# Q&A

*with* **Philip Mayers**
**Senior Vice President and Chief Financial Officer**

**Q: What are the key catalysts that will drive financial performance in 2016?**

A: There continues to be regional economic pressure in Canada, but we believe that our loss ratio for 2016 will fall between 25 and 40 per cent. This reflects the strong portfolio risk profile resulting from our proactive risk-management practices. Although we will likely see an increase in our loss ratio year over year, total premiums earned are expected to increase modestly in 2016 by 5 per cent or more. This growth in underwriting revenues reflects the 2014 and 2015 transactional premium rate increases and is expected to be a meaningful contributor to earnings in 2016 and future years. We expect that underwriting profitability will be flat to modestly lower, depending on where the loss ratio falls within our projected range. And even though investment income is expected to be relatively flat, 2016 should be another year of solid financial performance overall.

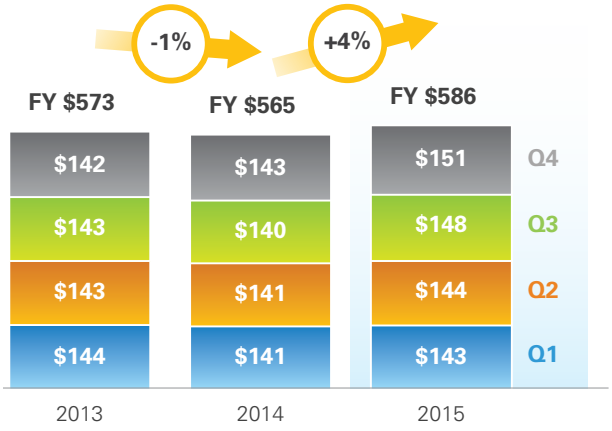
**Q: Your investment portfolio has contributed approximately one-third of your net operating income. What is your investment strategy for 2016?**

A: We believe interest rates are currently range bound, but we expect our invested assets to grow modestly. Against this backdrop, we are focusing on optimizing our investment portfolio to maximize yield while maintaining a high-quality investment portfolio. We actively review the investable universe and will continue to take advantage of market opportunities within our set risk appetite. Currently, we favour Canadian preferred shares and government-guaranteed mortgage-backed securities that trade at a premium to government bonds.

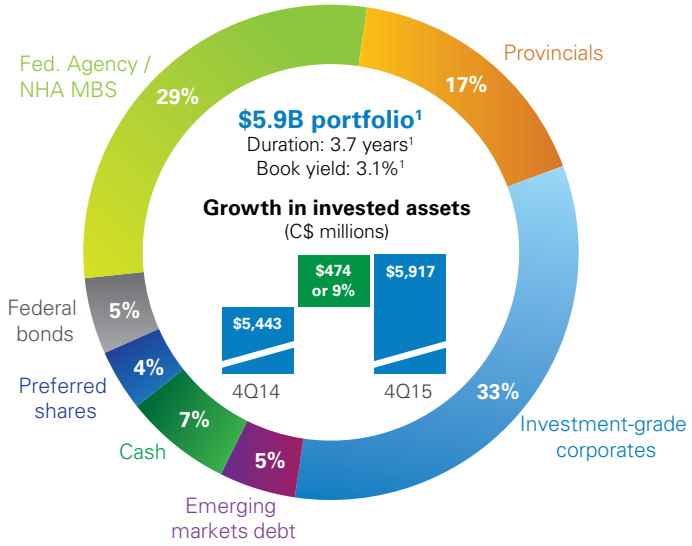
**Q. How will the new regulatory capital framework expected to take effect on Jan. 1, 2017 affect the business?**

A: In December 2015, OSFI announced plans to update

**Premiums earned**
($ millions)




**Total invested assets**
($ millions)




Note: Company sources.
1. Represents market value. Book yield represents pre-tax equivalent book yield after dividend gross-up of portfolio (as at Dec. 31, 2015).

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the regulatory capital framework for mortgage insurance. We are actively engaged in discussions with OSFI and do not believe that the new standardized approach will result in materially higher capital levels. In the interim, we intend to operate with our minimum capital test modestly above 220 per cent in 2016, in the 225–230 per cent range. MIC has a strong capital base, and we look forward to the finalization of the new framework so that we can continue our efforts to balance capital strength, flexibility and efficiency.

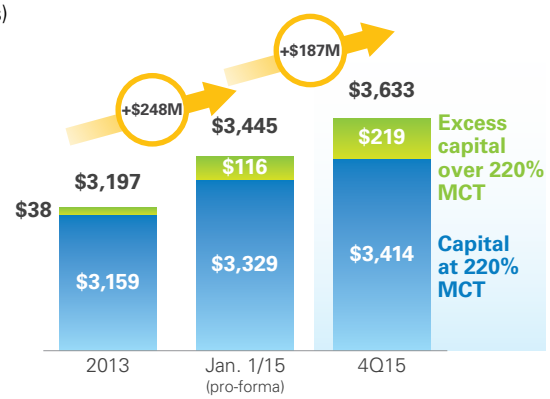
### Q. What investments is the Company making to fuel its future success?

Technology continues to be a major catalyst for change in the mortgage industry. We have been investing in further developing our capabilities in the areas of predictive modeling and enhancing the customer experience throughout our sales, underwriting and default-management processes. We are uniquely positioned in these areas given our rich historical performance data set and our proven risk-management practices. We believe that continued investments in these areas strengthen our core mortgage insurance business and may open the doors to complementary business opportunities in the future.

In addition to our technology investments, we have invested heavily in building up our risk-management, analytical and actuarial capabilities to support our enterprise risk-management plan. This investment has enabled us to become an industry thought leader in the area of mortgage performance. Furthermore, our investment in these enhanced capabilities creates a stronger and more dynamic organization, and directly supports our organizational objective of engaging and retaining top talent while remaining prudent and strategic.

**Capital required at 220% MCT**

($ millions)




| | 2013 | Jan. 1/15 (pro-forma) | 4Q15 |
|---|---|---|---|
| **Holdco cash[1]** | $85M | $143M | $121M |
| **MCT ratio** | 223% | 228% | 234%[2] |

Note: Company sources.
1. Represents capital in addition to capital in operating insurance company.
2. Final MCT as compared with the reported estimate of 233% in Management's Discussion and Analysis and Financial Statements for the year ended December 31, 2015.