (continued):

(a) Insurance risk (continued):

(i) Pricing risk (continued):

Before the Company introduces a new product, it establishes specific performance targets, including delinquency rates and loss ratios, which the Company monitors frequently to identify any deviations from expected performance so that it can take corrective action when necessary. These performance targets are adjusted periodically to ensure they reflect the current environment.

The Company is subject to capital requirements imposed under Canadian law including the Insurance Companies Act and PRMHIA (note 8). If changes in regulatory capital requirements do not reflect historical pricing, the Company's financial performance could be adversely impacted and pricing could be inadequate relative to the Company's regulatory capital requirements.

(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.

7. Financial risk management (continued):

(a) Insurance risk (continued):

(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, potential reduction of carrying costs and potential of realization of a higher property sales price.

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

(iv) Loss reserving risk:

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

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

(v) Insurance portfolio concentration risk:

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

7. Financial risk management (continued):

(a) Insurance risk (continued):

(v) Insurance portfolio concentration risk (continued):

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 premiums written.

Premiums written		2016			2015	
Ontario	$	343,158	45%	$	329,904	41%
Alberta		119,356	16%		176,213	22%
British Columbia		111,924	15%		108,061	13%
Quebec		89,312	12%		92,995	12%
Other		96,056	12%		99,646	12%
	$	759,806	100%	$	806,819	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:

As at December 31, 2016 and December 31, 2015, the Company has no reinsurance risk.

(b) Credit risk:

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

7. Financial risk management (continued):

(b) Credit risk (continued):

The total credit risk exposure at December 31, 2016 is $6,253,454 (2015 - $5,615,984) and comprises $206,099 (2015 - $78,178) of short-term investments, $47,337 (2015 - $28,130) of accrued investment income and other receivables, $5,468,170 (2015 - $5,200,715) of bonds and debentures, $425,819 (2015 - $247,717) of preferred shares, $38,787 of derivative financial instruments in an asset position (2015 - the Company did not have any credit risk exposure to derivative financial instrument assets) and $67,242 (2015 - $61,244) of subrogation recoverable.

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

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

		2016			2015	
		Carrying value			Carrying value	
Credit rating		amount	%		amount	%
Bonds and debentures and short-term investments:						
AAA	$	2,262,080	39.9	$	2,159,848	40.9
AA		1,164,483	20.5		1,024,168	19.4
A		1,687,011	29.7		1,703,236	32.3
BBB		538,540	9.5		386,749	7.3
BB		22,155	0.4		4,892	0.1
		5,674,269	100.0		5,278,893	100.0
Preferred Shares						
P2		337,607	79.3		227,369	91.8
P3		88,212	20.7		20,348	8.2
		425,819	100.0		247,717	100.0
	$	6,100,088		$	5,526,610	

7. Financial risk management (continued):

(b) Credit risk (continued):

As at December 31, 2016, 90.1% of the Company's bonds and debentures were rated 'A' or better, compared to 92.6% at December 31, 2015. As at December 31, 2016 and December 31, 2015, all of the Company's preferred shares were rated P3 or better.

The Company did not hold any impaired financial assets at December 31, 2016 and 2015.

Concentration of credit risk:

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

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

		2016			2015
By country of issuance:					
Canada	$	5,420,310	88.9%	$ 5,041,102	91.2%
Other		679,778	11.1%	485,508	8.8%
	$	6,100,088	100.0%	$ 5,526,610	100.0%
By industry:					
Government	$	3,170,107	51.8%	$ 3,064,625	55.4%
Bank, insurance, and other financial institutions		1,157,523	19.0%	1,077,846	19.5%
Energy - Direct [1]		114,290	1.9%	82,611	1.5%
Energy - Indirect [1]		320,857	5.3%	214,842	3.9%
Infrastructure		101,069	1.7%	116,669	2.1%
All other sectors		1,236,242	20.3%	970,017	17.6%
	$	6,100,088	100.0%	$ 5,526,610	100.0%

(1) Direct Energy securities have direct business correlation to the underlying commodity price movements and issuers of these securities are integrated oil and gas companies with large market capitalizations. Indirect energy securities have issuers that are pipelines and distribution companies that are primarily regulated entities with stable cash flows.

7. Financial risk management (continued):

(b) Credit risk (continued):

Exposures to the financial and energy sectors 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 as governed by the International Swaps and Derivatives Association ("ISDA") agreement between the Company and its counterparties. Mark-to-market provisions in the Company's ISDA 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, 2016, the Company's net derivative obligations were $4,051 (2015 - $83,861) and the Company has pledged a net amount of $2,682 (2015 - $85,296) of Canadian federal government securities as collateral under the master derivative agreements.

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, 2016, the Company has cash and cash equivalents of $126,072 (2015 - $390,796) and short-term investments of $206,099 (2015 - $78,178).

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

The Company's preferred shares have been excluded from this table because they do not have a fixed contractual maturity. The Company owns two types of preferred shares, 5-year reset preferred shares and perpetual preferred shares. The 5-year reset preferred shares are shares whose dividends are set for a 5-year term based on a spread over the 5-year Government of Canada rate. These preferred shares reset every 5 years where the issuer has the option to call them at fair value or roll them over for another 5 years at a pre-determined spread plus the prevailing Government of Canada 5-year rate. The perpetual preferred shares are the traditional form of preferred shares in which the Company receives a fixed dividend either in perpetuity or until redeemed by the issuer according to a redemption schedule.

	Within 1 year	1 - 3 years	3 - 5 years	5 - 10 years	Over 10 years	Total
2016	$ 694,553	$ 1,239,332	$ 1,397,581	$ 1,933,719	$ 409,084	$ 5,674,269
2015	$ 587,560	$ 1,181,669	$ 1,517,124	$ 1,503,156	$ 489,384	$ 5,278,893

7. Financial risk management (continued):

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

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

	Within 1 year	1 - 3 years	3 - 5 years	5 - 10 years	Over 10 years	Total
2016:						
Non-derivative financial liabilities:						
Accounts payable and accrued liabilities	$ 64,987	$ —	$ —	$ —	$ —	$ 64,987
Income taxes payable	19,329	—	—	—	—	19,329
Loss reserves (at Actuarial Present Value)	134,890	28,577	—	—	—	163,467
Long-term debt	—	—	275,000	160,000	—	435,000
Derivative financial liabilities:						
Derivative financial instruments	4,006	4,521	9,095	25,216	—	42,838
2015:						
Non-derivative financial liabilities:						
Accounts payable and accrued liabilities	$ 65,750	$ —	$ —	$ —	$ —	$ 65,750
Income taxes payable	—	—	—	—	—	—
Loss reserves (at Actuarial Present Value)	56,234	75,343	—	—	—	131,577
Long-term debt	—	—	275,000	160,000	—	435,000
Derivative financial liabilities:						
Derivative financial instruments	33,707	6,900	6,659	36,595	—	83,861

7. Financial risk management (continued):

(d) Market risk:

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

(i) Interest rate risk:

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

As at December 31, 2016, management estimates that an immediate hypothetical 100 basis point, or 1%, increase in interest rates would decrease the market value of the AFS bonds and debentures, short- term investments and preferred shares by approximately $222,571, representing 3.65% of the $6,100,088 fair value of these investments, and decrease the value of loss reserves by $1,087. Conversely, a 100 basis point, or 1%, decrease in interest rates would increase the market value of the AFS bonds and debentures, short-term investments and preferred shares by approximately $231,232 representing 3.79% of the fair value, and increase the value of loss reserves by approximately $1,107.

Effective in the year ended December 31, 2016, the Company uses fixed for floating interest rate swaps in conjunction with the management of interest rate risk related to its fixed income investments.

7. Financial risk management (continued):

(d) Market risk (continued):

(i) Interest rate risk (continued):

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

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

(ii) Equity price risk:

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

The Company did not hold any common shares at December 31, 2016 and December 31, 2015.

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

7. Financial risk management (continued):

(d) Market risk (continued):

(iii) Currency risk (continued):

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

	2016	2015
Bonds and debentures denominated in U.S. dollars [1]	679,778	485,508
Less: foreign currency forward contract notional amount	422,344	288,856
cross currency interest rate swap notional amount	270,852	224,665
Total derivative financial instrument notional amount	693,196	513,521
Net currency exposure from financial instruments	$ (13,418)	$ (28,013)

[1] Bonds and debentures denominated in U.S. dollars consists of $407,200 of emerging market debt (2015- $307,941), $207,137 of collateralized loan obligations (2015- $177,567) and $65,441 of European bonds (2015 - nil).

8. Capital management and regulatory requirements:

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 requirements and restrictions are aimed at protecting policy holders and creditors rather than the insurer and include:

- restrictions on the amount of outstanding mortgages insured by the Company;
- restrictions on the types of insurance products that may be offered;
- establishment of mortgage insurance eligibility criteria;
- restrictions on the distribution of the Company's products;
- restrictions on types of invested assets;
- the requirement to maintain a required level of regulatory capital including adequate margins for unearned premiums reserve and unpaid claims;
- the examination of insurance companies by regulatory authorities, including periodic financial and market conduct examinations; and
- limitations on dividends and transactions with affiliates.

Capital management:

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.

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 as at December 31, 2016, the Department of Finance has established a minimum MCT ratio of 175% for the Insurance Subsidiary under PRMHIA (2015 - 175%). In addition, as at December 31, 2016, the Company has established an internal capital ratio target for the Insurance Subsidiary of 185% (2015 - 185%). Pending the development of the new regulatory capital framework for mortgage insurers, the Insurance Subsidiary had established an operating MCT holding target of 220% in 2014.

8. Capital management and regulatory requirements (continued):

As at December 31, 2016, the Insurance Subsidiary had an MCT ratio of 245% (2015 - 234%) and has complied with regulatory capital requirements as well as its MCT holding target.

On December 15, 2016, OSFI released the final advisory for capital titled "Capital Requirements for Federally Regulated Mortgage Insurers". This advisory provides a new standard framework for determining the capital requirements for residential mortgage insurance companies. The new framework is more risk sensitive and incorporates additional risk attributes, including credit score, remaining amortization and outstanding loan balance.

The advisory comes into force on January 1, 2017, replacing OSFI's advisory, "Interim Capital Requirements for Mortgage Insurance Companies", which has been in effect since January 1, 2015. The advisory focuses on capital requirements for insurance risk, which will consist primarily of:

(a) A base requirement that applies to all insured mortgages at all times; plus

(b) A supplementary requirement that applies only to mortgages originated during periods when the housing market for the region that corresponds to the mortgage has a house price-to-income ratio that exceeds a specified threshold (with this supplementary requirement not applying to mortgages insured prior to January 1, 2017); less

(c) Premium liabilities, consisting of unearned premiums reserve and the reserve for incurred but not reported ("IBNR") claims.

Supplementary capital will be tied to the behavior of property prices, both in terms of recent housing price trends and the behavior of housing prices relative to household incomes. The advisory includes a phase-in period to allow for a smooth transition to the new regulatory capital framework.

Under the new regulatory capital framework, the holding target of 220% has been recalibrated, under PRMHIA, to the OSFI Supervisory MCT Target of 150% and the minimum MCT under PRMHIA has been reduced to 150%. The Company expects to be compliant with the new regulatory capital framework at January 1, 2017.

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

8. Capital management and regulatory requirements (continued):

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:

	2016				2015			
	Fair value	Amortized cost	Unrealized gain (loss)	% total fair value	Fair value	Amortized cost	Unrealized gain (loss)	% total fair value
Cash and cash equivalents:								
Canadian federal government treasury bills	$ 50,407	$ 50,407	$ —	0.8	$ 274,166	$ 274,166	$ —	4.6
Cash	75,665	75,665	—	1.2	116,630	116,630	—	2.0
	126,072	126,072	—	2.0	390,796	390,796	—	6.6
AFS investments:								
Short-term investments:								
Canadian federal government treasury bills [1]	206,099	206,099	—	3.3	78,178	78,178	—	1.3
Government bonds and debentures:								
Canadian federal government [1]	1,976,304	1,931,558	44,746	31.8	1,963,176	1,884,347	78,829	33.2
Canadian provincial and municipal governments	987,704	932,399	55,305	15.9	1,023,271	949,623	73,648	17.3
	2,964,008	2,863,957	100,051	47.7	2,986,447	2,833,970	152,477	50.5
Corporate bonds and debentures:								
Financial	910,468	886,780	23,688	14.6	922,532	889,277	33,255	15.6
Energy	355,629	336,422	19,207	5.7	264,033	245,599	18,434	4.5
Infrastructure	101,069	95,791	5,278	1.6	116,669	109,803	6,866	1.9
All other sectors	929,859	873,466	56,393	14.9	733,467	668,099	65,368	12.4
	2,297,025	2,192,459	104,566	36.8	2,036,701	1,912,778	123,923	34.4
Collateralized loan obligations	207,137	180,394	26,743	3.3	177,567	145,539	32,028	3.0
Total AFS bonds and debentures	5,468,170	5,236,810	231,360	87.8	5,200,715	4,892,287	308,428	87.9
Preferred Shares:								
Financial	247,055	262,649	(15,594)	4.0	155,314	175,137	(19,823)	2.6
Energy	79,518	78,967	551	1.3	33,420	38,975	(5,555)	0.6
All other sectors	99,246	103,167	(3,921)	1.6	58,983	66,437	(7,454)	1.0
	425,819	444,783	(18,964)	6.9	247,717	280,549	(32,832)	4.2
Total investments	$ 6,226,160	$ 6,013,764	$ 212,396 [2]	100.0	$ 5,917,406	$ 5,641,810	$ 275,596 [2]	100.0

[1] As at December 31, 2016, Canadian federal government bonds and treasury bills includes $2,682 in collateral posted for the benefit of the Company's counterparties to its derivative financial instrument contracts, as described in the derivative financial instruments section of note 9 (December 31, 2015 - $85,296).

[2] As at December 31, 2016, unrealized gains include unrealized foreign exchange gains of $79,271 (December 31, 2015 - $97,019).

9. Investments (continued):

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

	2016	2015
Terms to maturity:		
Federal, provincial and municipal bonds and debentures and short-term investments:		
1 year or less	$ 456,092	$ 383,164
1 - 3 years	723,451	579,194
3 - 5 years	871,807	1,089,309
5 - 10 years	931,797	822,535
Over 10 years	186,960	190,423
	3,170,107	3,064,625
Corporate bonds and debentures and collateralized loan obligations:		
1 year or less	238,460	204,396
1 - 3 years	515,882	602,475
3 - 5 years	525,774	427,815
5 - 10 years	1,001,922	680,621
Over 10 years	222,124	298,961
	2,504,162	2,214,268
	$ 5,674,269	$ 5,278,893

Investments denominated in foreign currencies:

Collateralized loan obligations ("CLOs") of $207,137 (2015 - $177,567) are 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. Additionally, corporate bonds and debentures includes $407,200 of emerging market bonds (2015 - $398,035) and $65,441 of European bonds (2015 - nil) denominated in U.S. dollars.

The CLOs, emerging market and European bonds 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 gains or losses on derivatives and foreign exchange on the consolidated statements of income.

9. Investments (continued):

Derivative financial instruments:

Derivative financial instruments are used by the Company for economic 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. Foreign currency forwards and cross currency interest rate swaps are contractual obligations to exchange one currency for another at a predetermined future date.

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

During the year ended December 31, 2016, the Company entered into interest rate swaps. The Company uses fixed-for-floating interest rate swaps in conjunction with management of interest rate risk related to its fixed income investments. The fixed-for-floating interest rate swaps are derivative financial instruments in which the Company and its counterparties agree to exchange interest rate cash flows based on a specified notional amount from a fixed rate to a floating rate.

9. Investments (continued):

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

December 31, 2016	Derivative asset	Derivative liability	Net fair value	Notional Amount 1 year or less	1 - 3 years	3 - 5 years	Over 5 years	Total
Foreign currency forwards	$ 219	$ (35,497)	$ (35,278)	$ 161,066	$ 24,391	$ 50,288	$ 186,599	$ 422,344
Cross currency interest rate swaps	83	(7,333)	(7,250)	18,810	38,963	70,589	142,490	270,852
Equity total return swaps	702	(8)	694	20,812	—	—	—	20,812
Interest rate swaps	37,783	—	37,783	—	—	2,000,000	—	2,000,000
Total	$ 38,787	$ (42,838)	$ (4,051)	$ 200,688	$ 63,354	$ 2,120,877	$ 329,089	$ 2,714,008

December 31, 2015	Derivative asset	Derivative liability	Net fair value	Notional Amount 1 year or less	1 - 3 years	3 - 5 years	Over 5 years	Total
Foreign currency forwards	$ —	$ (44,886)	$ (44,886)	$ 14,351	$ 26,412	$ 35,558	$ 212,535	$ 288,856
Cross currency interest rate swaps	—	(37,461)	(37,461)	143,590	27,680	19,376	34,019	224,665
Equity total return swaps	—	(1,514)	(1,514)	19,558	—	—	—	19,558
Interest rate swaps	—	—	—	—	—	—	—	—
Total	$ —	$ (83,861)	$ (83,861)	$ 177,499	$ 54,092	$ 54,934	$ 246,554	$ 533,079

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, 2016, the Company had posted collateral of $2,682 in the form of Canadian federal government bonds and treasury bills for the benefit of its counterparties to its derivative financial instruments (2015 - $85,296).

9. Investments (continued):

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, which is an AA - rated financial institution, 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.

As at December 31, 2016 and 2015 the Company had loaned the following investments under its securities lending program:

	2016	2015
Cash equivalents	31,207	$ 28,648
Short-term investments	$ —	3,823
Bonds and debentures	430,490	435,357
Preferred shares	9,186	2,206
	$ 470,883	$ 470,034

As at December 31, 2016, the Company has accepted eligible securities as collateral with a fair value of $496,211 (2015 - $495,671).

10. Income taxes:

The provision for income taxes comprises the following:

	2016	2015
Current tax:		
Current income taxes	$ 148,056	$ 137,108
Current income tax adjustments in respect of prior years	90	(4,513)
	148,146	132,595
Deferred tax:		
Origination and reversal of temporary differences	486	2,448
Impact of changes in income tax rates	—	692
	486	3,140
Total income tax expense	$ 148,632	$ 135,735

Income taxes recognized in OCI comprise the following:

	2016	2015
Income tax recovery related to net losses on AFS financial assets	$ (11,766)	$ (22,040)
Income taxes (income tax recovery) related to re-measurement of employee benefit plan obligations	(274)	743
Total income tax recovery recognized in OCI	$ (12,040)	$ (21,297)

10. Income taxes (continued):

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

	2016	2015
Income before income taxes	$ 565,524	$ 534,037
Combined basic Canadian federal and provincial income tax rate	26.80%	26.55%
Income tax expense based on statutory income tax rate	$ 151,560	$ 141,787
Increase (decrease) in income tax resulting from:		
Non-taxable income	(3,035)	(2,927)
Effect of increases in income tax rates	—	1,362
Income tax adjustments in respect of prior years	107	(4,487)
Income tax expense	$ 148,632	$ 135,735

The difference in the effective income tax rate of 26.28%, implicit in the $148,632 provision for income taxes in 2016 from the Company's statutory income tax rate of 26.80%, was primarily attributable to non-taxable dividend income.

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

10. Income taxes (continued):

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

	2016	2015
Deferred tax assets:		
Employee benefits	$ 13,460	$ 11,579
Loss reserves	2,190	1,763
Tax losses available for carry forward	11,802	10,679
	27,452	24,021
Deferred tax liabilities:		
Investments	(1,170)	(1,404)
Policy reserves	(62,552)	(59,304)
Property and equipment and intangible assets	(2,593)	(2,062)
Financing costs	(354)	(256)
	(66,669)	(63,026)
Net deferred tax liability	$ (39,217)	$ (39,005)

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

	2016	2015
Deferred tax liability, beginning of year	$ 39,005	$ 35,122
Expense for the year	486	3,140
OCI recognized for the year	(274)	743
Deferred tax liability, end of year	$ 39,217	$ 39,005

All deferred tax assets have been recognized as at December 31, 2016 and 2015 as the Company has assessed it is probable that future taxable profits will be available against which the deferred tax benefits can be utilized and appropriate tax planning is in place to ensure all tax losses available for carry forward will be utilized.

11. Related party transactions and balances:

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

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

Key management personnel's compensation includes base salary and performance-based compensation consisting of short-term incentive compensation and long-term share-based compensation benefits, retirement benefits and executive allowances. Short-term incentive compensation is dependent on the Company's performance against metrics that have been approved by the Company's Board of Directors and each managers' performance against his or her personal goals and objectives. Long-term share-based compensation grants may consist of any combination of Options, RSUs, PSUs and EDSUs (note 14). In addition to the defined contribution retirement benefit plan, the SERP is maintained to provide pension benefits to key management personnel in excess of the amounts payable under the Company's registered defined contribution plan. The Company's incentive compensation plans are subject to the Company's compensation recoupement policy, which can be applied in limited circumstances at the discretion of the Company's Board of Directors.

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

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

11. Related party transactions and balances (continued):

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

Compensation for the Company's seven key management personnel and seven independent directors (2015 - seven key management personnel and eight independent directors) is comprised of the following:

		2016		2015
Short-term employee benefits	$	4,250	$	3,888
Post-employment benefits		813		751
Share-based compensation		2,000		1,075
Director fees		809		704
Total compensation	$	7,872	$	6,418

(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 H Company ("Hco")	Direct	100%
Genworth Financial Mortgage Insurance Company Canada ("the Insurance Subsidiary")	Indirect through Holdings I and Holdings II	100%
MIC Insurance Company Canada ("MICICC")	Indirect through the Insurance Subsidiary	100%

11. Related party transactions and balances (continued):

(b) Interest in consolidated subsidiaries (continued):

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

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

(c) Other related party transactions:

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

The Company incurred net related party charges of $6,055 for the year ended December 31, 2016, recorded in office expenses in the consolidated statements of income (2015 - $6,458). The balance receivable for related party services at December 31, 2016 is $44 (2015 - $228) and is reported in accounts payable and accrued liabilities in the consolidated statements of financial position.

11. Related party transactions and balances (continued):

(c) Other related party transactions (continued):

During the year ended December 31, 2016, the Company did not repurchase any of its common shares. During the year ended December 31, 2015, the Company repurchased 1,454,196 of its own common shares for cancellation on the open market for an aggregate purchase price of $50,007. Genworth Financial Inc., through its subsidiaries, participated proportionately in the share purchase transaction and maintained a 57.3% ownership interest in the Company. See note 18 for additional disclosure on the share repurchase transaction.

During the year ended December 31, 2016, the Company did not participate in any reinsurance transactions with related parties. Effective November 30, 2015, the Company, through its indirect subsidiary MICICC, terminated a retrocession agreement that commenced on December 1, 2013 with a third party reinsurance company. Under the Agreement the Company assumed reinsurance risk for approximately 33% of the retroceded liabilities on claims paid by Genworth Australia in excess of 700,000 Australian dollars within any one year up to a maximum exposure to the Company of 30,000 Australian dollars less claims paid by the Company in prior years. Additional information about the reinsurance transaction is disclosed in note 6(e).

12. Commitments:

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

Future minimum lease commitments at December 31, 2016 and 2015 are as follows:

	2016	2015
Less than 1 year	$ 2,692	$ 2,704
Later than 1 year but less than 5 years	9,761	9,914
	$ 12,453	$ 12,618

Lease payments recognized as an expense for the year ended December 31, 2016 were $3,166 (2015 - $3,032).

13. Employee benefits:

Defined contribution pension benefit plan:

The Company's eligible employees participate in a registered defined contribution pension plan. The plan has immediate vesting. Employees are entitled to accumulated pension benefits immediately upon hire. As plan sponsor, the Company is responsible for contributing a predetermined amount to an employee's retirement savings, based on a percentage of that employee's salary.

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

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

Defined benefit plans:

The Company maintains two types of defined benefit plans: a SERP and a NPPRB.

The SERP is an unregistered, non-contributory supplemental pension plan that supplements the registered defined contribution plan for certain employees. Benefit entitlement under the SERP is based on a final average earnings target. The SERP has immediate vesting. Employees eligible for SERP participation are entitled to accumulated pension benefits immediately upon hire. The NPPRB plan provides medical and life insurance coverage to employees after retirement. Certain employees are also entitled to dental benefits under this plan. Participation in the NPPRB plan is limited to employees who joined the Company before January 1, 2016.

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.

13. Employee benefits (continued):

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, 2016 and 2015 are based on plan membership data as at the respective period ends. The weighted average duration of the SERP is 22 years. For the NPPRB plan, actuarial valuations for the years ended December 31, 2016 and 2015 are based on plan membership data as at June 1, 2015. The weighted average duration of the NPPRB plan is 25 years.

The plans are unfunded with no specific assets backing the plans. 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 NPPRB plans are unregistered and are not subject to specific legislation.

13. Employee benefits (continued):

Benefit plan governance:

The Company's Board of Directors has oversight of the SERP and NPPRB 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		NPPRB		Total benefit liabilities	
	2016	2015	2016	2015	2016	2015
Accrued net benefit liabilities under employee benefit plans	$ 23,390	$ 21,052	$ 18,320	$ 16,189	$ 41,710	$ 37,241

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

	SERP		NPPRB		Total benefit liabilities	
	2016	2015	2016	2015	2016	2015
Accrued net benefit liabilities of active plan members	$ 17,890	$ 15,635	$ 14,781	$ 12,997	$ 32,671	$ 28,632
Accrued net benefit liabilities of retirees and deferred vested benefit recipients	$ 5,500	$ 5,417	$ 3,539	$ 3,192	$ 9,039	$ 8,609
Accrued net benefit liabilities under employee benefit plans	$ 23,390	$ 21,052	$ 18,320	$ 16,189	$ 41,710	$ 37,241

13. Employee benefits (continued):

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

	SERP		NPPRB		Total benefit liabilities	
	2016	2015	2016	2015	2016	2015
Defined benefit expense:						
Benefits earned by employees	$ 994	$ 1,029	$ 1,206	$ 1,435	$ 2,200	$ 2,464
Interest costs on accrued benefit liability	899	820	692	678	1,591	1,498
Plan settlements	—	92	—	—	—	92
Defined benefit expense for the year	1,893	1,941	1,898	2,113	3,791	4,054
Defined contribution expense for the year	2,399	2,635	—	—	2,399	2,635
Total pension and non-pension post-retirement benefit expense for the year	$ 4,292	$ 4,576	$ 1,898	$ 2,113	$ 6,190	$ 6,689

The actuarial losses recognized in the consolidated statements of comprehensive income relating to the SERP are $730 for the year ended December 31, 2016 (2015 - actuarial gains of $513). The actuarial losses recognized in the consolidated statements of comprehensive income relating to the NPPRB plan are $291 (2015 - actuarial gains of $2,257).

13. Employee benefits (continued):

Changes in the estimated financial positions of the SERP and NPPRB plans are as follows:

	SERP		NPPRB		Total benefit liabilities	
	2016	2015	2016	2015	2016	2015
Accrued net benefit liabilities under employee benefit plans, beginning of year	$ 21,052	$ 19,908	$ 16,189	$ 16,399	$ 37,241	$ 36,307
Benefits earned by employees during the year	994	1,029	1,206	1,435	2,200	2,464
Interest costs on accrued liability incurred during the year	899	820	692	678	1,591	1,498
Plan settlements recognized during the year	—	92	—	—	—	92
Benefits paid to pensioners during the year	(285)	(284)	(58)	(66)	(343)	(350)
Actuarial losses (gains) from plan re-measurement	730	(513)	291	(2,257)	1,021	(2,770)
Accrued net benefit liabilities under employee benefit plans	$ 23,390	$ 21,052	$ 18,320	$ 16,189	$ 41,710	$ 37,241

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

	SERP		NPPRB		Total benefit liabilities	
	2016	2015	2016	2015	2016	2015
Actuarial losses (gains):						
Experience						
losses (gains)	$ (435)	$ (41)	$ (122)	$ (1,884)	$ (557)	$ (1,925)
Changes in assumptions:						
Financial assumptions	1,165	(508)	413	(343)	1,578	(851)
Demographic assumptions	—	36	—	(30)	—	6
Total changes in assumptions	1,165	(472)	413	(373)	1,578	(845)
	$ 730	$ (513)	$ 291	$ (2,257)	$ 1,021	$ (2,770)

13. Employee benefits (continued):

Defined benefit plan assumptions:

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

	SERP		NPPRB		
	2016	2015	2016	2015	
Discount rate	4.10%	4.30%	4.10%	4.30%	
Change in rate of compensation increase	3.00%	3.00%	3.00%	3.00%	
Mortality	75% of male rates and 92% of female rates from the CIA Private Sector Table with generational mortality improvements using CIA CPM-B Scale	75% of male rates and 92% of female rates from the CIA Private Sector Table with generational mortality improvements using CIA CPM-B Scale	CPM2014 Private Sector Table with generational mortality improvements scale CPM-B	CPM2014 Private Sector Table with generational mortality improvements scale CPM-B	
Assumed overall health care cost trend rate	n/a	n/a	6.15%	6.24%	[1]

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

13. Employee benefits (continued):

The following sensitivity analyses demonstrate the impact of a reasonable possible change in each significant valuation assumption as at December 31, 2016 and 2015 on the benefit obligations.

2016		SERP		NPPRB
Increase (decrease) in benefit obligations:				
Discount rate:				
Impact of 1% increase	$	(4,123)	$	(3,756)
Impact of 1% decrease	$	5,394	$	4,488
Change in rate of compensation increase:				
Impact of 1% increase	$	1,887		n/a
Impact of 1% decrease	$	(1,670)		n/a
Mortality rate:				
Impact of 1 additional year of life expectancy	$	417	$	310
Impact of 1 less year of life expectancy	$	(453)	$	(294)
Assumed overall health care cost trend rate:				
Impact of 1% increase		n/a	$	962
Impact of 1% decrease		n/a	$	(1,429)

13. Employee benefits (continued):

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

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

13. Employee benefits (continued):

Benefit plan cash flows:

The SERP and NPPRB 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		NPPRB	
	2016	2015	2016	2015
Benefits paid for defined benefit plans	$ 285	$ 284	$ 58	$ 66
Contribution to defined contribution plan	2,399	2,635	—	—
	$ 2,684	$ 2,919	$ 58	$ 66

The Company expects to contribute the following amounts to its employee benefit plans during the annual period beginning after December 31, 2016:

Defined contribution plan	$ 2,566
SERP	477
NPPRB plan	221
Total	$ 3,264

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 at the earlier of 10 years and employee's termination, 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, 2016 is $19.00 to $32.88 (2015 - $19.00 to $32.88).

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

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

The Company's Board of Directors, at its sole discretion, may grant EDSUs to the Company's executive-level employees. EDSUs entitle employees to receive an amount equal to the fair value of the Company's shares. The Board of Directors determines the vesting and performance conditions, as well as the number of EDSUs 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 portion of the Board member's annual retainer earned in the period. DSUs vest immediately on the date of grant and must be redeemed no later than December 15 of the calendar year, commencing immediately after the Director's termination date.

14. Share-based compensation (continued):

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

The Company's incentive compensation plans, including its share-based compensation plans, are subject to the Company's compensation recoupement policy, which can be applied in limited circumstances at the discretion of the Company's Board of Directors.

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

14. Share-based compensation (continued):

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

As at December 31, 2016, the Company has 1,285,028 common shares remaining that are available for distribution (2015 - 1,407,972) .

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

2016	Number of Options	Weighted average exercise price	Fair value of Options	Number of RSUs	Fair value of RSUs	Number of DSUs	Fair value of DSUs	Number of PSUs	Fair value of PSUs	Number of EDSUs	Fair value of EDSUs
Outstanding as at January 1	955,237	$ 24.08	$ 2,649	95,928	$ 2,552	53,316	$ 1,418	97,635	$ 2,597	31,317	$ 833
Granted	94,600	23.47	—	55,822	1,341	8,901	287	57,948	1,366	11,598	272
Dividend equivalents granted	—	—	—	7,185	208	3,132	84	5,190	150	2,368	70
Exercised	(64,941)	24.62	(579)	(16,896)	(402)	(1,135)	(35)	(59,847)	(1,424)	—	—
Forfeited	(27,833)	20.41	(240)	(4,609)	(127)	—	—	(3,548)	(97)	—	—
Changes in fair value	—	—	5,972	—	1,054	—	407	—	686	—	349
Outstanding as at December 31	957,063	24.09	$ 7,802	137,430	$ 4,626	64,214	$ 2,161	97,378	$ 3,278	45,283	$ 1,524
Exercisable as at December 31	795,725	$ 23.46	$ 6,943	—	$ —	64,214	$ 2,161	—	$ —	—	$ —
Weighted average remaining contractual life (years)	4.8	—	—	1.8	—	—	—	1.9	—	2.2	—

14. Share-based compensation (continued):

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

14. Share-based compensation (continued):

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

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

	2016	2015
Share price at reporting date	$ 33.66	$ 26.60
Weighted average exercise price per share	$ 24.09	$ 24.08
Expected volatility	24.19%	25.53%
Expected option life (years)	9.0	8.0
Expected dividend yield	5.23%	6.44%
Weighted average risk-free interest rate	1.00%	0.62%

Expected volatility is estimated based on the Company's average historical volatility. The weighted average expected life of the instrument is estimated based on the Company's expectations about the timing of option exercises. Dividend yield is estimated based on historical dividends. Risk-free rate is determined with reference to Government of Canada bonds that have maturity dates approximating the estimated remaining terms of the share-based awards.

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

The Company records share-based compensation expense only to the extent that the share-based awards are expected to vest based on the Company's best estimate of the outcome of service and performance conditions.

14. Share-based compensation (continued):

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

	2016	2015
Expenses arising from:		
Options	$ 5,840	$ (6,086)
RSUs	1,688	360
PSUs	1,311	811
EDSUs	746	281
DSUs	781	(191)
	$ 10,366	$ (4,825)
Effect of equity total return swaps	$ (4,224)	$ 4,516
Net share-based compensation expense (recovery)	$ 6,142	$ (309)

	2016	2015
Total carrying amount of liabilities for cash-settled arrangements	$ 16,069	$ 8,496
Total intrinsic value of liability for vested benefits	$ 11,079	$ 4,432

15. Intangible Assets:

The Company's intangible assets are comprised primarily of computer software and are summarized as follows:

Cost		
Balance at January 1, 2015	$	39,603
Acquisitions - externally purchased		3,564
Balance at December 31, 2015		43,167
Acquisitions - externally purchased		3,852
Balance at December 31, 2016	$	47,019

Amortization and impairment losses		
Balance at January 1, 2015	$	32,142
Amortization for the year		1,941
Balance at December 31, 2015		34,083
Amortization for the year		2,866
Balance at December 31, 2016	$	36,949

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

Carrying amounts		
At December 31, 2015	$	9,084
At December 31, 2016		10,070

16. Transactions with lenders:

Gross premiums written from one major lender (defined as a lender that individually accounts for more than 10% of the Company's gross premiums written) was $132,966, representing 17.5% of the Company's total gross premiums written for the year ended December 31, 2016 (2015 - gross premiums written from two major lenders that accounted for more than 10% of the Company's gross premiums written was $189,482 or 23.4%).

17. Goodwill:

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

Goodwill impairment test:

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

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

Terminal value incorporated into the value in use calculations was estimated by applying a growth rate of 1.7% (2015 - 1.7%) to the last year of the multi-year plan cash flow estimate. The growth rates at December 31, 2016 and 2015 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 14.2% (2015 - 13.7%) was applied in determining the recoverable amount of the unit. The discount rates as at December 31, 2016 and 2015 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, 2016 (2015 - nil).

18. Share capital:

The share capital of the Company comprises the following:

	2016	2015
Authorized:		
Unlimited common shares with nominal or no par value[1]		
1 special share[2]		
Issued:		
91,864,100 common shares (2015 - 91,795,125)	$ 1,368,658	$ 1,366,374
1 special share	—	—
Share capital	$ 1,368,658	$ 1,366,374

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

[2] Only one special share may be authorized for issuance. The special share is held by the Company's majority shareholder, Genworth Financial Inc. The attributes of the special share provide that the holder of the special share will be entitled to nominate and elect a certain number of directors to the Board of Directors, as determined by the number of common shares that the holder of the special share and its affiliates beneficially own from time to time. Accordingly, for so long as Genworth Financial Inc. beneficially owns a specified percentage of commons shares, the holder of the special share will be entitled to nominate and elect a specified number of the Company's directors, as set out in the table below.

Common share ownership	Number of directors
Greater than or equal to 50%	5/9
Less than 50% but not less than 40%	4/9
Less than 40% but not less than 30%	3/9
Less than 30% but not less than 20%	2/9
Less than 20% but not less than 10%	1/9
Less than 10%	none

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

18. Share capital (continued):

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

	2016	2015
Common shares, January 1	91,795,125	93,147,778
Common shares issued in connection with share-based compensation plans	68,975	101,543
Common shares retired under share repurchase	—	(1,454,196)
Common shares, December 31	91,864,100	91,795,125

At December 31, 2016, subsidiaries of Genworth Financial Inc. owned 52,562,042 common shares of the Company or approximately 57.2% (2015 - 52,562,042 or approximately 57.3%).

Share repurchases:

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

2016:

During the year ended December 31, 2016, 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 4,589,958 shares representing approximately 5% of its outstanding common shares. Purchases of common shares under the NCIB may commence on or after May 5, 2016 and will conclude on the earlier of May 4, 2017 and the date on which the Company has purchased the maximum number of shares under the NCIB.

During the year ended December 31, 2016, the Company did not purchase any shares under the NCIB.

18. Share capital (continued):

2015:

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

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

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

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

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

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

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

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

2016		Series 1		Series 3		Total
Carrying value	$	273,937	$	158,954	$	432,891
Fair value		297,289		162,904		460,193

19. Long-term debt (continued):

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

The Company's long-term debt is classified as a Level 2 financial instrument, as described in note 23, as the fair value of the debt is determined using observable market data.

The Company incurred interest expense of $23,194 and $22,774 for the years ended December 31, 2016 and 2015, respectively, with accrued interest payable of $2,490 at December 31, 2016 (2015- $2,429).

20. Credit Facility:

On May 20, 2016, the Company entered into a $100 million senior unsecured revolving credit facility, which matures on May 20, 2019. Any borrowings under the credit facility will bear interest at a rate per annum equal to either a fixed rate based on a spread over Bankers' Acceptance or a variable rate based on a spread over the Lender Prime Rate. The Company pays a standby fee based on the unused amount of the commitment. The credit facility includes customary representations, warranties, covenants, terms and conditions for transactions of this type.

As at December 31, 2016 there was no amount outstanding under the credit facility and all of the covenants were fully met.

21. Earnings per share:

Basic earnings per share have been calculated using the weighted average number of shares outstanding of 91,828,701 (2015 - 92,296,521). Diluted earnings per share have been calculated using the diluted weighted average number of shares outstanding of 91,874,244 (2015 -92,771,849). 957,063 Options (2015 - 155,933 Options), 96,017 RSUs (2015 - nil), 57,172 DSUs (2015 - nil), and 73,940 PSUs (2015 - nil) 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 presented below:

		2016		2015
Basic earnings per share:				
Net income	$	416,892	$	398,302
Diluted earnings per share:				
Re-measurement amount net of income taxes		(77)		(7,166)
Earnings for purposes of diluted earnings per share	$	416,815	$	391,136
Basic weighted average common shares outstanding, beginning of year		91,795,125		93,147,778
Effect of share-based compensation exercised during the year		33,576		64,941
Effect of repurchase of common shares during the year		—		(916,198)
Weighted average basic common shares outstanding during the year		91,828,701		92,296,521
Basic earnings per share	$	4.54	$	4.32
Diluted earnings per share:				
Basic weighted average common shares outstanding during the year		91,828,701		92,296,521
Effect of share-based compensation during the year		45,543		475,328
Diluted weighted average common shares outstanding during the year		91,874,244		92,771,849
Diluted earnings per share	$	4.54	$	4.22

22. 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, 2016 and 2015.

	2016	2015
Assets:		
Derivative financial instruments	$ 38,051	$ —
Bonds and debentures	4,979,717	4,691,333
Preferred shares	425,819	247,717
Subrogation recoverable	11,477	12,637
Total assets	5,455,064	4,951,687
Liabilities:		
Loss reserves	28,577	75,343
Derivative financial instruments	38,832	50,154
Accrued net benefit liabilities under employee benefit plans	41,012	36,764
Long-term debt	432,891	432,504
Total liabilities	541,312	594,765
Net assets due after one year	$ 4,913,752	$ 4,356,922

23. Fair value measurement:

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

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

- Level 1 - inputs used to value the financial assets and liabilities are unadjusted quoted prices in active markets for identical assets or liabilities;

- Level 2 - inputs used to value the financial assets and liabilities are other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly; and

- Level 3 - inputs used to value the financial assets and liabilities are not based on observable market data.

23. Fair value measurement (continued):

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount				Fair value		
2016	AFS	FVTPL	Loans and receivables	Other financial liabilities	Level 1	Level 2	Level 3
Financial assets measured at fair value:							
Short-term investments	$ 206,099	$ —	$ —	$ —	$ 206,099	$ —	$ —
Derivative financial instruments	—	38,787	—	—	—	38,787	—
Bonds and debentures	5,468,170	—	—	—	—	5,468,170	—
Preferred shares	425,819	—	—	—	425,819	—	—
	6,100,088	38,787	—	—	631,918	5,506,957	—
Financial assets not measured at fair value:							
Cash and cash equivalents	—	—	126,072	—	—	—	—
Accrued investment income and other receivables	—	—	47,337	—	—	—	—
	—	—	173,409	—	—	—	—
Financial liabilities measured at fair value:							
Derivative financial instruments	—	(42,838)	—	—	—	(42,838)	—
Financial liabilities not measured at fair value:							
Accounts payable and accrued liabilities	—	—	—	(64,987)	—	—	—
Long-term debt	—	—	—	(432,891)	—	(460,193)	—
	—	—	—	(497,878)	—	(460,193)	—
Total	$ 6,100,088	$ (4,051)	$ 173,409	$ (497,878)	$ 631,918	$ 5,003,926	$ —

23. Fair value measurement (continued):

	Carrying amount				Fair value		
2015	AFS	FVTPL	Loans and receivables	Other financial liabilities	Level 1	Level 2	Level 3
Financial assets measured at fair value:							
Short-term investments	$ 78,178	$ —	$ —	$ —	$ 78,178	$ —	$ —
Derivative financial instruments	—	—	—	—	—	—	—
Bonds and debentures	5,200,715	—	—	—	—	5,200,715	—
Preferred shares	247,717	—	—	—	247,717	—	—
	5,526,610	—	—	—	325,895	5,200,715	—
Financial assets not measured at fair value:							
Cash and cash equivalents	—	—	390,796	—	—	—	—
Accrued investment income and other receivables	—	—	28,130	—	—	—	—
	—	—	418,926	—	—	—	—
Financial liabilities measured at fair value:							
Derivative financial instruments	—	(83,861)	—	—	—	(83,861)	—
Financial liabilities not measured at fair value:							
Accounts payable and accrued liabilities	—	—	—	(65,750)	—	—	—
Long-term debt	—	—	—	(432,504)	—	(459,151)	—
	—	—	—	(498,254)	—	(459,151)	—
Total	$ 5,526,610	$ (83,861)	$ 418,926	$ (498,254)	$ 325,895	$ 4,657,703	$ —

23. Fair value measurement (continued):

The fair value of cash and cash equivalents, accrued investment income and other receivables and accounts payable and accrued liabilities approximates fair value due to the short term nature of these items.

During the years ended December 31, 2016 and 2015, 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 assets or liabilities change. Any transfers between the levels are deemed to have occurred at the end of the reporting period. Given the types of assets classified in Level 1, which are short-term investments and preferred shares, the Company does not typically have any transfers between Level 1 and Level 2 of the fair value hierarchy, and there were no such transfers during the years ended December 31, 2016 and 2015.

Valuation of Level 2 financial instruments:

Fair values of bonds and debentures, including CLOs, are obtained primarily from industry standard pricing services utilizing market observable inputs. Fair value is assessed by analyzing available market information through processes such as benchmark curves, benchmarking of like securities and quotes from market participants.

Observable information is compiled and integrates relevant credit information, interest rates of the underlying investment, perceived market movements and sector news. Market indicators, industry and economic events are also monitored as triggers to obtain additional data. The primary inputs used in determining fair value of bonds and debentures and preferred shares are interest rate curves and credit spreads.

Derivative financial instruments are non-exchange traded foreign currency forwards, cross currency interest rate swaps, equity total return swaps and interest rate swaps. The value of these derivative financial instruments is determined using an income approach in which future cash flows expected from the contracts are discounted to reflect the current value of the derivative financial instruments. The primary inputs used in determining fair value of foreign currency forwards and cross currency swaps are interest rate yield curves and foreign currency exchange rates. The primary inputs used in determining fair value of equity total return swaps are market prices for referenced assets and interest rate yield curves. The primary inputs used in determining fair value of interest rate swaps are 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.

24. Comparatives:

Investment gains in the statement of income and certain items in the statement of cash flows have been reclassified to conform to the financial statement presentation adopted in the current year.

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