

Management's Discussion and Analysis

For the year ended December 31, 2015

Interpretation

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

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

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

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

Special note regarding forward looking statements

This document contains forward-looking statements that involve certain risks. The Company's actual results could differ materially from these forward-looking statements.

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

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

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

This is not an exhaustive list of the factors that may affect any of the Company's forward-looking statements. Some of these and other factors are discussed in more detail in the Company's Annual Information Form (the "AIF") dated March 23, 2015. Investors and others should carefully consider these and other factors and not place undue reliance on the forward-looking statements. Further information regarding these and other risk factors is included in the Company's public filings with provincial and territorial securities regulatory authorities (including the Company's AIF) and can be found on the SEDAR website at www.sedar.com. The forward-looking statements contained in this MD&A represent the Company's views only as of the date hereof. Forward-looking statements and future-oriented

Management's discussion and analysis (continued)

For the year ended December 31, 2015

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

Non-IFRS financial measures

To supplement the Company's consolidated financial statements, which are prepared in accordance with IFRS, the Company uses non-IFRS financial measures to analyze performance. Non-IFRS financial measures include net operating income, interest and dividend income, net of investment expenses, operating earnings per common share (basic), operating earnings per common share (diluted), shareholders' equity excluding accumulated other comprehensive income ("AOCI"), operating return on equity and underwriting ratios such as loss ratio, expense ratio and combined ratio. Additional non-IFRS measures used by the Company to analyze performance include insurance in-force, new insurance written, Minimum Capital Test ("MCT") ratio, delinquency ratio, average reserve per delinquency, credit score, debt service ratio, debt-to-capital ratio, ordinary dividend payout ratio, workout penetration rate, investment yield, book value per common share (basic) including AOCI, book value per common share (basic) excluding AOCI, book value per common share (diluted) including AOCI, book value per common share (diluted) excluding AOCI, and dividends paid per common share. The Company believes that these non-IFRS financial measures provide meaningful supplemental information regarding its performance and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making. Non-IFRS financial measures do not have standardized meanings and are unlikely to be comparable to any similar measures presented by other companies.

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

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

Table of contents

Business profile	5
Overview.....	6
Financial highlights for 2015.....	6
2015 accomplishments	8
2016 objectives	10
Recent business and regulatory developments	11
Financial performance	16
Fourth quarter review.....	17
Full year review	19
Summary of annual information	21
Summary of quarterly results	23
Financial condition.....	24
Reserve development analysis.....	25
Financial instruments	25
Liquidity	29
Derivative financial instruments	31
Capital expenditures.....	31
Capital management	32
Minimum capital test.....	32
Debt.....	33
Financial strength ratings	34
Capital transactions	35
Restrictions on dividends and capital transactions.....	35
Outstanding share data	35
Risk management.....	36
Enterprise risk management framework.....	36
Governance framework.....	37
Risk appetite framework	37
Risk controls.....	39
Risk categories.....	39
Financial reporting controls and accounting disclosures.....	42
Disclosure controls and procedures and internal controls over financial reporting	42
Changes in accounting policies and future accounting standards.....	42
Significant estimates and judgments	43
Transactions with related parties	45
Non-IFRS financial measures	46
Glossary.....	49

Business profile

Business background

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

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

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

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

Seasonality

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

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

Distribution and marketing

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Overview

Financial highlights for 2015

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

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

Note: Amounts may not total due to rounding.

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

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

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Key fourth quarter financial metrics:

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

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

Key 2015 financial metrics:

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

2015 accomplishments

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

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

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

Objectives	Accomplishments	Key Performance Metrics
Top Line Growth Achieve moderate growth in premiums written through customer-centric product and service strategies and successful sales execution.	The Company achieved premiums written growth of 26% year-over-year primarily through the execution of customer-centric sales and service strategies. The Company estimates that average market share increased by approximately 4 percentage points in 2015 and that the Company ended 2015 with a market share of approximately 34%.	Premiums Written Growth Y/Y 26%
Loss Performance Proactive risk management and focused loss mitigation strategies: <ul style="list-style-type: none"> • Loss ratio range of 20 to 30% • Workout penetration greater than 50% 	The Company achieved a loss ratio of 21% which is at the lower end of the Company's anticipated range of 20-30% for 2015. The workout penetration rate of 57% was 7 percentage points higher than the target of 50%.	Loss Ratio 21% Workout Penetration Rate 57%
Portfolio Quality and Risk Management Maintain a high quality insurance portfolio through prudent underwriting guidelines, proactive risk management and disciplined underwriting: <ul style="list-style-type: none"> • Average Credit Score greater than 725 • Average Gross Debt Service ratio less than 26% 	The average Credit Score for transactional insurance of 743 was 18 points higher than target of 725 and the Average Gross Debt Service ratio of 24% was two percentage points lower than target of 26%.	Average Credit Score 743 Average Gross Debt Service Ratio 24%
Capital Management Proactively manage capital to balance capital strength, flexibility and efficiency: <ul style="list-style-type: none"> • Ordinary Dividend Payout Ratio 35 - 45% • Debt to capital ratio of less than or equal to 15% • MCT ratio modestly above 220% 	The Company maintained ongoing capital strength, flexibility and efficiency including the following key items. <ul style="list-style-type: none"> • The Dividend Payout Ratio of 39% was near the mid-point of the target range of 35-45%; • Debt to capital ratio of 11% was 4 percentage points below the target of 15%; • The Company paid ordinary dividends of \$1.59 per common share including an increase of 8% in the fourth quarter; • The Company repurchased 1,454,196 common shares for cancellation, representing 2% of the outstanding common shares, for an aggregate amount of \$50 million; and • The MCT ratio at December 31, 2015 was approximately 233%, 13 percentage points above the holding target of 220%. 	Ordinary Dividend Payout Ratio 39% Debt to Total Capital Ratio 11% As At December 31, 2015 MCT Ratio 233% As At December 31, 2015
Investment Management Optimize investment portfolio to maximize investment yield while maintaining a high quality investment portfolio to minimize the correlation of risk with insurance in force.	The Company earned an investment yield of 3.3% on its investment portfolio while maintaining a high quality investment portfolio consisting of 89% in investment grade bonds and debentures. The Company added \$281 million of investment grade preferred shares which have a comparable dividend yield to common shares and offer a more attractive risk and capital adjusted return profile to that of common shares under the current MCT guidelines. During the year, the Company had net realized gains of \$32 million which primarily resulted from the sale of all of its common share holdings.	Investment Yield 3.3% Percentage of Investment Grade Bonds and Debentures 89% As At December 31, 2015

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Economic environment

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

Macroeconomic environment

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

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

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

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

Housing market

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

2016 objectives

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

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

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

Objectives		Key Economic Indicators	
Top Line	Flat or modestly lower premiums written from transactional insurance compared to 2015 as the full year impact of the June 2015 price increase partially offsets the impact of an expected decline in mortgage originations. Total premiums written moderately lower compared to 2015, primarily due to lower portfolio insurance volumes. Moderate growth in premiums earned of 5% or greater for the full year	Housing Resales E ¹ Y/Y (1)% to (3)%	
Loss Performance	Proactive risk management and focused loss mitigation strategies: <ul style="list-style-type: none"> • Loss ratio range of 25 to 40% • Workout penetration greater than 55% 	GDP ² 2016E - 1.4% National Unemployment ³ 2016E - 7.3% to 7.5%	
Portfolio Quality and Risk Management	Maintain a high quality insurance portfolio through prudent underwriting guidelines, proactive risk management and disciplined underwriting: <ul style="list-style-type: none"> • Average Credit score greater than 735 • Average Gross Debt Service ratio of less than 26% • Average Credit score below 660 of less than 5% 	National Home Price Appreciation ³ 2016E - 0% to 2.0% Average Oil Prices³: 2016E - US \$30 to US \$40	
Capital Management	Prudently manage capital to balance capital strength, flexibility and efficiency: <ul style="list-style-type: none"> • Ordinary Dividend Payout Ratio 35 - 45% • Debt to capital ratio of less than or equal to 15% • MCT ratio modestly above 220% 	n/a	
Investment Management	Optimize investment portfolio to maximize investment yield while maintaining a high quality investment portfolio to minimize the correlation of risk with our insurance in force.	5 year Government of Canada Bond Yields: ⁴ Q1'15A 0.77% Q2'15A 0.81% Q3'15A 0.81% Q4'15A 0.73%	5 year Government of Canada Bond Yields: ⁴ Q1'16E 0.90% Q2'16E 0.95% Q3'16E 1.00% Q4'16E 1.05%

¹ Company estimate generally consistent with Canadian Real Estate Association ("CREA") – Quarterly Forecast published December 15, 2015.

² Monetary Policy Report, January 2016.

³ Company estimate.

⁴ Bloomberg – Quarterly data for 2015 actual results and Company estimate for 2016 based on Forward Curve as at January 20, 2016.

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Recent business and regulatory developments

Mortgage insurance eligibility rules

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

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

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

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

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Changes to the regulatory capital framework

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

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

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

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

Portfolio Mortgage Insurance

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

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

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

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

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

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Price increase

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

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

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

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

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

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Financial strength ratings

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

The Insurance Subsidiary is rated AA and the Company's issuer rating and senior unsecured debentures are AA (Low), with a stable outlook according to DBRS. The ratings from DBRS were confirmed in March 2015. DBRS applies a one-notch differential between the Insurance Subsidiary and the Company to reflect the structural subordination of the Company's financial obligations relative to those of the regulated Insurance Subsidiary.

Dividends

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

Share repurchase

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

Regulatory capital

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

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

Own Risk and Solvency Assessment Guideline

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

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

E-21 – Operational Risk Management Guideline

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

B-21 - Mortgage Insurance Underwriting Guideline

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Financial performance

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

	Fourth Quarter		Increase (decrease) and percentage change	
(in millions of dollars, unless otherwise specified)	2015	2014	Q4'15 vs. Q4'14	
Premiums written	\$ 213	\$ 178	\$ 35	20%
Premiums earned	\$ 151	\$ 143	\$ 9	6%
Losses on claims and expenses:				
Losses on claims	35	37	(2)	(5)%
Expenses	27	30	(3)	(9)%
Total losses on claims and expenses	62	66	(5)	(7)%
Net underwriting income	90	76	14	18%
Net investment income:				
Interest and dividend income, net of investment expenses	44	43	1	2%
Net investment gains	3	4	—	(5)%
Total net investment income	47	47	1	2%
Interest expense	6	6	—	—
Income before income taxes	131	117	14	12%
Provision for income taxes	34	31	3	9%
Net income	\$ 98	\$ 86	\$ 11	13%
Adjustment to net income, net of taxes:				
Net investment gains	(3)	(3)	—	(2)%
Net operating income ¹	\$ 95	\$ 84	\$ 11	14%
Effective tax rate	25.6%	26.3%	—	(0.7) pts

Selected non-IFRS financial measures ¹

New insurance written	\$ 15,826	\$ 8,785	\$ 7,040	80%
Transactional new insurance written	6,231	6,193	38	1%
Portfolio new insurance written	9,595	2,593	7,002	NM
Loss ratio	23%	26%	—	(3) pts
Expense ratio	18%	21%	—	(3) pts
Combined ratio	41%	47%	—	(6) pts
Operating return on equity	12%	11%	—	1 pts
Investment yield	3.3%	3.4%	—	(0.1) pts

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Fourth quarter review

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

Premiums written of \$213 million represented an increase of \$35 million, or 20%, as compared to the same quarter in the prior year.

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

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

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

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

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

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

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

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

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

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

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

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Full year review

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

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

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

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

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

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

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

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

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Summary of annual information

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

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

Note: Amounts may not total due to rounding

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

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

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Summary of quarterly results

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

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

Note: Amounts may not total due to rounding.

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Financial condition

Statement of financial position highlights and selected financial data

<i>(in millions of dollars, unless otherwise specified)</i>	As at December 31, 2015	As at December 31, 2014	Increase (decrease) and percentage change 2015 vs. 2014	
Total investments	\$ 5,917	\$ 5,443	\$ 474	9%
Other assets	261	260	—	—
Subrogation recoverable	61	67	(6)	(9)%
Total assets	6,239	5,770	469	8%
Unearned premiums reserves	2,021	1,799	222	12%
Loss reserves	132	115	16	14%
Long-term debt	433	432	—	—
Other liabilities	234	153	81	53%
Total liabilities	2,819	2,499	320	13%
Shareholders' equity excluding Accumulated other comprehensive income ("AOCI") ¹	3,293	3,086	207	7%
AOCI	127	185	(59)	(32)%
Shareholders' equity	3,420	3,271	149	5%
Total liabilities and shareholders' equity	\$ 6,239	\$ 5,770	\$ 469	8%
Selected non-IFRS financial measures ¹				
MCT ratio ²	233%	225%	—	8 pts
Book value per common share				
Number of common shares outstanding (basic)	91,795,125	93,147,778	(1,352,653)	(1)%
Book value per common share including AOCI (basic)	\$37.26	\$35.12	\$2.14	6%
Book value per common share excluding AOCI (basic)	\$35.88	\$33.13	\$2.75	8%
Number of common shares outstanding (diluted) ³	92,872,626	93,403,036	(530,410)	(1)%
Book value per common share including AOCI (diluted) ³	\$36.82	\$35.02	\$1.80	5%
Book value per common share excluding AOCI (diluted) ³	\$35.46	\$33.04	\$2.42	7%
Dividends paid per common share during the year⁴	\$ 1.59	\$ 1.87		

Note: Amounts may not total due to rounding.

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

² The MCT ratio as at December 31, 2015 is a Company estimate and as at December 31, 2014 is the actual reported figure.

³ The difference between basic and diluted number of common shares outstanding, book value per common share including AOCI and book value per common share excluding AOCI is caused by the potentially dilutive impact of share-based compensation awards.

⁴ The Company paid a \$0.43 special dividend per common share in 2014

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Reserve development analysis

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

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

Note: Amounts may not total due to rounding.

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

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

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

Financial instruments

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

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

Note: Amounts may not total due to rounding.

¹ Asset backed bonds are comprised of collateralized loan obligations. (December 31, 2014, asset backed bonds includes \$117 million of collateralized loan obligations).

² Canadian federal government bonds and treasury bills includes \$85 million (December 31, 2014 - \$22 million) in collateral posted for the benefit of the Company's counterparties to its derivative financial instrument contracts.

³ Unrealized gains include unrealized foreign exchange gains of \$97 million (December 31, 2014 - \$30 million).

Management's discussion and analysis (continued)

For the year ended December 31, 2015

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

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

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

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

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

Note: Amounts may not total due to rounding.

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Investment portfolio management

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

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

Asset-backed bonds and debentures

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

Corporate bonds and debentures

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

Government bonds and debentures

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

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

Common shares

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Preferred shares

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

Cash and cash equivalents

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

Liquidity

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

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

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

Note: Amounts may not total due to rounding.

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

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

The Company maintains a portion of its investment portfolio in cash and liquid securities to meet working capital requirements and other financial commitments. As of December 31, 2015, the Company held liquid assets of \$979 million, comprised of \$391 million in cash and cash equivalents, and \$588 million in bonds and debentures maturing within one year in order to maintain financial flexibility. Of the \$588 million liquid assets, \$121 million was held outside of the Insurance Subsidiary. As at December 31, 2015, the duration of the fixed income portfolio was 3.7 years.

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

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

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

Note: Amounts may not total due to rounding.

¹ See "Debt" section below for more details.

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Derivative financial instruments

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

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

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

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

Capital expenditures

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

Capital management

Minimum capital test

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

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

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

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

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

(in millions, unless otherwise specified)	As at Dec 31, 2015	2015 MCT Guideline Pro-forma	
		As at Dec 31, 2014	As at Dec 31, 2014
Minimum Capital Test			
Capital available	\$3,632¹	\$3,445 ¹	\$3,298
Capital required	\$1,560¹	\$1,513 ¹	\$1,465
MCT ratio	233%¹	228% ¹	225%

¹ Company estimate

Management's discussion and analysis (continued)

For the year ended December 31, 2015

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

Debt

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

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

	Total	Payment dates due by period (in millions)			
		Less than 1 year	1–3 years	3–5 years	After 5 years
Long-term debt	\$435	—	—	\$275	\$160
				Series 1	Series 3
			Date issued	June 29, 2010	April 1, 2014
			Maturity date	June 15, 2020	April 1, 2024
			Principal amount outstanding (in millions)	\$275	\$160
			Fixed annual rate	5.68%	4.242%
			Semi-annual interest payments due each year on	June 15, December 15	October 1, April 1
			Debenture Ratings		
			S&P ¹	BBB+, (Stable)	BBB+, (Stable)
			DBRS ¹	AA (Low), Stable	AA (Low), Stable

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

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

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

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

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

Financial strength ratings

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

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

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Capital transactions

Share repurchase

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

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

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

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

Restrictions on dividends and capital transactions

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

Outstanding share data

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

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

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

Management's discussion and analysis (continued)

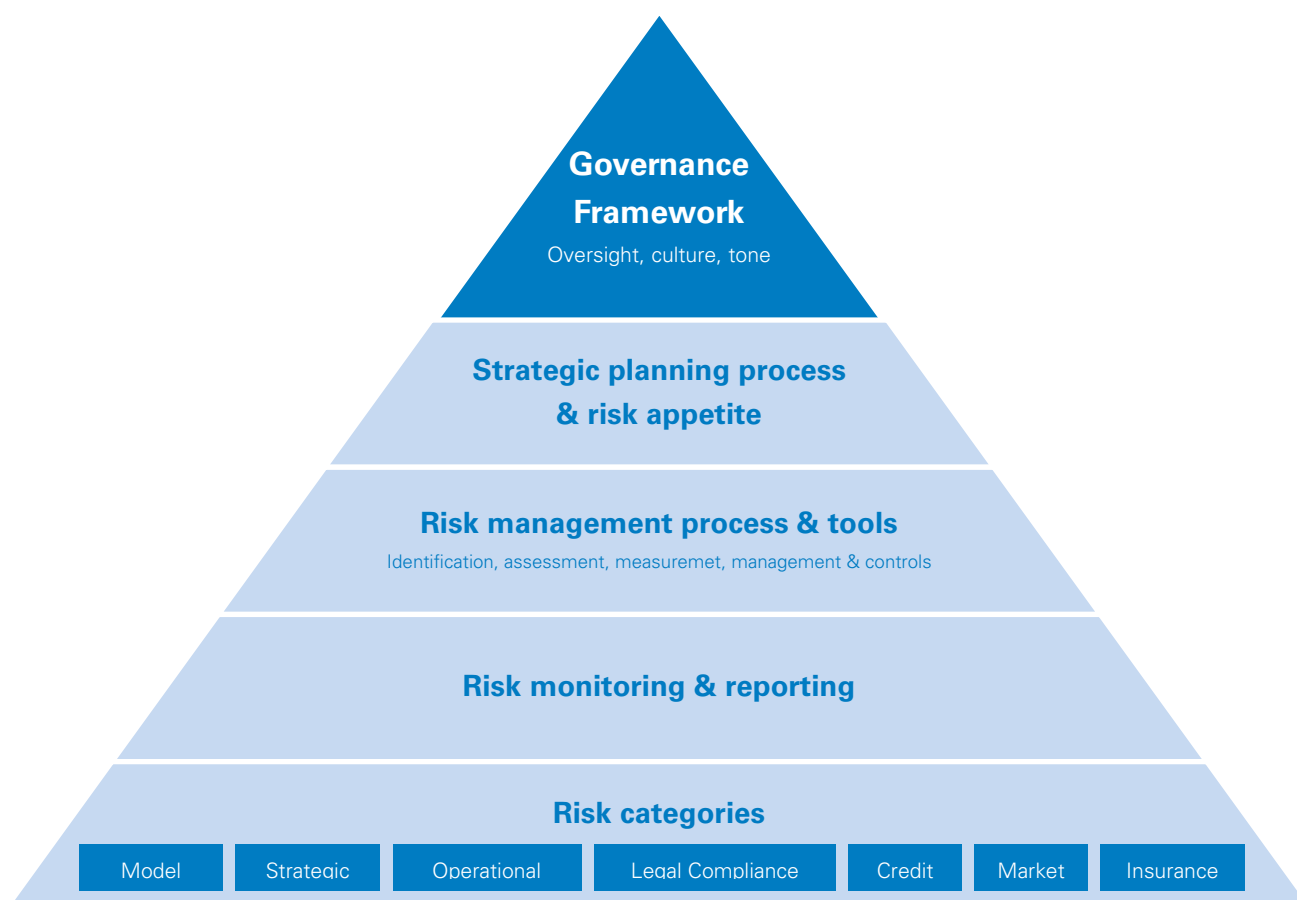
For the year ended December 31, 2015

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

Risk management

Enterprise risk management framework

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



Management's discussion and analysis (continued)

For the year ended December 31, 2015

Governance framework

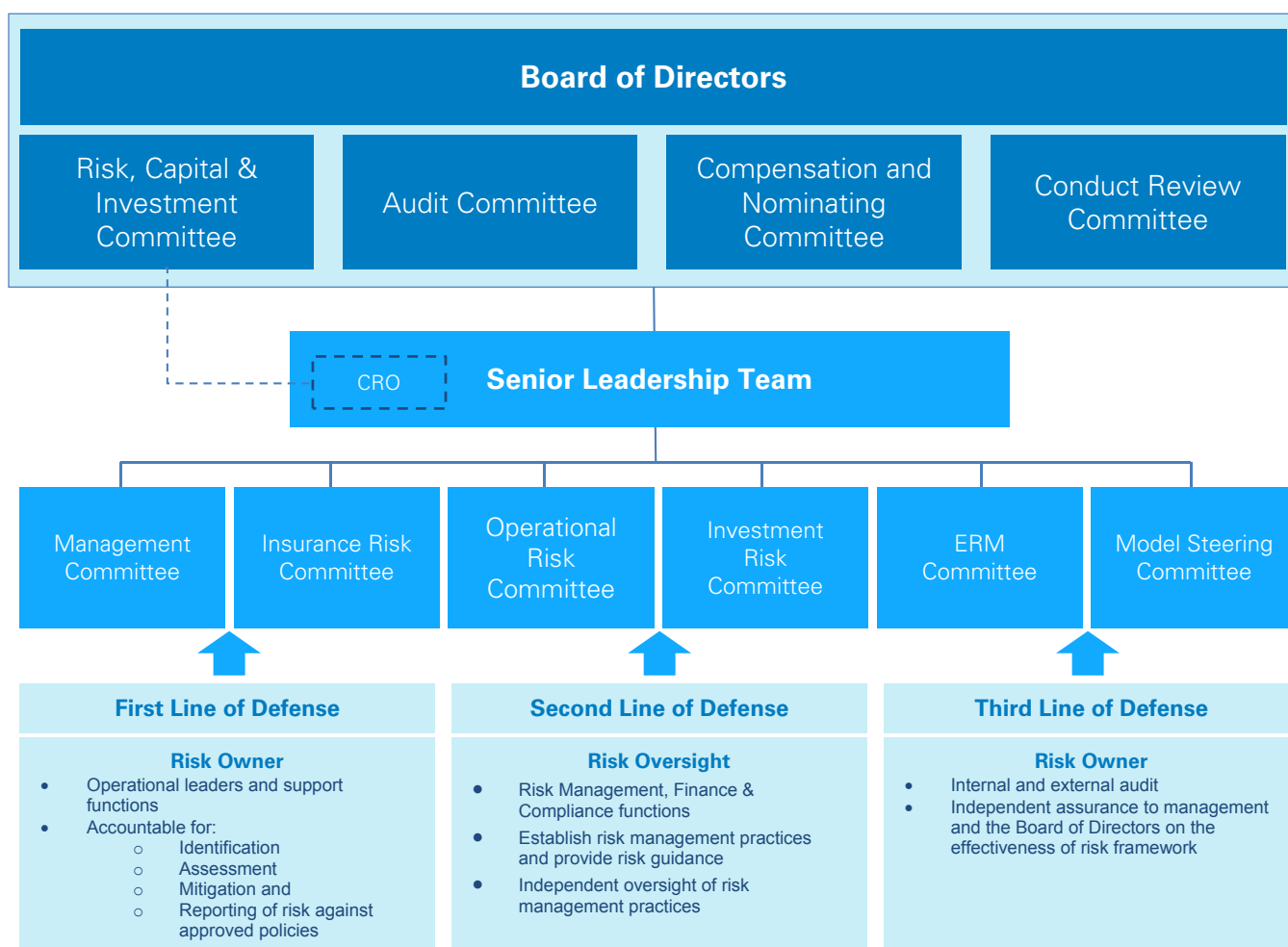
The Company's governance framework is designed to ensure the Board and management have effective oversight of the risks faced by the Company with clearly defined and articulated roles and responsibilities and inter-relationships. The governance framework is comprised of three core elements:

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

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

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

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



Management's discussion and analysis (continued)

For the year ended December 31, 2015

Risk appetite framework

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

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

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

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

Risk principles

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

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Risk controls

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

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

Risk categories

Insurance risk

Genworth Canada's mortgage portfolio risk management involves actively managing its borrower credit quality, product and geographic exposures. The Company carefully monitors portfolio concentrations by borrower credit quality, product and geography against pre-determined risk tolerances, taking into account the conditions of the housing market and economy in each region of Canada. For Genworth Canada-insured transactional mortgages, the average credit score has increased by 17 points since 2008 to 747 for the fourth quarter of 2015, the average home price has increased modestly since 2011 to \$322,000 for the fourth quarter of 2015 and the average gross debt service ratio has remained relatively stable around 24 to 25%, which is well below the industry accepted maximum.

To the extent that home prices appreciate over time and/or the principal amount of the loan is paid down, the effective loan-to-value of the Company's insurance written in a given year decreases. The table below illustrates the estimated effective loan-to-value of the Company's outstanding mortgage insurance balances by book of business.

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

⁽¹⁾ Amounts may not total due to rounding.

⁽²⁾ This is based on the amounts reported by lenders surveyed, which represents the vast majority of insurance in-force. Outstanding mortgage insured balances

⁽³⁾ Loan to value ratio is based on loan amount including capitalized premium, where applicable.

Management's discussion and analysis (continued)

For the year ended December 31, 2015

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

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

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

Market and credit risk

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

Credit risk

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

Liquidity risk

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

Market risk

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

Interest rate risk

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

Equity price risk

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

Currency risk

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

Emerging markets risk

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

Counterparty risk

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

Financial reporting controls and accounting disclosures

Disclosure controls and procedures and internal controls over financial reporting

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

Changes in accounting policies and future accounting standards

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

IFRS 9 - Financial instruments

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

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

IFRS 4 - Insurance contracts

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

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

IFRS 16 - Leases

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

The Company is assessing the impact of IFRS 16.

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

Significant estimates and judgments

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

Accounting estimates

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

Premiums earned

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

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

Loss reserves

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

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

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

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

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

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

Subrogation recoverable

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

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

Deferred policy acquisition costs

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

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

Accounting judgments

Objective evidence of impairment of AFS financial assets

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

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

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

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

Transactions with related parties

Services

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

Reinsurance

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

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

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

Non-IFRS financial measures

To supplement the Company's consolidated financial statements, which are prepared in accordance with IFRS, the Company uses non-IFRS financial measures to analyze performance. Non-IFRS financial measures include net operating income, interest and dividend income, net of investment expenses, operating earnings per common share (basic), operating earnings per common share (diluted), shareholders' equity excluding accumulated other comprehensive income ("AOCI"), operating return on equity and underwriting ratios such as loss ratio, expense ratio and combined ratio. Additional non-IFRS measures used by the Company to analyze performance include insurance in-force, new insurance written, Minimum Capital Test ("MCT") ratio, delinquency ratio, average reserve per delinquency, credit score, debt service ratio, debt-to-capital ratio, ordinary dividend payout ratio, workout penetration rate, investment yield, book value per common share (basic) including AOCI, book value per common share (basic) excluding AOCI, book value per common share (diluted) including AOCI, book value per common share (diluted) excluding AOCI, and dividends paid per common share. The Company believes that these non-IFRS financial measures provide meaningful supplemental information regarding its performance and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making. Non-IFRS financial measures do not have standardized meanings and are unlikely to be comparable to any similar measures presented by other companies.

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

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

Note: Amounts may not total due to rounding.

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

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

	For the Fourth Quarter ended December 31,		For the Full Year ended December 31,	
<i>(in millions of dollars, unless otherwise specified)</i>	2015	2014	2015	2014
Selected non-IFRS financial measures				
Insurance in force	\$ 404,963	\$ 356,318	\$ 404,963	\$ 356,318
New insurance written	\$ 15,826	\$ 8,785	\$ 50,938	\$ 42,153
Loss ratio	23%	26%	21%	20%
Expense ratio	18%	21%	18%	19%
Combined ratio	41%	47%	39%	39%
Operating return on equity	12%	11%	12%	12%
MCT ratio ¹	233%	225%	233%	225%
Delinquency ratio	0.10%	0.10%	0.10%	0.10%
Investment yield	3.3%	3.4%	3.3%	3.5%
Book value per common share				
Number of common shares outstanding (basic)	91,795,125	93,147,778	91,795,125	93,147,778
Book value per common share including AOCI (basic)	\$ 37.26	\$ 35.12	\$ 37.26	\$ 35.12
Book value per common share excluding AOCI (basic)	\$ 35.88	\$ 33.13	\$ 35.88	\$ 33.13
Number of common shares outstanding (diluted) ²	92,872,626	93,403,036	92,872,626	93,403,036
Book value per common share including AOCI (diluted) ²	\$ 36.82	\$ 35.02	\$ 36.82	\$ 35.02
Book value per common share excluding AOCI (diluted) ²	\$ 35.46	\$ 33.04	\$ 35.46	\$ 33.04
Dividends paid per common share³	\$ 0.42	\$ 0.39	\$ 1.59	\$ 1.87

¹The MCT ratio as at December 31, 2015 is the company estimate and as at December 31, 2014 is the actual reported figure.

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

³ The Company paid a \$0.43 special dividend per common share in 2014.

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

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

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

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

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

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

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

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

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

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

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

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

Management's discussion and analysis (continued)

For the year ended December 31, 2015

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

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

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

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

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

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

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

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

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