Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

46 Management statement on responsibility for financial reporting

47 Independent auditors' report

48 Consolidated statements of financial position

49 Consolidated statements of income

50 Consolidated statements of comprehensive income

51 Consolidated statements of changes in equity

52 Consolidated statements of cash flows

53 Notes to consolidated financial statements

Management statement on responsibility for financial reporting

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

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

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

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

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

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

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, 2013 and 2012, 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, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

February 18, 2014
Toronto, Canada

Consolidated statements of financial position

(In thousands of Canadian dollars)

	December 31, 2013[1]	December 31, 2012[1]
Assets		
Cash and cash equivalents (note 9)	**$ 213,692**	$ 247,856
Short-term investments (note 9)	**39,649**	90,014
Accrued investment income and other receivables	**31,561**	27,526
Bonds and debentures (note 9)	**4,694,002**	3,525,109
Bonds and debentures under securities lending program (note 9)	**243,141**	208,765
Government guarantee fund (note 10)	**—**	979,196
Equity investments (note 9)	**184,422**	328,411
Collateral receivable under reinsurance agreement (note 6(e))	**28,482**	—
Total invested assets, accrued investment income and other receivables	**5,434,949**	5,406,877
Income taxes recoverable	**—**	59,595
Subrogation recoverable (note 6(c))	**75,454**	91,260
Prepaid assets	**3,136**	1,914
Property and equipment	**735**	1,578
Intangible assets (note 16)	**7,314**	9,740
Deferred policy acquisition costs (note 6(d))	**158,427**	152,311
Goodwill (note 18)	**11,172**	11,172
Total assets	**$ 5,691,187**	$ 5,734,447
Liabilities and shareholders' equity		
Liabilities:		
Accounts payable and accrued liabilities	**$ 31,219**	$ 22,707
Loss reserves (note 6(b))	**117,388**	139,398
Income taxes payable	**224,810**	—
Share-based compensation liabilities (note 15)	**14,317**	4,875
Derivative financial instruments (note 9)	**2,668**	—
Long-term debt (note 20)	**422,767**	422,345
Unearned premium reserves (note 6(a))	**1,723,768**	1,785,141
Accrued net benefit liabilities under employee benefit plans (note 14)	**26,519**	26,719
Net deferred tax liabilities (note 11)	**40,413**	296,298
Total liabilities	**2,603,869**	2,697,483
Shareholders' equity:		
Share capital (note 19)	**1,408,213**	1,463,612
Retained earnings	**1,555,062**	1,352,456
Accumulated other comprehensive income	**124,043**	220,896
Total shareholders' equity	**3,087,318**	3,036,964
Total liabilities and shareholders' equity	**$ 5,691,187**	$ 5,734,447

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

See the 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	2013	2012
Gross premiums written (note 6(a))	$ 511,844	$ 560,203
Net premiums written (note 6(a))	$ 511,844	$ 550,485
Net premiums earned (note 6(a))	$ 573,217	$ 589,040
Losses on claims (note 6(b))	141,867	193,770
Expenses:		
Premium taxes and underwriting fees	41,516	33,386
Employee compensation	46,125	38,510
Office	19,719	20,278
Professional fees	5,417	4,460
Promotional and travel	5,110	5,783
Other	1,023	503
Total expenses	118,910	102,920
Net change in deferred policy acquisition costs (note 6(d))	(6,116)	1,698
	112,794	104,618
Net underwriting income	318,556	290,652
Investment income:		
Interest	174,046	154,692
Dividends	9,168	12,125
Net investment gains	36,792	12,103
Government guarantee fund earnings (note 10)	—	7,107
Impact of the reversal of the government guarantee fund exit fee (note 10)	—	185,843
Total investment income	220,006	371,870
General investment expenses	(4,549)	(4,872)
	215,457	366,998
Interest expense (note 20)	22,926	22,966
Income before income taxes	511,087	634,684
Income taxes (note 11):		
Current	375,902	99,387
Deferred	(239,472)	64,875
	136,430	164,262
Net income attributable to owners of the Company	$ 374,657	$ 470,422
Earnings per share (note 21):		
Basic	$ 3.86	$ 4.77
Diluted	3.86	4.76

See the accompanying notes to the consolidated financial statements.

Consolidated statements of comprehensive income

(In thousands of Canadian dollars)

Years ended December 31	2013	2012
Net income	**$ 374,657**	$ 470,422
Other comprehensive income:		
Items that will not be reclassified subsequently to income:		
Re-measurement of employee benefit plan obligations, net of income tax of $899 (2012 – $2,067)	**2,518**	(5,807)
Items that may be reclassified subsequently to income:		
Net change in fair value of available-for-sale ("AFS") financial assets, net of income tax of $27,057 (2012 – $7,034)	**(71,666)**	20,766
Gains on AFS financial assets realized and reclassified to income, net of income tax of $9,510 (2012 – $5,553)	**(25,187)**	(14,727)
Total other comprehensive income (loss) attributable to owners of the Company net of income tax of $35,668 (2012 – $586)	**(94,335)**	232
Total comprehensive income attributable to owners of the Company	**$ 280,322**	$ 470,654

See the accompanying notes to the consolidated financial statements.

Consolidated statements of changes in equity

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

	Share capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at January 1, 2013	**$ 1,463,612**	**$ 1,352,456**	**$ 220,896**	**$ 3,036,964**
Comprehensive income (loss):				
Net income	**—**	**374,657**	**—**	**374,657**
Other comprehensive loss	**—**	**—**	**(94,335)**	**(94,335)**
Total comprehensive income (loss)	**—**	**374,657**	**(94,335)**	**280,322**
Transactions recognized directly in equity:				
Dividends on common shares[1]	**—**	**(127,368)**	**—**	**(127,368)**
Issuance of common shares	**2,500**	**—**	**—**	**2,500**
Repurchase of common shares (note 19)	**(57,899)**	**(47,201)**	**—**	**(105,100)**
Re-measurement of employee benefit obligations, net of income tax	**—**	**2,518**	**(2,518)**	**—**
Total transactions recognized directly in equity	**(55,399)**	**(172,051)**	**(2,518)**	**(229,968)**
Balance at December 31, 2013	**$ 1,408,213**	**$ 1,555,062**	**$ 124,043**	**$ 3,087,318**

	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:				
Dividends on common shares[1]	—	(117,435)	—	(117,435)
Issuance of common shares	618	—	—	618
Re-measurement of employee benefit plan obligations, net of income tax	—	(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

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

See the accompanying notes to the consolidated financial statements.

Consolidated statements of cash flows

(In thousands of Canadian dollars)

Years ended December 31	2013	2012
Cash provided by (used in):		
Operating activities:		
Net income	$ 374,657	$ 470,422
Adjustments for:		
Amortization of intangible assets and depreciation of property and equipment	6,269	6,813
Expensing of deferred policy acquisition costs	46,058	47,469
Income taxes	136,430	164,262
Interest income	(174,046)	(154,692)
Dividend income	(9,168)	(12,125)
Net investment gains	(36,792)	(12,103)
Interest expense	22,926	22,966
Government guarantee fund earnings	—	(7,107)
Impact of the reversal of the government guarantee fund	—	(185,843)
Share-based compensation expense	11,232	3,302
	377,566	343,364
Change in non-cash balances related to operations:		
Government guarantee fund	—	(47,622)
Net cash resulting from termination of the government guarantee fund	30,159	—
Accrued investment income and other receivables	(7,636)	9,603
Collateral receivable under reinsurance agreement	(28,482)	—
Prepaid assets	(1,222)	1,477
Subrogation recoverable	15,806	15,297
Deferred policy acquisition costs	(52,174)	(45,771)
Accounts payable and accrued liabilities	8,091	(22,104)
Loss reserves	(22,010)	(29,610)
Unearned premium reserves	(61,373)	(38,537)
Accrued net benefit liabilities under employee benefit plans	3,217	2,493
	261,942	188,590
Cash generated from (used in) operating activities:		
Interest received from bonds and debentures	190,523	166,192
Dividends received from equity investments	9,722	10,929
Interest paid on long-term debt	(22,505)	(22,905)
Income taxes paid	(72,243)	(155,849)
Stock options settled in cash	(1,178)	(787)
Net cash generated from operating activities	366,261	186,170
Financing activities:		
Dividends paid	(127,368)	(117,435)
Repurchase of common shares	(105,100)	—
Issuance of common shares	1,888	—
Net cash used in financing activities	(230,580)	(117,435)
Investing activities:		
Purchase of short-term investments	(182,470)	(262,220)
Proceeds from sale of short-term investments	232,835	217,929
Purchase of bonds	(1,672,158)	(591,931)
Proceeds from sale of bonds and bond maturities	1,283,327	818,754
Purchase of equity investments	(85,739)	(206,830)
Proceeds from sale of equity investments	257,360	134,320
Purchase of intangible assets and property and equipment	(3,000)	(3,919)
Investment in subsidiary, net of cash acquired	—	774
Net cash generated from (used in) financing activities	(169,845)	106,877
Increase (decrease) in cash and cash equivalents	(34,164)	175,612
Cash and cash equivalents, beginning of year	247,856	72,244
Cash and cash equivalents, end of year	$ 213,692	$ 247,856

See the 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 57.4% 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 E Company ("Eco"). During the year ended December 31, 2013, MIC Holdings D Company ("Dco") was wound up as part of a corporate reorganization undertaken by the Company. The Company also holds an indirect 100% ownership interest in Genworth Financial Mortgage Insurance Company Canada ("Genworth Mortgage Insurance Canada" or "the Insurance Subsidiary") through Holdings I and Holdings II. These consolidated financial statements as at and for the 12 months ended December 31, 2013 reflect the consolidation of the Company and these subsidiaries. Additional details on the reporting and consolidation structure are disclosed in note 12(b).

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

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 ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved by the Board of Directors on February 18, 2014.

(b) Basis of measurement

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

(i) Available-for-sale ("AFS") short-term investments, bonds and debentures and equity investments are measured at fair value;

(ii) 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) Derivative financial instruments, which are comprised of foreign currency forwards, are measured at fair value;

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

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

(vii) Loss reserves are discounted and include an actuarial margin for adverse deviation.

2. Basis of preparation (continued)

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

3. Significant accounting policies

(a) Basis of consolidation

(i) Business combinations:

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

The Company adopted IFRS 10 – Consolidated Financial Statements ("IFRS 10"), effective January 1, 2013. IFRS 10 replaces the guidance on control and consolidation in IAS 27 – Consolidated and separate financial statements ("IAS 27"), and Standards Interpretation Committee 12 – Consolidation – Special purpose entities ("SIC-12").

As a result of the adoption of IFRS 10, the Company changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. Under IFRS 10, control has been transferred if an entity has power over an investee, is subject to the variability of returns of the investee, and can exercise its power to influence the returns of the investee. The Company reassessed the control conclusion for its investees at January 1, 2013 and identified no changes to the previous conclusions on whether control exists or other changes affecting the consolidation structure of the Company.

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

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

Interest in consolidated subsidiaries is disclosed in note 12(b).

(ii) Subsidiaries:

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

(b) Insurance contracts

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

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

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

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

(ii) Risk fee:

In conjunction with receiving credit support in the form of the Government of Canada guarantee, as prescribed in the *Protection of Residential Mortgage or Hypothecary Act* ("PRMHIA"), the Company is subject to a risk fee equal to 2.25% of gross premiums written (note 10). The Company records the risk fee in premium taxes and underwriting fees in the consolidated statement of income. The risk fee relates directly to the acquisition of new mortgage insurance business. Accordingly, it is subsequently deferred and expensed in proportion to and over the period in which premiums are earned (note 3(b)(v)) and reflected in deferred policy acquisition costs.

The risk fee became applicable to the Company when PRMHIA became effective on January 1, 2013. Prior to the enactment of PRMHIA, premiums written were recorded net of risk premiums related to the terms of the Government Guarantee Agreement (note 10).

(iii) Losses on claims and loss reserves:

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

Loss reserves represent the amount needed to provide for the expected ultimate net cost of settling claims including adjustment expenses related to defaults by borrowers (both reported and unreported) that have occurred on or before each reporting date. Loss reserves are discounted to take into account the time value of money. The Company records a supplemental provision for adverse deviation based on an explicit margin for adverse deviation developed by the Company's actuary.

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

(iv) Subrogation recoveries and subrogation recoverable:

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.

(v) Deferred policy acquisition costs:

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

(vi) Reinsurance:

Reinsurance contracts are those contracts under which the reinsurer agrees to indemnify the cedant against all or part of the primary insurance risks underwritten by the cedant under one or more insurance contracts. During the year ended December 31, 2013, the Company has assumed the role of a reinsurer in the reinsurance agreement described in note 6(e).

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

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

(c) Financial instruments

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

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

3. Significant accounting policies (continued)

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

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

A financial asset is classified as fair value through profit and loss ("FVTPL") if it is considered to be held for trading or it is designated as such upon initial recognition. The Company has classified its derivative financial instruments as FVTPL at December 31, 2013 (note 3(e)).

FVTPL financial assets are recorded at fair value with realized gains and losses on sale and changes in the fair value recorded in 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. As at December 31, 2013 and 2012, the Company classified bonds and debentures, including bonds and debentures in the government guarantee fund, short-term investments and equity investments, 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. Investment gains or losses on sale of investments are measured at the difference between cash proceeds received and the amortized cost of a fixed income investment or the cost of an equity investment. Transaction costs are capitalized as part of the carrying value of the AFS financial assets.

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

(iv) Loans and receivables:

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

(v) Non-derivative financial liabilities:

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

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

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

Non-derivative financial liabilities are comprised of the Company's long-term debt (note 20) and accounts payable and accrued liabilities including balances due to the Company's majority shareholder and companies under common control (note 12(c)).

(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 consolidated statements of financial position given that the risks and rewards of ownership are not transferred from the Company to the counterparties in the course of such transactions. The securities are reported separately on the consolidated statements of financial position on the basis that counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

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

(e) Derivative financial instruments

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

Changes in fair value of derivative financial instruments are recognized in the consolidated statements of income in net investment gains during the period in which they arise.

(f) Interest income

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

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

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

(g) Dividend income

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

(h) Property plant and equipment

(i) Recognition and measurement:

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

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

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

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

(ii) Subsequent costs:

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

3. Significant accounting policies (continued)

(iii) Depreciation:

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

(i) Intangible assets

(i) Goodwill:

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

(ii) Other intangible assets:

(a) Recognition and measurement

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

(b) Subsequent expenditures

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

(c) Amortization

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

(j) Impairment

(i) Impairment of financial assets:

A financial asset not carried at FVTPL is assessed at each reporting 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 includes default or delinquency by the debtor, indications that the issuer of a security will enter bankruptcy, economic conditions that correlate with defaults or the disappearance of an active market for a security, a significant or prolonged decline in fair value of an equity investment below its cost, or lack of intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

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

(ii) Impairment of non-financial assets:

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

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

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

(k) Income taxes

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

(i) Current tax:

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

(ii) Deferred tax:

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

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

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

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

3. Significant accounting policies (continued)

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

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

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

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

The standard also requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit or recognizes restructuring costs within the scope of IAS 37 – Provisions, contingent liabilities and contingent assets ("IAS 37"). The Company did not incur such termination benefits in the year ended December 31, 2013.

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

(i) Defined contribution pension plan:

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

(ii) Defined benefit plans:

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

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

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

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

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

(iii) Short-term employee compensation and benefits:

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

(iv) Share-based compensation:

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

The fair value of Options, RSUs, PSUs, DSUs and EDSUs is recognized as compensation expense over the relevant vesting period, with a corresponding entry to share-based compensation liabilities. The 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, DSUs and EDSUs are measured at fair value using the quoted market price of the Company's shares at the end of each reporting period.

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

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

(m) Share capital

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

(n) Foreign currency translation

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

(o) Fair value measurement

The Company adopted IFRS 13 – Fair value measurement ("IFRS 13"), effective January 1, 2013. IFRS 13 establishes a single framework for measuring fair value when such measurements are required or permitted by other IFRS. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The application of the new fair value measurement guidance had no significant impact on the measurement of the Company's assets and liabilities. IFRS 13 also requires the fair value hierarchy, which was introduced by IFRS 7 – Financial instruments: Disclosures ("IFRS 7"), to be applied to all fair value measurements including non-financial assets and liabilities that are measured at or based on fair value in the consolidated statements of financial position. The Company's fair value hierarchy is disclosed in note 9(d)).

(p) Earnings per share

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

4. Future accounting standards

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, 2013. The Company has not early adopted any of the new standards and amendments.

(a) Amendments to IAS 32 – 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").

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 that right is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The effective date for the amendments to IAS 32 is for annual periods beginning on or after January 1, 2014. The 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.

(b) IFRS 9 – Financial instruments ("IFRS 9")

IFRS 9 (2009) introduces new requirements for 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. IFRS 9 (2010) introduces additional changes related to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The effective date for IFRS 9 (2010) and (2009) has been deferred pending the finalization of the impairment and classification and measurement requirements, with early adoption permitted. The Company is currently evaluating the impact of IFRS 9 on its financial assets and liabilities.

(c) IFRS 4 – Insurance contracts ("IFRS 4")

The IASB issued a revised exposure draft ED/2013/7 – Insurance Contracts (the "revised ED") on June 21, 2013. The revised ED builds upon proposals published in 2010 and proposes a new standard for insurance contracts, which would replace IFRS 4. The revised proposals represent the first comprehensive accounting model for insurance contracts and aim to provide a consistent basis for accounting for insurance contracts and to eliminate the current diversity that exists in insurance contract accounting. The final standard is expected in 2015, 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.

(b) Estimates

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

(i) Premiums earned:

Mortgage insurance premiums are deferred and then taken into underwriting revenues over the terms of the related policies. The rates or formulae under which premiums are earned relate to the loss emergence pattern in each year of coverage. In order to match premiums earned to losses on claims, premiums written are recognized as premiums earned using a factor-based premium recognition curve. In constructing the premium recognition curve, the Company applies actuarial forecasting techniques to historical loss data to determine expected loss development and the related loss emergence pattern. The actuarial forecasting techniques incorporate economic assumptions that impact future losses and loss development including unemployment rates, interest rates and expected changes in house prices.

(ii) Losses:

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

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

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

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

5. Significant judgments and estimates (continued)

(iv) Deferred policy acquisition costs:

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

(v) Utilization of tax losses:

As at December 31, 2013, the Company had recognized $9,149 of benefits related to tax losses (2012 – tax losses of $10,709). 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 Company's average historical volatility and the mean volatility of the general index of Canadian financial companies. The volatility of Canadian financial companies is used to supplement the volatility calculation given that 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 service and performance conditions.

(vii) Employee benefit plans:

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

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, 2013	December 31, 2012
Unearned premium reserves, beginning of year	**$ 1,785,141**	$ 1,823,678
Net premiums written during the year	**511,844**	550,485
Net premium earned during the year	**(573,217)**	(589,040)
Unearned premiums acquired in business combination	**—**	18
Unearned premium reserves, end of year	**$ 1,723,768**	$ 1,785,141

Net premiums written of $550,485 and net premiums earned of $589,040 for the year ended December 31, 2012 are recorded net of risk premiums related to the Government Guarantee Agreement of $9,718. Under PRMHIA, the risk premium was replaced by the risk fee (note 10). The risk fee is accounted for as an expense in accordance with the accounting policy described in note 3(b)(ii). Accordingly, there is no difference between gross and net premiums written in the year ended December 31, 2013.

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 premiums 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, 2013 and 2012 identified a surplus in the Company's unearned premium reserves and thus no premium deficiency reserves are required at these reporting dates.

(b) Losses on claims and loss reserves

Loss reserves are comprised of the following:

	December 31, 2013	December 31, 2012
Case reserves	**$ 75,100**	$ 92,735
Incurred but not reported reserves	**37,038**	41,413
Discounting	**(2,238)**	(2,890)
Provision for adverse deviation	**7,488**	8,140
Loss reserves	**$ 117,388**	$ 139,398

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

	December 31, 2013	December 31, 2012
Loss reserves, beginning of year	**$ 139,398**	$ 169,008
Claims paid during the year	**(163,877)**	(224,126)
Net losses on claims incurred during the year:		
Losses on claims related to the current year	**132,299**	142,640
Losses on claims related to prior years	**9,568**	51,130
Loss reserves acquired in business combination	**—**	746
Loss reserves, end of year	**$ 117,388**	$ 139,398

Claims development:

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

6. Insurance contracts (continued)

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Development:											
Claims incurred at the end of the default year	$ 43,825	$ 52,845	$ 70,994	$ 102,549	$ 148,493	$ 196,586	$ 175,189	$ 172,200	$ 143,388	$ 132,299	
Claims incurred one year later	22,727	29,670	46,971	106,468	200,807	218,890	193,820	193,226	141,957	—	
Claims incurred two years later	21,397	30,542	54,352	112,224	204,706	247,663	217,034	196,377	—	—	
Claims incurred three years later	21,210	31,485	55,461	115,632	209,850	252,041	218,884	—	—	—	
Claims incurred four years later	21,001	31,431	56,072	115,816	212,615	255,282	—	—	—	—	
Claims incurred five years later	20,807	31,245	55,701	118,427	212,595	—	—	—	—	—	
Current estimate of claims incurred	$ 20,807	$ 31,245	$ 55,701	$ 118,427	$ 212,595	$ 255,282	$ 218,884	$ 196,377	$ 141,957	$ 132,299	$1,383,574
Cumulative payments to date	20,807	31,245	55,701	118,344	212,205	253,677	218,352	195,151	128,257	32,447	1,266,186
Current loss reserves	$ —	$ —	$ —	$ 83	$ 390	$ 1,605	$ 532	$ 1,226	$ 13,700	$ 99,852	$ 117,388
Current estimate of surplus (deficiency)	$ 23,018	$ 21,600	$ 15,293	$ (15,878)	$ (64,102)	$ (58,696)	$ (43,695)	$ (24,177)	$ 1,431	$ —	
Surplus (deficiency) of initial gross loss reserve	53%	41%	22%	(15)%	(43)%	(30)%	(25)%	(14)%	1%	—	

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

Key methodologies and assumptions

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

(i) Claim frequency:

Claim frequency is the portion of delinquencies (both reported and unreported) that are expected to result in paid claims, after estimated cures have been deducted. A cure is defined as a reported delinquency that closes with no claim payment or only nominal loss adjustment expenses. Claim frequency is influenced by labour market performance and changes in house prices. The Company estimates claim frequency for case reserves by analyzing individual reported delinquencies. The Company estimates claim frequency for incurred but not reported delinquencies by applying average delinquency-to-paid-claim ratios to historical reported delinquencies, derived from tracking and analyzing 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 income before income taxes and shareholders' equity. The correlation of assumptions will have a significant effect in determining ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions are changed on an individual basis.

December 31, 2013 Sensitivity factor	**Change in assumptions**	**Impact on income before income taxes**	**Impact on shareholders' equity**
Claim frequency	**+10%**	**$ 23,945**	**$ 17,648**
	-10%	**(23,945)**	**(17,648)**
Claim severity	**+10%**	**23,945**	**17,648**
	-10%	**(23,945)**	**(17,648)**

December 31, 2012 Sensitivity factor	Change in assumptions	Impact on 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

6. Insurance contracts (continued)

(c) Subrogation recoverable

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

	December 31, 2013	December 31, 2012
Real estate owned, beginning of year	**$ 66,890**	$ 85,310
Real estate assets acquired as a result of settling claims during the year at fair value	**271,885**	327,349
Change in market value for real estate on hand	**(14,719)**	(28,066)
Real estate assets sold	**(268,088)**	(317,703)
Real estate owned, end of year	**55,968**	66,890
Borrower recoveries, beginning of year	**24,370**	21,247
Estimated borrower recoveries recognized	**1,818**	8,779
Borrower recoveries received	**(6,702)**	(5,656)
Borrower recoveries, end of year	**19,486**	24,370
Subrogation recoverable, end of year	**$ 75,454**	$ 91,260

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

(d) Deferred policy acquisition costs

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

	December 31, 2013	December 31, 2012
Deferred policy acquisition costs, beginning of year	**$ 152,311**	$ 154,009
Policy acquisition costs deferred during the year	**52,174**	45,771
Deferred policy acquisition costs expensed during the year	**(46,058)**	(47,469)
Net change in deferred policy acquisition costs during the year	**6,116**	(1,698)
Deferred policy acquisition costs, end of year	**$ 158,427**	$ 152,311

Effective January 1, 2013, in conjunction with receiving credit support in the form of the Government of Canada Guarantee, as prescribed in PRMHIA, the Company is subject to a risk fee equal to 2.25% of gross premiums written, as disclosed in note 10. The Company records the risk fee in premium taxes and underwriting fees in the consolidated statement of income.

(e) Reinsurance

On December 20, 2013, the Company, through its indirect subsidiary PMI Canada, entered into a retrocession agreement with Merrill Lynch Reinsurance under which the Company assumed reinsurance risk for approximately 25% of the retroceded liabilities on claims paid by Genworth Financial Mortgage Insurance Pty Limited, an Australian company ("Genworth Australia"), in excess of $700,000 Australian within any one year, up to a maximum exposure to the Company of $30,000 Australian less claims paid by the Company in prior years. The term of the agreement is three years. Genworth Australia has the right to terminate the agreement after the first year of coverage.

Under the excess of loss reinsurance agreement, the Company is required to collateralize its reinsurance obligations by posting cash collateral equal to the maximum exposure under the agreement. As at December 31, 2013, the Company had posted $30,000 Australian, equivalent to $28,482 Canadian, under the agreement. The collateral is recorded as collateral receivable under reinsurance agreement on the Company's consolidated statement of financial position.

Re-measurement adjustments arising on translation of collateral receivable under the reinsurance agreement and any reinsurance premium receivable balances from Australian dollars to Canadian dollars are recognized in income.

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 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 were no significant changes to the Company's exposure to insurance risk or the framework used to monitor, evaluate and manage risks at December 31, 2013 compared to December 31, 2012.

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

(i) Pricing risk:

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

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

(ii) Underwriting risk:

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

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

(iii) Claims management risk:

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.

7. Financial risk management (continued)

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.

(v) Insurance portfolio concentration risk:

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

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

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

Gross premiums written		**2013**		2012
Ontario	**$ 195,873**	**38%**	$ 222,356	40%
Alberta	**124,591**	**24%**	119,102	21%
Quebec	**68,026**	**14%**	79,388	14%
British Columbia	**56,742**	**11%**	66,642	12%
Other	**66,612**	**13%**	72,715	13%
	$ 511,844	**100%**	$ 560,203	100%

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

(vi) Reinsurance risk:

The Company is exposed to reinsurance risk through the Excess of Loss reinsurance agreement described in note 6(e). Under the reinsurance agreement, the Company has maximum liability exposure of $30,000 Australian or $28,482 equivalent Canadian dollars at December 31, 2013 (December 31, 2012 – nil).

(b) Credit risk

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

As at January 1, 2013, PRMHIA became effective and the Government Guarantee Agreement (the "Agreement") was terminated, as described in note 10. Upon termination of the Agreement, all investments and monies held in the government guarantee fund reverted to the Company and became part of the general investment portfolio.

The total credit risk exposure at December 31, 2013 was $5,112,289 (2012 – $3,942,674) and comprised $39,649 (2012 – $90,014) of short-term investments, $31,561 (2012 – $27,526) of accrued investment income and other receivables, $4,937,143 (2012 – $3,733,874) of bonds and debentures, $75,454 (2012 – $91,260) of subrogation recoverable and $28,482 (2012 – nil) of collateral receivable under reinsurance agreement.

The total credit risk exposure in the government guarantee fund at December 31, 2012 was $951,705 and comprised $2,668 of accrued investment income and $949,037 of bonds and debentures.

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 & Poor's, or Moody's.

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

	December 31, 2013		December 31, 2012	
		Carrying value		Carrying value
Credit rating	**Amount**	**%**	Amount	%
AAA	**$ 1,935,374**	**38.9**	$ 1,109,865	29.0
AA	**1,016,365**	**20.4**	1,252,399	32.8
A	**1,664,517**	**33.4**	1,288,958	33.7
BBB	**353,199**	**7.1**	172,666	4.5
BB	**7,337**	**0.2**	—	—
	$ 4,976,792	**100.0**	$ 3,823,888	100.0

As at December 31, 2013, 92.7% of the Company's investment portfolio was rated 'A' or better, compared to 95.5% at December 31, 2012.

As at December 31, 2012, $949,037 or 100% of the bonds and debentures in the Government guarantee fund were rated 'AAA.'

The Company did not hold any impaired financial assets at December 31, 2013 and 2012.

(i) Concentration of credit risk:

Concentration of credit risk exists where a number of borrowers or counterparties are engaged in similar activities, are located in the same geographic area or have comparable economic characteristics. Their ability to meet contractual obligations may be similarly affected by changing economic, political or other conditions. The Company's investments could be sensitive to changing conditions in specific geographic regions or specific industries. The Company has invested 24.7% (December 31, 2012 – 27.6%) of its invested assets in the financial sector. This risk concentration is closely monitored by the Company and adjusted through periodic portfolio rebalancing as deemed necessary.

7. Financial risk management (continued)

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

	December 31, 2013		December 31, 2012	
By country of issuance:				
Canada	**$ 4,829,666**	**97%**	$ 3,823,888	100%
Other	**147,126**	**3%**	—	—
	$ 4,976,792	**100%**	$ 3,823,888	100%
By industry:				
Government	**$ 2,696,097**	**54%**	$ 1,582,227	41%
Bank, insurance, and other financial institutions	**1,280,776**	**26%**	1,171,976	31%
Energy	**310,682**	**6%**	314,880	8%
Infrastructure	**229,607**	**5%**	259,844	7%
All other sectors	**459,630**	**9%**	494,961	13%
	$ 4,976,792	**100%**	$ 3,823,888	100%

(ii) Derivative related risk:

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

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

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

The Company also uses collateral to manage derivative-related counterparty risk. Mark-to-market provisions in the Company's agreements with counterparties provide the Company with the right to request that the counterparty collateralize the current market value of its derivative positions when the value passes a specified threshold amount.

The Company had no derivative-related credit risk at December 31, 2013 (December 31, 2012 – nil) as all of its derivative financial instruments were in a liability position.

(iii) Collateral receivable under reinsurance agreement:

To mitigate credit risk related to collateral under reinsurance agreement, the Company transacts with high-credit-quality issuers. The funds held as collateral under reinsurance agreement are deposited in a trust account in favour of the Company and restricted solely for the payment of reinsurance obligations under the agreement.

(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.

As at January 1, 2013, PRMHIA became effective and the Agreement was terminated, as described in note 10. Upon termination of the Agreement, all investments and monies held in the government guarantee fund reverted to the Company and became part of the general investment portfolio.

Liquidity risk arises from the Company's general business activities and in the course of managing its assets, liabilities and externally imposed capital requirements (note 8). The liquidity requirements of the Company's business have been met primarily by funds generated from operations including investment income, investment asset maturities and financing activities. Cash provided from these sources is used primarily for loss and loss adjustment expense payments, operating expenses, payment of dividends and funding of share repurchase transactions. To ensure liquidity requirements are met, the Company holds a portion of investment assets in liquid securities. At December 31, 2013, the Company has cash and cash equivalents of $213,692 (2012 – $247,856) and short-term investments of $39,649 (2012 – $90,014).

At December 31, 2012, the Government guarantee fund had $41,187 of cash and cash equivalents.

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
2013	**$ 734,901**	**$ 1,262,241**	**$ 1,120,057**	**$1,339,983**	**$ 519,610**	**$ 4,976,792**
2012	$ 453,867	$ 1,094,967	$ 961,246	$ 829,674	$ 484,134	$ 3,823,888

The table below summarizes the carrying value by the earliest contractual maturities of the Company's bonds and debentures in the government guarantee fund at December 31, 2012:

	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
2012	$ 24,657	$ 309,307	$ 321,044	$ 115,947	$ 178,082	$ 949,037

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
2013:						
Non-derivative financial liabilities:						
Accounts payable and accrued liabilities	**$ 31,219**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 31,219**
Loss reserves (at Actuarial Present Value)	**67,034**	**50,354**	**—**	**—**	**—**	**117,388**
Long-term debt	**—**	**150,000**	**—**	**275,000**	**—**	**425,000**
Derivative financial liabilities:						
Foreign currency forwards	**15**	**—**	**362**	**2,291**	**—**	**2,668**
2012:						
Non-derivative financial liabilities:						
Accounts payable and accrued liabilities	$ 22,707	$ —	$ —	$ —	$ —	$ 22,707
Loss reserves (at Actuarial Present Value)	84,018	55,380	—	—	—	139,398
Long-term debt	—	150,000	—	275,000	—	425,000
Derivative financial liabilities:						
Foreign currency forwards	—	—	—	—	—	—

7. Financial risk management (continued)

(d) Market risk

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

As at January 1, 2013, PRMHIA became effective and the Agreement was terminated, as described in note 10. Upon termination of the Agreement, all investments and monies held in the government guarantee fund reverted to the Company and became part of the general investment portfolio.

(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, 2013, management estimates that an immediate hypothetical 100 basis point, or 1%, increase in interest rates would decrease the market value of the AFS bonds and debentures and short-term investments by approximately $173,000, representing 3.48% of the $4,976,792 fair value of these investments, and decrease the value of loss reserves by $899. Conversely, a 100 basis point, or 1%, decrease in interest rates would increase the market value of the AFS bonds and debentures and short-term investments by approximately $187,000, representing 3.76% of the fair value, and increase the value of loss reserves by approximately $917.

As at December 31, 2012, management estimated 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, 2012, management estimated 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. Conversely, a 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 $41,000, representing 4.32% 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: (a) the existing level and composition of fixed income investments will be maintained; (b) shifts in the yield curve are parallel; and (c) credit and liquidity risks have not been considered.

(ii) Equity price risk:

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

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

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.

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

(iii) Currency risk:

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk arising from investments denominated in U.S. dollars and from reinsurance collateral denominated in Australian dollars pledged to collateralize reinsurance obligations. The Company uses foreign exchange forward contracts to mitigate currency risk.

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

	2013	2012
Collateral receivable under reinsurance agreement denominated in Australian dollars	$ 28,482	$ —
Bonds denominated in U.S. dollars	147,126	—
Total financial assets exposed to currency risk	175,608	—
Less forward exchange contract notional amount	175,790	—
Total net currency exposure on financial assets	$ (182)	$ —

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 175% under the provision of PRMHIA (note 10) (2012 – 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 target for the Insurance Subsidiary of 185% (2012 – 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, 2013, the Insurance Subsidiary had an MCT ratio of 223% (2012 – 170%) 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, 2013				December 31, 2012			
	Fair value	**Amortized cost/cost**	**Unrealized gain**	**% of total fair value**	Fair value	Amortized cost/cost	Unrealized gain	% of total fair value
Cash and cash equivalents:								
Canadian federal government treasury bills	**$ 194,372**	**$ 194,372**	**$ —**	**3.6**	$ 242,273	$ 242,273	$ —	5.5
Cash	**19,320**	**19,320**	**—**	**0.4**	5,583	5,583	—	0.1
	213,692	**213,692**	**—**	**4.0**	247,856	247,856	—	5.6
AFS investments:								
Short-term investments:								
Canadian federal government treasury bills[1]	**39,649**	**39,649**	**—**	**0.7**	90,014	90,014	—	2.0
	39,649	**39,649**	**—**	**0.7**	90,014	90,014	—	2.0
Government bonds and debentures:								
Canadian federal government	**1,809,970**	**1,766,510**	**43,460**	**33.7**	748,292	724,820	23,472	17.0
Canadian provincial and municipal governments	**846,478**	**811,667**	**34,811**	**15.7**	743,921	685,715	58,206	16.9
	2,656,448	**2,578,177**	**78,271**	**49.4**	1,492,213	1,410,535	81,678	33.9
Corporate bonds and debentures:								
Financial	**1,280,776**	**1,233,476**	**47,300**	**23.8**	1,171,976	1,099,581	72,395	26.6
Energy	**310,682**	**300,509**	**10,173**	**5.8**	314,880	294,991	19,889	7.2
Infrastructure	**229,607**	**220,788**	**8,819**	**4.3**	259,844	240,717	19,127	5.9
All other sectors	**451,382**	**442,795**	**8,587**	**8.4**	429,936	402,256	27,680	9.8
	2,272,447	**2,197,568**	**74,879**	**42.3**	2,176,636	2,037,545	139,091	49.5
Asset-backed bonds and debentures	**8,248**	**8,076**	**172**	**0.2**	65,025	64,254	771	1.5
	8,248	**8,076**	**172**	**0.2**	65,025	64,254	771	1.5
Total AFS bonds and debentures	**4,937,143**	**4,783,821**	**153,322**	**91.9**	3,733,874	3,512,334	221,540	84.9
Equity investments:								
Energy	**38,322**	**34,006**	**4,316**	**0.7**	92,471	86,261	6,210	2.1
Financial	**46,662**	**41,432**	**5,230**	**0.9**	43,959	41,873	2,086	1.0
Communications	**21,432**	**16,551**	**4,881**	**0.4**	70,636	63,993	6,643	1.6
All other sectors	**78,006**	**68,866**	**9,140**	**1.4**	121,345	107,726	13,619	2.8
Total AFS equity investments	**184,422**	**160,855**	**23,567**	**3.4**	328,411	299,853	28,558	7.5
Total investments	**$5,374,906**	**$5,198,017**	**$ 176,889**	**100.0**	$4,400,155	$4,150,057	$ 250,098	100.0

[1] Canadian federal government treasury bills include $3,108 in collateral posted for the benefit of the Company's counterparty to its derivative financial instrument contracts as of December 31, 2013 as described in the "Derivative financial instruments" section of note 9.

The fair value of investments, excluding equity investments and cash and cash equivalents, is shown by contractual maturity of the investment. Investments at December 31, 2012 exclude investments in the government guarantee fund.

	December 31, 2013	December 31, 2012
Terms to maturity	**Fair value**	Fair value
Federal, provincial and municipal bonds and debentures and short-term investments:		
1 year or less	**$ 439,368**	$ 164,323
1–3 years	**760,917**	485,199
3–5 years	**531,238**	448,842
5–10 years	**746,184**	395,383
Over 10 years	**218,390**	88,480
	2,696,097	1,582,227
Corporate bonds and debentures and short-term investments:		
1 year or less	**295,533**	289,544
1–3 years	**501,324**	609,768
3–5 years	**588,819**	512,404
5–10 years	**593,799**	434,291
Over 10 years	**301,220**	395,654
	2,280,695	2,241,661
	$ 4,976,792	$ 3,823,888

(a) Investments denominated in foreign currencies

During the year ended December 31, 2013, the Company invested $149,189 Canadian in emerging market bonds denominated in U.S. dollars. These bonds are classified as AFS and changes in the fair value of the bonds are recorded in OCI. Re-measurement adjustments on translation of the bonds from U.S. dollars into Canadian dollars are recognized in net investment gains

(b) Derivative financial instruments

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

In the year ended December 31, 2013, the Company used derivative financial instruments in the form of foreign currency forwards to mitigate foreign currency risk associated with bonds denominated in U.S. dollars and reinsurance collateral denominated in Australian dollars pledged to collateralize reinsurance obligations. Foreign currency forwards are contractual obligations to exchange one currency for another at a predetermined future date.

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

						Notional amount
	Fair value	1 year or less	1–3 years	3–5 years	Over 5 years	Total
December 31, 2013:						
Foreign currency forwards	$ (2,668)	$ 28,500	$ —	$ 13,710	$ 133,580	$ 175,790
December 31, 2012:						
Foreign currency forwards	—	—	—	—	—	—

9. Investments (continued)

The Company enters into collateral arrangements with its derivative counterparties that require the posting of collateral upon certain net exposure thresholds being met. As at December 31, 2013, the Company had posted collateral of $3,108 in the form of Canadian federal government treasury bills for the benefit of its counterparty to the foreign currency forwards (2012 – nil).

(c) Securities lending

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

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

In addition to earning fee income under the securities lending program, the Company continues to earn all interest 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, 2013, the Company had loaned AFS bonds and debentures with a fair value of $243,141 (December 31, 2012 – $208,765) and has accepted eligible securities as collateral with a fair value of $257,443 (December 31, 2012 – $221,050).

(d) Fair value measurements

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

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

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

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

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

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

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

During the years ended December 31, 2013 and 2012, the Company did not hold any investments measured at fair value using unobservable inputs (Level 3). Transfers between levels of the fair value hierarchy may occur if the inputs used to value the investments change. Any transfers between the levels are deemed to have occurred at the end of the reporting period. Given the types of assets classified in Level 1, which are short-term investments and equity investments, the Company does not typically have any transfers between Level 1 and Level 2 of the fair value hierarchy, and there were no such transfers during the years ended December 31, 2013 and 2012.

9. Investments (continued)

Valuation of Level 2 financial instruments:

Fair values of bonds and debentures are obtained primarily from industry-standard pricing sources utilizing market observable information. Because many fixed income investments do not trade on a daily basis, fair value is assessed by analyzing available market information through processes such as benchmark curves, benchmarking of like securities and quotes from market participants. Observable information is compiled and integrates relevant credit information, interest rates of the underlying investment, perceived market movements and sector news. Market indicators and industry and economic events are also monitored as triggers to obtain additional data. The primary inputs used in determining fair value of bonds and debentures are interest rate curves and credit spreads.

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

The Company's long-term debt is a financial liability that is not carried at fair value on the Company's consolidated statement of financial position, for which fair value is disclosed in the notes to the consolidated financial statements (note 20). Fair values are obtained from independent pricing sources utilizing market observable information. The primary inputs used in the valuation of the long-term debt are interest rate curves and credit spreads.

10. Government guarantee fund and Government of Canada 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 $10,000. 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 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 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. During the year ended December 31, 2012, regulations that prescribed the implementation of PRMHIA and established an effective date of January 1, 2013 were issued.

On January 1, 2013, PRMHIA became effective. The Agreement was terminated on this date. Upon termination of the Agreement all investments and monies held in the government guarantee fund reverted to the Company. Bonds and debentures of $949,037 and cash and cash equivalents of $41,187 were reclassified from government guarantee fund assets to bonds and debentures and cash and cash equivalents on the consolidated statement of financial position. These investments continue to be classified as AFS. Accrued investment income of $2,668 was reclassified from government guarantee fund assets to accrued investment income and other receivables on the consolidated statement of financial position. During the year ended December 31, 2013, the Company's liability to MICC of $13,696 was settled.

Payment of the exit fee under the Agreement was required in the event that assets were withdrawn from the government guarantee fund. The Company had not withdrawn any assets from the government guarantee fund at December 31, 2012, as the conditions for withdrawal had not been met. Therefore, no exit fees would 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 had offset the government guarantee fund in the consolidated statement of financial position and recorded income of $185,843.

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

	December 31, 2013	December 31, 2012
Invested assets at fair value (a)	**$ —**	$ 990,224
Accrued income (b)	**—**	2,668
Accrued exit fee (c)	**—**	—
MICC liability (d)	**—**	(13,696)
	$ —	$ 979,196

(a) Investments including government bonds and bonds unconditionally guaranteed by the Government of Canada of $949,037, and cash and cash equivalents of $41,187; plus

(b) accrued interest on invested assets; less

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

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

Upon the termination of the Agreement, the annual risk premium was replaced by a risk fee equal to 2.25% of gross premium written. See note 3(b)(ii) for the accounting policy applied to the risk fee. The risk fee recorded in premium taxes and underwriting fees in the consolidated statement of income for the year ended December 31, 2013 is $11,513 (the annual risk premium recorded in the year ended December 31, 2012 was $9,718).

Contributions of assets to the government guarantee fund and the income on such assets had 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 resulted in a current tax obligation of approximately $256,636 for the Company.

For the purposes of the Insurance Subsidiary's MCT, the government guarantee fund (net of related deferred tax impact) was deducted from capital available. Upon termination of the Agreement, the assets previously held in the government guarantee fund reverted to the Company and are no longer 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.

In the year ended December 31, 2012, the Company recorded the results of income from the government guarantee fund of $26,875 less exit fees of $19,768 for a net amount of $7,107 in government guarantee fund earnings. In accordance with the provisions of PRMHIA, the cumulative exit fee of $185,843 was reversed in the year ended December 31, 2012.

11. Income taxes

The provision for income taxes comprises the following:

	2013	2012
Current tax:		
Current income taxes	$ 375,370	$ 99,980
Current income tax adjustment in respect of prior years	532	(593)
	375,902	99,387
Deferred tax:		
Origination and reversal of temporary differences	(241,561)	61,750
Impact of change in income tax rates	2,089	3,125
	(239,472)	64,875
Total income tax expense	$ 136,430	$ 164,262

Income taxes credited to OCI comprise the following:

	2013	2012
Income tax (income tax recovery) related to net gains on AFS financial assets	$ (36,567)	$ (525)
Income tax (income tax recovery) related to net gains on AFS financial assets in the government guarantee fund	—	2,006
Income tax (income tax recovery) related to re-measurement of employee benefit plan obligations	899	(2,067)
Total income taxes recovered in OCI	$ (35,668)	$ (586)

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

	2013	2012
Income before income taxes	$ 511,087	$ 634,684
Combined basic Canadian federal and provincial statutory income tax rate	26.30%	26.25%
Income tax expense based on statutory tax rate	$ 134,416	$ 166,605
Increase (decrease) in income tax resulting from:		
Non-taxable income	(220)	(3,514)
Effect of increase in income tax rates on deferred income taxes	2,089	3,442
Recognition of tax losses available for carry-forward[1]	—	(2,520)
Other	145	249
Income tax expense	$ 136,430	$ 164,262

[1] In the year ended December 31, 2012, OSFI approved the acquisition of PMI Canada. Subsequent to the acquisition date, $2,520 of previously unrecognized tax losses were recognized as management considers it probable that future taxable profits will be available against which they can be utilized.

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

The 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 the recognition of tax losses available for carry forwards partially offset by a higher income tax rate applicable to deferred income.

The increase in statutory income tax rate from 26.25% to 26.30% in 2013 resulted from legislated increases in the 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, 2013	December 31, 2012
Deferred tax assets:		
Employee benefits	**$ 8,949**	$ 8,086
Loss reserves	**1,714**	1,866
Tax losses available for carry-forward	**9,149**	10,709
Financing costs	**34**	340
	19,846	21,001
Deferred tax liabilities:		
Investments	**(1,896)**	(2,211)
Unrealized gains on government guarantee fund AFS investments	**—**	(15,803)
Government guarantee fund reserve	**—**	(240,733)
Policy reserves	**(56,041)**	(55,656)
Property and equipment and intangible assets	**(2,322)**	(2,896)
	(60,259)	(317,299)
Net deferred tax liability	**$ (40,413)**	$ (296,298)

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

	2013	2012
Balance, beginning of year	**$ 296,298**	$ 231,484
Expense (recovery) for the year	**(239,472)**	64,875
Other comprehensive income charge (recovery) for the year	**(16,413)**	(61)
Balance, end of year	**$ 40,413**	$ 296,298

All deferred tax assets have been recognized as at December 31, 2013 and 2012 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 management's compensation includes base salary, benefits, retirement benefit plans, and executive allowances. Additionally, it includes performance-based compensation consisting of short-term incentive compensation and long-term share-based compensation. Short-term incentive compensation is dependent on how well the Company performs against metrics that have been approved by the Company's Board of Directors and how well a key manager performs against his or her personal goals and objectives. Long-term share-based compensation grants may consist of any combination of Options, RSUs, PSUs and EDSUs (note 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.

12. Related party transactions and balances (continued)

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.

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, 100% of the director's annual retainer will be paid in DSUs until such time as the guidelines are met.

Compensation for the Company's seven key management personnel and six independent directors (December 31, 2012 – six key managers and four independent directors) was comprised of the following:

	December 31, 2013	December 31, 2012
Short-term employee benefits	**$ 4,397**	$ 3,283
Post-employment benefits	**697**	448
Share-based compensation	**3,411**	1,235
Termination benefits	**—**	979
Director fees	**548**	481
Total compensation	**$ 9,053**	$ 6,426

(b) Interest in consolidated subsidiaries

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

Investee	Type of ownership	Ownership interest
Genworth Canada Holdings I Limited ("Holdings I")	Direct	100%
Genworth Canada Holdings II Limited ("Holdings II")	Direct	100%
MIC Holdings E Company ("Eco")	Direct	100%
Genworth Financial Mortgage Insurance Company Canada ("the Insurance Subsidiary")	Indirect through Holdings I and Holdings II	100%
PMI Mortgage Insurance Company Canada ("PMI Canada")	Indirect through the Insurance Subsidiary	100%

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

The Insurance Subsidiary and PMI Canada are regulated insurance companies governed by the provisions of the *Insurance Company Act* ("the Act"), which is administered by OSFI.

As such, these investees are subject to certain requirements and restrictions contained in the Act. The investees are required under the Act to meet a minimum capital test ("MCT") to support their outstanding mortgage insurance policies in force. In addition, internal capital ratio targets have been established for the investees by their respective Board of Directors with which they must comply (note 8). Accordingly, these investees must limit dividends and other distributions to the Company to the extent that they are required to comply with the MCT and internal capital ratio targets. Furthermore, any dividends or capital distributions from these investees are subject to formal regulatory approval from OSFI.

(c) Other related party transactions

The Company enters into related party transactions with Genworth Financial, Inc. and its subsidiaries. Services rendered by Genworth Financial, Inc. and affiliated companies consist of information technology, finance, human resources, legal and compliance, and other specified services. The services rendered by the Company and the Insurance Subsidiary relate mainly to financial reporting and tax compliance support services. These transactions are in the normal course of business. Balances owing for service transactions are non-interest-bearing and are settled on a quarterly basis.

The Company incurred net related party charges of $5,673 for the year ended December 31, 2013 (December 31, 2012 – $5,613). The balance payable for related party services at December 31, 2013 is $312 (December 31, 2012 – $108) and is reported in accounts payable and accrued liabilities in the consolidated statements of financial position.

During the year ended December 31, 2013, the Company repurchased 3,903,117 of its own common shares for cancellation on the open market for an aggregate purchase price of $105,000. Genworth Financial, Inc., through its subsidiaries, participated proportionately in the share purchase transaction and maintained a 57.4% ownership interest in the Company. See note 19 for additional disclosure on the share repurchase transaction.

On December 20, 2013, the Company, through its indirect subsidiary PMI Canada, entered into a retrocession agreement with Merrill Lynch Reinsurance under which the Company assumed reinsurance risk for approximately 25% of the retroceded liabilities on claims paid by Genworth Financial Mortgage Insurance Pty Limited, an Australian company ("Genworth Australia"), in excess of $700,000 Australian within any one year, up to a maximum exposure to the Company of $30,000 Australian, less claims paid by the Company in prior years. Additional information about the reinsurance agreement is disclosed in note 6(e).

13. Commitments

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

Future minimum lease commitments at December 31, 2013 and 2012 are as follows:

	December 31, 2013	December 31, 2012
Less than 1 year	**$ 2,347**	$ 2,401
Later than 1 year but less than 5 years	**5,456**	7,418
Later than 5 years	**—**	—
	$ 7,803	$ 9,819

Lease payments recognized as an expense for the year ended December 31, 2013 were $3,087 (2012 – $2,925).

14. Employee benefit plans

(a) Defined contribution pension benefit plan

The Company's eligible employees participate in a registered defined contribution pension plan. The plan provides benefits to employees of the Company immediately upon hire. As plan sponsor, the Company is responsible for contributing a predetermined amount to an employee's retirement savings, based on a percentage of that employee's salary. Contributions are made on a bi-weekly basis.

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

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

14. Employee benefit plans (continued)

(b) Defined benefit plans

The Company maintains two types of defined benefit plans: a Supplemental Employee Retirement Plan ("SERP") and a defined benefit plan for non-pension post-retirement benefits.

The SERP is an unregistered, non-contributory supplemental pension plan that supplements the registered defined contribution plan. Benefit entitlement under the SERP is based on a final average earnings target. The non-pension post-retirement benefit plan provides medical and life insurance coverage to employees after retirement. Certain employees are also entitled to dental benefits under this plan.

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

Plan membership data used in the valuations includes the number of plan members and the average age, service period, and pensionable earnings of plan members. For the SERP, actuarial valuations for the years ended December 31, 2013 and 2012 are based on plan membership data as at the respective period ends. The weighted average duration of the SERP is 20 years. For the non-pension post-retirement benefits, actuarial valuations for the years ended December 31, 2013 and 2012 are based on plan membership data as at January 1, 2012. The weighted average duration of the non-pension post-retirement benefit plan is 23 years.

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

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

(c) Benefit plan governance

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

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

	SERP		Non-pension post-retirement benefits		Total benefit liabilities	
	2013	2012	**2013**	2012	**2013**	2012
Accrued net benefit liabilities under employee benefit plans	**$ 13,830**	$ 14,728	**$ 12,689**	$ 11,991	**$ 26,519**	$ 26,719

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

	SERP		Non-pension post-retirement benefits		Total benefit liabilities	
	2013	2012	**2013**	2012	**2013**	2012
Accrued net benefit liabilities of active plan members	**$ 9,332**	$ 10,568	**$ 10,974**	$ 10,451	**$ 20,306**	$ 21,020
Accrued net benefit liabilities of retirees and deferred vested benefit recipients	**4,498**	4,160	**1,715**	1,540	**6,213**	5,700
Accrued net benefit liabilities under employee benefit plans	**$ 13,830**	$ 14,728	**$ 12,689**	$ 11,991	**$ 26,519**	$ 26,719

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

	SERP		Non-pension post-retirement benefits		Total benefits	
	2013	2012	**2013**	2012	**2013**	2012
Defined benefit expense:						
Benefits earned by employees	**$ 870**	$ 579	**$ 1,200**	$ 894	**$ 2,070**	$ 1,473
Plan settlements	**—**	206	**—**	—	**—**	206
Interest cost on accrued benefit liability	**675**	525	**606**	510	**1,281**	1,035
Defined benefit expense for the year	**1,545**	1,310	**1,806**	1,404	**3,351**	2,714
Defined contribution expense for the year	**2,567**	2,575	**—**	—	**2,567**	2,575
Total pension and non-pension post-retirement benefit expense for the year	**$ 4,112**	$ 3,885	**$ 1,806**	$ 1,404	**$ 5,918**	$ 5,289

The actuarial gains recognized in the consolidated statements of comprehensive income relating to the SERP are $2,364 at December 31, 2013 (2012 – actuarial losses of $4,485). The actuarial gains recognized in the consolidated statements of comprehensive income relating to the non-pension post-retirement benefits are $1,052 (2012 – actuarial losses of $3,354).

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

	SERP		Non-pension post-retirement benefits		Total benefit liabilities	
	2013	2012	**2013**	2012	**2013**	2012
Accrued net benefit liabilities under employee benefit plans, beginning of year	**$ 14,728**	$ 9,006	**$ 11,991**	$ 7,309	**$ 26,719**	$ 16,315
Benefits earned by employees during the year	**870**	579	**1,200**	894	**2,070**	1,473
Interest costs on accrued liability incurred during the year	**675**	525	**606**	510	**1,281**	1,035
Plan settlements recognized during the year	**—**	206	**—**	—	**—**	206
Benefits paid to pensioners during the year	**(79)**	(73)	**(56)**	(76)	**(135)**	(149)
Actuarial losses (gains) from plan re-measurement	**(2,364)**	4,485	**(1,052)**	3,354	**(3,416)**	7,839
Accrued net benefit liabilities under employee benefit plans	**$ 13,830**	$ 14,728	**$ 12,689**	$ 11,991	**$ 26,519**	$ 26,719

14. Employee benefit plans (continued)

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

	SERP		Non-pension post-retirement benefits		Total benefit liabilities	
	2013	2012	**2013**	2012	**2013**	2012
Actuarial (gains) losses:						
Experience (gains) losses	**$ (966)**	$ 285	**$ 58**	$ 1,380	**$ (908)**	$ 1,665
Changes in assumptions	**(1,398)**	4,200	**(1,110)**	1,974	**(2,508)**	6,174
	$ (2,364)	$ 4,485	**$ (1,052)**	$ 3,354	**$ (3,416)**	$ 7,839

(d) Defined benefit plan assumptions

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

	SERP		Non-pension post-retirement benefits	
	2013	2012	**2013**	2012
Discount rate	**5.00%**	4.60%	**5.00%**	4.60%
Change in rate of compensation increase	**3.00%**	3.50%	**3.00%**	3.50%
Mortality	**75% of male rates and 92% of female rates from the CPM RPP 2014 private sector table with improvement scale CPM-A**	UP94 generational	**CPM RPP 2014 private sector table with improvement scale CPM-A**	UP94 generational
Assumed overall health care trend rate	**n/a**	n/a	**8.33%**[1]	7.11%[1]

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

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

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

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

(e) Benefit plan cash flows

The Company makes contributions to the defined contribution pension plan on a bi-weekly basis. The SERP and non-pension post-retirement benefits plans are unfunded. The Company pays these benefits as they become due.

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

	Pension plans		Non-pension post-retirement benefits	
	2013	2012	**2013**	2012
Benefits paid for defined benefit plans	**$ 79**	$ 73	**$ 56**	$ 76
Contribution to defined contribution plan	**2,567**	2,575	**—**	—
	$ 2,646	$ 2,648	**$ 56**	$ 76

The Company expects to contribute the following amounts to its employee benefit plans during the annual period beginning after December 31, 2013:

Defined contribution plan	$ 2,198
SERP	193
Non-pension post-retirement benefit plan	104
Total	$ 2,495

15. Share-based compensation

The Company provides long-term incentive plans for the granting of stock options with tandem stock appreciation rights ("Options"), Restricted Share Units ("RSUs"), Performance Share Units ("PSUs"), Executive Deferred Share Units ("EDSUs") and Directors' Deferred Share Units ("DSUs").

Options are granted to employees with an exercise price equal to the Company's closing share price at the date of grant. Options vest over a period of three years (50% on each of the second and third anniversaries of the grant date or equally over three years). The Options expire 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, 2013 is $19.00 to $27.12 (2012 – $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 average annual earnings growth, return on equity, underwriting income, investment income and earnings per share.

During the year ended December 31, 2013, the Company introduced EDSUs as part of its share-based compensation plans. The Company's Board of Directors, at its sole discretion, may grant EDSUs to the Company's executive-level employees. EDSUs entitle employees to receive an amount equal to the fair value of the Company's shares. The Board of Directors determines the vesting and performance conditions as well as the number of EDSUs to be granted. EDSUs may be redeemed only upon termination of employment.

DSUs entitle eligible members of the Company's Board of Directors to receive an amount equal to the fair value of the Company's shares. The number of DSUs granted is based on the 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.

15. Share-based compensation (continued)

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

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

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

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

2012	Number of Options	Weighted average exercise price	Weighted average fair value of Options	Number of RSUs	Weighted average fair value of RSUs	Number of DSUs	Weighted average fair value of DSUs	Number of PSUs	Weighted average fair value of PSUs	Number of EDSUs	Weighted average fair value of EDSUs
Outstanding as at January 1	1,152,450	$ 21.77	$ 1,554	103,470	$ 2,120	20,437	$ 420	37,470	$ 768	—	$ —
Granted	152,080	22.61	—	60,263	1,211	12,424	245	17,654	366	—	—
Dividend equivalents granted	—	—	—	6,907	162	1,551	36	3,147	81	—	—
Exercised	(180,000)	19.00	(499)	(67,555)	(1,333)	—	—	—	—	—	—
Forfeited	(97,400)	26.96	(103)	(6,869)	(176)	—	—	(11,515)	(310)	—	—
Changes in fair value	—	—	1,221	—	189	—	77	—	151	—	—
Outstanding, as at December 31	1,027,130	$ 21.89	$ 2,173	96,216	$ 2,173	34,412	$ 778	46,756	$ 1,056	—	$ —
Exercisable, as at December 31	730,508	$ 20.75	$ 1,747	—	$ —	34,412	$ 778	—	$ —	—	$ —
Weighted average remaining contractual life (years)	7.2	—	—	1.6	—	—	—	1.2	—	—	—

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, DSUs and EDSUs 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 outstanding is $9,198 as at December 31, 2013 (December 31, 2012 – $2,173).

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

	2013	2012
Share price at reporting date	$ 36.63	$ 22.59
Weighted average exercise price per share	$ 22.12	$ 21.89
Expected volatility	13.21%	19.56%
Option life (years)	6.0	6.0
Expected dividend yield	3.82%	5.14%
Risk-free interest rate	1.21%	1.31%

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

	2013	2012
Expense arising from:		
Options	$ 6,773	$ 933
RSUs	2,314	1,618
PSUs	1,237	393
EDSUs	47	—
DSUs	861	358
Total recognized as share-based compensation expense	$ 11,232	$ 3,302

	December 31, 2013	December 31, 2012
Total carrying amount of liabilities for cash-settled arrangements	$ 14,317	$ 4,875
Total intrinsic value of liability for vested benefits	$ 14,257	$ 2,721

16. Intangible assets

The Company's intangible assets are summarized as follows:

Cost	Computer software
Balance at January 1, 2012	$ 29,411
Acquisitions – externally purchased	3,853
Balance at December 31, 2012	33,264
Acquisitions – externally purchased	3,001
Balance at December 31, 2013	**$ 36,265**

16. Intangible assets (continued)

Amortization and impairment losses	Computer software
Balance at January 1, 2012	$ 17,850
Amortization for the year	5,674
Balance at December 31, 2012	23,524
Amortization for the year	5,427
Balance at December 31, 2013	**$ 28,951**

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

Carrying amounts	Computer software
At December 31, 2012	$ 9,740
At December 31, 2013	**7,314**

17. Transactions with lenders

Gross premiums written from two major lenders (defined as lenders that individually account for more than 10% of the Company's gross premiums written) was $152,444, representing 29.8% of the Company's total gross premiums written for the year ended December 31, 2013 (2012 – gross premiums written from one major lender that accounted for more than 10% of the Company's gross premiums written was $189,230 or 34%).

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, which is its mortgage insurance business, was determined based on its value in use. Value in use was calculated by discounting the future cash flows generated from continuing use of the CGU. The calculation of value in use incorporated five years of cash flow estimates and was based on the following key assumptions:

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

Terminal value incorporated into the value in use calculations was estimated by applying a growth rate of 1.3% (2012 – 1.7%) to the last year of the multi-year plan cash flow estimate. The growth rates at December 31, 2013 and 2012 reflect the Canadian five-year historical average core inflation rate, which does not exceed the long-term average growth rate for the industry.

A pre-tax discount rate of 14.1% (2012 – 10.6%) was applied in determining the recoverable amount of the unit. The discount rates as at December 31, 2013 and 2012 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 was recognized in the year ended December 31, 2013 (2012 – nil).

19. Share capital

The share capital of the Company comprises the following:

	2013	2012
Authorized:		
Unlimited common shares with nominal or no par value[1]		
1 special share[2]		
Issued:		
94,910,880 common shares (2012 – 98,698,018)	**$ 1,408,213**	$ 1,463,612
1 special share	**—**	—
Share capital	**$ 1,408,213**	$ 1,463,612

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

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

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

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

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

	2013	2012
Common shares, January 1	**98,698,018**	98,666,796
Common shares issued in connection with share-based compensation plans	**115,979**	31,222
Common shares retired under share repurchase	**(3,903,117)**	—
Common shares, December 31	**94,910,880**	98,698,018

At December 31, 2013, subsidiaries of Genworth Financial, Inc. owned 54,469,098 common shares of the Company or approximately 57.4% (2012 – 56,710,094 or approximately 57.5%).

19. Share capital (continued)

Share repurchase:

During the year ended December 31, 2013, the Company's Board of Directors authorized a normal course issuer bid ("NCIB") to purchase up to 4,937,078 shares, representing approximately 5% of its outstanding common shares. Purchases of common shares commenced on May 17, 2013 and will expire on the earlier of May 2, 2014 and the date on which the Company has purchased the maximum number of shares under the NCIB.

During the year ended December 31, 2013, under the terms of the NCIB, the Company purchased 3,903,117 common shares for cancellation on the open market for an aggregate price of $105,000. The Company's majority shareholder, Genworth Financial, Inc., through its subsidiaries, participated proportionately in the share purchase transaction and maintained a 57.4% ownership interest in the Company.

The NCIB is recognized as a reduction to share capital equal to the average carrying value of the common shares purchased for cancellation. The excess of the aggregate purchase price over the average carrying value, together with the incremental costs associated with the transaction, are recognized as a reduction to retained earnings

20. 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, 2013
	Series 1	**Series 2**	**Total**
Carrying value	**$ 273,181**	**$ 149,586**	**$ 422,767**
Fair value	**300,152**	**156,033**	**456,185**

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

The Company's long-term debt is classified as a Level 2 financial instrument at the end of the reporting period, as described in note 9(d), as the fair value of the debt is determined using observable market inputs.

The Company incurred interest expense of $22,926 and $22,966 for the years ended December 31, 2013 and 2012, with accrued interest payable of $1,076 at December 31, 2013 (2012 – $1,076).

21. Earnings per share

During the year ended December 31, 2013, basic earnings per share were calculated using the weighted average number of shares outstanding of 97,049,781 (2012 – 98,684,587). Diluted earnings per share have been calculated using the diluted weighted average number of shares outstanding of 97,067,722 (2012 – 98,806,915); 986,908 Options, 105,314 RSUs, 31,394 PSUs and 40,781 DSUs (2012 – 1,027,130 Options, 36,835 RSUs, 15,062 PSUs and 9,353 DSUs) 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.

Earnings per share are computed below:

	December 31, 2013	December 31, 2012
Basic earnings per share:		
Net income	**$ 374,657**	$ 470,422
Diluted earnings per share:		
Re-measurement amount	**17**	(270)
Earnings for the purpose of diluted earnings per share	**$ 374,674**	$ 470,152
Basic common shares outstanding, beginning of year	**98,698,018**	98,666,796
Effect of share-based compensation exercised during the year	**62,011**	17,791
Effect of repurchase of common shares during the year	**(1,710,248)**	—
Weighted average basic common shares outstanding, end of year	**97,049,781**	98,684,587
Basic net earnings per common share	**$ 3.86**	$ 4.77
Diluted earnings per share:		
Basic weighted average common shares outstanding	**97,049,781**	98,684,587
Effect of share-based compensation during the year	**17,941**	122,328
Diluted weighted average common shares outstanding, end of year	**97,067,722**	98,806,915
Diluted net earnings per common share	**$ 3.86**	$ 4.76

22. Non-current assets and liabilities

The following table presents assets and liabilities the Company expects to recover or settle after 12 months, at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Assets:		
Collateral under reinsurance agreement	**$ 28,482**	$ —
Bonds and debentures	**4,241,891**	3,370,021
Government guarantee fund	**—**	924,380
Equity investments	**184,422**	328,411
Subrogation recoverable	**13,366**	17,881
Total assets	**4,468,161**	4,640,693
Liabilities:		
Loss reserves	**50,354**	55,380
Derivative financial instruments	**2,653**	—
Accrued net benefit liabilities under employee benefit plans	**26,222**	16,140
Long-term debt	**422,767**	422,345
Total liabilities	**501,996**	493,865
Net assets due after one year	**$ 3,966,165**	$ 4,146,828

Glossary

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

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

"book value per share 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 measures the proportion of the Company's total cost to its premium earned and is used to assess the profitability of the Company's insurance underwriting activities.

"delinquency ratio" means the ratio (expressed as a percentage) of the total number of delinquent loans to the total original number of policies in force at a specified date. The delinquency ratio is an indicator of the emergence of losses on claims and the quality of the insurance portfolio and is useful for comparison to industry benchmarks and internal targets.

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

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

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

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

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

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

"net operating income" means net income excluding after-tax net realized gains (losses) on sale of investments and unrealized gains (losses) on Fair Value Through Profit or Loss ("FVTPL") securities. Net operating income estimates the recurring after-tax earnings from core business activities and is an indicator of core operating performance.

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

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

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

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

Five-year financial review

Key financial metrics

Years ended December 31 *(in millions, unless otherwise specified)*	**2013**	2012	2011	2010	2009
Income statement data					
Gross premiums written	**$ 512**	$ 560	$ 545	$ 564	$ 374
Net premiums earned	**573**	589	612	621	610
Underwriting revenues	**573**	589	612	621	710
Losses	**142**	194	225	206	256
Expenses	**113**	105	101	103	98
Investment income	**215**	181	179	183	189
Impact of the reversal of government guarantee fund exit fees	**0**	186			
Interest expense	**(23)**	(23)	(23)	(8)	(1)
Pre-tax income	**511**	635	443	486	544
Net income	**375**	470	323	348	379[1]
Net operating income	**349**	462	318	343	371[1]
Balance sheet data					
Cash and investments	**5,375**	5,380	5,063	5,135	4,986
Total assets	**5,691**	5,734	5,393	5,398	5,210
Unearned premium reserves	**1,724**	1,785	1,824	1,902	1,971
Debt	**423**	422	422	422	—
Total liabilities	**2,604**	2,697	2,710	2,810	2,567
Shareholders' equity	**3,087**	3,037	2,683	2,589	2,643
AOCI	**124**	221	215	124	97
Shareholders' equity, excluding AOCI	**2,963**	2,816	2,468	2,464	2,546
Key ratios and other items					
Loss ratio	**25%**	33%	37%	33%	36%[2]
Expense ratio	**20%**	18%	17%	17%	14%[2]
Combined ratio	**44%**	51%	53%	50%	50%[2]
Operating return on equity	**12%**	17%	13%	14%	16%[3]
Adjusted operating return on equity	**12%**	13%			
MCT ratio	**223%**	170%	162%	156%	149%
Delinquency ratio	**0.12%**	0.14%	0.20%	0.26%	0.28%
Severity ratio	**30%**	32%	32%	27%	27%
Leverage	**12%**	12%	14%	14%	0%
Operating earnings per share (diluted)	**$ 3.60**	$ 4.67	$ 3.12	$ 3.01	$ 3.23[4]
Adjusted operating earnings per share (diluted)	**$ 3.60**	$ 3.43			
Book value per share (diluted, exc. AOCI)	**$ 31.22**	$ 28.40	$ 24.78	$ 23.27	$ 21.58
Book value per share (diluted, incl. AOCI)	**$ 32.53**	$ 30.62	$ 26.94	$ 24.44	$ 22.40

(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.

2012 and 2013 quarterly information

(For the quarter ended, in millions, unless otherwise specified)				2013				2012
	Q4'13	**Q3'13**	**Q2'13**	**Q1'13**	Q4'12	Q3'12	Q2'12	Q1'12
Net premiums written	**$ 129**	**$ 161**	**$ 137**	**$ 84**	$ 117	$ 178	$ 176	$ 79
Net premiums earned	**142**	**143**	**143**	**144**	147	147	148	147
Underwriting revenues	**142**	**143**	**143**	**144**	147	147	148	147
Losses on claims	**31**	**32**	**35**	**44**	46	44	48	56
Expenses	**33**	**27**	**26**	**26**	28	26	25	26
Net underwriting income	**78**	**84**	**82**	**74**	73	77	76	65
Investment income	**56**	**51**	**59**	**50**	233	44	40	50
Impact of the reversal of government guarantee fund exit fees					186			
Interest expense	**(6)**	**(6)**	**(6)**	**(6)**	(6)	(6)	(6)	(6)
Net income	**93**	**96**	**98**	**88**	226	85	79	81
Adjustment to net income								
Losses/(gains) on investments net of taxes	**(8)**	**(5)**	**(10)**	**(3)**	0	(4)	0	(5)
Net operating income	**85**	**91**	**88**	**85**	226	81	79	76
Loss ratio	**22%**	**22%**	**25%**	**31%**	31%	30%	32%	38%
Expense ratio	**23%**	**19%**	**18%**	**18%**	19%	18%	17%	18%
Combined ratio	**45%**	**41%**	**43%**	**49%**	50%	48%	49%	56%
Operating earnings per share diluted	**$ 0.90**	**$ 0.94**	**$ 0.89**	**$ 0.86**	$ 2.28	$ 0.82	$ 0.79	$ 0.77
Adjusted operating earnings per share diluted					$ 0.9			