Genworth MI Canada Inc.

2012 Financial Report

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excellence
results

CONTENTS

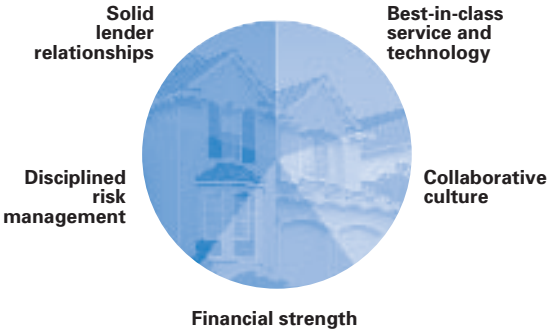
Corporate profile

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

Genworth Canada differentiates itself through innovative processing technology, superior customer service, and a robust risk management framework. For almost two decades, Genworth Canada has supported the housing market by providing thought leadership and a focus on the safety and soundness of the mortgage finance system.

As at December 31, 2012, Genworth Canada had $5.7 billion in total assets and $3.0 billion in shareholders' equity.

COMPETITIVE STRENGTHS

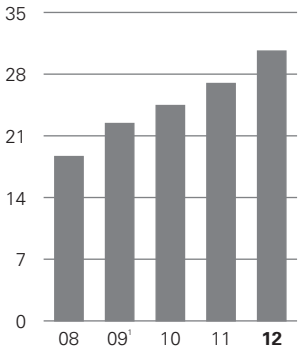


VALUES

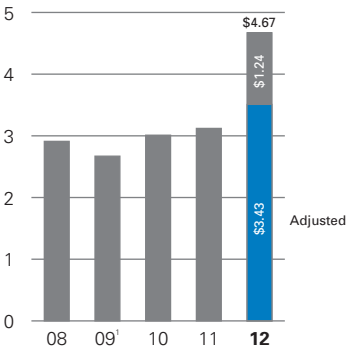
2012 Financial and Operating Highlights

Net premiums written	Adjusted net operating income[2]	Combined ratio	Adjusted operating return on equity[2]	Adjusted operating earnings per share[2] (diluted)	Dividends paid per common share
$550 million	$339 million	51%	13%	$3.43	$1.19

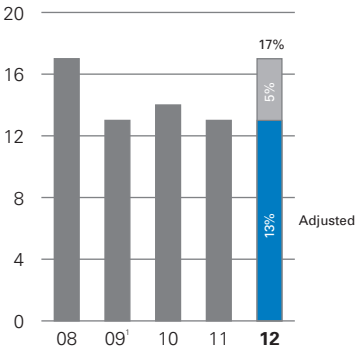
Book value per share
(diluted)



Operating earnings per share
(diluted)



Operating return on equity
(%)



Note: Amounts may not total due to rounding.

[1] Excludes $100 million impact of change in premium recognition curve for the quarter ended March 31, 2009. Including the impact of changes to the premium recognition curve, for the year ended December 31, 2009, operating earnings per share (diluted) would have been $3.23 and operating return on equity would have been 16%.

[2] Adjusted for the impact of the government guarantee fund exit fee reversal in 2012. Including the impact of the government guarantee exit fee reversal, net operating income, operating return on equity and operating earnings per share (diluted) were $462 million, 17% and $4.67 respectively.

Note: 2008 and 2009 amounts are based on Canadian GAAP measures; 2010, 2011 and 2012 amounts are presented on an IFRS basis. For further information refer to MD&A.

Dear fellow shareholders

In 2012, Genworth MI Canada (Genworth Canada) continued a trend of solid annual growth, delivering an 11%[1] increase in adjusted earnings per share and over 14%[1] increase in book value per share (diluted). In each quarter we reported strong results, and we ended the year having delivered on all our strategic priorities.

We achieved this in a year marked by challenges due to a changing regulatory landscape. This success is credited to the long-standing relationships we have with our customers – relationships built on trust and collaboration – that earned us an improved market position and helped offset the smaller high loan-to-value market.

Managing the changing regulatory landscape

The mortgage default insurance industry was subjected to greater scrutiny in 2012 as a result of the Office of the Superintendent of Financial Institutions (OSFI) taking on a broader supervisory role over the public sector insurer. This created a more consistent application of rules and regulations and gave OSFI more insight into the industry.

In addition, mortgage insurance product changes were implemented. The most significant changes were the reduction of the maximum amortization period for high loan-to-value mortgages to 25 years, and the lower maximum loan-to-value for refinances of 80%. While these rules had their intended effect of slowing the housing market, they also contributed to improved borrower profiles.

The new government guarantee legislative framework governed by The Protection of Residential Mortgages or Hypothecary Insurance Act of Canada (PRMHIA) was finalized at the end of the year. PRMHIA, which took effect January 1, 2013, had a positive impact on the Company's year-end financial results and formalized the government guarantee and market structure. This provides more transparency into the mortgage insurance industry for all Canadians.

While this dynamic regulatory landscape has presented some challenges for our industry, we recognize the importance of maintaining stability in the housing sector. Through our active government relations efforts, ongoing market research and astute risk management, we continue to play an important role in helping protect the safety and soundness of Canada's housing market.

Delivering on strategic priorities

Last year we promised shareholders that our senior management team would maintain its focus on smart business decisions, on customers and on shareholder returns. This is how we always do business, and our approach was successful again in 2012.

3-year compound annual growth of 11% in book value per share

Dividend increase of 10% or more each year since 2010

Our strategic wins in 2012 include the following:

- Increased our share of market with key customers through service excellence
- Strengthened our competitive position by capitalizing on portfolio insurance market opportunities
- Enhanced business flexibility with the purchase of PMI Canada
- Reinforced financial strength and flexibility with the finalization of PRMHIA and related minimal capital test requirements

Loss mitigation is also a core part of our overall strategy. We continued to successfully execute our market-leading asset management and homeowner assistance programs, contributing to a full year loss ratio of 33%, which was below our long-term target range.

As a result of these and other initiatives, we delivered on all our priorities and ended the year with $5.7 billion in total assets and $3 billion in shareholders' equity. This generated a 13%[1] full-year adjusted return on equity. Improving top line growth, proactively managing risk and maintaining a strong balance sheet will remain our key priorities.

Maintaining service leadership position

With nearly 20 years in the business, focused on delivering the best customer experience, service is a key element of our value proposition.

Lender customers want quick turnaround times, flexible underwriting, consistent decisions and knowledgeable people to deal with. This is what we offer. Each of our customers is appointed a tailored and cross-functional service team that brings together people from management to sales to underwriting to finance and risk. Through this approach, our customers benefit from having direct contacts with multiple touch points, each of whom understands our customer's business and their particular needs.

Our entire business is aligned with this customer-centric model and that is what sets us apart.

Making a difference

The passion that our employees demonstrate in their commitment to our customers is also evident in their commitment to helping build stronger communities throughout Canada. There is an active culture of volunteerism at the Company and it extends across all provinces.

All of our employees are encouraged to take time from their work day to participate in meaningful volunteer activities. And this year our reach went beyond the Canadian borders. For the second year in a row Genworth Canada supported the Jimmy and Rosalynn Carter Habitat for Humanity Project in Haiti. Three of our very own took part in this intensive mission of building 100 homes in one week for victims of the 2010 earthquake that ravaged the country.

[1] Amount based on non-GAAP measures. For further information refer to MD&A.

Confident outlook on our future

The Canadian mortgage insurance industry is a vibrant one. For many first-time homebuyers, purchasing a home would be out of reach were it not for mortgage insurance. Enabling responsible homeownership helps more families start building equity in a home sooner, which helps maintain a healthy and stable housing market.

While the industry remains subject to economic fluctuations and regulatory influences, our view is one of stability in the housing sector. By remaining focused on insuring high-quality loans, and maintaining a well-diversified insurance portfolio, we will protect and grow the strong business that Genworth Canada has built.

Our proven strategy, our knowledgeable and passionate employees, and our seasoned management team will enable the Company to maintain its track record of profitability.

Thank you to our shareholders, our customers, our partners and our employees for your continued support and loyalty.

Brian Hurley

Chairman and Chief Executive Officer

"The housing market in Canada remains healthy, supported by population growth, rising employment and continued low interest rates. First-time homebuyers and new immigrants are among those who will continue to fuel the demand for average-priced homes across the country."

Management's Discussion and Analysis

For the fourth quarter and year ended December 31, 2012

As of December 31, 2012

The fourth quarter and full year results and prior-period comparative results for Genworth MI Canada Inc. ("Genworth Canada" or the "Company") reflect the consolidation of the Company and its subsidiaries, including Genworth Financial Mortgage Insurance Company Canada (the "Insurance Subsidiary"). The Insurance Subsidiary is engaged in 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.

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations as approved by the Company's board of directors (the "Board") on February 20, 2013 is prepared for the year ended December 31, 2012.

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

Interpretation

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

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

Forward-looking statements

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

Non-IFRSs financial measures

To supplement the Company's consolidated financial statements, which are prepared in accordance with IFRSs, the Company uses non-IFRSs financial measures to analyze performance. Non-IFRSs measures include net operating income, operating earnings per common share (basic), operating earnings per common share (diluted), shareholders' equity excluding accumulated other comprehensive income ("AOCI"), operating return on equity and underwriting ratios such as loss ratio, expense ratio and combined ratio. Non-IFRSs financial measures used by the Company to analyze the impact of the reversal of the government guarantee fund exit fee include adjusted net investment income, adjusted net income, adjusted earnings per common share (basic), adjusted earnings per common share (diluted), adjusted net operating income, adjusted operating earnings per common share (basic), adjusted operating earnings per common share (diluted), and adjusted operating return on equity. Other non-IFRSs measures used by the Company to analyze performance include insurance in force, new insurance written, Minimum Capital Test ("MCT") ratio, delinquency ratio, severity on claims paid, book value per common share (basic) including AOCI, book value per common share (basic) excluding AOCI, book value per common share (diluted) including AOCI, book value per common share (diluted) excluding AOCI, and dividends paid per common share. The Company believes that these non-IFRSs financial measures provide meaningful supplemental information regarding its performance and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making. Non-IFRSs financial measures do not have standardized meanings and are unlikely to be comparable to any similar measures presented by other companies.

See the "Non-IFRSs financial measures" section at the end of this MD&A for a reconciliation of net operating income to net income, operating earnings per common share (basic) to earnings per common share (basic), operating earnings per common share (diluted) to earnings per common share (diluted), and shareholders' equity excluding AOCI to shareholders' equity. These measures are defined in the Company's "Glossary for non-IFRSs financial measures," which can also be found in the "Non-IFRSs financial measures" section at the end of this MD&A. In addition, where applicable, non-IFRSs measures used by the Company have been adjusted to analyze the impact of the reversal of the government guarantee fund exit fee.

Overall performance

Business background

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

Seasonality

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

Outlook

The mortgage insurance business is affected by changes in economic, employment and housing market trends as well as changes in government policy. The housing market is affected by trends in interest rates, home price changes, mortgage origination volume, government regulation and mortgage delinquencies.

The overall economic and housing market conditions in 2012 were modestly favourable for mortgage insurance as the unemployment rate remained stable, home prices moderated in most regions in Canada and interest rates remained low. After the July 9, 2012 change to the government guarantee mortgage insurance eligibility rules, national housing activity has slowed and home prices have moderated slightly.

Overall, the consensus economic forecast for Canadian GDP is approximately 2.0% in 2012 and 2.1% in 2013 and the forecast for the unemployment rate is approximately 7.2% in 2013, compared to the current level of 7.1% in December 2012. The Company expects interest rates to remain relatively low by historic standards, even after factoring in the potential for a rate increase by the Bank of Canada. While these macroeconomic factors are supportive for the housing market, based on the Canadian Real Estate Association's recent outlook, the Company expects residential housing resales to modestly decline in 2013 to approximately 450,000 from 460,000 estimated in 2012. National home prices are expected to be flat or modestly decline in 2013 as consumers exercise restraint with debt levels.

The Company believes that, in a flat housing market, the most recent changes to the government guarantee mortgage insurance eligibility rules will likely reduce the 2013 residential mortgage insurance premium opportunity for high loan-to-value mortgages by approximately 15%, as compared to the 2012 market size which was partially impacted by these changes.

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

The Company anticipates that losses on claims and the associated loss ratio in the upcoming quarter may be impacted by the typical seasonal increases in delinquencies during the winter months. Overall, the Company expects that its loss ratio for 2013 should remain below or at the lower end of its 35% to 40% long-term target loss ratio range.

The Company continues to actively manage the risk profile of its approximately $5 billion investment portfolio which consists primarily of highly rated fixed income securities. The Company's asset mix includes a small allocation to dividend-paying common shares, which currently offer higher pre-tax equivalent yields. With the elimination of the government guarantee fund effective January 1, 2013, the securities previously held in the government guarantee fund will be combined with the general portfolio. In the current low interest rate environment, the Company's investment yield will continue to be challenged by the relatively low reinvestment rates. If interest rates

rise, the combined investment portfolio is well positioned, with a relatively short portfolio duration of 3.8 years, including cash and cash equivalents of $289 million and approximately $479 million of maturities occurring in 2013.

The Company manages its capital base to maintain a balance between capital strength, efficiency and flexibility. As at December 31, 2012, the Insurance Subsidiary's MCT ratio was 170% or 25 percentage points higher than its internal target of 145%. On January 1, 2013, *Protection of Residential Mortgage or Hypothecary Insurance Act* (Canada) ("PRMHIA") came into force resulting in the elimination of the guarantee fund which increased the Insurance Subsidiary's MCT ratio as at January 1, 2013 to approximately 210% or 25 percentage points higher than its revised internal target of 185%. See "Recent Regulatory Developments" and "Regulatory capital management" sections for a full description.

The Company plans to maintain a strong capital position by operating above the Insurance Subsidiary's internal target in order to provide the flexibility necessary to support its in-force insurance, to fund growth opportunities that may become available, to maintain strong credit ratings and to optimize returns to shareholders.

With $1.8 billion of unearned premiums and $3.0 billion of shareholders' equity, the Company is well positioned as the leading private mortgage insurer through its significant scale, execution of customer-focused sales and service strategies, proactive risk management of its insurance portfolio, and prudent investment management.

Recent Regulatory Developments

Government guarantee legislation

On January 1, 2013, the *Protection of Residential Mortgage or Hypothecary Insurance Act* (Canada) ("PRMHIA") came into force and established a legislative framework that replaced the guarantee agreement that the Company had with the federal government (the "Guarantee Agreement").

Under the previous Guarantee Agreement between the Insurance Subsidiary and the government, the Insurance Subsidiary contributed an amount equal to 10.5% of gross premiums written to a trust fund ("the government guarantee fund") and paid a risk premium to the federal government. On December 31, 2012, the investments and accrued income held in the government guarantee fund totaled $979 million. The government guarantee fund is accounted for as an asset on the Company's balance sheet. Contributions to the government guarantee fund were deductible in the calculation of taxable income, and income earned by the government guarantee fund was not taxed until monies were withdrawn. Any withdrawals from the government guarantee fund would be included as taxable income. Upon the withdrawal of monies from the government guarantee fund, the Guarantee Agreement required the payment of exit fees equal to 1% of the amount of the fund for each year from the effective date of the Guarantee Agreement (February 1992) to the date of withdrawal up to a maximum of 25%.

Effective January 1, 2013, the specific impact of PRMHIA is as follows:

- The level of federal government guarantee of insured mortgages will remain at 90%.
- All mortgages that were previously insured by the Insurance Subsidiary and covered by the Guarantee Agreement continue to be covered under PRMHIA.
- The maximum outstanding insured exposure for private insured mortgages was increased from $250 billion to $300 billion. The risk premium was replaced by a risk fee payable by the Company to the federal government equal to 2.25% of gross premiums written.
- The Insurance Subsidiary's activities continue to be restricted to insuring mortgages that meet the government guarantee mortgage insurance eligibility guideline.
- The Guarantee Agreement and all obligations under it, including the requirement for a government guarantee fund and payment of exit fees related to it, were terminated. As a result the Company reversed, in the fourth quarter 2012, the liability it had been accruing for the exit fee. The impact of this reversal was $166 million ($122 million after income taxes) related to exit fees accrued in 2011 and prior years and a further $20 million ($15 million after income taxes) accrued for the first nine months of 2012, resulting in a total increase in shareholders' equity of $137 million.

- The amount held in the government guarantee fund reverted back to the Company and the Company's taxable income will increase by the same amount. The resulting increase in income taxes payable is expected to be approximately $257 million, which the Company has already provided for in its financial statements.
- The Insurance Subsidiary's regulatory capital available increased by approximately $678 million from the elimination of the government guarantee fund and the reversal of the exit fees previously accrued, net of the related income tax effect. Regulatory capital required increased by approximately $61 million from the incremental capital required for interest rate risk. This increase relates to the addition of the fixed income securities previously held in the government guarantee fund to interest sensitive assets and the increase of the interest rate shock from 50 basis points to 75 basis points. The resulting MCT ratio increased by approximately 40 percentage points to 210%.
- The government guarantee fund was eliminated in favour of a higher MCT ratio. The Minister of Finance advised the Company on December 20, 2012 that under PRMHIA and the *Insurance Companies Act* (Canada) ("ICA") the minimum MCT ratio for the Insurance Subsidiary will be 175%. In conjunction with this new target, the Insurance Subsidiary increased its internal MCT target capital ratio on January 1, 2013 to 185% and expects to operate above 190% MCT in the normal course.

The new government guarantee legislative framework confirms the important role of private mortgage insurance in the Canadian marketplace. The Company believes that these changes strengthen its balance sheet and claims-paying ability, thereby further reducing the likelihood of the government guarantee ever being invoked.

New mortgage insurance eligibility rules

On June 20, 2012, the Department of Finance of the Government of Canada announced several changes to the government guarantee mortgage insurance eligibility rules. The changes went into effect July 9, 2012 and include:

- Reducing the maximum mortgage amortization from 30 years to 25 years.
- Reducing mortgage refinances from 85% loan-to-value to 80% loan-to-value of a home property.
- Capping the maximum gross debt service ratios at 39% and total debt service ratios at 44%.
- Capping home purchase price to less than $1 million.

The following table sets forth the Company's net premiums written for the three months ended December 31, 2012 and the three months ended September 30, 2012.

Net premiums written

	For the three months ended		Increase (decrease) and percentage change	
	Dec. 31	Sept. 30		Q4'12 vs. Q3'12
(in millions, unless otherwise specified)	**2012**	**2012**	**2012**	**2012**
High loan-to-value				
Purchases <=25 Year amortization	**$ 80**	**$ 42**	**$ 38**	**86%**
Purchases >25 Year amortization	**19**	**118**	**(98)**	**(84)%**
Refinances	**3**	**10**	**(6)**	**(65)%**
Total high loan-to-value	**102**	**170**	**(68)**	**(40)%**
Low loan-to-value	**17**	**11**	**6**	**(57)%**
Total gross premiums written	**$ 119**	**$ 181**	**$ (62)**	**(34)%**
Risk premium	**(2)**	**(3)**	**1**	**—**
Total net premiums written	**$ 117**	**$ 178**	**$ (61)**	**(34)%**

Note: Amounts may not total due to rounding.

The mix of the net premiums written during the fourth quarter of 2012, as compared to the prior quarter, for refinance and purchase transactions with amortizations in excess of 25 years was impacted by the government guarantee mortgage insurance eligibility rule changes mentioned above. Premiums written overall were impacted by normal seasonal changes and slower housing market development after such changes. Going forward, the Company believes that the rule changes will likely reduce the annual residential mortgage insurance premium opportunity for high loan-to-value mortgages by approximately 15%, as compared to the 2012 market size, which was partially impacted by these changes. The Company remains committed to helping first-time home buyers achieve homeownership responsibly and expects that these changes will strengthen the overall quality of the insured mortgages.

Changes introduced in federal budget 2012

On June 29, 2012, the federal government passed the *Job, Growth and Long Term Prosperity Act*, which includes amendments to the legislation governing the CMHC. The amendments give the Minister of Finance powers over CMHC's commercial activities, consisting of mortgage insurance, Mortgage Backed Securities and Canada Mortgage Bond programs. These amendments grant OSFI supervisory powers to monitor CMHC's commercial activities to ensure that they are being carried on in a safe and sound manner with due regard to CMHC's exposure to loss.

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

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

OSFI B-20 guideline changes

On June 21, 2012, OSFI released the final Guideline B-20: *Residential Mortgage Underwriting Practices and Procedures* ("Guideline B-20") which sets out OSFI's expectations for prudent residential mortgage underwriting. Although Guideline B-20 does not apply to the Company, it is applicable to all Federally-Regulated Financial Institutions ("FRFIs") that are engaged in residential mortgage underwriting and the purchase of residential mortgage loans. A separate guideline applicable to FRFIs that are mortgage insurers will be published for consultation at a later date. The Company does not believe that Guideline B-20 will have a significant effect on its business.

OSFI Corporate Governance Guideline

On January 28, 2013, OSFI released the revised Corporate Governance Guideline which will come into force January 1, 2014. The guideline addresses board and committee responsibilities and competencies, the development of a risk appetite framework and the overall internal control framework. The Company is generally in compliance with the proposed guideline and is in the process of evaluating any enhancements it needs to make to its corporate governance structure.

Draft OSFI Own Risk and Solvency Assessment

On December 21, 2012, OSFI released for public consultation a new guideline, Own Risk and Solvency Assessment (ORSA), to come into effect January 1, 2014. This new guideline will set out OSFI's expectations with respect to an insurer's own view of its risks and solvency requirements. The prime purpose of the ORSA is for an insurer to identify material risks, assess the adequacy of its risk management and the adequacy of its current and likely future capital needs and solvency positions. The Company does not anticipate a significant impact on its capital position.

Results of operations

The following table sets forth certain financial information for the fourth quarter and full year of 2012 and 2011.

(in millions, unless otherwise specified)	For the quarter ended Dec. 31, 2012	For the quarter ended Dec. 31, 2011	For the twelve months ended Dec. 31, 2012	For the twelve months ended Dec. 31, 2011
Income statement data				
Net premiums written	**$ 117**	$ 123	**$ 550**	$ 533
Net premiums earned	**147**	156	**589**	612
Losses on claims and expenses:				
Losses on claims	**46**	62	**194**	225
Expenses	**28**	26	**105**	101
Total losses on claims and expenses	**74**	88	**298**	326
Net underwriting income	**73**	68	**291**	287
Net investment income	**47**	43	**181**	179
Impact of the reversal of government guarantee fund exit fees	**186**	0	**186**	0
Interest expense	**(6)**	(6)	**(23)**	(23)
Income before income taxes	**300**	106	**635**	443
Net income	**$ 226**	$ 79	**$ 470**	$ 323
Net operating income[1]	**$ 226**	$ 79	**$ 462**	$ 318
Weighted average number of common shares outstanding				
Basic	**98,695,175**	98,666,796	**98,684,587**	101,686,715
Diluted	**98,836,531**	98,890,074	**98,806,915**	102,003,573
Earnings per common share ratios				
Earnings per common share (basic)	**$ 2.29**	$ 0.80	**$ 4.77**	$ 3.18
Earnings per common share (diluted)[2]	**$ 2.29**	$ 0.80	**$ 4.76**	$ 3.13
Selected non-IFRSs financial measures[1]				
Insurance in force	**$ 301,456**	$ 265,776	**$ 301,456**	$ 265,776
New insurance written	**8,472**	6,224	**41,286**	26,586
Loss ratio	**31%**	39%	**33%**	37%
Expense ratio	**19%**	17%	**18%**	17%
Combined ratio	**50%**	56%	**51%**	53%
Operating return on equity	**33%**	13%	**17%**	13%
MCT ratio	**170%**	162%	**170%**	162%
Delinquency ratio	**0.14%**	0.20%	**0.14%**	0.20%
Severity on claims paid	**34%**	31%	**32%**	32%
Operating earnings per common share ratios				
Operating earnings per common share (basic)	**$ 2.29**	$ 0.80	**$ 4.68**	$ 3.13
Operating earnings per common share (diluted)[2]	**$ 2.28**	$ 0.80	**$ 4.67**	$ 3.08

Note: Amounts may not total due to rounding.

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

(2) The difference between basic and diluted number of common shares outstanding is caused by the potentially dilutive impact of the grant of share-based compensation units.

The impact of the government guarantee fund exit fee reversal of $186 million ($137 million after income taxes), consisting of $166 million ($122 million after income taxes) related to exit fees accrued in 2011 and prior years and a further $20 million ($15 million after income taxes) accrued for the first nine months of 2012, resulted in $186 million ($137 million after income taxes) of additional investment income in the fourth quarter of 2012 and $166 million ($122 million after income taxes) for the full year of 2012.

Excluding the impact of the government guarantee fund exit fee reversal into investment income in the fourth quarter of 2012, IFRSs and non-IFRSs financial measures for the fourth quarter and full year of 2012 and 2011 are as follows:

	For the quarter ended Dec. 31,		For the twelve months ended Dec. 31,	
(in millions, unless otherwise specified)	**2012**	2011	**2012**	2011
Net income	**$ 226**	79	**$ 470**	$ 323
Impact of government guarantee fund exit fee reversal after income taxes	**137**	—	**122**	—
Adjusted net income[1]	**$ 89**	79	**$ 348**	$ 323
Adjusted operating income[1]	**$ 89**	79	**$ 339**	$ 318
Adjusted earnings per common share (basic)[1]	**$ 0.90**	$ 0.80	**$ 3.53**	$ 3.18
Adjusted earnings per common share (diluted)[1]	**$ 0.90**	$ 0.80	**$ 3.52**	$ 3.13
Adjusted operating earnings per common share (basic)[1]	**$ 0.90**	$ 0.80	**$ 3.44**	$ 3.13
Adjusted operating earnings per common share (diluted)[1]	**$ 0.90**	$ 0.80	**$ 3.43**	$ 3.08
Adjusted operating return on equity[1]	**13%**	13%	**13%**	13%

Note: Amounts may not total due to rounding.

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

Fourth quarter highlights

Compared to the fourth quarter of 2011:

- Net income and net operating income both increased by $147 million, to $226 million, primarily the result of the $137 million after tax impact of the reversal of the government guarantee fund exit fees into investment income. Excluding the $137 million reversal of the government guarantee fund exit fees, net income and net operating income increased $10 million to $89 million. The $10 million increase to net income and net operating income was attributable primarily to lower losses on claims, which was partially offset by lower earned premiums.
- Net premiums written decreased by $6 million, or 5%, to $117 million, primarily the result of lower premiums on high loan-to-value transactions, offset by higher levels of premiums on low loan-to-value mortgages.
- Premiums earned decreased by $9 million, or 6%, to $147 million, due to the aging of the larger 2007 and 2008 books as well as a $5 million lower earnings curve adjustment as compared to the fourth quarter of 2011.
- Losses on claims decreased by $15 million, or 25%, to $46 million, primarily due to a shift in mix of new delinquencies, particularly fewer delinquencies in Alberta and fewer delinquencies from the 2007 and 2008 books.

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

	For the quarter ended December 31,		Increase (decrease) and percentage change	
(in millions, unless otherwise specified)	**2012**	2011		Q4'12 vs. Q4'11
Net premiums written	**$ 117**	$ 123	$ (6)	(5)%
Net premiums earned	**$ 147**	$ 156	$ (9)	(6)%
Losses on claims and expenses:				
Losses on claims	**46**	62	(15)	(25)%
Expenses	**28**	26	2	8%
Total losses on claims and expenses	**74**	88	(14)	(16)%
Net underwriting income	**73**	68	5	7%
Investment income:				
Interest and dividend income, net of investment expenses	**39**	42	(3)	(7)%
Net gains on investments[1]	**1**	1	—	0%
Government guarantee fund earnings	**7**	—	7	NM
Impact of the reversal of government guarantee fund exit fees	**186**	—	186	NM
Total net investment income[3]	**233**	43	190	NM
Interest expense	**(6)**	(6)	—	0%
Income before income taxes	**300**	106	194	NM
Provision for income taxes	**74**	26	48	NM
Net income[3]	**$ 226**	$ 79	$ 147	NM
Adjustment to net income:				
Net gains (losses) on investments, net of taxes	**—**	—	—	NM
Net operating income[2],[3]	**$ 226**	$ 79	$ 147	NM
Effective tax rate	**25%**	25%	—	(0)%
Selected non-IFRSs financial measures[2]				
Loss ratio	**31%**	39%	—	(8) pts
Expense ratio	**19%**	17%	—	2 pts
Combined ratio	**50%**	56%	—	(6) pts

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

(1) Includes net realized gains (losses) on sales of available-for-sale investments.

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

(3) Excluding the impact of the government guarantee fund exit fee reversal into investment income of $186 million in the fourth quarter of 2012, non-IFRSs financial measures for the fourth quarter of 2012 would have been: net investment income $47 million, net income $89 million, net operating income $89 million.

Fourth quarter of 2012 compared to fourth quarter of 2011

New insurance written on high loan-to-value mortgages decreased by $0.9 billion, or 16%, to $4.4 billion in the fourth quarter of 2012 as compared to the prior year's period, primarily due to a $0.7 billion decrease in new insurance written on refinance transactions as well as a $0.2 billion decrease in new insurance written on purchase transactions. As compared to the prior year's period, the Company believes new insurance written on high loan-to-value mortgages was impacted by a smaller high loan-to-value mortgage origination market, particularly for refinance transactions, due to the government guarantee eligibility rules that took effect in July 2012 which further reduced the maximum amortization from 30 to 25 years and reduced the maximum loan-to-value on refinance transactions from 85% to 80%.

New insurance written on low loan-to-value mortgages was $4.1 billion in the fourth quarter of 2012 as compared to $1.0 billion in the prior year's period as a result of more low loan-to-value mortgage insurance opportunities.

Net premiums written decreased by $6 million, or 5%, to $117 million in the fourth quarter of 2012 as compared to the prior year's period, primarily the result of $18 million of lower premiums from high loan-to-value new insurance written partially offset by $12 million of higher premiums from low loan-to-value new insurance written. The decrease in premiums from high loan-to-value new insurance written was the result of a lower premium rate from the shorter amortization loans, and a smaller high loan-to-value mortgage origination market particularly for refinance transactions, as compared to the prior year's period.

Premiums from low loan-to-value mortgages were $17 million in the fourth quarter of 2012 as compared to $5 million in the prior year's period as a result of more low loan-to-value mortgage insurance opportunities. The Company is proactively managing its total government guarantee exposure and believes there is ample room within the $300 billion private insurers cap to continue to write its anticipated levels of both high and low loan-to-value volumes of insured mortgages into the foreseeable future.

Net premiums earned decreased by $9 million, or 6%, to $147 million in the fourth quarter of 2012 as compared to the prior year's period. The decline was the result of reduced earnings from the large 2007 and 2008 books of business which was partially offset by the increasing earnings from the relatively smaller, more recent books of business as well as a smaller earnings curve adjustment in the fourth quarter of 2012 of $8 million as compared to $13 million in the fourth quarter of 2011.

Losses on claims decreased by $15 million, or 25%, to $46 million as compared to the prior year's period. The decrease was primarily the result of a shift in mix of new delinquencies, particularly fewer delinquencies in Alberta and fewer delinquencies from the 2007 and 2008 books. The Company continues to realize savings from its loss mitigation programs, including workout and asset management initiatives. As compared to the prior year's period, the loss ratio declined eight percentage points to 31% for the fourth quarter of 2012 due primarily to the $15 million decrease in losses on claims.

Expenses increased $2 million, or 8%, to $28 million due to an increase in employee compensation, primarily the result of higher stock-based compensation expenses, and an increase in professional fees as compared to the prior year's period. The expense ratio increased by two percentage points to 19% for the fourth quarter of 2012 as compared to the prior year's period due primarily to the $2 million increase in expenses.

Excluding the $186 million reversal of the government guarantee fund exit fees, net investment income increased $4 million to $47 million, as compared to the prior year's period. The impact of the government guarantee fund exit fee reversal resulted in $186 million of additional investment income in the fourth quarter of 2012. Interest and dividend income from the general investment portfolio declined $3 million, or 7%, to $39 million partially the result of lower fixed income investment yields and a decrease in the average book value of invested assets as compared to the prior year's period. The pre-tax equivalent book yield declined 0.2% percentage points, to 3.8%, due primarily to lower fixed income investment yields and higher cash balances which were partially offset by the favourable impact of the increase in non-taxable dividend income as compared to the prior year's period. Government guarantee fund earnings were $7 million in the fourth quarter of 2012. The $6 million of government guarantee fund earnings in the prior year's period were offset by $6 million of government guarantee fund exit fees. The Company recorded $1 million net investments gains in the fourth quarter of 2012 which was unchanged from the fourth quarter of 2011.

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

The effective tax rate of 25% in the fourth quarter of 2012 was relatively flat as compared to the fourth quarter of 2011. A decrease in taxes due to lower substantively enacted federal income tax rates in 2012 as compared to 2011 and $2 million of tax benefits from the recognition of tax losses available for carryforward in the fourth quarter of 2012 which was partially offset by a higher tax rate on deferred income as compared to the prior year's period. The tax losses available for carryforward relate to PMI Mortgage Insurance Company Canada, a new subsidiary company acquired in the fourth quarter of 2012. PMI Canada has a mortgage insurance business in run-off and is licensed to underwrite reinsurance of mortgage insurance risks.

The MCT ratio increased eight percentage points to 170% in the fourth quarter of 2012 as compared to the prior year's period, primarily due to the increase in retained earnings from the Company's continued profitability, which offset a seven point reduction in the MCT ratio resulting from the introduction of a new capital requirement for interest rate risk effective January 1, 2012.

Net income and net operating income both increased by $147 million, to $226 million, in the fourth quarter of 2012 as compared to the prior year's period primarily the result of the $137 million after tax impact of the reversal of the government guarantee fund exit fee into investment income. Excluding the $137 million reversal of the government guarantee fund exit fee, net income and net operating income increased $10 million to $89 million as compared to the prior year's period. The increase to net income and net operating income was attributable primarily to lower losses on claims, which was partially offset by lower earned premiums.

2012 highlights

Compared to the full year 2011:

- Net income increased by $147 million, to $470 million and net operating income increased by $144 million, to $462 million primarily the result of a $137 million after tax impact of the reversal of the government guarantee fund exit fees into investment income. Excluding the $137 million reversal of the government guarantee fund exit fees, net income increased by $10 million to $333 million, and net operating income increased by $7 million, to $325 million. The increase of $10 million to net income and the increase of $7 million to net operating income were primarily attributable to lower losses on claims partially offset by lower net earned premiums and higher operating expenses.
- Net premiums written increased by $17 million, or 3%, to $550 million, primarily from higher premiums from low loan-to-value transactions.
- Premiums earned decreased by $23 million, or 4%, to $589 million, due to the aging of the larger 2007 and 2008 books as well as a $12 million lower earnings curve adjustment as compared to 2011.
- Losses on claims decreased by $31 million, or 14%, to $194 million, primarily due to fewer new delinquencies, particularly in Alberta and the 2007 and 2008 books.

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

	For the twelve months ended December 31		Increase (decrease) and percentage change	
(in millions, unless otherwise specified)	**2012**	2011		2012 vs. 2011
Net premiums written	**$ 550**	$ 533	$ 17	3%
Net premiums earned	**$ 589**	$ 612	$ (23)	(4)%
Losses on claims and expenses:				
Losses on claims	**194**	225	(31)	(14)%
Expenses	**105**	101	4	4%
Total losses on claims and expenses	**298**	326	(28)	(9)%
Net underwriting income	**291**	287	4	1%
Investment income:				
Interest and dividend income, net of investment expenses	**162**	169	(7)	(4)%
Net gains on investments[1]	**12**	7	5	71%
Government guarantee fund earnings	**7**	3	4	NM
Impact of the reversal of government guarantee fund exit fees	**186**	—	186	—
Total investment income[3]	**367**	179	188	NM
Interest expense	**(23)**	(23)	—	0%
Income before income taxes	**635**	443	192	43%
Provision for income taxes	**164**	120	44	37%
Net income[3]	**$ 470**	$ 323	$ 147	46%
Adjustment to net income:				
Net gains on investments, net of taxes	**(9)**	(5)	(4)	80%
Net operating income[2],[3]	**$ 462**	$ 318	$ 144	45%
Effective tax rate	**26%**	27%	—	(1)%
Selected non-IFRSs financial measures[2]				
Loss ratio	**33%**	37%	—	(4) pts
Expense ratio	**18%**	17%	—	1 pts
Combined ratio	**51%**	53%	—	(2) pts

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

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

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

(3) Excluding the impact of the government guarantee fund exit fee reversal of $166 million, related to 2011 and prior years, non-IFRSs financial measures for the year of 2012 would have been: net investment income $201 million, net income $348 million, and net operating income $339 million.

Full year 2012 compared to full year 2011

New insurance written on high loan-to-value mortgages decreased by $1.6 billion, or 7%, to $20.9 billion in 2012 as compared to the prior year's period primarily due to lower new insurance written on refinance transactions, which decreased by $2.0 billion, or 39%, to $3.1 billion. New insurance written on purchase transactions of high loan-to-value mortgages increased by $0.4 billion, or 3%, to $17.8 billion. New insurance written, particularly for refinance transactions, was impacted by a smaller high loan-to-value mortgage origination market primarily as a result of the government guarantee eligibility rule changes. The changes in March 2011 reduced the maximum amortization from 35 to 30 years and reduced the maximum loan-to-value on refinance transactions from 90 to 85%. The changes in July 2012 further reduced the maximum amortization from 30 to 25 years and reduced the maximum loan-to-value on refinance transactions from 85 to 80%.

New insurance written on low loan-to-value mortgages was $20.4 billion in 2012 as compared to $4.2 billion in the prior year's period as a result of more low loan-to-value mortgage insurance opportunities.

Net premiums written increased by $17 million, or 3%, to $550 million in 2012 as compared to the prior year's period, primarily the result of $58 million of higher premiums from low loan-to-value new insurance written partially offset by $41 million of lower premiums from high loan-to-value new insurance written. The decrease in premiums from high loan-to-value new insurance written was the result of a lower premium rate from the shorter amortization loans, and a smaller high loan-to-value mortgage origination market particularly for refinance transactions, in 2012 as compared to the prior year's period.

Premiums from low loan-to-value new insurance written were $77 million in 2012 as compared to $19 million in the prior year's period as a result of more low loan-to-value mortgage insurance opportunities.

Net premiums earned decreased by $23 million, or 4%, to $589 million in 2012 partially due to the lower 2012 earnings curve adjustments of $27 million as compared to $39 million in 2011. Lower earnings from the large 2007 and 2008 books of business were partially offset by the increased earnings from the relatively smaller, more recent books of business.

Losses on claims decreased by $31 million, or 14%, to $194 million in 2012, as compared to the prior year's period. The decrease was primarily the result of fewer net new delinquencies, particularly in Alberta and the 2007 and 2008 books. The Company continues to realize savings from its loss mitigation programs, including workout and asset management initiatives. The loss ratio decreased four percentage points to 33% in 2012 as compared to the prior year's period. A loss ratio decrease of five percentage points resulting from the $31 million decrease of losses on claims was partially offset by a loss ratio increase of one percentage point resulting from the $23 million decrease of earned premiums.

Expenses increased $4 million, or 4%, to $105 million in 2012, as compared to the prior year's period, reflecting an increase in employee compensation expenses, primarily the result of higher stock-based compensation expense, and was partially offset by a decrease in professional fee expenses. The expense ratio increased by one percentage point to 18% in 2012 as compared to the prior year's period. This increase resulted from the $4 million increase in expenses and $23 million decrease in earned premiums as compared to the prior year's period.

Excluding the $186 million reversal of the government guarantee fund exit fees, net investment income increased $2 million in 2012 as compared to the prior year's period. Interest and dividend income from the general portfolio decreased by $7 million, or 4%, to $162 million as compared to the prior year's period. The impact of the government guarantee fund exit fee reversal resulted in $186 million of additional investment income in the fourth quarter of 2012, $166 million related to exit fees accrued in 2011 and prior years and a further $20 million accrued for the first nine months of 2012. An increase of $3 million in dividend income was offset by a decrease of $10 million in interest income as compared to the prior year's period, partially the result of lower fixed income investment yields and a decrease in the average book value of invested assets as compared to the prior year's period. The pre-tax equivalent combined book yield increased 0.1% percentage points, to 4.0%, as lower fixed income investment yields and higher cash balances were offset by

the favourable impact of the increase of non-taxable dividend income as compared to the prior year's period. Government guarantee fund earnings were $27 million in 2012 which were offset by $20 million of accrued exit fees in the first nine months of 2012 for net government guarantee fund earnings of $7 million. The $27 million of government guarantee fund earnings in the prior year's period were offset by $24 million of government guarantee fund exit fees. The Company recorded $12 million in 2012 in net investment gains as compared to $7 million in the prior year's period.

Interest expense remained flat at $23 million in 2012, as compared to the prior year's period.

The effective tax rate decreased by approximately one percentage point to 26% in 2012 as compared to the prior year's period. The decrease in taxes related primarily to lower substantively enacted federal income tax rates in 2012 as compared to 2011 and $2 million of tax benefits from the recognition of tax losses available for carryforward in the fourth quarter of 2012. The tax losses available for carryforward relate to PMI Mortgage Insurance Company Canada, a new subsidiary company acquired in the fourth quarter of 2012. PMI Canada has a mortgage insurance business in run-off and is licensed to underwrite reinsurance of mortgage insurance risks.

The MCT ratio increased eight percentage points to 170% in 2012 as compared to the prior year's period, primarily due to the increase in retained earnings from the Company's continued profitability, which offset a seven point reduction in the MCT ratio resulting from the introduction of a new capital requirement for interest rate risk effective January 1, 2012.

Net income increased by $147 million, to $470 million and net operating income increased by $144 million, to $462 million, in 2012 as compared to the prior year's period, primarily the result of a $137 million after tax impact of the reversal of the government guarantee fund exit fees into investment income. Excluding the $137 million reversal of the government guarantee fund exit fees, net income increased by $10 million to $333 million, and net operating income increased by $7 million, to $325 million as compared to the prior year's period. The increase of $10 million to net income and the increase of $7 million to net operating income were primarily attributable to lower losses on claims partially offset by lower net earned premiums and higher operating expenses.

Proforma results of operations reflecting impact of new government guarantee legislative framework

The following table illustrates the proforma results of operations for 2012 reflecting the results for the Company's business had the new government guarantee legislative framework been in effect at January 1, 2012 as described below.

(in millions, unless otherwise specified)	2012 Actual	Proforma Adjustments	Reference	2012 Proforma
Net premiums written	$ 550	$ 10	A	$ 560
Net premiums earned	$ 589	$ 10		$ 599
Losses on claims and expenses:				
Losses on claims	194			194
Expenses	105	1	B	106
Total losses on claims and expenses	298	1		299
Net underwriting income	291	9		300
Investment income:				
Interest and dividend income, net of investment expenses	162	27	C	189
Net gains on investments	12			12
Impact of the reversal of government guarantee fund exit fees – 2012	186	(20)	C	166
Government guarantee fund earnings/(deficit)	7	(7)	C	—
Total investment income	367	—		367
Interest expense	(23)	—		(23)
Income before income taxes	635	9		644
Provision for income taxes	164	2		166
Net income	$ 470	$ 7		$ 477
Adjustment to net income:				
Net gains on investments, net of taxes	(9)	—		(9)
Net operating income[1]	$ 462	$ 7		$ 469
Impact of the reversal of government guarantee fund exit fees – 2011 and prior years	(122)	—		(122)
Adjusted net operating income[1]	$ 339	$ 7		$ 346

Notes: Amounts may not total due to rounding.

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

On a proforma basis reflecting adjustments for the new government guarantee legislative framework, proforma net income in 2012 would be approximately $477 million as compared to $470 million reported net income, and proforma adjusted net operating income would be approximately $346 million as compared to $339 million reported adjusted net operating income.

A. The risk premium was replaced by a risk fee payable by the Company to the federal government equal to 2.25% of gross premiums written. While the risk premium recorded in 2012 was approximately $10 million, the risk fee would be approximately $13 million and the accounting treatment will differ. The risk premium reduced both premium written and premiums earned while the risk fee is accounted for as a deferrable expense, the amortization of which will be included in the expenses. On a proforma basis, the elimination of risk premiums will increase premiums earned and premiums written by approximately $10 million.

B. The risk fee is directly related to the acquisition of new policies and will be accounted for as a deferred policy acquisition cost. On a proforma basis, the risk fee of approximately $13 million would be deferred and then amortized into expenses in the same proportion to premiums earned from the book of business to which the risk premium relates. On a proforma basis, approximately $1 million of the risk fee would be amortized into expense.

C. On a proforma basis, the elimination of the government guarantee fund and the related exit fees would result in the elimination of the $20 million exit fee expense which were accrued for the first nine months of 2012 and would increase investment income by $20 million. On a proforma basis, the $7 million interest income earned on the government guarantee fund assets would be reclassified to interest and dividend income.

Statement of financial position highlights and selected financial data

(in millions, unless otherwise specified)	**As at December 31, 2012**	As at December 31, 2011	Increase (decrease) and percentage change 2012 vs. 2011	
Investments:				
General portfolio	**$ 4,400**	$ 4,332	$ 68	2%
Government guarantee fund	**979**	731	248	34%
Other assets	**264**	223	41	18%
Subrogation recoverable	**91**	107	(16)	(15)%
Total assets	**5,734**	5,393	341	6%
Unearned premium reserves	**1,785**	1,824	(39)	(2)%
Loss reserves	**139**	169	(30)	(18)%
Long-term debt	**422**	422	—	0%
Other liabilities	**351**	295	56	19%
Total liabilities	**2,697**	2,710	(13)	(0)%
Shareholders' equity excluding AOCI[1]	**2,816**	2,468	348	14%
Accumulated other comprehensive income ("AOCI")	**221**	215	6	3%
Shareholders' equity	**3,037**	2,683	354	13%
Total liabilities and shareholders' equity	**$ 5,734**	$ 5,393	$ 341	6%
Selected non-IFRSs financial measures[1]				
MCT ratio	**170%**	162%	—	8 pts
Book value per common share				
Number of common shares outstanding (basic)[2]	**98,698,018**	98,666,796	31,222	0%
Book value per common share including AOCI (basic)	**$ 30.77**	$ 27.19	$ 3.58	13%
Book value per common share excluding AOCI (basic)	**$ 28.53**	$ 25.02	$ 3.51	14%
Number of common shares outstanding (diluted)[2]	**99,174,050**	99,584,424	(410,374)	—
Book value per common share including AOCI (diluted)	**$ 30.62**	$ 26.94	$ 3.68	14%
Book value per common share excluding AOCI (diluted)	**$ 28.40**	$ 24.78	$ 3.62	15%
Dividends paid per common share during the year[3]	**$ 1.19**	$ 1.57		

Notes: Amounts may not total due to rounding.

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

(2) The difference between basic and diluted number of common shares outstanding is caused by the potentially dilutive impact of the grant of share-based compensation units.

(3) Dividends paid per common share reflect payment for 2012 and 2011. The fourth quarter 2011 included a special dividend of $0.50 per common share.

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

Reserve Development Analysis

(in millions, unless otherwise specified)	**As at Dec. 31, 2012**	As at Dec. 31, 2011	As at Dec. 31, 2010	As at Dec. 31, 2009	As at Dec. 31, 2008
Total loss reserves, at the beginning of the year	**$ 169**	$ 207	$ 236	$ 172	$ 89
Loss reserves for prior years' delinquent loans, remaining at the end of the year (A)	**26**	45	67	71	33
Change in loss reserves for prior years' delinquent loans	**143**	162	169	101	56
Paid claims for prior years' delinquent loans	**(193)**	(214)	(200)	(160)	(67)
Favourable (unfavourable) development	**$ (51)**	$ (52)	$ (31)	$ (59)	$ (11)
As a percentage of total loss reserves, at the beginning of the year	**(30)%**	(25)%	(13)%	(34)%	(13)%
Loss reserves for current year's delinquent loans, at the end of the year (B)	**113**	124	140	166	139
Total loss reserves at the end of the year (A+B)	**$ 139**	$ 169	$ 207	$ 236	$ 172

Note: Amounts may not total due to rounding.

The Company experienced adverse reserve development in 2012 of $51 million, or 30% of the total loss reserves at the beginning of the year. The Company uses third party appraisals of home values in setting reserves and has observed that the appraised value often exceeds the ultimate sales price. The Company has conducted a review of the underlying drivers of its development and has adjusted its reserving practices to address the overestimation of property values for foreclosed properties by increasing its supplemental provisions. The Company's loss-reserving methodology is reviewed on a monthly basis and incorporates the most current available information. The Company's outstanding reserves represent the Company's current best estimate of the ultimate cost of settling claims, in each case as of the date such reserves are established and based on the available information at such time.

Financial instruments and other instruments

Portfolio of invested assets

As of December 31, 2012, the Company had total cash, cash equivalents and invested assets of $4.4 billion in the general portfolio and $979 million in the government guarantee fund established under the Government Guarantee Agreement. Fair value measurements for available-for-sale ("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 based on recent transactions or current prices for similar securities. Unrealized gains on AFS securities were $250 million in the general portfolio and $61 million in the government guarantee fund.

Government guarantee fund assets

As of December 31, 2012 and in accordance with the terms of the Government Guarantee Agreement, all funds deposited into the government guarantee fund were held in a revenue trust account separate from all other assets of the Company. On the Company's financial statements, government guarantee fund assets reflected the Company's interest in the assets held in the government guarantee fund, including accrued income and net of exit fees. The assets of the government guarantee fund were permitted to be invested in cash and securities issued by the Government of Canada or agencies unconditionally guaranteed by the Government of Canada.

The Government Guarantee Agreement and all obligations under it, including the requirement for a government guarantee fund and payment of exit fees related to it, were terminated when PRMHIA came into force on January 1, 2013 and the assets will revert back to the Company on this date.

The following table provides a breakdown of the government guarantee portfolio.

Asset Class

	As at December 31, 2012			As at December 31, 2011	
(in millions, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains**	Fair value	%
Government guarantee fund					
Canadian federal fixed income – AFS	**$ 949**	**96%**	**$ 61**	$ 908	100%
Cash and cash equivalents – AFS	**41**	**4%**		1	0%
Total invested assets and cash – government guarantee fund	**$ 990**	**100%**	**$ 61**	$ 909	100%
Accrued income and contributions	**3**		**—**	16	
Accrued exit fees and due to others	**(14)**		**—**	(194)	
Net government guarantee fund assets	**$ 979**		**$ 61**	$ 731	

The following table provides the diversification of assets by asset class and credit rating for the combined portfolios.

Asset Class

	As at December 31, 2012			As at December 31, 2011	
(in millions, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains**	Fair value	%
Asset-backed securities	**$ 65**	**1%**	**$ 1**	$ 168	3%
Corporate fixed income					
Financials	**1,172**	**22%**	**72**	1,253	24%
Energy	**315**	**6%**	**20**	308	6%
Infrastructure	**260**	**5%**	**19**	258	5%
All other sectors	**430**	**8%**	**28**	384	7%
Total corporate fixed income	**2,177**	**40%**	**139**	2,203	42%
Government fixed income					
Canadian short-term federal T-bills	**90**	**2%**	**—**	46	1%
Canadian federal fixed income	**748**	**14%**	**23**	808	15%
Canadian federal fixed income-government guarantee fund	**949**	**18%**	**61**	908	17%
Canadian provincial fixed income	**744**	**14%**	**58**	810	15%
Total government fixed income	**2,531**	**47%**	**143**	2,572	49%
Preferred shares					
Financials	**—**	**0%**	**—**	12	-%
Industrial	**—**	**0%**	**—**	1	-%
Energy	**—**	**0%**	**—**	10	-%
Total preferred shares	**—**	**0%**	**—**	23	-%
Common shares					
Energy	**92**	**2%**	**6**	65	1%
Financials	**44**	**1%**	**2**	26	1%
Communication	**71**	**1%**	**7**	40	1%
All other sectors	**121**	**2%**	**14**	70	1%
Total common shares	**328**	**6%**	**29**	202	4%
Total invested assets	**$ 5,101**	**95%**	**$ 311**	$ 5,168	99%
Cash and cash equivalents	**248**	**5%**	**—**	72	1%
Cash and cash equivalents – government guarantee fund	**41**	**1%**	**—**	1	-%
Total cash and cash equivalents	**289**	**5%**	**—**	73	
Total cash and invested assets	**$ 5,390**	**100%**	**$ 311**	5,241	100%
Accrued income – government guarantee fund	**3**			16	
Accrued exit fee and due to others	**(14)**			(194)	
Total invested assets and cash	**$ 5,380**		**$ 311**	$ 5,063	

Credit Rating (Excluding Common Shares)

	As at December 31, 2012			As at December 31, 2011	
(in millions, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains (losses)**	Fair value	%
Cash and cash equivalents	**$ 248**	**5%**	**$ —**	$ 72	1%
Cash and cash equivalents – government guarantee fund	**41**	**1%**	**—**	1	0%
AAA	**1,110**	**22%**	**37**	1,254	25%
AAA – government guarantee fund	**949**	**19%**	**61**	908	18%
AA	**1,252**	**25%**	**98**	1,509	30%
A	**1,289**	**25%**	**76**	1,140	23%
BBB	**173**	**3%**	**10**	155	3%
Total invested assets and cash (excluding common shares)	**$ 5,062**	**100%**	**$ 283**	$ 5,039	100%

Note: Amounts may not total due to rounding.

Investment portfolio management

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

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

Asset-backed securities

The Company holds approximately 1% of the combined investment portfolio in asset-backed securities consisting of consumer finance securitizations. In the first quarter of 2012, the Company sold its investment in commercial mortgage-backed securities and the proceeds have been reinvested in its diversified common equity strategy. As of December 31, 2012, all of the asset-backed securities were rated AAA.

Corporate fixed income securities

Allocations to corporate fixed income securities are determined based on their relative value to federal government fixed income securities and adjusted for the carrying charge for the increased capital holdings required under regulations set by OSFI. As of December 31, 2012, approximately 40% of the investment portfolio was held in corporate fixed income securities, down from 42% at the end of 2011. Securities rated below A were $173 million, or 3% of invested assets, as of December 31, 2012. The investment policy limits the percentage of the portfolio that can be invested in any single issuer or group of related issuers.

Financial sector exposure represents 22% of the combined investment portfolio, or approximately 54% of the corporate fixed income securities, as financial institutions represent greater than 50% of the corporate issuances of fixed income securities in the Canadian marketplace. The Company continuously monitors and repositions its exposure to the financial services sector.

Canadian government fixed income securities

The Company's investment policy requires that a minimum of 30% of the investment portfolio be invested in sovereign fixed income securities. As of December 31, 2012, 33% of the portfolio was invested in federal securities, as compared to the 34% at the end of 2011. Provincial holdings were 14% of the portfolio, a decrease from 15% at the end of 2011.

Short-term federal T-Bills consist primarily of short-term investments bills with original maturities greater than 90 days and less than 365 days. The Company held 2% in Canadian short-term T-Bills in the general portfolio as of December 31, 2012, as compared to 1% at the end of 2011.

Preferred shares

The Company sold its preferred share holdings in the fourth quarter 2012 and no longer holds any preferred shares as of December 31, 2012 as compared to 0.4% of the combined investment portfolio at the end of 2011.

Common shares

The Company had $328 million invested in high dividend yielding, lower volatility Canadian equity common shares as of December 31, 2012, representing 6% of the combined investment portfolio. The energy and financial sectors represent approximately 42% of the common shares and the remaining holdings are diversified across the other sectors of companies listed on the Toronto Stock Exchange.

Cash and cash equivalents

Cash and cash equivalents consist primarily of cash in bank accounts and government treasury bills with original maturities of 90 days or less. The Company determines its target cash holdings based on near-term liquidity needs, market conditions and perceived favourable future investment opportunities. The Company's cash holdings, in the combined investment portfolio, increased from $73 million as of December 31, 2011 to $289 million as of December 31, 2012. The increase is attributed mainly to cash generated from operating and investing activities during the period, which has yet to be reinvested.

Summary of annual information

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

(in millions, unless otherwise specified)		**2012**		2011		2010
Net premiums written	**$**	**550**	$	533	$	552
Net premiums earned		**589**		612		621
Losses on claims		**194**		225		206
Net underwriting income		**291**		287		312
Investment income, including net gains[1],[3]		**367**		179		183
Impact of the reversal of government guarantee fund exit fees		**166**		—		—
Net income[3]		**470**		323		348
Adjustment to net income:						
Losses (gains) on investments, net of taxes		**(9)**		(5)		(5)
Net operating income[2],[3]	**$**	**462**	$	318	$	343
Earnings per common share ratios						
Earnings per common share (basic)[3]	**$**	**4.77**		3.18	$	3.08
Earnings per common share (diluted)[3]		**4.76**		3.13		3.05
Selected non-IFRSs financial measures:[2]						
Loss ratio		**33%**		37%		33%
Expense ratio		**18%**		17%		17%
Combined ratio		**51%**		53%		50%
Operating earnings per common share (basic)[3]	**$**	**4.68**	$	3.13	$	3.04
Operating earnings per common share (diluted)[3]	**$**	**4.67**	$	3.08	$	3.01
Operating return on equity[3]		**17%**		13%		14%

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

(2) The financial measures are not calculated based on IFRSs. See the "Non-IFRSs financial measures" section at the end of this Review of Performance for additional information.

(3) Excluding the impact of the government guarantee fund exit fee reversal of $166 million, related to 2011 and prior years, non-IFRSs financial measures for the full year of 2012 would have been: net investment income $201 million, net income $348 million, net operating income $339 million and operating return on equity 13%.

The table shown below presents additional annual information for the years ending 2012, 2011 and 2010.

						As at December 31
(in millions, unless otherwise specified)		**2012**		2011		2010
Total invested assets and cash	**$**	**5,380**	$	5,063	$	5,135
Total assets		**5,734**		5,393		5,398
Total liabilities		**2,697**		2,710		2,810
Total shareholders' equity		**3,037**		2,683		2,589
Dividends paid per common share	**$**	**1.19**	$	1.57	$	0.92

Summary of quarterly results

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

(in millions, unless otherwise specified)	Q4'12	Q3'12	Q2'12	Q1'12	Q4'11	Q3'11	Q2'11	Q1'11
Net premiums written	$ 117	$ 178	$ 176	$ 79	$ 123	$ 160	$ 149	$ 101
Net premiums earned	147	147	148	147	156	149	151	155
Losses on claims	46	44	48	56	62	54	50	59
Net underwriting income	73	77	76	65	68	71	77	71
Investment income, including net gains[1],[3]	233	44	40	50	43	45	45	46
Impact of the reversal of government guarantee fund exit fees	186							
Net income[3]	226	85	79	81	79	81	83	80
Adjustment to net income:								
Losses (gains) on investments, net of taxes	—	(4)	—	(5)	—	(1)	(2)	(2)
Net operating income[2],[3]	$ 226	$ 81	$ 79	$ 76	$ 79	$ 80	$ 81	$ 78
Earnings per common share ratios								
Earnings per common share (basic)[3]	$ 2.29	$ 0.86	$ 0.80	$ 0.82	$ 0.80	$ 0.82	$ 0.79	$ 0.77
Earnings per common share (diluted)[3]	$ 2.29	$ 0.86	$ 0.79	$ 0.82	$ 0.80	$ 0.80	$ 0.78	$ 0.75
Selected non-IFRSs financial measures:[2]								
Loss ratio	31%	30%	32%	38%	39%	36%	33%	38%
Expense ratio	19%	18%	17%	18%	17%	16%	16%	17%
Combined ratio	50%	48%	49%	56%	56%	52%	49%	55%
Operating earnings per common share (basic)[3]	$ 2.29	$ 0.82	$ 0.80	$ 0.77	$ 0.80	$ 0.81	$ 0.78	$ 0.75
Operating earnings per common share (diluted)[3]	$ 2.28	$ 0.82	$ 0.79	$ 0.77	$ 0.80	$ 0.79	$ 0.77	$ 0.73
Operating return on equity[3]	33%	12%	12%	12%	13%	13%	13%	13%

Note: Amounts may not total due to rounding.

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

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

(3) Excluding the impact of the government guarantee fund exit fee reversal into investment income of $186 million in the fourth quarter of 2012, non-IFRSs financial measures for the fourth quarter of 2012 would have been: net investment income $47, net income $89, net operating income $89, earnings per share (basic) $0.90, earnings per share (diluted) $0.90, operating earnings per share (basic) $0.90, operating earnings per share (diluted) $0.90 and operating return on equity 13%.

Liquidity

The purpose of liquidity management is to ensure there is sufficient cash to meet all of the Company's financial commitments and obligations as they fall due. The Company believes it has the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill its cash requirements during the current financial year and to satisfy regulatory capital requirements. The Company maintains a portion of its investment portfolio in cash and liquid securities to meet working capital requirements and other financial commitments. As of December 31, 2012, the Company held liquid assets, including the government guarantee fund, of $743 million maturing within one year, including $289 million in cash and cash equivalents and the remaining in bonds and debentures and short-term investments in order to maintain financial flexibility. As at the end of the fourth quarter of 2012, the combined fixed income portfolio had a duration of 3.8 years.

The Company has five primary sources of funds, consisting of premiums written from operations, investment income, cash and short-term investments, investment maturities or sales, and proceeds from the issuance of debt and equity. Including securities and cash held in the government guarantee fund, 47%, or $2,531 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 Company's annual information form ("AIF") dated March 20, 2012.

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, as well as long-term debt, consist of the following at December 31, 2012:

Contractual obligations		Payment dates due by period *(in thousands)*			
	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term debt[1]	$ 425,000	$ —	$ 150,000	$ —	$ 275,000
Capital lease obligations	—	—	—	—	—
Operating leases	9,819	2,401	4,153	3,264	—
Purchase obligations	—	—	—	—	—
Other long-term obligations	—	—	—	—	—
Total contractual obligations	$ 434,819	$ 2,401	$ 154,153	$ 3,264	$ 275,000

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

Operating lease expense for the year ended December 31, 2012 was $2,925 (2011 – $2,890)

Debt outstanding

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

Contractual obligations		Payment dates due by period *(in thousands)*			
	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term debt	$ 425,000	$ —	$ 150,000	$ —	$ 275,000

	Series 1	Series 2
Date issued	June 29, 2010	December 16, 2010
Maturity date	June 15, 2020	December 15, 2015
Principal amount outstanding *(in millions)*	$275	$150
Fixed annual rate	5.68%	4.59%
Semi-annual interest payments due each year on	June 15, December 15	June 15, December 15
Debenture Ratings		
Standard & Poor's ("S&P")	A– (Stable Outlook)	A– (Stable Outlook)
DBRS	AA (Low)	AA (Low)

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

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

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

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

Capital expenditures

The Company's capital expenditures primarily relate to technology investments aimed at improving operational efficiency and effectiveness for sales, underwriting, risk management and loss mitigation. For the fourth quarter and full year of 2012, the Company invested $1 million and $4 million, respectively, for risk management and underwriting technologies. The Company expects that future capital expenditures will continue to be focused on underwriting and risk management technology improvements. The Company expects that capital expenditures in 2013 will be in the $3 million to $5 million range and it is anticipated that it will be derived primarily from operating cash flows.

Regulatory capital management

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

As at December 31, 2012, the MCT ratio of the Insurance Subsidiary was 170%, representing a six percentage point sequential increase over the third quarter of 2012, primarily the result of the Company's continued profitability. Effective January 1, 2013 the interest rate shock used in the calculation of the capital requirement for interest rate risk increased from 50 basis points to 75 basis points.

When PRMHIA came into force on January 1, 2013, the government guarantee fund was eliminated in favour of a higher MCT ratio. Previously, the government guarantee fund was accounted for as an asset on the Company's balance sheet and was excluded from the calculation of regulatory capital available. The Minister of Finance advised the Company on December 20, 2012 that under PRMHIA and the *Insurance Companies Act* (Canada) the minimum MCT ratio for the Insurance Subsidiary will be 175%. In conjunction with this new target, the Insurance Subsidiary increased its internal MCT target capital ratio on January 1, 2013 to 185% and expects to operate above 190% MCT in the normal course.

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

The table below illustrates the MCT at December 31, 2012 adjusted for the impact of the new guarantee framework and the increase in capital required for interest rate risk as at January 1, 2013.

Minimum Capital Test

	As at December 31	Adjustments	As at January 1
(in millions, unless otherwise specified)	**2012**		2013
Capital available	**$ 2,339**	$ 678	$ 3,017
Capital required	**$ 1,375**	$ 61	$ 1,436
MCT ratio	**170%**	40%	210%

The Insurance Subsidiary's regulatory capital available increased on January 1, 2013 by approximately $678 million from the elimination of the government guarantee fund and the reversal of the exit fees previously accrued, net of the related income tax effect. The regulatory capital required increased by approximately $61 million related to capital required for interest rate risk. This increase relates to the addition of the fixed income securities previously held in the government guarantee fund to interest sensitive assets and the increase of the interest rate shock from 50 basis points to 75 basis points effective January 1, 2013. The MCT ratio increased by approximately 40 percentage points to 210% as at January 1, 2013.

Restrictions on dividends and capital transactions

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

Financial strength ratings

The Insurance Subsidiary has financial strength ratings from both S&P and DBRS. Although the Insurance Subsidiary is not required to have ratings to conduct its business, ratings are helpful to maintain confidence in an insurer and in the marketing of its products. The Insurance Subsidiary is rated AA– (Very Strong), with a stable outlook, by S&P, and AA (Superior), with a stable outlook, by DBRS. The ratings from S&P were affirmed in June 2012 and the outlook was updated from positive to stable, reflecting current macroeconomic considerations. The ratings from DBRS were confirmed in October 2012.

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

Significant judgements and estimates

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

Accounting estimates

Premiums earned

Mortgage insurance premiums are deferred and then taken into underwriting revenues over the terms of the related policies. The rates or formulae under which premiums are earned relate to the loss emergence pattern in each year of coverage. In order to match premiums earned to losses on claims, premiums written are recognized as premiums earned using a factor-based premium recognition curve. In constructing the premium recognition curve, the Company applies actuarial forecasting techniques to historical loss data to determine expected loss development and the related loss emergence pattern. The actuarial forecasting techniques incorporate economic assumptions that impact future losses and loss development including unemployment rates, interest rates and expected changes in house prices. The premium recognition curve is reviewed quarterly based on the most current available historical loss data and economic assumptions and updated as required. The impact of the experience update for the fourth quarter and the full year of 2012 was an increase in premiums earned of $8 million and $27 million, respectively, as compared to an increase in premiums earned of $13 million and $39 million, respectively, in the fourth quarter and full year of 2011. The Company will continue to assess its loss experience on a quarterly basis and make adjustments as appropriate to the premium recognition curve.

Deferred policy acquisition costs

Deferred policy acquisition costs are comprised of premium taxes, appraisal costs, 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.

Subrogation recoverable

The Company estimates the fair value of real estate owned 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.

Loss reserves

Loss reserves represent the amount needed to provide for the expected ultimate net cost of settling claims including adjustment expenses related to defaults by borrowers (both reported and unreported) that have occurred on or before the reporting date. Loss reserves are discounted to take into account the time value of money and include a supplemental provision for adverse deviation. Loss reserves are recognized when the first scheduled mortgage payment is missed by a mortgage borrower. In determining the ultimate claim amount, the Company estimates the expected recovery from the property securing the insured loan and the legal, property maintenance and other loss adjustment expenses incurred in the claim settlement process. Loss reserves consist of individual case reserves, incurred but not reported ("IBNR") reserves and supplemental loss reserves for potential adverse deviation.

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

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

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

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

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

Share-based compensation

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

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

Employee future benefits

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

Utilization of tax losses

As at December 31, 2012, the Company has recognized $10.7 million of tax losses (2011 – $9.9 million). Management considers it probable that future taxable profits will be available against which these tax losses can be utilized.

Accounting judgments

Objective evidence of impairment

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

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

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

Reversal of the government guarantee fund exit fee

Management applied judgment in determining the timing of the recognition of the reversal of the government guarantee fund exit fee.

New accounting pronouncements

New accounting pronouncements currently effective

IFRS 7 – *Financial instruments – disclosures* ("IFRS 7"):

In October 2010 the IASB issued *Amendments to IFRS 7 Disclosures – Transfers of financial assets*.

The amendments to IFRS 7 require disclosure of information that enables users of financial statements:

- to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. The amendments define "continuing involvement" for the purposes of applying the disclosure requirements.

The amendments to IFRS 7 do not have a significant impact on the Company's current disclosures.

New accounting pronouncements effective at future dates

The following new standards and amendments to existing standards have been issued by the IASB and are not effective for the fiscal year beginning January 1, 2012. The Company has not early adopted any of the new standards and amendments and is currently evaluating the impact of adoption on its consolidated financial statements.

(a) IAS 1 – *Presentation of financial statements* ("IAS 1")

In June 2011, the IASB published amendments to the requirements for presentation of items of Other Comprehensive Income ("OCI") in IAS 1. The amendments require that an entity present separately the items of OCI that may be reclassified to income in the future from those that would never be reclassified to income. Entities will continue to have a choice of whether to present components of OCI before or after tax. Those that present components of OCI before tax will be required to disclose the amount of tax related to the two groups separately. The Company will adopt the amendment on January 1, 2013.

This amendment will result in presentation changes in the Company's consolidated statement of OCI.

(b) IAS 19 – *Employee benefits* ("IAS 19")

In June 2011, the IASB published an amended version of IAS 19. The amendments require:

- the elimination of the corridor method with actuarial gains and losses recognized immediately in OCI (without subsequent recycling of the actuarial gains and losses to income);
- recognition of prior service costs in full immediately in income in the period of a plan amendment;
- replacement of the expected return on plan assets with a net interest amount based on the discount rate used to measure the benefit obligation;
- expanded disclosures that include the characteristics of the entity's defined benefit plans and risks associated with them, as well as disclosures that describe how defined benefit plans may affect the amount, timing and uncertainty of future cash flows; and
- the recognition of termination benefits at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37 – *Provisions, contingent liabilities and contingent assets* ("IAS 37") and when the entity can no longer withdraw the offer of the termination benefits.

The amendment is effective for annual periods on or after January 1, 2013 and is to be applied retrospectively. Early adoption is permitted.

The Company's current accounting policy is to recognize actuarial gains and losses immediately in OCI. The Company has recognized all prior service costs to date fully in income as the prior service costs are fully vested. The Company's recognition of defined benefit plans is not impacted by changes in the calculation of expected return on plan assets as its defined benefit plans are unfunded. Therefore, the Company does not anticipate a significant impact to the Company's consolidated financial statements relating to recognition and measurement of employee benefits. The adoption of the revised standard will result in additional disclosures related to the Company's defined benefit plans.

(c) IFRS 13 – *Fair value measurement* ("IFRS 13")

IFRS 13 replaces the fair value guidance contained in individual IFRSs with a single source. IFRS 13 explains how to measure fair value when it is required or permitted by other IFRSs but the standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The standard requires the fair value hierarchy, which was introduced by IFRS 7, to be applied to all fair value measurements, including non-financial assets and liabilities that are measured at or based on fair value in the statements of financial position. IFRS 13 also expands disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on income or OCI.

The adoption of IFRS 13 may result in additional disclosure to the Company relating to inputs used to develop fair value measurements.

(d) Scope of the reporting entity and consolidation

In May 2011, the IASB published five new and revised standards that address the scope of the reporting entity and consolidation. The new standards are IFRS 10 – *Consolidated financial statements* ("IFRS 10"), IFRS 11 – *Joint arrangements* ("IFRS 11") and IFRS 12 – *Disclosure of interests in other entities* ("IFRS 12"). The revised standards are IAS 28 – *Investments in associates and joint ventures* ("IAS 28") and IAS 27 – *Consolidated and separate financial statements* ("IAS 27").

(i) IFRS 10 introduces a single control model to determine whether an investee should be consolidated that uses the same criteria to determine control for entities of all types, irrespective of whether the investee is controlled by voting rights or other contractual arrangements. The principle that a consolidated entity presents a parent and its subsidiaries as a single entity remains unchanged, as do the mechanics of consolidation. IFRS 10 supersedes existing guidance under IAS 27 and SIC-12 – *Consolidation – Special Purpose Entities* ("SIC-12").

(ii) IFRS 11 establishes principles for financial reporting by parties to a joint arrangement, and only differentiates between joint operations and joint ventures. The option to apply proportionate consolidation when accounting for joint ventures has been eliminated. Equity accounting is now required in accordance with IAS 28. IFRS 11 supersedes existing guidance under IAS 31 – *Interests in joint ventures* ("IAS 31") and SIC-13 – *Jointly controlled entities – non-monetary contributions by venturers* ("SIC-13").

(iii) IFRS 12 sets out the disclosure requirements under IFRS 10, IFRS 11, and IAS 28. The enhanced disclosures in the new standard are intended to help financial statement users evaluate the nature, risks and financial effects of an entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

(iv) IAS 28 has been amended in accordance with the changes to accounting for joint ventures in IFRS 11. The amended standard prescribes the accounting for investments in associates and provides guidance on the application of the equity method when accounting for investments in associates and joint ventures.

(v) IAS 27 has been amended to provide guidance on the accounting and disclosure requirements for investments in subsidiaries, associates and joint ventures when an entity prepares separate financial statements. The amended standard requires an entity preparing separate financial statements to account for investments at cost or in accordance with IFRS 9 – *Financial Instruments*.

These standards are applicable for annual periods beginning on or after January 1, 2013. Earlier application is permitted so long as all of these new standards and changes in the existing standards are applied at the same time.

The adoption of these standards and amendments of standards will result in additional disclosure requirements for the Company. There will be no change to the Company's current requirements to consolidate subsidiaries.

(e) IFRS 9 – *Financial instruments* ("IFRS 9")

In November 2009 the IASB issued IFRS 9 (IFRS 9 (2009)) and in October 2010 the IASB published amendments to IFRS 9 (IFRS 9 (2010)). The IASB published additional amendments to IFRS 9 in November 2012 (IFRS 9 (2012)).

IFRS 9 (2009) replaces the guidance in IAS 39 – *Financial instruments – recognition and measurement* ("IAS 39"), on the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The Standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. Financial assets will be classified and measured under one of two measurement bases on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

Under IFRS 9 (2012), the classification of financial assets based on business model and characteristics of contractual cash flows is further refined. Debt instruments may be classified either as fair value through profit or loss ("FVTPL") or fair value through OCI ("FVOCI"). Debt instruments held within a business model whose objective is to sell financial assets will be classified as FVTPL. Gains and losses on remeasurement of FVTPL debt instruments will be recognized in income. Debt instruments held within a business model whose objective is to hold financial assets to collect principal and interest will be classified as FVOCI. Gains and losses on remeasurement of FVOCI financial assets will be recognized in OCI.

Under IFRS 9 (2009), gains and losses on remeasurement of equity investments will be recognized in income, except that for an investment in an equity instrument which is not held-for-trading, on initial recognition, an irrevocable election is available to present all fair value changes in OCI. The election is available on an individual share-by-share basis. Amounts presented in OCI for equity investments will not be reclassified to income at a later date.

IFRS 9 (2010) added guidance to IFRS 9 (2009) on the classification and measurement of financial liabilities, and this guidance is consistent with the guidance in IAS 39 except as described below.

Under IFRS 9 (2010), for financial liabilities measured at fair value under the fair value option, changes in fair value attributable to changes in an entity's own credit risk will be recognized directly in OCI, with the remainder of the changes recognized in income. However, if this requirement creates or enlarges an accounting mismatch in income, the entire change in fair value will be recognized in income. Amounts presented in OCI will not be reclassified to income at a later date.

IFRS 9 (2010) also requires derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument to be measured at fair value, whereas such derivative liabilities are measured at cost under IAS 39.

IFRS 9 (2010) also added the requirements of IAS 39 for the derecognition of financial assets and liabilities to IFRS 9 without revision to these requirements.

The adoption of the existing IFRS 9 is required for annual periods beginning on or after January 1, 2015. Early adoption is permitted once IFRS 9 is finalized, except that early adoption of requirements of recognition of changes in an entity's own credit risk is permitted prior to finalization of IFRS 9.

The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and to add new requirements to address the impairment of financial assets and hedge accounting.

The adoption of IFRS 9 is expected to have an impact on the Company's financial assets. The Company is currently evaluating the impact of IFRS 9.

(f) Amendments to IAS 32 and IFRS 7 – Offsetting financial assets and financial liabilities

In December 2011, the IASB amended the requirements for offsetting financial assets and financial liabilities in IAS 32 – *Financial instruments presentation* ("IAS 32") and issued new disclosure requirements in IFRS 7.

The amendments to IAS 32 – *Financial Instruments – presentation* ("IAS 32") clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement.

The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are:

- offset in the statements of financial position; or
- subject to master netting arrangements or similar arrangements.

The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively.

The Company does not expect the amendments to IAS 32 to have a material impact on its financial statements. The amendments to IFRS 7 may result in additional disclosure by the Company related to assets and liabilities that are offset in the Company's financial statements.

(g) IFRS 4 – *Insurance contracts* ("IFRS 4")

The IASB issued exposure draft ED/2010/8 Insurance Contracts (the "ED") on July 30, 2010. The ED proposes a new standard for insurance contracts, which would replace IFRS 4. The proposals represent the first comprehensive accounting model for insurance contracts. On September 28, 2012, the IAS announced its intention to issue a limited re-exposure draft of the proposed new insurance contracts accounting standard in the first half of 2013. The final standard is expected in 2014, with implementation not expected before 2018.

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

Risk management

Risk management is a critical part of the Genworth Canada's business. The Company has an enterprise risk management framework that encompasses mortgage portfolio risk management, underwriting policies and guidelines, product enhancement, regulatory compliance, general portfolio management and operational and liquidity risk. The Company's risk management framework facilitates the assessment of risk by acting as a proactive decision-making tool to determine which risks are acceptable and to monitor and manage the Company's risks in an ongoing manner. The Company's risk management framework and internal control procedures are designed to reduce the volatility in its financial results.

Mortgage portfolio risk management

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

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

The Company's mortgage portfolio risk management function is organized into three primary groups: portfolio analysis, underwriting policies and guidelines, and risk technology and models. The risk management team analyzes and summarizes mortgage portfolio performance, risk concentrations, emerging trends and remedial actions which are reviewed with the Company's management-level risk committee on a monthly basis.

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

Investment portfolio financial risk management

The Company monitors and manages the credit risk, liquidity risk and market risk, including interest rate risk and equity price of its combined 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, Standard and Poor's, or Moody's.

Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet financial commitments and policy obligations as they fall due without raising funds at unfavourable rates or selling assets on a forced basis. To ensure liquidity requirements are met, the Company holds a portion of investment assets in liquid securities. See "Liquidity" section for additional information.

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 and equity price risk.

Interest rate risk – combined portfolio

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

As at December 31, 2012, management estimates that an immediate hypothetical 100 basis point, or 1%, increase in interest rates would decrease the market value of the AFS bonds and debentures and short-term investments of the combined portfolio by approximately $169 million representing 3.5% of the $4.8 billion fair value of these investments. Conversely, a 100 basis point, or 1%, decrease in interest rates would increase the market value of the AFS bonds and debentures and short-term investments of the combined portfolio by approximately $182 million, representing 3.8% of the fair value.

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: (i) the existing level and composition of the investments will be maintained; (ii) shifts in the yield curve are parallel; and (iii) credit and liquidity risks have not been considered.

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.

As at December 31, 2012, the Company had a total investment in common shares of $328 million. Management estimates that a 10% increase in the equity price index would increase the market value of the common shares by $23 million and that a 10% decrease in the equity price index would decrease the market value of the common shares by the same amount.

The Company has policies to limit and monitor exposures to individual equity investment issuers and its aggregate exposure to equities.

Transactions with related parties

Following the closing of the Company's IPO on July 7, 2009, the Company and the Insurance Subsidiary entered into a Transition Services Agreement with Genworth Financial, Inc., the Company's indirect majority shareholder. The agreement prescribes that these companies will provide certain services to one another, with most services being terminated if Genworth Financial, Inc. ceases to beneficially own more than 50% of the common shares of the Company. The services rendered by Genworth Financial, Inc. and affiliated companies consist of information technology, finance, human resources, legal, compliance and other specified services. The services rendered by the Company and the Insurance Subsidiary relate mainly to financial reporting and tax compliance support services. These transactions are in the normal course of business and are measured at the transaction value. Balances owing for service transactions are non-interest bearing and are settled on a quarterly basis. The Company incurred net related party charges of $1 million and $6 million respectively for the fourth quarter and the full year of 2012, which are comparable to the prior year's period.

Outstanding share data

The following table presents changes in the number of common shares outstanding in 2012 and 2011.

	2012	2011
Common shares, January 1	**98,666,796**	104,789,394
Common shares issued in connection with share-based compensation plans	**31,222**	31,248
Common shares retired under share repurchase	**—**	(6,153,846)
Common shares, December 31	**98,698,018**	98,666,796

At December 31, 2012, subsidiaries of Genworth Financial, Inc. owned approximately 56,710,094 common shares of the Company or approximately 57.5%.

Disclosure controls and procedures and internal controls over financial reporting

The Company has in place disclosure controls and procedures and internal controls over financial reporting designed 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 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 by the Company's CEO and CFO in accordance with the requirements of National Instrument 52-109 of the Canadian Securities Administrators, and is available among the Company's filings on the Sedar website at www.sedar.com. These certifications 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, as at the applicable times.

Special note regarding forward-looking statements

Certain statements made in this MD&A contain forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). When used in this MD&A, the words "may," "would," "could," "will," "intend," "plan," "anticipate," "believe," "seek," "propose," "estimate," "expect," and similar expressions, as they relate to the Company, are intended to identify forward-looking statements. Specific forward-looking statements in this document include, but are not limited to, statements with respect to the Company's expectations regarding the effect of the new government guarantee legislative framework 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, future operating and financial results, expectations regarding premiums written, capital expenditure plans, dividend policy and the ability to execute on its future operating, investing and financial strategies.

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

The Company's actual results and performance could differ materially from those anticipated in these forward-looking statements as a result of both known and unknown risks, including risks related to changes in government regulation; competition from other providers of mortgage insurance in Canada; a downturn in the global or Canadian economies; a decline in the Company's regulatory capital or an increase in its regulatory capital requirements; changes to laws mandating mortgage insurance; a decrease in the volume of high or low loan-to-value mortgage originations; ineffective or unsuccessfully implemented risk management standards by the Company; a downgrade or potential downgrade in the Company's financial strength ratings; interest rate fluctuations; the loss of members of the Company's senior management team; potential legal, tax and regulatory investigations and actions; the failure of the Company's computer systems; and potential conflicts of interest between the Company and its majority shareholder, Genworth Financial, Inc.

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

Non-IFRSs financial measures

To supplement the Company's consolidated financial statements, which are prepared in accordance with IFRSs, the Company uses non-IFRSs financial measures to analyze performance. Such non-IFRSs financial measures used by the Company to analyze performance include net operating income, operating earnings per common share (basic), operating earnings per common share (diluted), shareholders' equity excluding AOCI, operating return on equity and underwriting ratios such as loss ratio, expense ratio and combined ratio. Other non-IFRSs financial measures used by the Company to analyze performance include insurance in force, new insurance written, MCT ratio, delinquency ratio, severity on claims paid, book value per common share (basic) including AOCI, book

value per common share (basic) excluding AOCI, book value per common share (diluted) including AOCI, book value per common share (diluted) excluding AOCI, and dividends paid per common share. The Company believes that these non-IFRSs financial measures provide meaningful supplemental information regarding its performance and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making. Non-IFRSs financial measures do not have standardized meaning and are unlikely to be comparable to any similar measure presented by other companies. In addition, where applicable, non-IFRSs measures used by the Company have been adjusted to analyze the impact of the reversal of the government guarantee fund exit fee.

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

	For the fourth quarter ended December 31		For the year ended December 31	
(in millions, unless otherwise specified)	**2012**	2011	**2012**	2011
Net income	**$ 226**	$ 79	**$ 470**	$ 323
Adjustment to net income:				
Net gains on investments, net of taxes	**0**	—	**(9)**	(5)
Net operating income[1]	**$ 226**	$ 79	**$ 462**	$ 318
Earnings per common share (basic)	**$ 2.29**	$ 0.80	**$ 4.77**	$ 3.18
Adjustment to earnings per common share:				
Net gains on investments, net of taxes	**(0.00)**	(0.01)	**(0.09)**	(0.05)
Operating earnings per common share (basic)[1]	**$ 2.29**	$ 0.80	**$ 4.68**	$ 3.13
Earnings per common share (diluted)	**$ 2.29**	$ 0.80	**$ 4.76**	$ 3.13
Adjustment to earnings per common share:				
Net gains on investments, net of taxes	**(0.00)**	(0.01)	**(0.09)**	(0.05)
Operating earnings per common share (diluted)[1],[2]	**$ 2.28**	$ 0.80	**$ 4.67**	$ 3.08
Shareholders' equity	**$ 3,037**	$ 2,683	**$ 3,037**	$ 2,683
Adjustment to shareholders' equity:				
Accumulated other comprehensive income ("AOCI")	**(221)**	(215)	**(221)**	(215)
Shareholders' equity excluding AOCI[1]	**$ 2,816**	$ 2,468	**$ 2,816**	$ 2,468

Note: Amounts may not add due to rounding.

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

(2) The difference between basic and diluted number of common shares outstanding is caused by the potentially dilutive impact of the grant of share-based compensation units.

Government guarantee fund exit fee reversal: reconciliation of adjustments to IFRSs and non-IFRSs financial measures

The impact of the government guarantee fund exit fee reversal of $186 million ($137 million after income taxes), consisting of $166 million ($122 million after income taxes) related to exit fees accrued in 2011 and prior years and a further $20 million ($15 million after tax) accrued for the first nine months of 2012, resulted in $186 million of additional investment income in the fourth quarter of 2012 and $166 million for the year 2012.

The table below summarizes the impact of the government guarantee fund exit fee reversal on the Company's key IFRS measures including net investment income, net income, earnings per common share (basic), earnings per common share (diluted) and non-IFRSs financial measures including net operating income, operating return on equity, operating earnings per common share (basic), operating earnings per common share (diluted) in the fourth quarter of and the full year of 2012 and 2011:

	For the fourth quarter ended Dec.31		For the year ended Dec. 31	
(in millions, unless otherwise specified)	**2012**	2011	**2012**	2011
Adjusted net investment income	**$ 47**	$ 43	**$ 201**	$ 179
Impact of reversal of government guarantee fund exit fees	**186**	—	**166**	—
Net investment income	**$ 233**	$ 43	**$ 367**	$ 179
Adjusted net income	**$ 89**	$ 79	**$ 348**	$ 323
Impact of reversal of government guarantee fund exit fees	**137**	—	**122**	—
Net income	**$ 226**	$ 79	**$ 470**	$ 323
Adjusted net operating income	**$ 89**	$ 79	**$ 339**	$ 318
Impact of reversal of government guarantee fund exit fees	**137**	—	**122**	—
Net operating income	**$ 226**	$ 79	**$ 462**	$ 318
Adjusted operating return on equity	**13%**	13%	**13%**	13%
Impact of reversal of government guarantee fund exit fees	**20%**	—	**5%**	—
Operating return on equity	**33%**	13%	**17%**	13%
Adjusted earnings per common share (basic)	**$ 0.90**	$ 0.80	**$ 3.53**	$ 3.18
Impact of reversal of government guarantee fund exit fees	**1.39**	—	**1.24**	—
Earnings per common share (basic)	**$ 2.29**	$ 0.80	**$ 4.77**	$ 3.18
Adjusted earnings per common share (diluted)	**$ 0.90**	$ 0.80	**$ 3.52**	$ 3.13
Impact of reversal of government guarantee fund exit fees	**1.39**	—	**1.24**	—
Earnings per common share (diluted)	**$ 2.29**	$ 0.80	**$ 4.76**	$ 3.13
Adjusted operating earnings per common share (basic)	**$ 0.90**	$ 0.80	**$ 3.44**	$ 3.13
Impact of reversal of government guarantee fund exit fees	**1.39**	—	**1.24**	—
Operating earnings per common share (basic)	**$ 2.29**	$ 0.80	**$ 4.68**	$ 3.13
Adjusted operating earnings per common share (diluted)	**$ 0.90**	$ 0.80	**$ 3.43**	$ 3.08
Impact of reversal of government guarantee fund exit fees	**1.39**	—	**1.24**	—
Operating earnings per common share (diluted)	**$ 2.28**	$ 0.80	**$ 4.67**	$ 3.08

Note: Amounts may not total due to rounding.

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

	For the fourth quarter ended Dec.31		For the year ended Dec. 31	
(in millions, unless otherwise specified)	**2012**	2011	**2012**	2011
Selected non-IFRSs financial measures[1]				
Insurance in force	**$ 301,456**	$ 265,776	**$ 301,456**	$ 265,776
New insurance written	**$ 8,472**	$ 6,224	**$ 41,286**	$ 26,586
Loss ratio	**31%**	39%	**33%**	37%
Expense ratio	**19%**	17%	**18%**	17%
Combined ratio	**50%**	56%	**51%**	53%
Operating return on equity	**33%**	13%	**17%**	13%
MCT ratio	**170%**	162%	**170%**	162%
Delinquency ratio	**0.14%**	0.20%	**0.14%**	0.20%
Severity on claims paid	**34%**	31%	**32%**	32%
Book value per common share				
Number of common shares outstanding (basic)	**98,698,018**	98,666,796	**98,698,018**	98,666,796
Book value per common share including AOCI (basic)	**$ 30.77**	$ 27.19	**$ 30.77**	$ 27.19
Book value per common share excluding AOCI (basic)	**$ 28.53**	$ 25.02	**$ 28.53**	$ 25.02
Number of common shares outstanding (diluted)	**99,174,050**	98,584,424	**99,174,050**	98,584,424
Book value per common share including AOCI (diluted)	**$ 30.62**	$ 26.94	**$ 30.62**	$ 26.94
Book value per common share excluding AOCI (diluted)	**$ 28.40**	$ 24.78	**$ 28.40**	$ 24.78
Dividends paid per common share[2]	**$ 0.32**	$ 0.79	**$ 1.19**	$ 1.57

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

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

Glossary for non-IFRSs financial measures

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

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

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

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

"combined ratio" means the sum of the loss ratio and the expense ratio. The combined ratio provides a measure of the Company's ability to generate profits from its insurance underwriting activities.

"delinquency ratio" means the ratio (expressed as a percentage) of the total number of delinquent loans to the total number of policies in-force at a specified date.

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

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

"insurance in-force" means the amount of all mortgage insurance policies in effect at a specified date, based on the original principal balance of mortgages covered by such insurance policies, including any capitalized premiums.

"loss ratio" means the ratio (expressed as a percentage) of the total amount of losses on claims associated with insurance policies incurred during a specified period to net premiums earned during such period.

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

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

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

"operating return on equity" means the net operating income for a period divided by the average of the beginning and ending shareholders' equity, excluding 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.

"severity on claims paid" means the ratio (expressed as a percentage) of the dollar amount of paid claims during a specified period on insured loans to the original insured mortgage amount relating to such loans. The main determinants of the severity ratio are the loan-to-value (original balance of a mortgage loan divided by the original value of the mortgaged property), age of the mortgage loan, the value of the underlying property, accrued interest on the loan, expenses advanced by the insured and foreclosure expenses.

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

Consolidated Financial Statements

For the fourth quarter and year ended December 31, 2012

Management statement on responsibility for financial reporting

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

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

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

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

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

The Company's external auditors, KPMG LLP, Chartered 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.

Brian Hurley
President and Chief Executive Officer

Philip Mayers
Senior Vice-President and Chief Financial Officer

Toronto, Canada

Independent auditors' report

To the Shareholders of Genworth MI Canada Inc.

We have audited the accompanying consolidated financial statements of Genworth MI Canada Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Genworth MI Canada Inc. as at December 31, 2012 and 2011, 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 Accountants, Licensed Public Accountants

February 20, 2013
Toronto, Canada

Consolidated statements of financial position

(In thousands of Canadian dollars)

	December 31, 2012[1]	December 31, 2011[1]
Assets		
Cash and cash equivalents (note 9)	**$ 247,856**	$ 72,244
Short-term investments (note 9)	**90,014**	45,723
Accrued investment income and other receivables	**27,526**	38,155
Bonds and debentures:		
Available-for-sale ("AFS") (note 9)	**3,525,109**	3,712,077
Bonds and debentures under securities lending program AFS (note 9)	**208,765**	277,418
Government guarantee fund (note 10)	**979,196**	731,130
Equity investments AFS (note 9)	**328,411**	224,764
Total invested assets, accrued investment income and other receivables	**5,406,877**	5,101,511
Income taxes recoverable	**59,595**	2,625
Subrogation recoverable (note 6(c))	**91,260**	106,557
Prepaid assets	**1,914**	3,391
Property and equipment (note 16)	**1,578**	2,651
Intangible assets (note 17)	**9,740**	11,561
Deferred policy acquisition costs (note 6(d))	**152,311**	154,009
Goodwill (note 18)	**11,172**	11,172
Total assets	**$ 5,734,447**	$ 5,393,477
Liabilities		
Accounts payable and accrued liabilities	**$ 22,707**	$ 44,750
Loss reserves (note 6(b))	**139,398**	169,008
Share-based compensation liabilities (note 15)	**4,875**	3,170
Long-term debt (note 21)	**422,345**	421,945
Unearned premium reserves (note 6(a))	**1,785,141**	1,823,678
Accrued net benefit liabilities under employee benefit plans (note 14)	**26,719**	16,315
Net deferred tax liabilities (note 11)	**296,298**	231,484
Total liabilities	**2,697,483**	2,710,350
Shareholders' equity		
Share capital (note 20)	**1,463,612**	1,462,994
Retained earnings	**1,352,456**	1,005,276
Accumulated other comprehensive income	**220,896**	214,857
Total shareholders' equity	**3,036,964**	2,683,127
Subsequent event (note 10)		
Total liabilities and shareholders' equity	**$ 5,734,447**	$ 5,393,477

[1] Refer to note 23 for a presentation of assets and liabilities expected to be recovered or settled after 12 months.

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

Brian Hurley
Director

Brian Kelly
Director

Consolidated statements of income

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

Years ended December 31	**2012**	2011
Gross premiums written (note 6(a))	**$ 560,203**	$ 544,577
Net premiums written (note 6(a))	**$ 550,485**	$ 533,400
Net premiums earned (note 6(a))	**$ 589,040**	$ 611,886
Fees and other income	**50**	547
Underwriting revenue	**589,090**	612,433
Losses on claims (note 6(b))	**193,770**	224,510
Expenses:		
Premium taxes and underwriting fees	**33,386**	35,580
Employee compensation	**38,510**	34,030
Office expenses	**20,328**	20,458
Professional fees	**4,460**	5,747
Promotional expenses and travel	**5,783**	5,777
Other	**503**	1,081
Total expenses	**102,970**	102,673
Net change in deferred policy acquisition costs (note 6(d))	**1,698**	(1,391)
	104,668	101,282
Net underwriting income	**290,652**	286,641
Investment income:		
Interest	**154,692**	164,706
Dividends	**12,125**	8,935
Net realized gains on sale of investments	**12,103**	5,287
Decrease in unrealized loss on FVTPL investments	**—**	1,878
Guarantee fund earnings (note 10)	**7,107**	2,834
Impact of the reversal of the government guarantee fund exit fee (note 10)	**185,843**	—
Total investment income	**371,870**	183,640
General investment expenses	**(4,872)**	(4,393)
	366,998	179,247
Interest expense (note 21)	**22,966**	22,884
Income before income taxes	**634,684**	443,004
Income taxes (note 11):		
Current	**99,387**	109,025
Deferred	**64,875**	10,788
	164,262	119,813
Net income attributable to owners of the Company	**$ 470,422**	$ 323,191
Earnings per share (note 22):		
Basic	**$ 4.77**	$ 3.18
Diluted	**4.76**	3.13

See accompanying notes to the consolidated financial statements.

Consolidated statements of comprehensive income

(In thousands of Canadian dollars)

Years ended December 31	**2012**	2011
Net income	**$ 470,422**	$ 323,191
Other comprehensive income:		
Net change in fair value of AFS financial assets, net of income tax of $7,034 (2011 – income tax of $36,587)	**20,766**	95,803
Gains on AFS financial assets realized and reclassified to consolidated statements of income, net of income tax recovery of $5,553 (2011 – income tax recovery of $2,030)	**(14,727)**	(5,315)
Defined benefit plan actuarial losses, net of income tax recovery of $2,067 (2011 – income tax recovery of $582)	**(5,807)**	(1,679)
Total other comprehensive income attributable to owners of the Company net of income tax recovery of $586 (2011 – income tax of $33,975)	**232**	88,809
Total comprehensive income attributable to owners of the Company	**$ 470,654**	$ 412,000

See accompanying notes to the consolidated financial statements.

Consolidated statements of changes in equity

(In thousands of Canadian dollars)

	Share capital	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance at January 1, 2012	**$ 1,462,994**	**$1,005,276**	**$ 214,857**	**$ 2,683,127**
Comprehensive income:				
Net income	**—**	**470,422**	**—**	**470,422**
Other comprehensive income	**—**	**—**	**232**	**232**
Total comprehensive income	**—**	**470,422**	**232**	**470,654**
Transactions recognized directly in equity:				
Quarterly dividends on common shares[1]	**—**	**(117,435)**	**—**	**(117,435)**
Issuance of common shares	**618**	**—**	**—**	**618**
Defined benefit plan actuarial losses, net of tax recovery	**—**	**(5,807)**	**5,807**	**—**
Total transactions recognized directly in equity	**618**	**(123,242)**	**5,807**	**(116,817)**
Balance at December 31, 2012	**$ 1,463,612**	**$1,352,456**	**$ 220,896**	**$ 3,036,964**

	Share capital	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance at January 1, 2011	$ 1,553,463	$ 910,835	$ 124,369	$ 2,588,667
Comprehensive income:				
Net income	—	323,191	—	323,191
Other comprehensive income	—	—	88,809	88,809
Total comprehensive income	—	323,191	88,809	412,000
Transactions recognized directly in equity:				
Quarterly dividends on common shares[1]	—	(108,757)	—	(108,757)
Special dividend on common shares[2]	—	(49,333)	—	(49,333)
Issuance of common shares	764	—	—	764
Repurchase of common shares (note 20)	(91,233)	(68,981)	—	(160,214)
Defined benefit plan actuarial losses, net of tax recovery	—	(1,679)	1,679	—
Total transactions recognized directly in equity	(90,469)	(228,750)	1,679	(317,540)
Balance at December 31, 2011	$ 1,462,994	$1,005,276	$ 214,857	$ 2,683,127

[1] The Company paid dividends of $0.29 per common share in the first, second and third quarters of 2012 and $0.32 per common share in the fourth quarter of 2012 ($0.26 per common share in the first, second and third quarters of 2011 and $0.29 per common share in the fourth quarter of 2011).

[2] The Company paid a special dividend of $0.50 per common share in the fourth quarter of 2011.

See accompanying notes to the consolidated financial statements.

Consolidated statements of cash flows

(In thousands of Canadian dollars)

Years ended December 31	**2012**	2011
Cash provided by (used in):		
Operating activities:		
Net income	**$ 470,422**	$ 323,191
Adjustments for:		
Depreciation of property and equipment and amortization of intangible assets	**6,813**	6,018
Expensing of deferred policy acquisition costs	**47,469**	47,278
Income taxes	**164,262**	119,813
Interest income	**(154,692)**	(164,706)
Dividend income	**(12,125)**	(8,935)
Net realized gains on sale of investments	**(12,103)**	(5,287)
Decrease in unrealized loss on FVTPL investments	**—**	(1,878)
Interest expense	**22,966**	22,884
Guarantee fund earnings	**(7,107)**	(2,834)
Impact of the reversal of the government guarantee fund exit fee	**(185,843)**	—
Share-based compensation expense (income)	**3,302**	(759)
	343,364	334,785
Change in non-cash balances related to operations:		
Government guarantee fund	**(47,622)**	(56,618)
Accrued investment income and other receivables	**9,603**	(11,192)
Prepaid assets	**1,477**	(1,372)
Subrogation recoverable	**15,297**	(66,164)
Deferred policy acquisition costs	**(45,771)**	(48,669)
Accounts payable and accrued liabilities	**(22,104)**	(1,410)
Loss reserves	**(29,610)**	(37,603)
Unearned premium reserves	**(38,537)**	(78,486)
Accrued net benefit liabilities under employee benefit plans	**2,493**	1,686
	188,590	34,957
Cash generated from (used in) operating activities:		
Interest paid on long-term debt	**(22,905)**	(22,856)
Interest received from bonds and debentures	**166,192**	179,403
Income taxes paid	**(155,849)**	(132,808)
Dividends received from equity investments	**10,929**	8,935
Cash settled on vesting and exercise of share-based compensation	**(787)**	(956)
Net cash generated from operating activities	**186,170**	66,675
Financing activities:		
Dividends paid	**(117,435)**	(158,090)
Repurchase of common shares	**—**	(160,214)
Proceeds from exercise of share-based compensation	**—**	238
Net cash used in financing activities	**(117,435)**	(318,066)
Investing activities:		
Purchase of short-term securities	**(262,220)**	(112,404)
Proceeds from sale of short-term securities	**217,929**	73,669
Purchase of bonds	**(591,931)**	(803,759)
Proceeds from sale of bonds and bond maturities	**818,754**	847,454
Purchase of equities	**(206,830)**	(156,365)
Proceeds from sale of equities	**134,320**	127,179
Purchase of property and equipment and intangible assets	**(3,919)**	(3,275)
Investment in subsidiary, net of cash acquired	**774**	—
Net cash generated from (used in) financing activities	**106,877**	(27,501)
Increase (decrease) in cash and cash equivalents	**175,612**	(278,892)
Cash and cash equivalents, beginning of year	**72,244**	351,136
Cash and cash equivalents, end of year	**$ 247,856**	$ 72,244

See accompanying notes to the consolidated financial statements.

1. Reporting entity

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

Genworth Financial Inc., a public company listed on the New York Stock Exchange, indirectly holds approximately 57.5% of the common shares of the Company.

The Company holds a 100% ownership interest in the holding companies Genworth Canada Holdings I Limited ("Holdings I"), Genworth Canada Holdings II Limited ("Holdings II"), and MIC Holdings D Company ("Dco"), which was incorporated during the year ended December 31, 2012. The Company held a 100% ownership interest in the holding company MIC Holdings C Company ("Cco") which was wound up during the year for tax planning purposes. The Company also holds an indirect 100% ownership interest in Genworth Financial Mortgage Insurance Company Canada ("Genworth Mortgage Insurance Canada" or "the Insurance Subsidiary") through Holdings I and Holdings II. On November 15, 2012, the Insurance Subsidiary acquired all of the issued and outstanding shares of PMI Mortgage Insurance Company Canada ("PMI Canada"). Further details of the acquisition are provided in note 24 – Business Combination. These consolidated financial statements as at December 31, 2012 reflect the consolidation of the Company and these subsidiaries.

The Insurance Subsidiary is engaged in mortgage insurance in Canada. PMI Canada is a mortgage insurance company that has ceased writing new business and is in the process of running off its existing portfolio of business.

The Insurance Subsidiary and PMI Canada are regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI"), as well as applicable provincial financial services regulators.

2. Basis of preparation

(a) Statement of compliance

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

These consolidated financial statements were approved by the Board of Directors on February 20, 2013.

(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") and Fair Value Through Profit or Loss ("FVTPL") financial assets are measured at fair value;

(ii) Real estate and other assets recorded as subrogation recoverable are measured at the fair value of the asset at the reporting date less costs for obtaining and realizing the asset;

(iii) The government guarantee fund, which is comprised of net AFS financial assets, is measured at fair value;

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

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

(vi) Loss reserves 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. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

(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 and deferred policy acquisition costs. Each of these items is described below.

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

Premiums written are recorded net of risk premiums related to the terms of the Government Guarantee Agreement (note 10).

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

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

(ii) 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 determined by the Company's 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.

(iii) Deferred policy acquisition costs

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

3. Significant accounting policies (continued)

(iv) Subrogation recoveries and subrogation recoverable

Real estate and other collateral acquired as a result of settling claims are carried in subrogation recoverable at the fair value of the collateral less costs for obtaining and realizing the collateral.

Estimated borrower recoveries related to claims paid and loss reserves are recognized in subrogation recoverable net of estimated administrative fees associated with collection.

(c) Financial instruments

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

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

Financial assets and liabilities are offset and the net amount is presented in the statements of financial position when the Company has a legal 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.

The Company has classified its financial assets as financial assets at FVTPL and AFS financial assets as described below:

(ii) Financial assets at FVTPL

A financial asset is classified as FVTPL if it is considered to be held for trading or it is designated as such upon initial recognition.

FVTPL financial assets are recorded at fair value with realized gains and losses on sale and changes in the fair value recorded in investment 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. The Company classifies bonds and debentures, including bonds and debentures in the government guarantee fund, short-term investments, equity investments, and cash and cash equivalents in the AFS financial asset category. These financial assets are designated as and qualified to be AFS because they are traded in an active market.

AFS financial assets are recorded at fair value with changes in the fair value of these assets recorded in other comprehensive income. 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 and recorded in investment income.

Transaction costs are capitalized as part of the carrying value of the AFS financial assets.

(iv) Loans and receivables

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

(d) Securities lending

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

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

(e) Interest income

Interest income from fixed income investments including 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.

(f) Dividend income

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

(g) Non-derivative financial liabilities

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

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies all non-derivative financial liabilities into the Other Financial Liabilities category. Such financial liabilities are recognized initially at fair value along with any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Non-derivative financial liabilities are comprised of the Company's long-term debt (note 21) and accounts payable and accrued liabilities including balances due to the Company's majority shareholder and companies under common control (note 12).

(h) Property and equipment

(i) Recognition and measurement

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes all expenditures that are directly attributable to acquiring the asset and preparing it for its intended use.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property and equipment, and are recognized on a net basis in income.

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

(ii) Subsequent costs

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

3. Significant accounting policies (continued)

(iii) Depreciation

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

The estimated useful lives for the current and comparative periods are as follows:

Computer software	3–5 years
Computer hardware and other	3 years
Furniture and equipment	5 years
Leasehold improvements	Term of related lease

(i) Intangible assets

Goodwill

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

Other intangible assets

(i) Recognition and measurement

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

(ii) Subsequent expenditures

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

(iii) Amortization

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

(j) Impairment

(i) Impairment of financial assets

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

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

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

(ii) Impairment of non-financial assets

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

Goodwill is tested for impairment on an annual basis regardless of whether an indication of impairment exists.

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

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

(k) Income taxes

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

(i) Current tax

Current taxes are recognized for estimated income taxes payable or recoverable for the current year and any adjustments to taxes payable in respect of prior years. The tax rates and laws used to compute these amounts are those that are enacted or substantively enacted at the date of the consolidated financial statements. Current taxes payable and current taxes recoverable are offset when they relate to income taxes imposed by the same taxation authority for the same legal entity and the taxation authority permits making or receiving a single net payment.

3. Significant accounting policies (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 differences relate to policy reserves and the government guarantee fund.

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 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.

(l) Employee benefits

(i) Defined contribution pension plan

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

(ii) Defined benefit plans

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

Actuarial valuations of benefit liabilities for pension and other post-employment benefit plans are performed as at December 31 of each year using the projected unit credit method and based on management's assumptions including assumptions on the discount rate, rate of compensation increase, retirement age, mortality and the trend in the health care cost rate. Obligations for the SERP are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of termination, death or retirement. Obligations for other non-pension post-employment benefits are attributed to the period beginning on the employee's date of hire to the date the employee reaches the age of 55 and is entitled to benefits under the plan.

Actuarial gains and losses arising from changes in actuarial assumptions used to determine the benefit obligations are recognized in other comprehensive income in the period in which they arise, and reported in retained earnings.

Prior service costs arising from plan amendments are recognized in expense over the employee benefit vesting period or in the period in which the plan amendments are introduced if immediately vested.

Settlements occur when benefit liabilities for plan participants are settled, usually through lump sum cash payments, and as a result the Company no longer has a liability to provide the affected employees with benefit payments in the future. The Company recognizes gains or losses on settlement of a defined benefit obligation when the 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 benefits

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

(iv) Share-based compensation

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

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

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

RSUs, PSUs, and DSUs 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 or DSU 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.

(m) Share capital

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

(n) Foreign currency translation

Transactions in foreign currencies are translated to Canadian dollars at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Canadian dollars at period end rates. Foreign currency differences arising on translation are recognized in income.

(o) 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. New accounting pronouncements

(a) New accounting pronouncements currently effective

(i) IFRS 7 – *Financial instruments – disclosures* ("IFRS 7")

In October 2010 the IASB issued *Amendments to IFRS 7 Disclosures – Transfers of financial assets*.

The amendments to IFRS 7 require disclosure of information that enables users of financial statements:

- to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. The amendments define "continuing involvement" for the purposes of applying the disclosure requirements.

The amendments to IFRS 7 do not have a material impact on the Company's current disclosures.

(b) New accounting pronouncements effective at future dates

The following new standards and amendments to existing standards have been issued by the IASB and are not effective for the fiscal year beginning January 1, 2012. The Company has not early adopted any of the new standards and amendments and is currently evaluating the impact of adoption on its consolidated financial statements.

(i) IAS 1 – *Presentation of financial statements* ("IAS 1")

In June 2011, the IASB published amendments to the requirements for presentation of items of OCI in IAS 1. The amendments require that an entity present separately the items of OCI that may be reclassified to income in the future from those that would never be reclassified to income. Entities will continue to have a choice of whether to present components of OCI before or after tax. Those that present components of OCI before tax will be required to disclose the amount of tax related to the two groups separately. The Company will adopt the amendment on January 1, 2013.

This amendment will result in presentation changes in the Company's consolidated statement of OCI.

(ii) IAS 19 – *Employee benefits* ("IAS 19")

In June 2011, the IASB published an amended version of IAS 19. The amendments require:

- the elimination of the corridor method with actuarial gains and losses recognized immediately in OCI (without subsequent recycling of the actuarial gains and losses to income);
- recognition of prior service costs in full immediately in income in the period of a plan amendment;
- replacement of the expected return on plan assets with a net interest amount based on the discount rate used to measure the benefit obligation;
- expanded disclosures that include the characteristics of the entity's defined benefit plans and risks associated with them, as well as disclosures that describe how defined benefit plans may affect the amount, timing and uncertainty of future cash flows; and
- the recognition of termination benefits at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37 – *Provisions, contingent liabilities and contingent assets* ("IAS 37") and when the entity can no longer withdraw the offer of the termination benefits.

The amendment is effective for annual periods on or after January 1, 2013 and is to be applied retrospectively. Early adoption is permitted.

The Company's current accounting policy is to recognize actuarial gains and losses immediately in OCI. The Company has recognized all prior service costs to date fully in income as the prior service costs are fully vested. The Company's recognition of defined benefit plans is not impacted by changes in the calculation of expected return on plan assets as its defined benefit plans are unfunded. Therefore, the Company does not anticipate a significant impact to the Company's consolidated financial statements relating to recognition and measurement of employee benefits. The adoption of the revised standard will result in additional disclosures related to the Company's defined benefit plans.

(iii) IFRS 13 – *Fair value measurement* ("IFRS 13")

IFRS 13 replaces the fair value guidance contained in individual IFRSs with a single source. IFRS 13 explains how to measure fair value when it is required or permitted by other IFRSs but the standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard requires the fair value hierarchy, which was introduced by IFRS 7, to be applied to all fair value measurements, including non-financial assets and liabilities that are measured at or based on fair value in the statements of financial position. IFRS 13 also expands disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on income or OCI.

The prospective adoption of IFRS 13 on January 1, 2013 may result in additional disclosure to the Company relating to inputs used to develop fair value measurements.

(iv) Scope of the reporting entity and consolidation

In May 2011, the IASB published five new and revised standards that address the scope of the reporting entity and consolidation. The new standards are IFRS 10 – *Consolidated financial statements* ("IFRS 10"), IFRS 11 – *Joint arrangements* ("IFRS 11") and IFRS 12 – *Disclosure of interests in other entities* ("IFRS 12"). The revised standards are IAS 28 – *Investments in associates and joint ventures* ("IAS 28") and IAS 27 – *Consolidated and separate financial statements* ("IAS 27").

(a) IFRS 10 introduces a single control model to determine whether an investee should be consolidated that uses the same criteria to determine control for entities of all types, irrespective of whether the investee is controlled by voting rights or other contractual arrangements. The principle that a consolidated entity presents a parent and its subsidiaries as a single entity remains unchanged, as do the mechanics of consolidation. IFRS 10 supersedes existing guidance under IAS 27 and SIC-12 – *Consolidation – Special Purpose Entities* ("SIC-12").

(b) IFRS 11 establishes principles for financial reporting by parties to a joint arrangement, and only differentiates between joint operations and joint ventures. The option to apply proportionate consolidation when accounting for joint ventures has been eliminated. Equity accounting is now required in accordance with IAS 28. IFRS 11 supersedes existing guidance under IAS 31 – *Interests in joint ventures* ("IAS 31") and SIC-13 – *Jointly controlled entities – non-monetary contributions by venturers* ("SIC-13").

(c) IFRS 12 sets out the disclosure requirements related to IFRS 10, IFRS 11, and IAS 28. The enhanced disclosures in the new standard are intended to help financial statement users evaluate the nature, risks and financial effects of an entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

(d) IAS 28 has been amended in accordance with the changes to accounting for joint ventures in IFRS 11. The amended standard prescribes the accounting for investments in associates and provides guidance on the application of the equity method when accounting for investments in associates and joint ventures.

(e) IAS 27 has been amended to provide guidance on the accounting and disclosure requirements for investments in subsidiaries, associates and joint ventures when an entity prepares separate financial statements. The amended standard requires an entity preparing separate financial statements to account for investments at cost or in accordance with IFRS 9 – *Financial Instruments*.

These standards are applicable for annual periods beginning on or after January 1, 2013. Earlier application is permitted so long as all of these new standards and changes in the existing standards are applied at the same time.

The adoption of these standards and amendments of standards will result in additional disclosure requirements for the Company. There will be no change to the Company's current requirements to consolidate subsidiaries.

4. New accounting pronouncements (continued)

(v) IFRS 9 – *Financial instruments* ("IFRS 9")

In November 2009 the IASB issued IFRS 9 (IFRS 9 (2009)) and in October 2010 the IASB published amendments to IFRS 9 (IFRS 9 (2010)). The IASB published additional amendments to IFRS 9 in November 2012 (IFRS 9 (2012)).

IFRS 9 (2009) replaces the guidance in IAS 39 – *Financial instruments – recognition and measurement* ("IAS 39"), on the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The Standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. Financial assets will be classified and measured under one of two measurement bases on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

Under IFRS 9 (2012), the classification of financial assets based on business model and characteristics of contractual cash flows is further refined. Debt instruments may be classified either as fair value through profit or loss ("FVTPL") or fair value through OCI ("FVOCI"). Debt instruments held within a business model whose objective is to sell financial assets will be classified as FVTPL. Gains and losses on re-measurement of FVTPL debt instruments will be recognized in income. Debt instruments held within a business model whose objective is to hold financial assets to collect principal and interest will be classified as FVOCI. Gains and losses on re-measurement of FVOCI financial assets will be recognized in OCI.

Under IFRS 9 (2009), gains and losses on re-measurement of equity investments will be recognized in income, except that for an investment in an equity instrument which is not held-for-trading, on initial recognition, an irrevocable election is available to present all fair value changes in OCI. The election is available on an individual share-by-share basis. Amounts presented in OCI for equity investments will not be reclassified to income at a later date.

IFRS 9 (2010) added guidance to IFRS 9 (2009) on the classification and measurement of financial liabilities, and this guidance is consistent with the guidance in IAS 39 except as described below.

Under IFRS 9 (2010), for financial liabilities measured at fair value under the fair value option, changes in fair value attributable to changes in an entity's own credit risk will be recognized directly in OCI, with the remainder of the changes recognized in income. However, if this requirement creates or enlarges an accounting mismatch in income, the entire change in fair value will be recognized in income. Amounts presented in OCI will not be reclassified to income at a later date.

IFRS 9 (2010) also requires derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument to be measured at fair value, whereas such derivative liabilities are measured at cost under IAS 39.

IFRS 9 (2010) also added the requirements of IAS 39 for the derecognition of financial assets and liabilities to IFRS 9 without revision to these requirements.

The adoption of the existing chapters of IFRS 9 is required for annual periods beginning on or after January 1, 2015. Early adoption is permitted once IFRS 9 is finalized, except that early adoption of requirements of recognition of changes in an entity's own credit risk is permitted prior to finalization of IFRS 9.

The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and to add new requirements to address the impairment of financial assets and hedge accounting.

The adoption of IFRS 9 is expected to have an impact on the Company's financial assets. The Company is currently evaluating the impact of IFRS 9.

(vi) Amendments to IAS 32 and IFRS 7 – *Offsetting financial assets and financial liabilities*

In December 2011, the IASB amended the requirements for offsetting financial assets and financial liabilities in IAS 32 – *Financial instruments presentation* ("IAS 32") and issued new disclosure requirements in IFRS 7.

The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement.

The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are:

- offset in the statements of financial position; or
- subject to master netting arrangements or similar arrangements.

The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively.

The Company does not expect the amendments to IAS 32 to have a significant impact on its financial statements. The amendments to IFRS 7 may result in additional disclosure to the Company related to assets and liabilities that are offset in the Company's financial statements.

(vii) IFRS 4 – *Insurance contracts* ("IFRS 4")

The IASB issued exposure draft ED/2010/8 Insurance Contracts (the "ED") on July 30, 2010. The ED proposes a new standard for insurance contracts, which would replace IFRS 4. The proposals represent the first comprehensive accounting model for insurance contracts. On September 28, 2012, the IASB announced its intention to issue a limited re-exposure draft of the proposed new insurance contracts accounting standard in the first half of 2013. The final standard is expected in 2014, with implementation not expected before 2018.

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

5. Significant judgments and estimates

(a) Judgments

Significant judgments made in applying accounting policies are as follows:

(i) Objective evidence of impairment of AFS financial assets

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

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

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

(ii) Reversal of the government guarantee fund exit fee

Management applied judgment in determining the timing of the recognition of the reversal of the government guarantee fund exit fee.

(b) Estimates

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

(i) Premiums earned

Mortgage insurance premiums are deferred and then taken into underwriting revenues over the terms of the related policies. The rates or formulae under which premiums are earned relate to the loss emergence pattern in each year of coverage. In order to match premiums earned to losses on claims, premiums written are recognized as premiums earned using a factor-based premium recognition curve. In constructing the premium recognition curve, the Company applies actuarial forecasting techniques to historical loss data to determine expected loss development and the related loss emergence pattern. The actuarial forecasting techniques incorporate economic assumptions that impact future losses and loss development including unemployment rates, interest rates and expected changes in house prices. The premium recognition curve is reviewed quarterly based on the most current available historical loss data and economic assumptions and updated as required. See note 6(a) for disclosure of the impact of the current and comparative periods' premium recognition curve updates.

(ii) Losses

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

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

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

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

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

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

(iii) Subrogation recoverable

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

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

(iv) Deferred policy acquisition costs

Deferred policy acquisition costs are comprised of premium taxes, appraisal costs, 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.

(v) Utilization of tax losses

As at December 31, 2012, the Company has recognized $10,709 of tax losses (2011 – $9,900). Management considers it probable that future taxable profits will be available against which these tax losses can be utilized.

(vi) Share-based compensation

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

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

(vii) Employee future benefits

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

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 net premiums earned are as follows:

	December 31, 2012	December 31, 2011
Unearned premium reserves, beginning of year	**$ 1,823,678**	$ 1,902,164
Net premiums written during the year	**550,485**	533,400
Net premium earned during the year	**(589,040)**	(611,886)
Unearned premiums acquired in business combination (note 24)	**18**	—
Unearned premium reserves, end of year	**$ 1,785,141**	$ 1,823,678

Gross premiums written of $560,203 for the year ended December 31, 2012 (2011 – $544,577) are recorded net of risk premiums related to the Government Guarantee Agreement of $9,718 (2011 – $11,177) in accordance with the requirement described in note 10.

The Company performs actuarial studies of its multi-year loss experience on a quarterly basis. These studies have indicated a change in the Company's loss emergence pattern, reflecting a pattern of loss occurrence earlier in an insurance policy's life. Changes in the loss emergence pattern have resulted in the corresponding acceleration of premium recognition for the years ended December 31, 2012 and 2011. The cumulative impact of the experience updates for the year ended December 31, 2012 was an increase of earned premium and corresponding decrease in unearned premium reserves of $26,948 (2011 – $39,256).

Key methodologies and assumptions

Premiums written are recognized as premiums earned using a factor-based premium recognition curve that is based on the Company's expected loss emergence pattern. The principal assumption underlying the formation of the premium recognition curve is that the Company's future claims development will follow a similar pattern to past claims emergence patterns. Approximately 80% of the Company's premiums written are recognized as premium earned within the first five years of policy inception based on the current premium recognition curve. A shift in the Company's loss emergence pattern could change the timing of the Company's recognition of earned premium and impact the Company's financial performance for a period. The actuarial forecasting technique used to establish the loss emergence pattern also incorporates economic assumptions that impact future losses and loss development including unemployment rates, interest rates, and expected changes in house prices. There is inherent risk that future economic conditions could differ, perhaps significantly, from the best estimates made.

The Company's actuary performs a liability adequacy test on the Company's unearned premium reserves using a dynamic regression model that is in accordance with accepted actuarial practice. The purpose of the test is to ensure the unearned premium liability at year end is sufficient to pay for future claims and expenses that may arise from unexpired insurance contracts. The liability adequacy test for the years ended December 31, 2012 and 2011 identified a surplus in the Company's unearned premium reserves and thus no premium deficiency reserves are required at these reporting dates.

(b) Loss reserves

Loss reserves are comprised of the following:

	December 31, 2012	December 31, 2011
Case reserves	**$ 92,735**	$ 123,289
IBNR	**41,413**	40,469
Discounting	**(2,890)**	(4,034)
Provision for adverse deviation	**8,140**	9,284
Total loss reserves	**$ 139,398**	$ 169,008

Changes in loss reserves recorded in the consolidated statement of financial position and their impact on losses on claims are as follows:

	December 31, 2012	December 31, 2011
Loss reserves, beginning of year	**$ 169,008**	$ 206,611
Claims paid during the year	**(224,126)**	(262,113)
Net losses on claims incurred during the year:		
Losses on claims related to the current year	**142,640**	172,200
Losses on claims related to prior years	**51,130**	52,310
Loss reserves acquired in business combination (note 24)	**746**	—
Loss reserves, end of year	**$ 139,398**	$ 169,008

Claims development

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

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Development:											
Claims incurred at the end of the default year	$ 35,262	$ 43,825	$ 52,845	$ 70,994	$102,549	$148,493	$196,586	$175,189	$172,200	$143,388	
Claims incurred one year later	18,968	22,727	29,670	46,971	106,468	200,807	218,890	193,820	193,226	—	
Claims incurred two years later	21,355	21,397	30,542	54,352	112,224	204,706	247,663	217,034	—	—	
Claims incurred three years later	20,877	21,210	31,485	55,461	115,632	209,850	252,041	—	—	—	
Claims incurred four years later	20,868	21,001	31,431	56,072	115,816	212,615	—	—	—	—	
Claims incurred five years later	20,866	20,807	31,245	55,701	115,651	—	—	—	—	—	
Current estimate of claims incurred	$ 20,866	$ 20,807	$ 31,245	$ 55,701	$115,651	$212,615	$252,041	$217,034	$193,226	$143,388	$1,262,574
Cumulative payments to date	20,866	20,807	31,245	55,701	115,647	208,387	251,716	213,845	173,562	31,400	1,123,176
Current loss reserves	$ —	$ —	$ —	$ —	$ 4	$ 4,228	$ 325	$ 3,189	$ 19,664	$111,988	$ 139,398
Current estimate of surplus (deficiency)	$ 14,396	$ 23,018	$ 21,600	$ 15,293	$ (13,102)	$ (64,122)	$ (54,455)	$ (41,845)	$ (21,026)	$ —	
% surplus (deficiency) of initial gross loss reserve	41%	53%	41%	22%	(13%)	(43%)	(28%)	(24%)	(12%)	—	

6. Insurance contracts (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 removed. A cure is defined as a reported delinquency that closes with no claim payment or only nominal loss adjustment expenses. Claim frequency is influenced by labour market performance and changes in house prices. The Company estimates claim frequency for case reserves by analyzing individual reported delinquencies. The Company estimates claim frequency for incurred but not reported delinquencies by applying average delinquency-to-paid-claim ratios to historical reported delinquencies, derived from tracking and analyzing policyholder behaviour over time.

(ii) Claim severity

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

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

Sensitivities

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 pre-tax income 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. Movements in these assumptions are non-linear.

December 31, 2012 Sensitivity factor	**Change in assumptions**	**Impact on net income before income taxes**	**Impact on shareholders' equity**
Claim frequency	**+10%**	**$ (27,709)**	**$ (20,435)**
	-10%	**27,709**	**20,435**
Claim severity	**+10%**	**(27,709)**	**(20,435)**
	-10%	**27,709**	**20,435**

December 31, 2011 Sensitivity factor	Change in assumptions	Impact on net income before income taxes	Impact on shareholders' equity
Claim frequency	+10%	$ (34,088)	$ (24,543)
	-10%	34,088	24,543
Claim severity	+10%	(34,088)	(24,543)
	-10%	34,088	24,543

(c) Subrogation recoverable

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

	December 31, 2012	December 31, 2011
Real estate owned, beginning of year	$ 85,310	$ 40,393
Real estate assets acquired as a result of settling claims during the period at fair value	327,349	220,647
Change in market value for real estate on hand	(28,066)	(13,270)
Real estate assets sold	(317,703)	(162,460)
Real estate owned, end of year	66,890	85,310
Borrower recoveries, beginning of year	21,247	—
Net borrower recoveries recognized	3,123	21,247
Borrower recoveries, end of year	24,370	21,247
Subrogation recoverable, end of year	$ 91,260	$ 106,557

When claims are paid, the Company typically obtains a legally enforceable judgment against the borrowers for the amount of the loss incurred. The Company actively engages in collection activities to recover monies from the borrowers under the judgments. During the year ended December 31, 2011, management determined that there was sufficient historical experience of successful recoveries from borrowers in order to establish an expected recovery rate and to record a recovery accrual related to past claims paid and current loss reserves. This resulted in a $21,247 decrease to losses on claims and corresponding increase to subrogation recoverable. During the year ended December 31, 2012, the expected borrower recovery rate was adjusted to reflect the most current historical experience of successful recoveries. Accordingly, an additional $3,123 in net borrower recoveries was recognized.

(d) Deferred policy acquisition costs

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

	December 31, 2012	December 31, 2011
Deferred policy acquisition costs, beginning of year	$ 154,009	$ 152,618
Policy acquisition costs deferred during the year	45,771	48,669
Deferred policy acquisition costs expensed during the year	(47,469)	(47,278)
Net change in deferred policy acquisition costs during the year	(1,698)	1,391
Deferred policy acquisition costs, end of year	$ 152,311	$ 154,009

The Company's quarterly actuarial studies of multi-year loss experience have resulted in acceleration of premium recognition. Expensing of deferred policy acquisition costs is accelerated in proportion to the additional premiums recognized. The experience update for the year ended December 31, 2012 resulted in additional expensing of deferred policy acquisition costs of $2,155 (December 31, 2011 – $2,857).

7. Financial risk management

(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 insurance risk that the Company is exposed to is of a short-tail nature as the average duration of claims liabilities is 2.54 years (2011 – 2.64 years).

The Company's risk management framework facilitates the identification and assessment of risks, and the ongoing monitoring and management of these risks. The objective of the framework and related internal control procedures is to ensure risks are within the Company's defined risk appetite and tolerance and to achieve profitable underwriting results. There have been no significant changes to the Company's exposure to insurance risk or the framework used to monitor, evaluate and manage risks at December 31, 2012 compared to December 31, 2011.

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

(i) Pricing risk

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

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

(ii) Underwriting risk

Underwriting risk is the risk that the Company's underwriting function will underwrite mortgage insurance under terms that do not comply with the Company's pre-established risk guidelines, resulting in inappropriate risk acceptance by the business. The underwriting results of the mortgage insurance business can fluctuate significantly due to the cyclicality of the Canadian mortgage market. The mortgage market is affected primarily by housing supply and demand, interest rates, and general economic factors including unemployment rates.

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

(iii) Claims management risk

Claims management risk is the risk that loss mitigation efforts will be unsuccessful, resulting in larger than anticipated losses to the Company.

Claims submitted by lending institutions are subject to the Company's review, appraisal, and possible adjustment. Loss mitigation officers with the requisite degree of competence have authority to approve claim payments up to a maximum dollar amount based on their experience and level of proficiency. 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 real estate properties to the Company in select circumstances. This strategy allows for better control of the property marketing process, reduction of carrying costs and potential of realization of a higher property sales price.

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

(iv) Loss reserving risk

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

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

(v) Insurance portfolio concentration risk

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

The exposure to insurance portfolio concentration risk is mitigated by a portfolio that is diversified across geographic regions. The Company monitors the conditions of the housing market and economy in each region of Canada against pre-determined risk tolerances and utilizes this data to customize underwriting guidelines and loss mitigation initiatives by region. Additional scrutiny is given to geographic regions where property values are particularly sensitive to an economic downturn.

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

	December 31, 2012		December 31, 2011	
Gross premiums written	**Amount**	**%**	Amount	%
Ontario	**$ 222,356**	**40**	$ 207,922	38
Quebec	**79,388**	**14**	86,100	16
Alberta	**119,102**	**21**	119,787	22
British Columbia	**66,642**	**12**	68,614	13
Other	**72,715**	**13**	62,154	11
	$ 560,203	**100**	$ 544,577	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.

7. Financial risk management (continued)

(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 investment assets.

The total credit risk exposure at December 31, 2012 is $3,942,674 (2011 – $4,202,949) and comprises $3,733,874 (2011 – $3,989,495) of bonds and debentures, $nil (2011 – $23,019) of preferred shares, $90,014 (2011 – $45,723) of short-term investments, $27,526 (2011 – $38,155) of accrued investment income and other receivables, and $91,260 (2011 – $106,557) of subrogation recoverable.

The Company is indirectly exposed to credit risk through its proportionate interest in the investment assets of the government guarantee fund under the Government Guarantee Agreement (notes 7(e) and 10).

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

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

	2012		2011	
	Carrying value		Carrying value	
Credit rating	**Amount**	**%**	Amount	%
AAA	**$ 1,109,865**	**29.0**	$ 1,253,706	30.9
AA	**1,252,399**	**32.8**	1,508,484	37.2
A	**1,288,958**	**33.7**	1,140,721	28.1
BBB	**172,666**	**4.5**	155,185	3.8
Lower than B and unrated	**—**	**—**	141	—
	$ 3,823,888	**100.0**	$ 4,058,237	100.0

As at December 31, 2012, 95.5% of the Company's investment portfolio was rated 'A' or better, compared to 96.2% at December 31, 2011.

The following AFS investments were in an unrealized loss position:

	2012			2011		
	Carrying value	**Amortized cost/cost**	**Unrealized loss**	Carrying value	Amortized cost/cost	Unrealized loss
Government bonds	**$ 23,575**	**$ 23,578**	**$ (3)**	$ 46,382	$ 46,392	$ (10)
Corporate bonds	**96,693**	**96,969**	**(276)**	23,678	25,326	(1,648)
Preferred shares	**—**	**—**	**—**	13,671	14,277	(606)
Common shares	**55,148**	**60,663**	**(5,515)**	95,163	104,940	(9,777)
Total	**$ 175,416**	**$ 181,210**	**$ (5,794)**	$178,894	$190,935	$ (12,041)

As at December 31, 2012, the cost of 38 AFS investments exceeded their fair value by $5,794 (2011 – 38 AFS investments exceeded their fair value by $12,041). This unrealized loss is recorded in AOCI as part of unrealized gains on AFS investments. In the years ended December 31, 2012 and 2011, unrealized losses on investments arose primarily from volatility in the equity markets. The Company has the ability to hold these investments until there is a recovery of fair value and these unrealized losses are considered to be temporary in nature. The Company conducts a monthly review to identify and evaluate investments that show objective evidence of impairment. There are no significant or prolonged declines in value for any AFS investments at December 31, 2012 and 2011.

At December 31, 2012, nil of the Company's investments were impaired, compared to $141 at December 31, 2011. The breakdown of the Company's impaired investments is presented below:

		2012			2011		
	Credit rating	Carrying value prior to impairment	Cumulative impairment loss	Carrying value	Carrying value prior to impairment	Cumulative impairment loss	Carrying value
Lehman Brothers Holdings Inc. bond	Unrated	$ —	$ —	$ —	$ 590	$ (541)	$ 141

Total interest income earned on impaired investments held at December 31, 2012 was nil (2011 – nil).

(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 asset maturities and other returns received on investments, and financing activities. Cash provided from these sources is used primarily for loss and loss adjustment expense payments, operating expenses and payment of dividends. To ensure liquidity requirements are met, the Company holds a portion of investment assets in liquid securities. At December 31, 2012, the Company has cash and cash equivalents of $247,856 (2011 – $72,244) and short-term investments of $90,014 (2011 – $45,723).

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

	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
As at December 31, 2012	**$ 453,867**	**$ 1,094,967**	**$ 961,246**	**$ 829,674**	**$ 484,134**	**$ 3,823,888**
As at December 31, 2011	$ 378,613	$ 1,072,348	$ 1,070,995	$ 951,332	$ 561,930	$ 4,035,218

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
As at December 31, 2012						
Loss reserves	**$ 84,018**	**$ 55,380**	**$ —**	**$ —**	**$ —**	**$ 139,398**
Long-term debt	**—**	**150,000**	**—**	**275,000**	**—**	**425,000**
As at December 31, 2011						
Loss reserves	$ 94,598	$ 72,408	$ 2,002	$ —	$ —	$ 169,008
Long-term debt	—	—	150,000	275,000	—	425,000

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 and equity price risk.

(i) Interest rate risk

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

As at December 31, 2012, management estimates that an immediate hypothetical 100 basis point, or 1%, increase in interest rates would decrease the market value of the AFS bonds and debentures and short-term investments by approximately $132,000, representing 3.45% of the $3,823,888 fair value of these investments, and decrease the value of loss reserves by $1,005. Conversely, a 100 basis point, or 1%, decrease in interest rates would increase the market value of the AFS bonds and debentures and short-term investments by approximately $141,000, representing 3.69% of the fair value, and increase the value of loss reserves by approximately $1,024.

As at December 31, 2011, 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 $147,000, representing 3.62% of the $4,058,237 fair value of these investments, and decrease the value of loss reserves by $1,301. 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 $157,000, representing 3.87% of the fair value, and increase the value of loss reserves by approximately $1,328.

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

(ii) Equity price risk

Equity price risk is the risk that the fair values of 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.

As at December 31, 2012, the Company had a total investment in common shares of $328,411. Management estimates that a 10% increase in the equity price index would increase the market value of the common shares by $23,317 and that a 10% decrease in the equity price index would decrease the market value of the common shares by the same amount.

As at December 31, 2011, the Company had a total investment in common shares of $201,745. Management estimates that a 10% increase in the equity price index would increase the market value of the common shares by $14,123 and that a 10% decrease in the equity price index would decrease the market value of the common shares by the same amount.

The Company has policies to limit and monitor exposures to individual equity investment issuers and its aggregate exposure to equities.

(e) Government guarantee fund

(i) Credit risk

The total credit risk exposure for the government guarantee fund at December 31, 2012 is $951,705 (2011 – $911,586) and comprises $949,037 of bonds and debentures (2011 – $891,566), nil of short-term investments (2011 – $17,354), and $2,668 (2011 – $2,666) of accrued investment income.

The Company limits credit exposure relative to the government guarantee fund by investing 100% of the portfolio into investments issued by the Government of Canada or agencies unconditionally guaranteed by the Government of Canada. The breakdown of the Company's government guarantee fund investment portfolio by credit rating is presented below:

	December 31, 2012		December 31, 2011	
Credit rating	**Carrying value**	**%**	Carrying value	%
AAA	**$ 949,037**	**100.0**	$ 908,920	100.0

As at December 31, 2012, the cost of 7 AFS bonds exceeded their fair value by $147 (2011 – the cost of 5 AFS bonds exceeded their fair value by $82). This unrealized loss is recorded in AOCI as part of unrealized gains on AFS investments. Due to the fact that the bond issuers are either the Government of Canada or agencies unconditionally guaranteed by the Government of Canada, the Company expects that future interest and principal payments will continue to be received on a timely basis. Since the Company has the ability and intent to hold these investments until there is a recovery of fair value, which may be at maturity, these investments are not considered to be impaired.

The following AFS bonds were in an unrealized loss position:

	December 31, 2012			December 31, 2011		
	Carrying value	**Amortized cost**	**Unrealized loss**	Carrying value	Amortized cost	Unrealized loss
Government bonds	**$ 22,870**	**$ 22,889**	**$ (19)**	$ 32,584	$ 32,588	$ (4)
Agencies unconditionally guaranteed by the Government of Canada	**60,405**	**60,533**	**(128)**	58,131	58,209	(78)
Total	**$ 83,275**	**$ 83,422**	**$ (147)**	$ 90,715	$ 90,797	$ (82)

(ii) Liquidity risk/maturity analysis

The table below summarizes the carrying value by the earliest contractual maturity of the government guarantee fund bonds and debentures and short-term investments:

	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
As at December 31, 2012	**$ 24,657**	**$ 309,307**	**$ 321,044**	**$ 115,947**	**$ 178,082**	**$ 949,037**
As at December 31, 2011	96,607	171,675	355,620	107,607	177,411	908,920

7. Financial risk management (continued)

(iii) Market risk

The market risk to which the government guarantee fund investments are exposed is interest rate risk.

As at December 31, 2012, 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 in the government guarantee fund by approximately $37,000 representing 3.90% of the $949,037 fair value of the government guarantee fund investment portfolio, and decrease the value of the liability to the Mortgage Insurance Company of Canada ("MICC") by $510 (note 10). Conversely, a 100 basis point, or 1%, decrease in interest rates would increase the market value of the government guarantee fund investments by approximately $41,000, representing 4.32% of the fair value, and increase the value of the liability to MICC by $566. In previous years, the impact of interest rate fluctuations on the exit fee was measured and disclosed. During the year ended December 31, 2012, the exit fee liability has been extinguished.

As at December 31, 2011, management estimates that an immediate hypothetical 100 basis point, or 1%, increase in interest rates would decrease the market value of the AFS bonds and debentures and short-term investments in the government guarantee fund by approximately $45,000, representing 4.95% of the $908,920 fair value of the government guarantee fund investment portfolio, and decrease the value of the exit fee and liability to MICC by $9,481 (note 10). Conversely, a 100 basis point, or 1%, decrease in interest rates would increase the market value of the government guarantee fund investments by approximately $56,000, representing 6.16% of the fair value, and increase the value of the exit fee and liability to MICC by $11,726.

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: (i) the existing level and composition of the government guarantee fund investments will be maintained; (ii) shifts in the yield curve are parallel; and (iii) credit and liquidity risks have not been considered.

8. Capital management and regulatory requirements

Capital comprises the Company's shareholders' equity.

The Company's objectives when managing capital are to maintain financial strength and a strong external strength rating, to protect its loss-paying abilities, and to maximize returns to shareholders over the long term.

The Insurance Subsidiary is a regulated insurance company governed by 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 the Act. The Act limits dividends to shareholders under certain circumstances.

The Insurance Subsidiary is required under the Act to meet a minimum capital test ("MCT") to support its outstanding mortgage insurance in force. The MCT ratio is calculated based on a model developed by OSFI. The statutory minimum is 100%, and OSFI has established a supervisory MCT ratio for the Insurance Subsidiary of 120% (2011 – 120%). To measure the degree to which the Insurance Subsidiary is able to meet regulatory capital requirements, the Company's actuary must present an annual report to the Audit Committee and management on the Insurance Subsidiary's current and future solvency under various projected scenarios. In addition, the Company has established an internal capital ratio for the Insurance Subsidiary of 145% (2011 – 145%).

The MCT is conducted for the Insurance Subsidiary on a consolidated basis and includes the MCT results of PMI Canada.

As at December 31, 2012, the Insurance Subsidiary had an MCT ratio of 170% (2011 – 162%) and has complied with the regulatory and internal capital requirements.

The Company's Board of Directors has adopted a capital management policy for the Company and its Insurance Subsidiary. The policy identifies sources of capital, establishes a capital adequacy 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

Investments are carried at fair value. The Company's investments, excluding the government guarantee fund, are summarized as follows:

	December 31, 2012				December 31, 2011			
	Fair value	**Amortized cost/cost**	**Unrealized gain (loss)**	**% Fair value**	Fair value	Amortized cost/cost	Unrealized gain (loss)	% Fair value
AFS investments:								
Cash and cash equivalents:								
Government treasury bills	**$ 242,273**	**$ 242,273**	**$ —**	**5.5**	$ 69,256	$ 69,256	$ —	1.6
Bankers' acceptances	**—**	**—**	**—**	**—**	—	—	—	—
Time deposits	**—**	**—**	**—**	**—**	—	—	—	—
Cash	**5,583**	**5,583**	**—**	**0.1**	2,988	2,988	—	0.1
	247,856	**247,856**	**—**	**5.6**	72,244	72,244	—	1.7
Short-term investments:								
Canadian federal government-treasury bills	**90,014**	**90,014**	**—**	**2.0**	45,723	45,723	—	1.1
	90,014	**90,014**	**—**	**2.0**	45,723	45,723	—	1.1
Government bonds and debentures:								
Canadian federal government	**748,292**	**724,820**	**23,472**	**17.0**	808,522	771,885	36,637	18.6
Canadian provincial government	**743,921**	**685,715**	**58,206**	**16.9**	810,150	744,673	65,477	18.7
	1,492,213	**1,410,535**	**81,678**	**33.9**	1,618,672	1,516,558	102,114	37.3
Corporate bonds and debentures:								
Financial	**1,171,976**	**1,099,581**	**72,395**	**26.6**	1,253,093	1,180,742	72,351	28.9
Energy	**314,880**	**294,991**	**19,889**	**7.2**	308,417	286,798	21,619	7.1
Infrastructure	**259,844**	**240,717**	**19,127**	**5.9**	257,489	236,859	20,630	5.9
All other sectors	**429,936**	**402,256**	**27,680**	**9.8**	384,099	360,037	24,062	8.9
	2,176,636	**2,037,545**	**139,091**	**49.5**	2,203,098	2,064,436	138,662	50.8
Asset-backed bonds and debentures	**65,025**	**64,254**	**771**	**1.5**	167,725	159,013	8,712	3.9
Total AFS bonds and debentures	**$3,733,874**	**$3,512,334**	**$221,540**	**84.9**	$3,989,495	$3,740,007	$249,488	92.0

9. Investments (continued)

	December 31, 2012				December 31, 2011			
	Fair value	**Amortized cost/cost**	**Unrealized gain (loss)**	**% Fair value**	Fair value	Amortized cost/cost	Unrealized gain (loss)	% Fair value
Preferred shares:								
Financial	—	—	—	—	11,817	12,409	(592)	0.3
Industrial	—	—	—	—	1,414	1,406	8	0.0
Energy	—	—	—	—	9,788	9,699	89	0.2
	—	—	—	—	23,019	23,514	(495)	0.5
Common shares:								
Energy	**92,471**	**86,261**	**6,210**	**2.1**	65,296	65,088	208	1.5
Financial	**43,959**	**41,873**	**2,086**	**1.0**	26,363	27,609	(1,246)	0.6
Communications	**70,636**	**63,993**	**6,643**	**1.6**	39,620	39,868	(248)	1.0
All other sectors	**121,345**	**107,726**	**13,619**	**2.8**	70,466	68,110	2,356	1.6
	328,411	**299,853**	**28,558**	**7.5**	201,745	200,675	1,070	4.7
Total AFS equities	**328,411**	**299,853**	**28,558**	**7.5**	224,764	224,189	575	5.2
Total investments	**$ 4,400,155**	**$ 4,150,057**	**$ 250,098**	**100.0**	$ 4,332,226	$ 4,082,163	$ 250,063	100.0

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

	December 31, 2012	December 31, 2011
Terms to maturity	**Fair value**	Fair value
Bonds and debentures and short-term investments issued or guaranteed by the Government of Canada:		
1 year or less	**$ 164,323**	$ 162,097
1–3 years	**485,199**	440,888
3–5 years	**448,842**	539,434
5–10 years	**395,383**	433,209
Over 10 years	**88,480**	88,767
	1,582,227	1,664,395
Corporate bonds and debentures and short-term investments:		
1 year or less	**289,544**	216,516
1–3 years	**609,768**	631,459
3–5 years	**512,404**	531,562
5–10 years	**434,291**	518,123
Over 10 years	**395,654**	473,163
	2,241,661	2,370,823
	$ 3,823,888	$ 4,035,218

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, which exceeds the fair value of the loaned securities by at least 105%, is retained by the Company until the underlying securities have been returned to the Company.

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

In addition to earning fee income under the securities lending program, the Company continues to earn all interest 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, 2012, the Company had loaned AFS bonds and debentures with a fair value of $208,765 (2011 – $277,418) and has accepted eligible securities as collateral with a fair value of $221,050 (2011 – $295,178).

Fair value measurements

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

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

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

Level 3 – inputs used to value the financial instruments are not based on observable market data.

The following tables set forth inputs used as of December 31, 2012 and 2011 in valuing the Company's financial instruments carried at fair value:

December 31, 2012	**Total**	**Level 1**	**Level 2**	**Level 3**
Bonds and debentures:				
AFS	**$ 3,733,874**	**$ —**	**$ 3,733,874**	**$ —**
Common shares	**328,411**	**328,411**	**—**	**—**
Short-term investments	**90,014**	**90,014**	**—**	**—**
Bonds and debentures in the government guarantee fund	**949,037**	**—**	**949,037**	**—**
	$ 5,101,336	**$ 418,425**	**$ 4,682,911**	**$ —**

December 31, 2011	Total	Level 1	Level 2	Level 3
Bonds and debentures:				
AFS	$ 3,989,495	$ —	$ 3,989,495	$ —
Preferred shares	23,019	23,019	—	—
Common shares	201,745	201,745	—	—
Short-term investments	45,723	45,723	—	—
Bonds and debentures in the government guarantee fund	891,566	—	891,566	—
Short-term investments in the government guarantee fund	17,354	17,354	—	—
	$ 5,168,902	$ 287,841	$ 4,881,061	$ —

9. Investments (continued)

During the year ended December 31, 2012, the Company did not hold any investments measured at fair value using unobservable inputs (Level 3). During the year ended December 31, 2011, the reconciliation of investments measured at fair value using unobservable inputs is presented as follows:

2011	AFS bonds and debentures	FVTPL bonds and debentures	Total
Beginning balance, January 1, 2011	$ —	$ 38,290	$ 38,290
Investment sales	—	(40,168)	(40,168)
Change in fair value through income	—	1,878	1,878
Ending balance, December 31, 2011	$ —	$ —	$ —

No sensitivity analysis for valuing Level 3 financial instruments was performed as at December 31, 2012 and December 31, 2011 as no financial instruments were classified in this category.

10. Government guarantee fund and Government Guarantee Agreement

The 1988 Bank for International Settlements ("BIS") agreement signed by the Government of Canada introduced risk-related capital adequacy guidelines for Canadian chartered banks. Qualifying residential mortgages carried a 50% risk weighting, while mortgages insured by Canada Mortgage and Housing Corporation ("CMHC"), an agency of the Government of Canada, carried no risk weighting. The BIS capital guidelines did not provide a reduced risk weighting for residential mortgages insured by a private mortgage insurer, thereby putting private mortgage insurers at a disadvantage to CMHC. In 1988, the Mortgage Insurance Company of Canada ("MICC") was such an insurer.

Effective January 1, 1991, MICC entered into an agreement with the Government of Canada to ensure that it could effectively compete with CMHC. This agreement ("the Agreement") provided lenders with a Government of Canada guarantee of MICC's obligations under eligible residential mortgage insurance policies. In the event of MICC's wind-up, the Government of Canada would pay an amount of claims less 10% of the original insured amount to lenders. As a result of the credit support provided by the Government of Canada guarantee, the risk weighting for eligible insured mortgages was reduced from 50% to 5%.

The Agreement required:

(a) contribution of 10.5% of premiums written on eligible insured mortgages over the next 25 years to a guarantee fund, which could be used in the event that the guarantee was called; and

(b) payment of an annual risk premium equal to 1% of the estimated Government of Canada net exposure.

Monies could be withdrawn from the government guarantee fund if the dollar value of the government guarantee fund was at least equal to the sum of the estimated Government of Canada gross exposure on the guarantee plus the greater of 15% of the estimated Government of Canada gross exposure and $10 million. Upon withdrawal of the monies from the government guarantee fund, an exit fee of 1% of the amount of the fund for each year from the effective date of the Agreement to the date of withdrawal up to a maximum of 25% would be required to be paid to the Government of Canada.

In 1995, the Company acquired certain assets and assumed certain liabilities from MICC related to MICC's residential mortgage insurance line of business.

In conjunction with the acquisition of MICC's residential mortgage insurance business, the Agreement had been assigned to the Company with the consent of Her Majesty In Right of Canada. MICC assigned its interest in the assets held in the government guarantee fund to the Company.

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

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

For purposes of the Insurance Subsidiary's Minimum Capital Test ("MCT"), the government guarantee fund (net of related deferred tax impact) was deducted from capital available. Upon termination of the Agreement, the assets in the government guarantee fund return to the Company and will no longer be deducted from capital available. Accordingly, the Minister of Finance has established a minimum capital ratio of 175% under the provisions of PRMHIA. As a result, the Insurance Subsidiary has increased its internal capital ratio target from 145% to 185% effective January 1, 2013.

Payment of exit fee under the Agreement is required in the event that assets are withdrawn from the government guarantee fund. The Company has not withdrawn any assets from the government guarantee fund at December 31, 2012, as the conditions for withdrawal have not been met. Therefore, no exit fees will be paid prior to the enactment of PRMHIA on January 1, 2013. Accordingly, in the year ended December 31, 2012, the Company reversed the cumulative exit fees which offset the guarantee fund in the consolidated statement of financial position. This resulted in income of $185,843. The income related to exit fees recorded in prior years is $166,075.

The government guarantee fund is recorded in the consolidated statements of financial position at fair value and is comprised of the following:

	December 31, 2012	December 31, 2011
Invested assets at fair value (a)	**$ 990,224**	$ 909,527
Accrued contribution (b)	**—**	13,223
Accrued income (c)	**2,668**	2,666
Accrued exit fee (d)	**—**	(183,541)
MICC liability (e)	**(13,696)**	(10,745)
	$ 979,196	$ 731,130

(a) Investments including government bonds and bonds unconditionally guaranteed by the Government of Canada of $949,037 (2011 – $891,566), short-term investments of $nil (2011 – $17,354) and cash and cash equivalents of $41,187 (2011 – $607); plus

(b) the Company's accrued contributions of 10.5% of premiums written on insured mortgages for the last quarter of the year; plus

(c) accrued interest on invested assets; less

(d) the cumulative exit fee applicable to the fair value of the Company's proportionate interest in investments and accrued contributions; less

(e) the Company's liability for MICC's net proportionate interest in the government guarantee fund.

10. Government guarantee fund and Government Guarantee Agreement (continued)

In the year ended December 31, 2012, the Company recorded the results of income from the fund of $26,875 (2011 – $27,055) less exit fees of $19,768 (2011 – $24,221) for a net amount of $7,107 (2011 – $2,834) in government guarantee fund earnings. In accordance with the provisions of PRMHIA, the cumulative exit fee recorded in the current year and prior years has been reversed.

Risk premium

The Company calculates risk premium in accordance with the formula prescribed in the Government Guarantee Agreement and accrues the balance in the consolidated statements of financial position. The risk premium recorded in the consolidated statements of income for the year ended December 31, 2012 is $9,718 (2011 – $11,177). The risk premium payable recorded in the consolidated statements of financial position at December 31, 2012 is nil (2011 – $2,634).

Subsequent event

Assets in the government guarantee fund are comprised of bonds and debentures and cash and cash equivalents. On January 1, 2013, under the provisions of PRMHIA, these assets revert to the Company. As at January 1, 2013, the bonds and debentures and cash and cash equivalents will be reclassified from government guarantee fund asset to bonds and debentures and cash and cash equivalents on the consolidated statement of financial position. These investments will continue to be classified as AFS.

11. Income taxes

The provision for income taxes comprises the following:

	2012	2011
Current tax:		
Current income taxes	$ 99,980	$ 109,097
Current tax adjustment in respect of prior years	(593)	(72)
	99,387	109,025
Deferred tax:		
Origination and reversal of temporary differences	61,750	10,788
Impact of change in income tax rates	3,125	—
	64,875	10,788
Total income tax expense	$ 164,262	$ 119,813

Income taxes charged to OCI comprise the following:

	2012	2011
Income tax (income tax recovery) related to net gains on AFS financial assets in the general investment portfolio	$ (525)	$ 28,560
Income tax recovery related to net gains on AFS financial assets in the government guarantee fund	2,006	5,997
Income tax recovery related to defined benefit plan actuarial losses	(2,067)	(582)
Total income taxes recovered in OCI	$ (586)	$ 33,975

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

	2012	2011
Income before income taxes	$ 634,684	$ 443,004
Combined basic Canadian federal and provincial income tax rate	26.25%	28.00%
Income tax expense based on statutory tax rate	$ 166,605	$ 124,041
Increase (decrease) in income tax resulting from:		
Non-taxable income	(3,514)	(3,214)
Effect of increase in income tax rates on deferred income taxes	3,442	248
Recognition of tax losses available for carryforward[1]	(2,520)	—
Other	249	(1,262)
Income tax expense	$ 164,262	$ 119,813

[1] In the fourth quarter of 2012, OSFI approved the acquisition of PMI Canada. Subsequent to the acquisition date, $2,520 of previously unrecognized tax losses were recognized as management considered it probable that future taxable profits will be available against which they can be utilized.

The difference in the effective income tax rate of 25.88% implicit in the $164,262 provision for income taxes in 2012 from the Company's statutory income tax rate of 26.25% was primarily attributable to non-taxable dividend income and recognition of cumulative prior year tax losses available for carryforward.

The difference in the effective income tax rate of 27.05% implicit in the $119,813 provision for income taxes in 2011 from the Company's statutory income tax rate of 28.00% was primarily attributable to an increase in non-taxable dividend income and income tax favorability relating to the 2010 year which was realized upon completion of the Company's 2010 tax returns.

The decrease in statutory income tax rates from 28.00% in 2011 to 26.25% in 2012 and from 30.00% in 2010 to 28.00% in 2011 resulted from legislated decreases in the Canadian federal income tax rate and income tax rates of certain provinces.

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

	December 31, 2012	December 31, 2011
Deferred tax assets:		
Employee benefits	$ 8,086	$ 4,706
Loss reserves	1,866	2,176
Tax losses available for carryforward	10,709	9,900
Financing costs	340	555
	21,001	17,337
Deferred tax liabilities:		
Investments including unrealized gains on government guarantee fund AFS investments	(18,014)	(16,207)
Government guarantee fund reserve	(240,733)	(176,390)
Policy reserves	(55,656)	(53,117)
Property and equipment and intangible assets	(2,896)	(3,107)
	(317,299)	(248,821)
Net deferred tax liability	$ (296,298)	$ (231,484)

11. Income taxes (continued)

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

	2012	2011
Balance, beginning of year	$ 231,484	$ 215,281
Expense for the year	64,875	10,788
Other comprehensive income for the year	(61)	5,415
Balance, end of year	$ 296,298	$ 231,484

All deferred tax assets have been recognized as at December 31, 2012 and 2011 because management has assessed it is probable that future taxable profits will be available against which the deferred tax benefits can be utilized.

12. 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 managements' compensation includes both fixed elements (base salary, benefits, retirement benefit plans, executive allowances) and performance-based elements (short-term incentive compensation and long-term share-based compensation). The short-term incentive compensation is dependent on how well the Company performs and how well a key manager performs in his or her role. Long-term share-based compensation grants may consist of any combination of Options, RSUs, and PSUs (see note 15). In addition to the defined contribution retirement benefit plan, a defined benefit supplemental executive retirement plan ("SERP") is maintained to provide pension benefits to key management in excess of the amounts payable under the Company's registered defined contribution plan.

The Company has standard policies in place to cover various forms of termination. Key management are subject to the same terms and conditions as all other employees of the Company for resignation and termination for cause. In such situations, key management is not eligible for short-term incentives, unvested Options expire, and unvested RSUs and PSUs are forfeited. In the case of a termination that is not for cause, unvested Options, RSUs and PSUs expire.

Directors must take 50% of their annual retainer in the form of DSUs and may elect to take the remaining portion in DSUs. Independent directors are required to own at least three times their annual retainer in common shares or DSUs by the later of five years from July 7, 2009, the date of the Company's IPO or the individual's appointment date. If a director has not met the Company's ownership guideline within the prescribed period, then 100% of the director's annual retainer will be paid in DSUs until such time as the guidelines are met.

Compensation for the Company's six key managers and four independent directors is comprised of the following:

	December 31, 2012	December 31, 2011
Short-term employee benefits	$ 3,283	$ 3,121
Post-employment benefits	448	1,044
Share-based payment	1,235	803
Termination benefits	979	—
Director fees	481	438
Total compensation	$ 6,426	$ 5,406

(b) Other related party transactions

Following the closing of the Company's IPO on July 7, 2009, the Company and the Insurance Subsidiary entered into a Transition Services Agreement ("TSA") with Genworth Financial Inc., the Company's majority shareholder. The agreement prescribes that these companies will provide certain services to one another, with most services being terminated within twelve months if Genworth Financial Inc. ceases to beneficially own more than 50% of the common shares of the Company. The services rendered by Genworth Financial Inc. and affiliated companies consist of information technology, finance, human resources, legal and compliance, investment 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. Balances owing for service transactions are non-interest bearing and are settled on a quarterly basis.

The Company incurred net related party charges of $5,613 for the year ended December 31, 2012 (2011 – $5,775). The balance payable for related party services at December 31, 2012 is nil (2011 – $916). The related party balance is reported in accounts payable and accrued liabilities in the consolidated statements of financial position.

13. Commitments

The Company's commitments are comprised of operating leases and expenditures relating to property and equipment and intangible assets. Information on the Company's operating leases is presented below. Information on expenditures relating to property and equipment and intangible assets is presented in notes 16 and 17.

The Company leases office space, office equipment, computer equipment and automobiles. Leases of office space have initial lease terms between 5 to 7 years with the right to extend the initial term of the lease for an additional 5 years.

Future minimum lease commitments at December 31, 2012 and 2011 are as follows:

	December 31, 2012	December 31, 2011
No later than 1 year	**$ 2,401**	$ 2,223
Later than 1 year and not later than 5 years	**7,418**	6,645
Later than 5 years	**—**	1,307
	$ 9,819	$ 10,175

Lease payments recognized as operating lease expense for the year ended December 31, 2012 were $2,925 (2011 – $2,890).

14. Pensions and other post-employment benefits

(a) Defined contribution pension benefit plan

The Company's eligible employees participate in a registered defined contribution pension plan. The plan provides pension benefits to employees of the Company with two years of service with the exception of Quebec employees, who are entitled to pension benefits after one year of service. 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.

(b) Defined benefit pension and other post-employment benefit plans

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

The SERP is a supplemental plan that provides pension benefits in excess of the amounts payable under the Company's registered defined contribution plan. The other non-pension post-employment benefits provide medical, life insurance and dental coverage to employees upon retirement.

The benefit liabilities represent the amount of pension and other employee post-employment benefits that employees and retirees have earned as at period end. The Company's actuaries perform valuations of the benefit liabilities for pension and other employee post-employment benefits as at December 31 of each year.

14. Pensions and other post-employment benefits (continued)

Plan membership data 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, 2012 and 2011 are based on plan membership data as at the respective period ends. For the other post-employment benefits, actuarial valuations for the years ended December 31, 2012 and 2011 are based on plan membership data as at January 1, 2012.

The Company is the sponsor of these plans. The SERP and other post-employment benefit plans are unfunded. Pension and benefit payments related to these plans are paid directly 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		Other post-employment benefits	
	December 31, 2012	December 31, 2011	**December 31, 2011**	December 31, 2010
Accrued net benefit liabilities under employee benefit plans	**$ 14,728**	$ 9,006	**$ 11,991**	$ 7,309

Pension and other post-employment benefits are recognized in employee compensation in the consolidated statements of income and are determined as follows:

	SERP		Other post-employment benefits Pension plan	
	2012	2011	**2012**	2011
Defined benefit expense:				
Benefits earned by employees	**$ 579**	$ 394	**$ 894**	$ 613
Plan settlements	**206**	—	**—**	—
Interest cost on accrued benefit liability	**525**	390	**510**	376
Defined benefit expense for the year	**$ 1,310**	$ 784	**$ 1,404**	$ 989
Defined contribution expense for the year	**$ 2,575**	$ 2,846	**$ —**	$ —
Total pension and other employee future benefit expenses recognized in the consolidated statements of income	**$ 3,885**	$ 3,630	**$ 1,404**	$ 989

The actuarial losses recognized in the consolidated statements of OCI relating to the SERP are $4,485 at December 31, 2012 (2011 – actuarial losses of $1,863). The actuarial losses recognized in the consolidated statements of OCI relating to other post-employment benefits are $3,354 at December 31, 2012 (2011 – actuarial losses of $398).

Changes in the estimated financial positions of the SERP and other employee post-employment benefit plans are as follows:

	SERP		Other post-employment benefits	
	2012	2011	**2012**	2011
Accrued net benefit liabilities under employee benefit plans beginning of year	**$ 9,006**	$ 6,422	$ 7,309	$ 5,946
Benefits earned by employees during the year	**579**	394	894	613
Interest cost on accrued liability incurred during the year	**525**	390	510	376
Plan settlements recognized during the year	**206**	—	—	—
Benefits paid to pensioners and employees during the year	**(73)**	(63)	(76)	(24)
Actuarial losses	**4,485**	1,863	3,354	398
Accrued net benefit liabilities under employee benefit plans, end of year	**$ 14,728**	$ 9,006	$ 11,991	$ 7,309

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

	SERP		Other post-employment benefits	
	2012	2011	**2012**	2011
Discount rate, end of year	**4.60%**	5.50%	4.60%	5.50%
Rate of compensation increase	**3.50%**	3.50%	3.50%	3.50%
Average retirement age	**62**	62	61	59
Assumed overall health care trend rate[1]	**n/a**	n/a	7.11%	7.47%

[1] Grading to 4.50% by 2029.

Sensitivity of assumptions

Sensitivity analyses of changes in the assumed health care cost trend rate for the years ended December 31, 2012 and 2011 are as follows:

	Other post-employment benefits	
2012	Benefit liability	Benefit expense
Assumed overall health care trend rate (%):		
Impact of:		
1% increase	**$ 2,033**	**$ 245**
1% decrease	**(1,536)**	**(184)**

	Other post-employment benefits	
2011	Benefit liability	Benefit expense
Assumed overall health care trend rate (%):		
Impact of:		
1% increase	$ 1,298	$ 194
1% decrease	(966)	(162)

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

The benefit obligation and the actuarial gains or losses for the current annual period and the previous four annual periods are as follows:

SERP:

	2012	2011	2010	2009	2008
Accrued benefit liability as at December 31	**$ 14,728**	$ 9,006	$ 6,422	$ 5,495	$ 4,487
Actuarial (gain) loss	**4,485**	1,863	390	322	(1,488)

Non-pension post-employment benefits:

	2012	2011	2010	2009	2008
Accrued benefit liability as at December 31	**$ 11,991**	$ 7,309	$ 5,946	$ 3,978	$ 3,622
Actuarial (gain) loss	**3,354**	398	1,220	(258)	(2,268)

Cash flows:

14. Pensions and other post-employment benefits (continued)

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

	Pension plans		Other post-employment benefits	
	2012	2011	**2012**	2011
Benefits paid on defined benefit plans	**$ 73**	$ 63	**$ 76**	$ 24
Contributions to defined contribution plans	**2,575**	2,846	**—**	—
Total	**$ 2,648**	$ 2,909	**$ 76**	$ 24

The Company expects to contribute $91 to the SERP and $84 to the other post-employment benefit plan during the annual period beginning after December 31, 2012.

15. Share-based compensation

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

Options are granted to employees with an exercise price equal to the Company's 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 ten years from the date of grant and provide employees with the choice of settlement in either cash or shares of the Company. The range of exercise prices for the year ended December 31, 2012 is $19.00 to $27.12 (2011 – $19.00 to $27.12).

RSUs entitle employees to receive an amount equal to the fair value of the Company's shares. The RSUs vest equally over three years.

PSUs entitle employees to receive an amount equal to the fair value of the Company's shares if certain performance conditions are met. Performance conditions are measured in each year over a three year performance period and payouts are settled at the end of the period. The awards paid out may vary, based on the Company's performance, from zero to one and one-half times the initial grant of PSUs. The performance measures associated with PSU grants include earnings growth, return on equity, underwriting income and investment income.

Employees receive settlement of RSUs and PSUs in either cash or shares of the Company at the discretion of the Company's Board of Directors. The RSUs and PSUs may also participate in dividend equivalents at the discretion of the Company's Board of Directors.

DSUs entitle eligible members of the Company's Board of Directors to receive an amount equal to the fair value of the Company's shares. The number of DSUs granted is based on the fair value of director services provided during the period and is calculated using the Company's average share price in the five days immediately preceding the period end. The 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. The DSUs may be settled in cash or shares at the discretion of the Board of Directors. The Board of Directors may elect to pay dividend equivalents on DSUs.

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

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

2012	Number of Options	Weighted average exercise price	Number of RSUs	Weighted average fair value at December 31, 2012	Number of DSUs	Weighted average fair value at December 31, 2012	Number of PSUs	Weighted average fair value at December 31, 2012
Outstanding, as at January 1, 2012	**1,152,450**	**$ 21.77**	**103,470**	**$ 2,337**	**20,437**	**$ 462**	**37,470**	**$ 846**
Granted	**152,080**	**22.61**	**60,263**	**1,361**	**12,424**	**281**	**17,654**	**399**
Dividend equivalents granted	**—**	**—**	**6,907**	**156**	**1,551**	**35**	**3,147**	**71**
Exercised	**(180,000)**	**19.00**	**(67,555)**	**(1,526)**	**—**	**—**	**—**	**—**
Forfeited	**(97,400)**	**26.96**	**(6,869)**	**(155)**	**—**	**—**	**(11,515)**	**(260)**
Outstanding, as at December 31, 2012	**1,027,130**	**$ 21.89**	**96,216**	**$ 2,173**	**34,412**	**$ 778**	**46,756**	**$ 1,056**
Exercisable, as at December 31, 2012	**730,508**	**$ 20.75**	**—**	**$ —**	**34,412**	**$ 778**	**—**	**$ —**
Weighted average remaining contractual life (years)	**7.2**	**—**	**1.6**	**—**	**—**	**—**	**1.2**	**—**

2011	Number of Options	Weighted average exercise price	Number of RSUs	Weighted average fair value at December 31, 2011	Number of DSUs	Weighted average fair value at December 31, 2011	Number of PSUs	Weighted average fair value at December 31, 2011
Outstanding, as at January 1, 2011	984,200	$ 20.70	123,780	$ 2,537	9,831	$ 202	18,496	$ 379
Granted	194,500	26.80	35,900	736	10,238	210	18,000	369
Dividend equivalents granted	—	—	3,853	79	368	8	974	20
Exercised	(12,500)	19.00	(54,278)	(1,113)	—	—	—	—
Forfeited	(13,750)	19.00	(5,785)	(119)	—	—	—	—
Outstanding, as at December 31, 2011	1,152,450	$ 21.77	103,470	$ 2,120	20,437	$ 420	37,470	$ 768
Exercisable, as at December 31, 2011	436,813	$ 20.35	—	$ —	20,437	$ 420	—	$ —
Weighted average remaining contractual life (years)	7.9	—	1.3	—	—	—	1.6	—

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

The aggregate fair value of the Options is $2,173 as at December 31, 2012 (2011 – $1,554).

15. Share-based compensation (continued)

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

	December 31, 2012	December 31, 2011
Share price at reporting date	$ 22.59	$ 20.50
Weighted average exercise price	$ 21.89	$ 21.77
Expected volatility	19.56%	19.13%
Option life (years)	6.0	6.0
Expected dividend yield	5.14%	5.72%
Risk-free interest rate	1.31%	1.11%

The following table provides information about the expenses and liabilities arising from share-based compensation:

	December 31, 2012	December 31, 2011
Expense (income) arising from:		
Options	$ 933	$ (1,712)
RSUs	1,618	606
DSUs	358	148
PSUs	393	199
Total recognized as share-based compensation expense	$ 3,302	$ (759)

	December 31, 2012	December 31, 2011
Total carrying amount of liabilities for cash-settled arrangements	$ 4,875	$ 3,170
Total intrinsic value of liability for vested benefits	$ 2,721	$ 961

16. Property and equipment

The Company's property and equipment is summarized as follows:

Cost	Computer software	Furniture and equipment	Leasehold improvements	Computer hardware and other	Total
Balance at January 1, 2011	$ 973	$ 2,781	$ 2,429	$ 2,953	$ 9,136
Additions	—	64	21	899	984
Balance at December 31, 2011	973	2,845	2,450	3,852	10,120
Additions	—	—	—	66	66
Balance at December 31, 2012	**$ 973**	**$ 2,845**	**$ 2,450**	**$ 3,918**	**$ 10,186**

Depreciation and impairment losses	Computer software	Furniture and equipment	Leasehold improvements	Computer hardware and other	Total
Balance at January 1, 2011	$ 258	$ 2,212	$ 1,525	$ 2,305	$ 6,300
Depreciation for the year	196	227	363	383	1,169
Balance at December 31, 2011	454	2,439	1,888	2,688	7,469
Depreciation for the year	196	213	365	365	1,139
Balance at December 31, 2012	**$ 650**	**$ 2,652**	**$ 2,253**	**$ 3,053**	**$ 8,608**

Carrying amounts	Computer software	Furniture and equipment	Leasehold improvements	Computer hardware and other	Total
At January 1, 2011	$ 715	$ 569	$ 904	$ 648	$ 2,836
At December 31, 2011	519	406	562	1,164	2,651
At December 31, 2012	**323**	**193**	**197**	**865**	**1,578**

As at December 31, 2012, the Company has no contractual commitments relating to property and equipment (2011 – nil).

17. Intangible assets

The Company's intangible assets are summarized as follows:

Cost	Computer Software
Balance at January 1, 2011	$ 27,120
Acquisitions – externally purchased	2,291
Balance at December 31, 2011	29,411
Acquisitions – externally purchased	3,853
Balance at December 31, 2012	**$ 33,264**

Amortization and impairment losses	Computer Software
Balance at January 1, 2011	$ 13,001
Amortization for the year	4,849
Balance at December 31, 2011	17,850
Amortization for the year	5,674
Balance at December 31, 2012	**$ 23,524**

Carrying amounts	Computer Software
At January 1, 2011	$ 14,119
At December 31, 2011	11,561
At December 31, 2012	**9,740**

As at December 31, 2012, the Company has no contractual commitments to purchase intangible assets (2011 – nil).

18. Goodwill

On January 17, 1995, the Company acquired certain assets and assumed certain liabilities from 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 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% (2011 – 1.8%) to the last year of the multi-year plan cash flow estimate. The growth rates at December 31, 2012 and 2011 reflect the Canadian 5 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 10.6% (2011 – 12.5%) was applied in determining the recoverable amount of the unit. The discount rates as at December 31, 2012 and 2011 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, 2012 (2011 – $ nil).

19. Transactions with lenders

Gross premiums written from one major lender (defined as lenders that individually account for more than 10% of the Company's gross premiums written) was $189,230 representing 34% of the Company's total gross premiums written for the year ended December 31, 2012 (2011 – gross premiums written from two major lenders that accounted for more than 10% of the Company's gross premiums written were $228,694 or 41%).

20. Share capital

The share capital of the Company comprises the following:

	December 31, 2012	December 31, 2011
Authorized:		
Unlimited common shares with nominal or no par value[1]		
1 special share[2]		
Issued:		
98,698,018 common shares (2011 – 98,666,796)	**$ 1,463,612**	$ 1,462,994
1 special share	**—**	—
Share capital	**$ 1,463,612**	$ 1,462,994

[1] All issued shares are fully paid. 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 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.

[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, 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.

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

	2012	2011
Common shares, January 1	**98,666,796**	104,789,394
Common shares issued in connection with share-based compensation plans	**31,222**	31,248
Common shares retired under share repurchase	—	(6,153,846)
Common shares, December 31	**98,698,018**	98,666,796

At December 31, 2012, subsidiaries of Genworth Financial Inc. owned 56,710,094 common shares of the Company or approximately 57.5% (2011 – 56,710,094 or approximately 57.5%).

20. Share capital (continued)

Share repurchase

On May 9, 2011, the Company made an offer to repurchase up to $160 million of its common shares validly tendered to the offer. On June 30, 2011, in accordance with the terms of the offer, the Company repurchased 6,153,846 common shares at a price of $26.00 per common share, representing 5.87% of the public float, for an aggregate of approximately $160 million in cash.

Genworth Financial Inc., through its indirect wholly owned subsidiary Brookfield Life Assurance Limited participated in the offer by making a proportional tender and continued to own approximately 57.5% of the Company subsequent to the share repurchase transaction.

Upon completion of the offer, the Company's share capital was reduced by an amount equal to the average carrying value of the shares repurchased for cancellation. The excess of the aggregate purchase price over the average carrying value, together with the incremental after-tax costs associated with the transaction, was recorded as a reduction to retained earnings.

21. Long-term debt

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

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

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

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

	Series 1	Series 2
Date issued	June 29, 2010	December 16, 2010
Maturity date	June 15, 2020	December 15, 2015
Principal amount outstanding	$275,000	$150,000
Fixed annual rate	5.68%	4.59%
Semi-annual interest payment due each year on:	June 15, December 15	June 15, December 15

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

			December 31, 2012
	Series 1	**Series 2**	**Total**
Carrying value	**$ 272,956**	**$ 149,389**	**$ 422,345**
Fair value	**297,721**	**153,497**	**451,218**

			December 31, 2011
	Series 1	Series 2	Total
Carrying value	$ 272,744	$ 149,201	$ 421,945
Fair value	287,064	154,610	441,674

The fair value of the debt is determined using quoted market prices at the end of the reporting period.

The Company incurred interest expense of $22,966 and $22,884 for the years ended December 31, 2012 and 2011, with accrued interest payable of $1,076 at December 31, 2012 (2011 – $1,015).

22. Earnings per share

During the year ended December 31, 2012, basic earnings per share have been calculated using the weighted average number of shares outstanding of 98,684,587 (2011 – 101,686,715). Diluted earnings per share have been calculated using the diluted weighted average number of shares outstanding of 98,806,915 (2011 – 102,003,573). 1,027,130 Options, 36,935 RSUs, 15,062 PSUs and 9,353 DSUs (December 31, 2011 – 411,200 Options) were excluded from the diluted weighted average number of common shares calculations. Their effect would have been anti-dilutive, due to the cash settlement option or the Company's weighted average stock price. Earnings for purposes of the diluted earnings per share calculation for the year ended December 31, 2011 have been amended to reflect the re-measurement amount of ($4,019) net of tax recovery of $235.

Earnings per share are computed below:

	December 31, 2012	December 31, 2011
Basic earnings per share:		
Net income	**$ 470,422**	$ 323,191
Re-measurement amount	**(270)**	(4,019)
Earnings for the purpose of diluted earnings per share	**470,152**	319,172
Common shares outstanding, beginning of year	**98,666,796**	104,789,394
Effect of share-based compensation exercised during the year	**17,791**	16,394
Effect of repurchase of common shares during the year	**—**	(3,119,073)
Weighted average common shares outstanding during the year	**98,684,587**	101,686,715
Basic net earnings per common share	**$ 4.77**	$ 3.18
Diluted earnings per share:		
Basic weighted average common shares outstanding during the year	**98,684,587**	101,686,715
Effect of share-based compensation during the year	**122,328**	316,858
Diluted weighted average common shares outstanding during the year	**98,806,915**	102,003,573
Diluted net earnings per common share	**$ 4.76**	$ 3.13

23. Non-current assets and liabilities

The following table presents financial assets and liabilities the Company expects to recover or settle after 12 months at December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Assets:		
Bonds and debentures	**$ 3,370,021**	$ 3,656,605
Government guarantee fund	**924,380**	812,313
Equity investments	**328,411**	224,764
Subrogation recoverable	**17,881**	16,064
Total assets	**4,640,893**	4,709,746
Liabilities:		
Loss reserves	**55,380**	74,410
Long-term debt	**422,345**	421,945
Total liabilities	**477,725**	496,355
Net assets due after one year	**$ 4,163,168**	$ 4,213,391

24. Business combination

On November 15, 2012, the Insurance Subsidiary acquired 100% of the outstanding shares of PMI Canada, a privately held mortgage insurance company licensed to conduct mortgage insurance for cash consideration of $326. PMI Canada's insurance in force at the date of acquisition was $3,891.

The purchase was accounted for under the acquisition method, with the purchase price allocated to the identifiable assets acquired and liabilities assumed. The net fair values of identifiable assets acquired and liabilities assumed approximated the cash consideration. Accordingly, no goodwill was recognized on the business combination.

Glossary

Certain terms and abbreviations used in this annual information form are defined below.

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

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

"Alt A mortgages" means mortgages provided to self-employed borrowers with strong credit and reduced income documentation. Specific loan qualification criteria apply, including down payment documentation, assessment of income reasonableness and a 650 minimum credit score for mortgages with loan-to-value ratios exceeding 85%.

"available-for-sale" or **"AFS"** means investments recorded at fair value on the statement of financial position, with changes in the fair value of these investments included in AOCI.

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

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

"combined ratio" means the sum of the loss ratio and the expense ratio. The combined ratio provides a measure of the Company's ability to generate profits from its insurance underwriting activities.

"Common Shares" means the issued and outstanding common shares of the Company.

"compound annual growth rate" or **"CAGR"** means the annualized year-over-year growth rate of the applicable measure over a specified period of time.

"credit score" means the lowest average credit score of all borrowers on a mortgage insurance application. Average credit scores, in most instances, are calculated by averaging the score obtained from both Equifax and TransUnion for each borrower on the application.

"debt-to-capital ratio" means the ratio (expressed as a percentage) of debt to total capital (the sum of debt and equity).

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

"delinquency rate" means the ratio (expressed as a percentage) of the total number of delinquent loans to the total number of policies in-force at a specified date.

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

"effective loan-to-value" means a Company approximation based on the estimated balance of loans insured (original balance less principal repayments on a standard amortization schedule) divided by the estimated fair market value of the mortgaged property (original value plus or minus adjustments for changes in home prices for the province in which the property is located).

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

"FVTPL" means fair value through profit or loss.

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

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

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

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

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

"guarantee fund earnings" means the investment income from the cash and invested assets that were held in the government guarantee fund.

"high loan-to-value mortgage insurance" means mortgage insurance covering an individual mortgage that typically has a loan-to-value ratio of greater than 80% at the time the loan is originated.

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

"insurance in-force" means the amount of all mortgage insurance policies in effect at a specified date, based on the original principal

Certain terms and abbreviations used in this annual information form are defined below.

balance of mortgages covered by such insurance policies, including any capitalized premiums.

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

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

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

"loss ratio" means the ratio (expressed as a percentage) of the total amount of losses on claims associated with insurance policies incurred during a specified period to net premiums earned during such period.

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

"low loan-to-value" or **"conventional"** mortgage insurance mean mortgage insurance covering an individual mortgage that has a loan-to-value ratio equal to or less than 80% at the time the loan is insured.

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

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

"multi-family" means dwellings with five or more units, including apartment buildings and long-term care facilities, but excluding individual condominium units.

"net operating income" means net income excluding after-tax net realized gains (losses) on sale of investments and unrealized gains (losses) on FVTPL securities.

"net premiums earned" means the portion of net premiums written from current and prior periods that is recognized as revenue in a specified period. Premiums written are initially deferred and recorded as unearned premium reserves and are recognized as revenue over the policy term in accordance with the expected pattern of loss emergence as derived from actuarial analysis of historical loss development.

"net premiums written" means gross payments received from insurance policies issued during a specified period, net of the risk premiums payable pursuant to the Government Guarantee Agreement in respect of those policies.

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

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

"NHA" means the National Housing Act (Canada).

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

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

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

"residential mortgage insurance market" means the mortgage insurance market for residential properties, including properties with one to four residential units or individual condominium units, but excluding multi-family units.

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

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

"severity ratio" means the ratio (expressed as a percentage) of the dollar amount of paid claims during a specified period on insured loans to the original insured mortgage amount relating to such loans. The main determinants of the severity ratio are the loan-to-value, age of the mortgage loan, the value of the underlying property, accrued interest on the loan, expenses advanced by the insured and foreclosure expenses.

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

"shortfall sale" means a sale of a property by the owner for less than the amount owing on the mortgage.

"total debt service ratio" or **"TDSR"** means the percentage of borrowers' total monthly debt servicing costs (including mortgage and other debts) as a percentage of borrowers' monthly gross income.

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

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

Five-year financial review

Key financial metrics

Years ended December 31 *(in millions, unless otherwise specified)*	**2012**	2011	2010	2009	2008
Income statement data					
Gross premiums written	**$ 560**	$ 545	$ 564	$ 374	$ 722
Net premiums earned	**589**	612	621	610	518
Impact of change in premium recognition curve			100		
Underwriting revenues	**589**	612	621	710	518
Losses	**194**	225	206	256	160
Expenses	**105**	101	103	98	78
Investment income	**181**	179	183	189	200
Impact of the reversal of government guarantee fund exit fees	**186**				
Interest expense	**(23)**	(23)	(8)	(1)	(3)
Pre-tax income	**635**	443	486	544	477
Net income	**470**	323	348	379[1]	337
Net operating income	**462**	318	343	371[1]	324
Balance sheet data					
Cash and investments	**5,380**	5,063	5,135	4,986	4,698
Total assets	**5,734**	5,393	5,398	5,210	4,915
Unearned premium reserves	**1,785**	1,824	1,902	1,971	2,322
Debt	**422**	422	422	—	67
Total liabilities	**2,697**	2,710	2,810	2,567	2,826
Shareholders' equity	**3,037**	2,683	2,589	2,643	2,089
AOCI	**221**	215	124	97	(15)
Shareholders' equity, excluding AOCI	**2,816**	2,468	2,464	2,546	2,104
Key ratios and other items					
Loss ratio	**33%**	37%	33%	36%[2]	31%
Expense ratio	**18%**	17%	17%	14%[2]	15%
Combined ratio	**51%**	53%	50%	50%[2]	46%
Operating return on equity	**17%**	13%	14%	16%[3]	17%
Adjusted operating return on equity	**13%**				
MCT ratio	**170%**	162%	156%	149%	127%
Delinquency rate	**0.14%**	0.20%	0.26%	0.28%	0.25%
Severity ratio	**32%**	32%	27%	27%	26%
Leverage	**12%**	14%	14%	0%	3%
Operating earnings per share (diluted)	**$ 4.67**	$ 3.12	$ 3.01	$ 3.23[4]	$ 2.91
Adjusted operating earnings per share (diluted)	**$ 3.43**				
Book value per share (diluted, exc. AOCI)	**$ 28.40**	$ 24.78	$ 23.27	$ 21.58	$ 18.79
Book value per share (diluted, incl. AOCI)	**$ 30.62**	$ 26.94	$ 24.44	$ 22.40	$ 18.65

(1) Excluding the impact of changes to the premium recognition curve, net income and net operating income for the year ended December 31, 2009 would have been $315 million and $307 million, respectively.

(2) Excluding the impact of changes to the premium recognition curve, loss ratio, expense ratio and combined ratio for the year ended December 31, 2009 would have been 42%, 15% and 57%, respectively.

(3) Excluding the impact of changes to the premium recognition curve, operating return on equity for the year ended December 31, 2009 would have been 13%.

(4) Excluding the impact of changes to the premium recognition curve, operating earnings per share (diluted) would have been $2.67.

2011 and 2012 quarterly information

(For the quarter ended, in millions, unless otherwise specified)				2012				2011
	Q4'12	**Q3'12**	**Q2'12**	**Q1'12**	Q4'11	Q3'11	Q2'11	Q1'11
Net premiums written	**$ 117**	**$ 178**	**$ 176**	**$ 79**	$ 123	$ 160	$ 149	$ 101
Net premiums earned	**147**	**147**	**148**	**147**	156	149	151	155
Underwriting revenues	**147**	**147**	**148**	**147**	156	149	151	155
Losses on claims	**46**	**44**	**48**	**56**	62	54	50	59
Expenses	**28**	**26**	**25**	**26**	26	24	25	26
Net underwriting income	**73**	**77**	**76**	**65**	68	71	77	71
Investment income	**233**	**44**	**40**	**50**	43	45	45	46
Impact of the reversal of government guarantee fund exit fees	**186**							
Interest expense	**(6)**	**(6)**	**(6)**	**(6)**	(6)	(6)	(6)	(6)
Net income	**226**	**85**	**79**	**81**	79	81	83	80
Adjustment to net income								
Losses/(gains) on investments net of taxes	**0**	**(4)**	**0**	**(5)**	0	(1)	(2)	(2)
Net operating income	**226**	**81**	**79**	**76**	79	80	81	78
Loss ratio	**31%**	**30%**	**32%**	**38%**	39%	36%	33%	38%
Expense ratio	**19%**	**18%**	**17%**	**18%**	17%	16%	16%	17%
Combined ratio	**50%**	**48%**	**49%**	**56%**	56%	52%	49%	55%
Operating earnings per share diluted	**$ 2.28**	**$ 0.82**	**$ 0.79**	**$ 0.77**	$ 0.80	$ 0.79	$ 0.77	$ 0.73
Adjusted operating earnings per share diluted	**$ 0.9**							

Shareholder information

Genworth MI Canada Inc.
2060 Winston Park Drive, Suite 300
Oakville, Ontario L6H 5R7
Tel: 905-287-5300
Fax: 905-287-5472
www.genworth.ca

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

Common shares
As at December 31, 2011, there were 98,666,796 common shares outstanding.

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

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

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

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

Samantha Cheung
Vice-President, Investor Relations
samantha.cheung@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 of 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 06, 2013
Time: 10:30 a.m. (ET)
Location: Fairmont Royal York
100 Front St West
Toronto, Ontario 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.

2011 common share dividend dates
The declaration and payment of dividends and the amount thereof are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flow and other factors the Board considers relevant from time to time.

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

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

Credit ratings
The issuer ratings of Genworth MI Canada and financial strength ratings of Genworth Financial Mortgage Insurance Company of Canada reflect each rating agency's opinion of the Company's financial strength, operating performance and ability to meet obligations to policyholders.

	S&P	DBRS
Issuer rating		
Genworth MI Canada Inc.	A–, Stable	AA (low), Stable
Financial strength		
Genworth Financial Mortgage Insurance Company Canada	AA–, Stable	AA, Stable
Senior unsecured debentures		
Genworth MI Canada Inc.	A–, Stable	AA (low), Stable

Dividend declaration dates

	Declaration date	Record date	Date payable	Amount per common share
Regular Cash	October 30, 2012	November 15, 2012	November 30, 2012	$0.32
Regular Cash	July 31, 2012	August 15, 2012	August 31, 2012	$0.29
Regular Cash	May 1, 2012	May 15, 2012	June 1, 2012	$0.29
Regular Cash	February 2, 2012	February 15, 2012	March 1, 2012	$0.29

Visit the Investors section at www.genworth.ca for an interactive digital version of the complete annual report. Print copies available upon request.

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Phone: 905-287-5300
Fax: 905-287-5472

FSC logo here