Consolidated Financial Statements
(In Canadian dollars)

GENWORTH MI CANADA INC.

Years ended December 31, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Genworth MI Canada Inc.

Opinion

We have audited the consolidated financial statements of Genworth MI Canada Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018
- the consolidated statements of income for the years then ended
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Paula Foster.

Toronto, Canada

February 4, 2020

MANAGEMENT STATEMENT ON RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

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

Stuart Levings
President and Chief Executive Officer

Philip Mayers
Senior Vice-President and Chief Financial Officer

February 4, 2020
Toronto, Canada

GENWORTH MI CANADA INC.

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

Years ended December 31, 2019 and 2018

	Notes	2019	2018
Assets			
Cash and cash equivalents [1]	9	$ 292,593	$ 277,526
Short-term investments	9	115,302	48,683
Accrued investment income and other receivables		37,675	41,183
Derivative financial instruments	9	69,450	110,049
Bonds and debentures and other	9	5,487,522	5,555,559
Preferred shares	9	519,328	517,847
Total cash, invested assets, accrued investment income and other		6,521,870	6,550,847
Income taxes recoverable		—	50,782
Subrogation recoverable	6(c)	56,173	56,110
Prepaid assets		3,897	4,578
Right-of-use-assets	12	11,332	—
Property and equipment		805	939
Intangible assets	15	8,594	8,035
Deferred policy acquisition costs	6(d)	205,898	206,386
Goodwill	17	11,172	11,172
Total assets		$ 6,819,741	$ 6,888,849
Liabilities and Shareholders' equity			
Liabilities:			
Accounts payable and accrued liabilities		$ 51,535	$ 54,903
Income taxes payable		41,117	—
Loss reserves	6(b)	141,196	123,764
Share-based compensation liabilities	14	23,979	17,394
Derivative financial instruments[1]	9	42,781	92,247
Lease liabilities	12	11,590	—
Long-term debt	19	436,030	433,729
Unearned premiums reserve	6(a)	2,110,849	2,088,536
Accrued net benefit liabilities under employee benefit plans	13	54,060	46,506
Deferred tax liabilities	10	39,021	41,532
Total liabilities		$ 2,952,158	$ 2,898,611
Shareholders' equity:			
Share capital	18	1,305,913	1,315,438
Retained earnings		2,551,001	2,711,289
Accumulated other comprehensive income (loss)		10,669	(36,489)
Total shareholders' equity		3,867,583	3,990,238
Total liabilities and shareholders' equity		$ 6,819,741	$ 6,888,849

[1] Cash and cash equivalents includes $2,770 (December 31,2018 - $10,680) of collateral posted to the benefit of the Company from its derivative counterparties with a corresponding liability to return the collateral in liabilities for derivative financial instruments

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

(signed) "Stuart Levings" Director

(signed) "Neil Parkinson" Director

GENWORTH MI CANADA INC.

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

Years ended December 31, 2019 and 2018

	Notes	2019	2018
Premiums written	6(a)	$ 701,021	$ 638,995
Premiums earned	6(a)	$ 678,708	$ 680,217
Losses on claims	6(b)	116,480	100,041
Expenses:			
Premium taxes and underwriting fees		51,269	48,942
Employee compensation		49,194	45,405
Office, computer and software		23,281	21,124
Professional fees		5,228	4,895
Promotional and travel		4,331	4,961
Regulatory fees and assessments		1,815	2,120
Total expenses		135,118	127,447
Net change in deferred policy acquisition costs	6(d)	488	1,660
		135,606	129,107
Net underwriting income		426,622	451,069
Investment income:			
Interest		173,902	168,895
Dividends		27,017	25,673
Net realized gains (losses) on sale of investments		17,988	(1,110)
Net losses from derivatives and foreign exchange		(39,797)	(3,951)
Total investment income		179,110	189,507
General investment expenses		(4,689)	(3,846)
		174,421	185,661
Interest expense		23,309	23,616
Fee on early redemption of long-term debt	19	3,263	—
Income before income taxes		574,471	613,114
Income taxes:	10		
Current		149,487	162,492
Deferred		(1,278)	(929)
		148,209	161,563
Net income for the year attributable to owners of the Company		$ 426,262	$ 451,551
Earnings per share:	21		
Basic		$ 4.92	$ 5.04
Diluted		$ 4.92	$ 4.99

See accompanying notes to the consolidated financial statements.

GENWORTH MI CANADA INC.

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

Years ended December 31, 2019 and 2018

	2019	2018
Net income	$ 426,262	$ 451,551
Other comprehensive income (loss):		
Items that will not be reclassified subsequently to income:		
Re-measurement of employee benefit obligations, net of income tax of $1,233 (2018 - $1,455)	(3,465)	4,155
Items that may be reclassified subsequently to income:		
Net change in fair value of Available-for-Sale ("AFS") financial assets, net of income tax of $18,707 (2018 - $46,698)	50,169	(112,467)
Gains on AFS financial assets reclassified to income, net of income tax of $1,123 (2018 - $680)	(3,011)	(1,636)
Total other comprehensive loss for the period attributable to owners of the Company, net of income tax of $16,351 (2018 - $45,923)	43,693	(109,948)
Total comprehensive income attributable to owners of the Company	$ 469,955	$ 341,603

See accompanying notes to the consolidated financial statements.

GENWORTH MI CANADA INC.

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

Years ended December 31, 2019 and 2018

	Share capital	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance at January 1, 2019	$ 1,315,438	$ 2,711,289	$ (36,489)	$ 3,990,238
Comprehensive income:				
Net income	—	426,262	—	426,262
Other comprehensive income	—	—	43,693	43,693
Total comprehensive income	—	426,262	43,693	469,955
Total transactions recognized directly in equity:				
Dividends on common shares[1]	—	(539,018)	—	(539,018)
Issuance of common shares	14,844	—	—	14,844
Repurchase of common shares (note 18)	(24,369)	(44,067)	—	(68,436)
Re-measurement of employee benefit obligations, net of income tax	—	(3,465)	3,465	—
Total transactions recognized directly in equity	(9,525)	(586,550)	3,465	(592,610)
Balance at December 31, 2019	$ 1,305,913	$ 2,551,001	$ 10,669	$ 3,867,583

	Share capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at January 1, 2018	$ 1,359,220	$ 2,524,589	$ 77,614	$ 3,961,423
Comprehensive income:				
Net income	—	451,551	—	451,551
Other comprehensive loss	—	—	(109,948)	(109,948)
Total comprehensive income	—	451,551	(109,948)	341,603
Total transactions recognized directly in equity:				
Dividends on common shares[1]	—	(172,536)	—	(172,536)
Issuance of common shares	9,764	—	—	9,764
Repurchase of common shares (note 18)	(53,546)	(96,470)	—	(150,016)
Re-measurement of employee benefit obligations, net of income tax	—	4,155	(4,155)	—
Total transactions recognized directly in equity	(43,782)	(264,851)	(4,155)	(312,788)
Balance at December 31, 2018	$ 1,315,438	$ 2,711,289	$ (36,489)	$ 3,990,238

[1] The Company paid ordinary dividends of $0.51 per common share in the first, second, and third quarter and $0.54 per common share in the fourth quarter of 2019 ($0.47 per common share in the first, second and third quarter of 2018 and $0.51 per common share in the fourth quarter of 2018). During 2019, the Company paid special dividends of $0.40 per common share in the second quarter and $1.45 per common share and $2.32 per common share in the fourth quarter (No special dividends were paid in 2018). See note 24 for dividends declared subsequent to December 31, 2019.

See accompanying notes to the consolidated financial statements.

GENWORTH MI CANADA INC.

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

Years ended December 31, 2019 and 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Net income	**$ 426,262**	**$ 451,551**
Adjustments for non-cash items in net income:		
Amortization of intangible assets and depreciation of property and equipment	4,779	3,137
Expensing of deferred policy acquisition costs	67,412	67,599
Income taxes	148,209	161,563
Interest income	(173,902)	(168,895)
Dividend income	(27,017)	(25,673)
Net realized (gains) losses on sale of investments	(17,988)	1,110
Net losses on derivatives and foreign exchange	39,797	3,951
Interest expense	23,309	23,616
Fee on early redemption of long-term debt	3,263	—
Net share-based compensation expense	5,748	3,720
	499,872	521,679
Change in non-cash balances related to operations:		
Accrued investment income and other receivables	(3,720)	(3,834)
Prepaid assets	681	(1,060)
Subrogation recoverable	(63)	3,193
Deferred policy acquisition costs	(66,924)	(65,939)
Accounts payable and accrued liabilities	3,825	(365)
Loss reserves	17,432	4,813
Unearned premiums reserve	22,313	(41,222)
Accrued net benefit liability under employee benefit plans	2,857	3,803
	476,273	421,068
Cash generated from (used in) operating activities:		
Interest received from bonds and debentures	182,908	170,175
Dividends received from preferred shares	27,036	25,757
Interest paid on long-term debt	(22,478)	(22,407)
Income taxes paid	(75,171)	(209,914)
Share-based compensation awards settled in cash	(4,398)	(3,837)
Net cash generated from operating activities	584,170	380,842
Financing activities:		
Net proceeds from long-term debt issuance	102,022	—
Repayment of long-term debt	(103,263)	—
Dividends paid	(539,018)	(172,536)
Repurchase of common shares	(68,436)	(150,016)
Proceeds from exercise of stock options	7,450	5,104
Payment of lease liabilities	(988)	—
Net cash used in financing activities	(602,233)	(317,448)
Investing activities:		
Purchase of short-term investments	(365,937)	(265,828)
Proceeds from sale or maturities of short-term investments	300,175	439,182
Purchase of bonds	(1,385,866)	(1,621,341)
Proceeds from sale or maturities of bonds	1,488,677	1,456,321
Purchase of preferred shares	(45,135)	(80,015)
Proceeds from sale of preferred shares	21,014	26,682
Purchase of intangible assets and property and equipment	(3,957)	(2,414)
Derivative financial instruments	24,159	(25,435)
Net cash generated from (used in) investing activities	33,130	(72,848)
Increase (decrease) in cash and cash equivalents	15,067	(9,454)
Cash and cash equivalents, beginning of period	277,526	286,980
Cash and cash equivalents, end of period	$ 292,593	$ 277,526

See accompanying notes to the consolidated financial statements.

1. Reporting entity:

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

The Company holds a 100% ownership interest in the holding companies Genworth Canada Holdings I Company ("Holdings I"), Genworth Canada Holdings II Company ("Holdings II") and MIC Holdings I Company ("Ico"). The Company also holds an indirect 100% ownership interest in Genworth Financial Mortgage Insurance Company Canada (the "Insurance Subsidiary") through Holdings I and Holdings II. These consolidated financial statements as at and for the year ended December 31, 2019 reflect the consolidation of the Company and these subsidiaries. Additional information on the reporting and consolidation structure is disclosed in note 11(b).

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

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

The Insurance Subsidiary is also subject to regulation under the Protection of Residential Mortgage or Hypothecary Insurance Act ("PRMHIA"). Under the terms of PRMHIA, the Canadian federal government guarantees the benefits payable under eligible mortgage insurance policies issued by the Insurance Subsidiary, less 10% of the original principal amount of each insured loan, in the event that the Insurance Subsidiary fails to make claim payments with respect to that loan due to its bankruptcy or insolvency. The maximum outstanding insured exposure for all private insured mortgages, including those insured by other private mortgage insurance companies, under PRMHIA is $350 billion.

Prior to December 12, 2019, Genworth Financial Inc. ("Genworth Financial"), a public company listed on the New York Stock Exchange, indirectly held approximately 56.8% (December 31, 2018 - 57.0%) of the common shares of the Company.

On December 12, 2019 Genworth Financial together with Brookfield Business Partners L.P. and institutional partners (collectively "Brookfield") closed the sale of Genworth Financial's majority interest in the Company to Brookfield for total consideration of $2.2 billion or $45.09 per share after consideration of special dividends paid in the third and fourth quarters of 2019.

2. Basis of presentation:

(a) Statement of compliance:

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

These consolidated financial statements were approved by the Board of Directors on February 4, 2020.

(b) Basis of measurement:

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

(i) AFS short-term investments, bonds and debentures and preferred shares are measured at fair value;

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

(iii) Subrogation rights related to real estate included in subrogation recoverable are measured at the fair value of the real estate assets at the reporting date less costs for obtaining the rights to and selling of the real estate;

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

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

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

(c) Functional and presentation currency:

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

2. Basis of presentation (continued):

(d) Use of estimates and judgments:

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

3. Significant accounting policies:

(a) Basis of consolidation:

(i) Business combinations:

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

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

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

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

(ii) Subsidiaries:

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

3. Significant accounting policies (continued):

(b) Insurance contracts:

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

(i) Premiums written, premiums earned and unearned premiums reserve:

The majority of policies in force have been written for terms of 20 to 35 years. Mortgage insurance premiums are deferred and then taken into underwriting revenues over the terms of the related policies. The unearned portion of premiums is included in the liability for unearned premiums reserve. Premiums written are recognized as premiums earned using a factor based premium recognition curve that is based on the Company's expected loss emergence pattern. The Company performs actuarial studies of loss emergence at least annually and may adjust the factors under which the premiums are earned in accordance with the results of such studies. Changes in the premium recognition curve are treated as a change in estimate and are recognized on a prospective basis.

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

(ii) Risk fee:

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

(iii) Losses on claims and loss reserves:

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

3. Significant accounting policies (continued):

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

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

(iv) Subrogation recoveries and subrogation recoverable:

Subrogation rights related to real estate are carried in subrogation recoverable at the fair value of the real estate assets less costs for obtaining the rights to and selling the real estate.

Estimated borrower recoveries related to claims paid and loss reserves are recognized in subrogation recoverable. Estimated borrower recoveries are discounted to take into account the time value of money and include an explicit margin for adverse deviation.

(v) Deferred policy acquisition costs:

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

(c) Financial instruments:

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

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

3. Significant accounting policies (continued):

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

(i) Cash and cash equivalents:

Cash and cash equivalents are comprised of deposits in banks, treasury bills and other highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and which are not subject to a significant risk of changes in value. Cash pledged as collateral by counterparties for derivative contracts is recognized in cash and cash equivalents with a corresponding liability recognized in derivative financial instruments on the consolidated statements of financial position given that the risks and rewards of ownership are not transferred from the counterparties to the Company in the course of the collateral transactions.

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

A financial asset is classified as fair value through profit and loss ("FVTPL") if it is considered to be held for trading or it is designated as such upon initial recognition. The Company has classified derivative financial instruments as FVTPL at December 31, 2019 and 2018.

FVTPL financial assets are recorded at fair value with realized gains and losses on sale and changes in the fair value recorded in income. Transaction costs related to FVTPL financial assets are recognized in income as incurred.

(iii) AFS financial assets:

AFS financial assets are non-derivative financial assets that are designated as AFS and are not classified in any other specific financial asset category. The Company classifies bonds and debentures, preferred shares and short-term investments in the AFS financial asset category.

3. Significant accounting policies (continued):

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

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

(iv) Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents and accrued investment income and other receivables.

(v) Non-derivative financial liabilities:

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

The Company derecognizes a financial liability when its contractual obligations are discharged or canceled or expire. The Company classifies all non-derivative financial liabilities into the Other financial liabilities category. Such financial liabilities are recognized initially at fair value along with any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Non-derivative financial liabilities are comprised of the Company's long-term debt and accounts payable and accrued liabilities including balances due to the Company's majority shareholder and its affiliates.

3. Significant accounting policies (continued):

(d) Securities lending:

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

(e) Derivative financial instruments:

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

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

3. Significant accounting policies (continued):

(f) Interest income:

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

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

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

(g) Dividend income:

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

(h) Impairment:

(i) Impairment of financial assets:

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

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

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

3. Significant accounting policies (continued):

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

(ii) Impairment of non-financial assets:

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

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

3. Significant accounting policies (continued):

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

(i) Income taxes:

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

(i) Current tax:

Current taxes are recognized for estimated income taxes payable or recoverable for the current year and any adjustments to taxes payable in respect of prior years. Current taxes payable and current taxes recoverable are offset when they relate to income taxes imposed by the same taxation authority for the same legal entity and the taxation authority permits making or receiving a single net payment.

(ii) Deferred tax:

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

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

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

3. Significant accounting policies (continued):

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

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable the Company will have sufficient taxable income against which they can be used. The deferred tax assets are reviewed each reporting period and are reduced to the extent that it is no longer probable that the benefit arising from the unused tax loss, tax credit or deductible temporary difference will be realized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes imposed by the same taxation authority for the same legal entity.

(j) Employee benefits:

(i) Defined contribution pension plan:

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

(ii) Defined benefit plans:

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

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

3. Significant accounting policies (continued):

Obligations for the SERP are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of termination, death or retirement. Obligations for NPPRB are attributed to the period beginning on the employee's date of hire to the date the employee reaches the age of 55 and is eligible for benefits under the plan.

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

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

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

(iii) Short-term employee compensation and benefits:

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

(iv) Share-based compensation:

The Company's share-based awards include stock options with tandem stock appreciation rights ("Options"), Restricted Share Units ("RSUs"), Performance Share Units ("PSUs"), Directors' Deferred Share Units ("DSUs") and Executive Deferred Share Units ("EDSUs"). Recipients of Options have a choice of settlement in cash or shares of the Company. RSUs, DSUs, and PSUs are settled in cash or shares of the Company at the discretion of the Company's Board of Directors. EDSUs are settled in cash. The Company has applied liability settlement treatment for all of its share-based compensation awards because all such awards are either settled in cash or provide employees or the Company with the option of settlement in cash or shares of the Company.

3. Significant accounting policies (continued):

The fair value of the share-based awards is recognized as compensation expense over the relevant vesting period, with a corresponding entry to share-based compensation liabilities. The liabilities are re-measured at each reporting date and the settlement date. Any changes in the fair value of the liabilities are recognized as compensation expense.

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

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

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

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

(v) Termination benefits:

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

(k) Share capital:

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

3. Significant accounting policies (continued):

(l) Foreign currency translation:

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

(m) Fair value measurement:

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

(n) Earnings per share:

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

(o) Long-term debt:

Long-term debt is accounted for at amortized cost. Any premium or discount incurred in connection with issuance of debt as well as debt issuance costs are capitalized to the cost of the debt and amortized over the respective term of the debt using the effective interest method.

4. Changes in accounting standards:

(a) Changes in accounting standards effective January 1, 2019:

The following standard and interpretation have been issued by the IASB and are effective for annual periods beginning on or after January 1, 2019.

(i) IFRS 16: Leases ("IFRS 16"):

The Company adopted IFRS 16 effective January 1, 2019. IFRS 16 replaces guidance for leases in IAS 17: Leases (“IAS 17”). The new standard provides a single, on balance-sheet lease accounting model for lessees. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments for the majority of its leases.

All of the Company’s leases were previously treated as operating leases under IAS 17. In line with the requirements of IFRS 16, right-of-use assets and corresponding lease liabilities have been recognized on the Company’s statement of financial position. In addition, the nature of expenses related to these leases has changed as IFRS 16 replaces the straight-line amortization of operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Transition:

The Company’s lease portfolio is comprised of leased premises, vehicles and certain office equipment (note 12).

On transition to IFRS 16, the Company elected to apply the practical expedient option with respect to the definition of a lease. The Company applied IFRS 16 to all contracts entered into before January 1, 2019 that were identified as leases in accordance with IAS 17. The Company also elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a remaining term of 12 months or less and leases of low value assets.

The Company has applied the modified retrospective approach to transition in IFRS 16. As a result, the information presented for the year ended December 31, 2018 has not been restated and remains as previously reported under IAS 17. Additionally, the Company’s right-of-use asset has been determined as equal to the amount of its lease liability at January 1, 2019, resulting in no net impact to retained earnings at transition.

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

4. Changes in accounting standards (continued):

The Company's lease liability has been calculated at the present value of the remaining lease payments using the Company's incremental borrowing rate at January 1, 2019. The weighted average incremental borrowing rate applied to discount lease liabilities was 3.92%.

On transition to IFRS 16 at January 1, 2019, the Company recognized right-of-use assets and lease liabilities of $11,494.

The following table reconciles the Company's operating lease commitments reported at December 31, 2018 and the lease liability recognized on initial application of IFRS 16 at January 1, 2019:

Operating lease commitments at December 31, 2018	$	11,729
Effect of discounting using the incremental borrowing rate at January 1, 2019		(997)
Finance lease liabilities recognized as at January 1, 2019		10,732
Less: variable lease payments excluded from lease liabilities		(5,025)
Add: lease liabilities from expected lease term extensions		6,326
Less: recognition exemption related to low value leases		(347)
Less: recognition exemption related to short-term leases		(192)
Lease liability recognized January 1, 2019	$	11,494

Accounting policy:

Subsequent to transition, the following accounting policy has been adopted for the Company's lease commitments.

At inception of the contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration and recognizes a right-of-use asset and a lease liability at the lease commencement date.

The Company elected not to separate lease and non-lease components and to account for them as a single lease component.

4. Changes in accounting standards (continued):

The lease liability is initially measured at the present value of the lease payments that are outstanding at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. The lease liability is remeasured if there is a change in future lease payments arising from a change in an index or rate, if there is a change in the estimated amount expected to be payable under a residual value guarantee, or if the Company revises its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset. If the right-of-use asset has been reduced to zero, the adjustment is recorded immediately in income.

The right-of-use asset is initially measured at the amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the lease term. The lease term includes the periods covered by the option to extend, if the Company is reasonably certain that the option to extend the lease will be exercised. The right-of-use asset is adjusted for certain re-measurements of the lease liability and reduced by impairment losses, if any.

The Company does not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value. The lease payments for these leases are treated as an expense on a straight-line basis over the lease term.

The Company presents its right-of-use assets and lease liabilities separately in the statement of financial position.

4. Changes in accounting standards (continued):

(ii) IFRIC Interpretation 23: Uncertainty over income tax treatments ("IFRIC 23"):

In June 2017, the IASB issued IFRIC 23 which clarifies how to apply the recognition and measurement requirement in IAS 12: Income taxes ("IAS 12") when there is uncertainty over income tax treatments. An entity is required to recognize and measure its taxable profit (taxable loss), tax bases, unused tax losses, unused tax credits and tax rates applying this interpretation.

The adoption of IFRIC 23 had no impact on the Company's financial statements.

(b) Future accounting standards:

The following new standards, amendments to existing standards or new interpretations have been issued by the IASB and are effective after December 31, 2019.

(i) IFRS 17: Insurance contracts ("IFRS 17"):

In May 2017, the IASB issued IFRS 17, which is a comprehensive standard that establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 will replace IFRS 4: Insurance Contracts ("IFRS 4"). The measurement approach for insurance liabilities under IFRS 17 is based on the following:

a. Fulfillment cash-flows which comprise:

    i. A current, unbiased probability-weighted estimate of future cash flows expected to arise as the insurer fulfills the contract;

    ii. The effect of the time value of money;

    iii. A risk adjustment for non-financial risk that measures the effects of uncertainty about the amount and timing of cash flows; and

b. A contractual service margin which represents the unearned profit in a contract and that is recognized in profit or loss over time as the insurance coverage is provided.

There will also be new financial statement presentation for insurance contracts and additional disclosure requirements.

IFRS 17 requires the Company to distinguish between groups of contracts expected to be profitable and groups of contracts expected to be onerous.

4. Changes in accounting standards (continued):

IFRS 17 is to be applied retrospectively to each group of insurance contracts. If full retrospective application to a group of contracts is impracticable, the modified retrospective or fair value methods may be used.

In response to concerns and challenges raised by stakeholders, on June 26, 2019, the IASB published an Exposure Draft ("ED") that proposes targeted amendments to IFRS 17. The IASB's objective for the amendments is to provide meaningful support to entities implementing IFRS 17 if those amendments: (i) do not change the fundamental principles of the Standard that would result in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17; and (ii) would avoid unduly disrupting implementation already under way or risking undue delays in the effective date of IFRS 17.

The ED proposes eight targeted amendments to IFRS 17 as well as a number of minor amendments and clarifications to the Standard. One of the amendments proposes to defer the effective date of IFRS 17 by one year from annual reporting periods beginning on or after January 1, 2021 to annual reporting periods beginning on or after January 1, 2022 and to extend the temporary exemption from IFRS 9: Financial instruments ("IFRS 9") by one year so that entities applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after January 1, 2022. All other proposed amendments do not significantly impact the Company. The comment period for the ED ended on September 25, 2019. The Board expects to publish any resulting amendments to IFRS 17 mid-2020.

The Company is currently assessing the impact of IFRS 17 on its financial statements.

(ii) IFRS 9:

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

4. Changes in accounting standards (continued):

IFRS 9 was generally effective for periods beginning on or after January 1, 2018. However, in September 2016, the IASB issued amendments to IFRS 4 which provide optional relief to eligible insurers in respect of IFRS 9. The options permit entities whose predominant activity is issuing insurance contracts within the scope of IFRS 17: (a) a temporary exemption to defer the implementation of IFRS 9, or alternatively (b) the option to remove from income the incremental volatility caused by changes in the measurement of specified financial assets upon application of IFRS 9.

The Company has analyzed the amendments to IFRS 4 and has concluded that it is an eligible insurer that qualifies for the transitional relief. The Company has elected to apply the optional transitional relief that permits the deferral of the adoption of IFRS 9 for eligible insurers. As a result, the Company did not adopt IFRS 9 as at January 1, 2018.

Entities that apply either of the transitional relief options were initially required to adopt IFRS 9 on January 1, 2021. However, in the Exposure Draft "Amendments to IFRS 17" published on June 26, 2019, the IASB proposes to defer both the effective date of IFRS 17 and the expiry date for the optional relief in respect of IFRS 9 by one year. The proposed deferral is subject to a comment period that ended on September 25, 2019. Therefore, it is expected that entities that apply the optional temporary relief will be required to adopt IFRS 9 on January 1, 2022, which aligns with the new expected effective date of IFRS 17. As a result, the Company is expected to continue to apply IAS 39 until January 1, 2022.

Effective in reporting periods in 2018, an insurer that elected to apply the transitional relief under IFRS 4 is required to provide additional disclosures that enable comparison with entities that applied IFRS 9 at January 1, 2018. The amendments to IFRS 4 require entities to disclose additional information regarding the contractual cash flow characteristics and credit exposure of their financial instruments. These disclosures are included in note 9.

(iii) Amendments to IFRS 3: Business combinations ("IFRS 3"):

In October 2019, the IASB issued amendments to IFRS 3 that clarify the definition of a business. The objective of the amendments is to assist entities in determining whether a transaction should be accounted for as a business combination or an asset acquisition. The amendments are effective for annual periods beginning on or after January 1, 2020.

The Company will adopt the amendments prospectively and has assessed that the adoption of the amendments should have no impact on the Company's financial statements.

5. Significant judgments and estimates:

(a) Judgments:

Significant judgments made in applying accounting policies are as follows:

(i) Objective evidence of impairment of AFS financial assets:

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

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

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

(b) Estimates:

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

5. Significant judgments and estimates (continued):

(i) Premiums earned:

Mortgage insurance premiums are deferred and then taken into underwriting revenues over the terms of the related policies using a factor-based premium recognition curve that is based on the Company's expected loss emergence pattern.

In constructing the premium recognition curve, the Company applies actuarial forecasting techniques to historical loss data to determine expected loss development and the related loss emergence pattern. The Company performs studies of loss emergence at least annually and may adjust the factors in the premium recognition curve in accordance with the results of such studies. Changes in the premium recognition curve are treated as a change in estimate and are recognized on a prospective basis.

(ii) Losses:

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

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

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

5. Significant judgments and estimates (continued):

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. Refer to note 6(b) for sensitivity analyses that quantify the exposure to changes in key loss assumptions.

(iii) Subrogation recoverable:

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

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

(iv) Deferred policy acquisition costs:

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

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

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

6. Insurance contracts:

(a) Premiums and unearned premiums reserve:

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

	2019	2018
Unearned premium reserves, beginning of year	$ 2,088,536	2,129,758
Premiums written during the year	701,021	638,995
Premiums earned during the year	(678,708)	(680,217)
Unearned premium reserves, end of year	$ 2,110,849	$ 2,088,536

Key methodologies and assumptions:

Premiums written are recognized as premiums earned using a factor-based premium recognition curve that is based on the Company's expected loss emergence pattern. Approximately 80% of the Company's premiums written are recognized as premiums earned within the first five years of policy inception based on the current premium recognition curve. The effective risk of loss diminishes significantly subsequent to the first five years after policy inception due to normal amortization of the loan's principal balance from mortgage payments and potential home price appreciation both of which increase the borrower's equity. A shift in the Company's loss emergence pattern could change the timing of the Company's recognition of earned premium. The Company performs studies of loss emergence at least annually and may adjust the factors in the premium recognition curve in accordance with the results of such studies. Changes in the premium recognition curve are recognized on a prospective basis as a change in estimate.

The Company's appointed actuary performs a liability adequacy test on the Company's unearned premiums reserve using a loss projection model. The purpose of the test is to ensure the unearned premium liability at year end is sufficient to pay for future claims and expenses that may arise from unexpired insurance contracts. The liability adequacy test for the years ended December 31, 2019 and 2018 identified a surplus in the Company's unearned premiums reserve and thus no premium deficiency reserve is required at these reporting dates.

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

6. Insurance contracts (continued):

(b) Losses on claims and loss reserves:

The carrying value of loss reserves reflects the present value of expected claims costs and expenses and provisions for adverse deviation and is considered to be an indicator of fair value. There is no ready market for the trading of loss reserves and the value agreed between parties in an arm's-length transaction may be materially different.

Loss reserves comprise the following:

	2019	2018
Case reserves	$ 94,490	$ 82,581
Incurred but not reported reserves	39,731	35,480
Discounting	(1,803)	(2,161)
Provision for adverse deviation	8,778	7,864
Total loss reserves	$ 141,196	$ 123,764

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

6. Insurance contracts (continued):

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

		2019		2018
Loss reserves, beginning of year	$	123,764	$	118,951
Claims paid during the year		(99,048)		(95,228)
Net losses on claims incurred during the year:				
Losses on claims related to the current year		136,020		115,183
Favourable development on losses on claims related to prior years		(19,540)		(15,142)
Loss reserves, end of year	$	141,196	$	123,764

Claims development:

Loss reserves are established to reflect an estimate of the ultimate cost of claim settlement as at the reporting date. Given the uncertainty in establishing the outstanding loss reserves, it is likely that the final outcome will be different than the original liability established. Claims development refers to the financial adjustment in the current period relating to claims incurred in previous periods because of new and more up to date information that has become available and to reflect changes in assumptions.

The Company's financial performance is significantly influenced by the economy. Actual emergence of losses could differ significantly from best estimates in a period as a result of changes in economic conditions. A deterioration in economic conditions and decline in home prices could cause unfavourable loss development. Conversely, improvement in economic conditions and strengthening of housing markets could cause favourable loss development.

In the year ended December 31, 2019, the Company experienced favourable development of $19,540 or approximately 16% of the total loss reserves at the beginning of the year. The favourable development was caused primarily by improving economic conditions compared to 2018 in the provinces of Quebec and the Atlantic region.

In the year ended December 31, 2018, the Company experienced favourable development of $15,142, or approximately 13% of the total loss reserves at the beginning of the year. The favourable development was caused primarily by stable or improving economic conditions compared to 2017 in the provinces of Alberta and Quebec.

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

6. Insurance contracts (continued):

The following table demonstrates the development of the estimated loss reserves for the ten most recent default years. The information is presented on a default year basis (claims are related to the period in which the insured event occurred and not the period in which the policy was underwritten).

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Claims incurred at the end of the default year	$ 175,189	$ 172,200	$ 143,388	$ 132,299	$ 118,498	$ 132,945	$ 156,910	$ 105,861	$ 115,183	$ 136,020	
Claims incurred one year later	193,820	193,226	141,957	128,042	112,834	119,428	128,609	101,046	109,447	—	
Claims incurred two years later	217,034	196,377	140,572	126,540	109,894	114,127	121,913	92,630	—	—	
Claims incurred three years later	218,884	195,903	140,196	126,293	109,697	113,154	120,554	—	—	—	
Claims incurred four years later	218,088	194,969	139,809	125,596	109,189	112,292	—	—	—	—	
Claims incurred five years later	217,036	194,383	139,297	125,340	108,648	—	—	—	—	—	
Claims incurred six years later	217,624	193,142	137,919	123,605	—	—	—	—	—	—	
Claims incurred seven years later	216,877	192,626	137,028	—	—	—	—	—	—	—	
Claims incurred eight years later	216,877	192,626	—	—	—	—	—	—	—	—	
Claims incurred nine years later	216,877	—	—	—	—	—	—	—	—	—	
Current estimate of claims incurred	$ 216,877	$ 192,626	$ 137,028	$ 123,605	$ 108,648	$ 112,292	$ 120,554	$ 92,630	$ 109,447	$ 136,020	$ 1,349,727
Cumulative payments to date	$ 216,877	$ 192,626	$ 137,028	$ 123,199	$ 108,443	$ 111,876	$ 119,980	$ 89,536	$ 84,626	$ 24,340	$ 1,208,531
Current loss reserves	$ —	$ —	$ —	$ 406	$ 205	$ 416	$ 574	$ 3,094	$ 24,821	$ 111,680	$ 141,196
Current estimate of surplus (deficiency)	$ (41,688)	$ (20,426)	$ 6,360	$ 8,694	$ 9,850	$ 20,653	$ 36,356	$ 13,231	$ 5,736	$ —	
Surplus (deficiency) of initial gross loss reserve	(24)%	(12)%	4%	7%	8%	16%	23%	12%	5%	—	

6. Insurance contracts (continued):

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

Key methodologies and assumptions:

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

(i) Claim frequency:

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

(ii) Claim severity:

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

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

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

6. Insurance contracts (continued):

Sensitivity:

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

2019 Sensitivity factor	Change in assumptions	Impact on income before income taxes	Impact on shareholders' equity
Claim frequency	+10%	$ (26,413)	$ (19,308)
	-10%	26,413	19,308
Claim severity	+10%	$ (26,413)	$ (19,308)
	-10%	26,413	19,308

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

6. Insurance contracts (continued):

(c) Subrogation recoverable:

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

	2019	2018
Subrogation rights related to real estate, beginning of year	$ 42,824	$ 45,533
Subrogation rights related to real estate acquired as a result of settling claims, at fair value	164,916	167,396
Change in market value of real estate on hand	4,338	4,838
Subrogation rights related to real estate disposed of during the year	(169,991)	(174,943)
Subrogation rights related to real estate, end of year	42,087	42,824
Estimated borrower recoveries, beginning of year	13,286	13,770
Net estimated borrower recoveries recognized	5,772	4,903
Borrower recoveries received	(5,111)	(4,790)
Discounting	227	(247)
Provision for adverse deviation	(88)	(350)
Estimated borrower recoveries, end of year	14,086	13,286
Subrogation recoverable, end of year	$ 56,173	$ 56,110

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

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

6. Insurance contracts (continued):

(d) Deferred policy acquisition costs:

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

		2019		2018
Deferred policy acquisition costs, beginning of year	$	206,386	$	208,046
Policy acquisition costs deferred during the year		66,924		65,939
Deferred policy acquisition costs expensed during the year		(67,412)		(67,599)
Net change in deferred policy acquisition costs during the year		(488)		(1,660)
Deferred policy acquisition costs, end of year	$	205,898	$	206,386

7. Financial risk management:

The Insurance Subsidiary maintains an Own Risk and Solvency Assessment ("ORSA") framework in accordance with OSFI Guideline E-19: Own Risk and Solvency Assessment. The primary purpose of ORSA is for an insurer to identify material risks, and to assess the adequacy of its current and likely future capital needs and solvency position relative to these risks.

The Company's risk management framework facilitates compliance with ORSA through the identification and assessment of risks, and the ongoing monitoring and management of risks. The objective of the framework and related internal control procedures is to ensure risks are within the Company's defined risk appetite and tolerance and to achieve profitable underwriting results. There have been no significant changes to the Company's insurance risk management policies at December 31, 2019 compared to December 31, 2018.

(a) Insurance risk:

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

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

(i) Pricing risk:

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

7. Financial risk management (continued):

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

The Company is subject to minimum regulatory capital requirements under the Insurance Companies Act and PRMHIA (note 8). If regulatory capital requirements increase, the Company's financial performance could be adversely impacted and pricing could be inadequate relative to the Company's regulatory capital requirements.

(ii) Underwriting risk:

Underwriting risk is the risk that the Company's underwriting function will underwrite mortgage insurance under terms that do not comply with the Company's pre-established risk guidelines, resulting in inappropriate risk acceptance by the business.

The underwriting results of the mortgage insurance business can fluctuate significantly due to the cyclicality of the Canadian mortgage market. The mortgage market is affected primarily by housing supply and demand, interest rates, and general economic factors including unemployment rates.

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

7. Financial risk management (continued):

(iii) Claims management risk:

The Company enforces a policy of actively managing and promptly settling claims in order to reduce exposure to unpredictable future developments that can adversely impact losses. The Company has two primary loss mitigation programs. The Homeowner Assistance Program is designed to help homeowners who are experiencing temporary financial difficulties that may prevent them from making timely payments on their mortgages. Initiatives currently employed under the Homeowner Assistance Program include capitalizing arrears, deferring payments for a specified period, arranging a partial payment plan, and increasing a mortgage amortization period. The Asset Management Program is designed to accelerate the conveyance of the rights to real estate properties to the Company in select circumstances. This strategy allows for better control of the property marketing process, potential reduction of carrying costs and potential of realization of a higher property sales price.

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

(iv) Loss reserving risk:

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

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

(v) Insurance portfolio concentration risk:

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

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

7. Financial risk management (continued):

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

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

	2019		2018	
Ontario	$ 258,872	37%	$ 233,626	36%
Alberta	142,449	20%	131,595	21%
British Columbia	84,683	12%	74,033	12%
Quebec	117,853	17%	103,600	16%
Other	97,344	14%	96,141	15%
	$ 701,201	100%	$ 638,995	100%

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

(b) Credit risk:

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

The total credit risk exposure at December 31, 2019 is $6,285,450 (2018 - $6,329,431) and comprises $115,302 (2018 - $48,683) of short-term investments, $37,675 (2018 - $41,183) of accrued investment income and other receivables, $5,487,522 (2018 - $5,555,559) of bonds and debentures, $519,328 (2018 - $517,847) of preferred shares, $69,450 of derivative financial instruments in an asset position (2018 - $110,049) and $56,173 (2018 - $56,110) of subrogation recoverable.

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

7. Financial risk management (continued):

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

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

	2019		2018	
	Carrying value		Carrying value	
Credit rating	amount	%	amount	%
Bonds and debentures and short-term investments:				
AAA	$ 2,429,444	43.4	$ 2,293,710	40.9
AA	1,077,851	19.2	1,008,112	18.0
A	1,584,829	28.3	1,681,387	30.0
BBB	504,496	9.0	614,919	11.0
BB	6,204	0.1	6,114	0.1
	5,602,824	100.0	5,604,242	100.0
Preferred Shares				
P2	413,792	79.7	408,006	78.8
P3	105,536	20.3	109,841	21.2
	519,328	100.0	517,847	100.0
	$ 6,122,152		$ 6,122,089	

As at December 31, 2019, 90.9% of the Company's bonds and debentures were rated 'A' or better, compared to 88.9% at December 31, 2018. As at December 31, 2019 and December 31, 2018, all of the Company's preferred shares were rated P3 or better.

The Company did not hold any impaired financial assets at December 31, 2019 and 2018.

Concentration of credit risk:

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

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

7. Financial risk management (continued):

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

		2019			2018	
		Carrying value amount	%		Carrying value amount	%
By country of issuance:						
Canada	$	4,941,193	80.7	$	4,935,716	80.6
Other		1,180,959	19.3		1,186,373	19.4
	$	6,122,152	100.0	$	6,122,089	100.0
By industry:						
Government	$	2,900,288	47.4	$	2,858,207	46.7
Bank, insurance, and other financial institutions		1,115,593	18.2		1,105,698	18.1
Energy - Direct (1)		68,856	1.1		65,900	1.1
Energy - Indirect (1)		351,159	5.7		361,878	5.9
Infrastructure		119,753	2.0		120,823	1.9
Collateralized loan obligations (2)		519,667	8.5		531,881	8.7
All other sectors		1,046,836	17.1		1,077,702	17.6
	$	6,122,152	100.0	$	6,122,089	100.0

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

(2) Collateralized loan obligations are structured credit securities, collateralized by U.S. bank loans.

Exposures to the financial and energy sectors are closely monitored by the Company and adjusted through periodic portfolio re-balancing as deemed necessary.

7. Financial risk management (continued):

Derivative-related credit risk:

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

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

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

The Company also uses collateral to manage derivative-related counterparty credit risk as governed by the International Swaps and Derivatives Association ("ISDA") agreement between the Company and its counterparties. Mark-to-market provisions in the Company's ISDA agreements with counterparties provide the Company with the right to request that the counterparty collateralize the current market value of its derivative positions when the value passes a specified exposure threshold. As at December 31, 2019, the Company's net derivative assets were $29,439 (2018 - $28,482 net derivative asset) and the Company has posted $462 collateral in the form of Canadian federal government bonds for the benefit of its counterparties and accepted collateral of $27,879 from its counterparties comprised of $2,770 cash and $25,109 Canadian federal and provincial government bonds (2018 - the Company accepted collateral of $44,984 from its counterparties comprised of $10,680 cash and $34,304 Canadian federal and provincial government bonds).

(c) Liquidity risk/maturity analysis:

Liquidity risk is the risk of having insufficient cash resources to meet financial commitments and policy obligations as they fall due without raising funds at unfavourable rates or selling assets on a forced basis.

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

7. Financial risk management (continued):

Liquidity risk arises from the Company's general business activities and in the course of managing its assets, liabilities and externally imposed capital requirements (note 8). The liquidity requirements of the Company's business have been met primarily by funds generated from operations including investment income, investment asset maturities and financing activities. Cash provided from these sources is used primarily for claim payments, loss adjustment expenses, operating expenses and payment of dividends and interest. To ensure liquidity requirements are met, the Company holds a portion of its invested assets in liquid securities. At December 31, 2019, the Company has cash and cash equivalents of $289,823 excluding $2,770 cash pledged as collateral to the Company from its derivative counterparties (2018 - $266,846 excluding $10,680 cash pledged as collateral to the Company from its derivative counterparties) and short-term investments of $115,302 (2018 - $48,683).

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

		Within 1 year	1 - 3 years	3 - 5 years	5 - 10 years	Over 10 years	Total
2019	$	621,975 $	1,448,086 $	1,196,254 $	1,658,574 $	677,935 $	5,602,824
2018	$	476,080 $	1,417,012 $	1,282,422 $	1,717,176 $	711,552 $	5,604,242

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

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

7. Financial risk management (continued):

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

2019	Within 1 year	1 - 3 years	3 - 5 years	5 - 10 years	Over 10 years	Total
Non-derivative financial liabilities:						
Accounts payable and accrued liabilities	$ 51,535	$ —	$ —	$ —	$ —	$ 51,535
Loss reserves (at Actuarial Present Value)	120,006	21,190	—	—	—	141,196
Long-term debt	175,000	—	260,000	—	—	435,000
Derivative financial liabilities:						
Derivative financial instruments	6,599	15,866	13,306	7,010	—	42,781
Total	$ 353,140	$ 37,056	$ 273,306	$ 7,010	$ —	$ 670,512

2018	Within 1 year	1 - 3 years	3 - 5 years	5 - 10 years	Over 10 years	Total
Non-derivative financial liabilities:						
Accounts payable and accrued liabilities	$ 54,903	$ —	$ —	$ —	$ —	$ 54,903
Income taxes payable	—	—	—	—	—	—
Loss reserves (at Actuarial Present Value)	104,922	18,842	—	—	—	123,764
Long-term debt	—	275,000	—	160,000	—	435,000
Derivative financial liabilities:						
Derivative financial instruments	29,745	20,216	23,551	18,735	—	92,247
Total	$ 189,570	$ 314,058	$ 23,551	$ 178,735	$ —	$ 705,914

7. Financial risk management (continued):

(d) Market risk:

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

(i) Interest rate risk:

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

As at December 31, 2019, management estimates that an immediate hypothetical 100 basis point, or 1%, increase in interest rates would result in a net decrease to the market value of the AFS bonds and debentures, short- term investments and preferred shares by approximately $179,403 representing 2.93% of the $6,122,152 fair value of these investments, and decrease the value of loss reserves by $868. Conversely, a 100 basis point, or 1%, decrease in interest rates would result in a net increase to the market value of the AFS bonds and debentures, short-term investments and preferred shares by approximately $191,132 representing 3.12% of the fair value, and increase the value of loss reserves by approximately $884.

7. Financial risk management (continued):

As at December 31, 2019, the Company has fixed for floating interest rate swaps with a notional value of $3,500,000. Management estimates that an immediate hypothetical 100 basis point, or 1%, increase in interest rates would increase the market value of the Company's interest rate swaps by $64,547. Conversely, a 100 basis point, or 1%, decrease in interest rates would decrease the market value of the Company's interest rate swaps by the same amount.

As at December 31, 2019, the Company has interest rate floor contracts with a notional value of $3,000,000. Management estimates that an immediate hypothetical 100 basis point, or 1%, increase in interest rates would decrease the market value of the Company's interest rate floors by $7,981. Conversely, a 100 basis point, or 1%, decrease in interest rates would increase the market value of the Company's interest rate floors by $39,105.

As at December 31, 2018, management estimates that an immediate hypothetical 100 basis point, or 1%, increase in interest rates would result in a net decreased to the market value of the AFS bonds and debentures, short- term investments and preferred shares by approximately $191,412, representing 3.13% of the $6,122,089 fair value of these investments, and decrease the value of loss reserves by $792. Conversely, a 100 basis point, or 1%, decrease in interest rates would result in a net increase to the market value of the AFS bonds and debentures, short-term investments and preferred shares by approximately $208,660 representing 3.41% of the fair value, and increase the value of loss reserves by approximately $806.

As at December 31, 2018, the Company has fixed for floating interest rate swaps with a notional value of $3,500,000. Management estimates that an immediate hypothetical 100 basis point, or 1%, increase in interest rates would increase the market value of the Company's interest rate swaps by $100,342. Conversely, a 100 basis point, or 1%, decrease in interest rates would have decreased the market value of the Company's interest rate swaps by the same amount.

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

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

7. Financial risk management (continued):

(ii) Currency risk:

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

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

	2019	2018
Bonds and debentures denominated in U.S. dollars [1]	$ 1,180,959	$ 1,186,373
Less: Foreign currency forward contract notional amount	657,356	532,754
Cross currency interest rate swap notional amount	483,771	587,733
Total derivative financial instrument notional amount	1,141,127	1,120,487
Net currency exposure from financial instruments	$ 39,832	$ 65,886

[1] Bonds and debentures denominated in U.S. dollars consists of $474,334 of emerging market debt (2018-$467,666), $519,667 of collateralized loan obligations (2018 - $531,881) and $186,958 of Global bonds (2018 - $186,826).

8. Capital management and regulatory requirements:

The Insurance Subsidiary is a regulated insurance company governed by PRMHIA and the provisions of the Insurance Companies Act (“the Act”), which is administered by OSFI. As such, the Insurance Subsidiary is subject to certain requirements and restrictions contained in PRMHIA and the Act. The requirements and restrictions are primarily aimed at protecting policyholders and creditors and include:

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

Capital management:

Capital comprises the Company’s shareholders’ equity. The Company’s objectives when managing capital are to maintain financial strength and a strong financial strength credit rating, to support its claim-paying ability, and to maximize returns to shareholders over the long term.

Under PRMHIA and the Act, the Insurance Subsidiary is required to meet a minimum capital test to support its outstanding mortgage insurance in force. On January 1, 2017, the capital advisory titled “Capital Requirements for Federally Regulated Mortgage Insurers” came into effect. The advisory provided a regulatory capital framework for determining the capital requirements for mortgage insurance companies. The framework was more risk sensitive compared to the previous framework and incorporated additional risk attributes, including credit score, remaining amortization and outstanding loan balance.

8. Capital management and regulatory requirements (continued):

The framework focused on capital requirements for insurance risk, which consist primarily of:

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

Supplementary capital is tied to the behavior of property prices, both in terms of recent housing price trends and the behavior of housing prices relative to household incomes.

On August 9, 2018, OSFI issued the guideline entitled "Mortgage Insurer Capital Adequacy Test ("MICAT"). The new guideline consolidated OSFI's capital requirements for mortgage insurers into a single document, incorporating elements from OSFI's January 1, 2017 advisory "Capital Requirements for Federally Regulated Mortgage Insurers" and relevant chapters of OSFI's guideline "2018 Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies." The OSFI supervisory MICAT target ratio and the minimum MICAT ratio under government guarantee legislation remains at 150%. The Company's internal target ratio for 2019 under the MICAT remains unchanged at 157%.

The primary changes in the 2019 MICAT are as follows:

- The total asset requirement, which is primarily based on loan-to-value, credit score, outstanding insured balance and remaining amortization, is increased by 5% relative to the prior calculation.

- The MICAT guideline requires the use of credit scores at the time of origination in the calculation of the total asset requirement throughout the duration of the mortgage insurance coverage. This eliminates the requirement in the previous regulatory capital framework to use the updated 2016 credit score for 2015 and prior books in the calculation of the total asset requirement.

- There is a transitional arrangement that provides a phase-in period for the increased capital required for insurance risk on outstanding insured mortgages as at December 31, 2018.

8. Capital management and regulatory requirements (continued):

As at December 31, 2019, the Insurance Subsidiary had an MICAT ratio of approximately 170% (2018 - 171%) and management has determined that the Insurance Subsidiary has complied with regulatory capital requirements.

The Company has determined that the impact of adoption of IFRS 16 on its MICAT ratio was minimal.

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

The Company's Board of Directors has adopted a capital management policy for the Company and the Insurance Subsidiary. The policy identifies sources of capital, establishes a capital adequacy target for the Insurance Subsidiary and sets a financial leverage target and dividend policy for the Company. As part of its ongoing management of capital, the Company prepares capital forecasts and regularly compares actual performance with forecasted results.

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

9. Investments:

The investments presented in the table below are carried at fair value:

	2019				2018			
	Fair value	Amortized cost	Unrealized gain (loss)	% total fair value	Fair value	Amortized cost	Unrealized gain (loss)	% total fair value
Cash and cash equivalents:								
Canadian federal government treasury bills	$ 140,946	$ 140,946	$ —	2.2	$ 142,342	$ 142,342	$ —	2.2
Cash [1]	151,647	151,647	—	2.4	135,184	135,184	—	2.1
	292,593	292,593	—	4.6	277,526	277,526	—	4.3
AFS investments:								
Short-term investments:								
Canadian federal government treasury bills	85,595	85,595	—	1.3	48,683	48,699	(16)	0.8
Canadian provincial government bonds	29,707	29,719	(12)	0.5	—	—	—	—
	115,302	115,314	(12)	1.8	48,683	48,699	(16)	0.8
Government bonds and debentures:								
Canadian federal government [2]	2,018,430	1,997,619	20,811	31.5	1,951,652	1,934,829	16,823	30.5
Canadian provincial and municipal governments	766,556	734,373	32,183	11.9	857,872	834,076	23,796	13.4
	2,784,986	2,731,992	52,994	43.4	2,809,524	2,768,905	40,619	43.9
Corporate bonds and debentures:								
Financial	779,961	766,371	13,590	12.2	780,336	788,413	(8,077)	12.2
Utility	349,050	337,063	11,987	5.4	365,023	366,266	(1,243)	5.7
Energy	334,635	322,725	11,910	5.2	342,916	343,298	(382)	5.4
Infrastructure	119,753	114,755	4,998	1.9	120,823	118,747	2,076	1.9
All other sectors	599,470	580,804	18,666	9.3	605,056	613,146	(8,090)	9.5
	2,182,869	2,121,718	61,151	34.0	2,214,154	2,229,870	(15,716)	34.7
Collateralized loan obligations	519,667	524,210	(4,543)	8.1	531,881	540,322	(8,441)	8.2
Total AFS bonds and debentures	5,487,522	5,377,920	109,602	85.5	5,555,559	5,539,097	16,462	86.8
Preferred Shares:								
Financial	335,632	392,526	(56,894)	5.2	325,362	367,441	(42,079)	5.1
Utility	82,483	99,203	(16,720)	1.3	90,190	101,234	(11,044)	1.4
Energy	85,380	100,807	(15,427)	1.3	84,862	95,457	(10,595)	1.3
All other sectors	15,833	21,064	(5,231)	0.3	17,433	19,586	(2,153)	0.3
	519,328	613,600	(94,272)	8.1	517,847	583,718	(65,871)	8.1
Total investments	$ 6,414,745	$ 6,399,427	$ 15,318	100.0	$ 6,399,615	$ 6,449,040	$ (49,425)	100.0

[1] Cash includes $2,770 (December 31, 2018 - $10,680) as collateral posted to the benefit of the Company from its derivative counterparties with a corresponding liability to return the collateral in liabilities for derivative financial instruments.

[2] As at December 31, 2019, the Company had collateral posted of $462 for the benefit of the Company's counterparties to its derivative financial instrument contracts, as described in the derivative financial instruments section of note 9 (December 31, 2018 - $1,800).

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

9. Investments (continued):

The fair value of investments, excluding preferred shares and cash and cash equivalents, are shown by contractual maturity of the investment[1].

	2019	2018
Terms to maturity:		
Federal, provincial and municipal bonds and debentures and short-term investments:		
1 year or less	$ 414,143	$ 350,833
1 - 3 years	726,931	816,380
3 - 5 years	620,769	582,308
5 - 10 years	995,918	895,411
Over 10 years	142,527	213,275
	2,900,288	2,858,207
Corporate bonds and debentures and collateralized loan obligations:		
1 year or less	207,832	125,247
1 - 3 years	721,155	600,632
3 - 5 years	575,485	700,114
5 - 10 years	662,656	821,765
Over 10 years	535,408	498,277
	2,702,536	2,746,035
	$ 5,602,824	$ 5,604,242

(1) Certain bonds and collateralized loan obligations have prepayment features that may cause actual maturities to be shorter than contractual maturities.

Investments denominated in foreign currencies:

Collateralized loan obligations ("CLOs") of $519,667 (2018 - $531,881) are denominated in U.S. dollars. The CLOs are structured credit securities, collateralized by U.S. bank loans with majority AAA credit ratings, that pay interest based on floating interest rates indexed to the London Interbank Offered Rate ("LIBOR"). Additionally, corporate bonds and debentures includes $474,334 of emerging market bonds (2018 - $467,666) and $186,958 of Global bonds (2018 - $186,826) denominated in U.S. dollars.

The CLOs, emerging market and global bonds are classified as AFS and changes in the fair value of the investments are recorded in OCI. Re-measurement adjustments arising on translation of the investments from U.S. dollars into Canadian dollars are recognized in net gains or losses from derivatives and foreign exchange in the consolidated statements of income.

9. Investments (continued):

Derivative financial instruments:

Derivative financial instruments are used by the Company for economic hedging purposes and for the purpose of modifying the risk profile of the Company's investment portfolio, subject to exposure limits specified within the Company's investment policy guidelines, which have been approved by the Board of Directors.

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

The Company uses equity total return swaps to hedge a portion of its economic exposure from the changes in fair market value of the Company's common shares in relation to risk associated with share-based compensation expenses. Equity total return swaps are contracts by which one counterparty agrees to pay or receive from the other cash amounts based on changes in the fair value of a referenced asset or group of assets, including any returns such as interest earned or dividends accrued on these assets in exchange for amounts that are based on prevailing market funding rates. Additional disclosure of the Company's equity total return swaps is included in note 14.

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

Interest rate floors are derivative financial instrument contracts in which the floor seller will compensate the floor buyer when a reference interest rate falls below an agreed upon floor strike rate at a specified date. The Company uses interest rate floors to mitigate the downside risk that may arise from its existing fixed-for-floating interest rate swaps.

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

9. Investments (continued):

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

				Notional Amount				
December 31, 2019	Derivative asset	Derivative liability[1]	Net fair value	1 year or less	1 - 3 years	3 - 5 years	Over 5 years	Total
Foreign currency forwards	$ 6,610	$ (31,513)	$ (24,903)	$ 423,108	$ 72,572	$ 74,363	$ 87,313	$ 657,356
Cross currency interest rate swaps	1,484	(8,498)	(7,014)	206,408	92,379	71,466	113,518	483,771
Equity total return swaps	2,047	—	2,047	31,689	—	—	—	31,689
Interest rate swaps	50,703	—	50,703	—	3,500,000	—	—	3,500,000
Interest rate floors	8,606	—	8,606	—	3,000,000	—	—	3,000,000
Total	$ 69,450	$ (40,011)	$ 29,439	$ 661,205	$ 6,664,951	$ 145,829	$ 200,831	$ 7,672,816

				Notional Amount				
December 31, 2018	Derivative asset	Derivative liability[1]	Net fair value	1 year or less	1 - 3 years	3 - 5 years	Over 5 years	Total
Foreign currency forwards	$ 44	$ (48,885)	$ (48,841)	$ 284,285	$ 29,320	$ 92,881	$ 126,268	$ 532,754
Cross currency interest rate swaps	—	(31,331)	(31,331)	100,200	252,301	77,071	158,161	587,733
Equity total return swaps	—	(1,351)	(1,351)	24,592	—	—	—	24,592
Interest rate swaps	101,147	—	101,147	—	2,000,000	1,500,000	—	3,500,000
Interest rate floors	8,858	—	8,858	—	1,500,000	1,500,000	—	3,000,000
Total	$ 110,049	$ (81,567)	$ 28,482	$ 409,077	$ 3,781,621	$ 3,169,952	$ 284,429	$ 7,645,079

(1) Excludes $2,770 cash pledged as collateral by counterparties for derivative contracts (December 31, 2018 - $10,680).

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

9. Investments (continued):

Net gains on derivatives and foreign exchange in the statements of income is comprised of the following amounts:

		2019	2018
Unrealized foreign exchange gain (loss) on bonds and debentures denominated in U.S. dollars	$	(60,583) $	88,218
Unrealized gains (losses) on foreign currency forward and cross currency interest rate swap contracts		39,198	(86,215)
Realized foreign exchange gains		799	600
Net gains (losses) on foreign exchange		(20,586)	2,603
Losses on interest rate swap contracts[1]		(18,959)	(7,364)
Gains (losses) on interest rate floor contracts[1]		(252)	810
Net (losses) gains on derivatives and foreign exchange	$	(39,797) $	(3,951)

[1] Includes $29,102 of net realized interest rate swap and interest rate floor income related to contractual cash flows (December 31, 2018 - $21,735 net interest rate swap expense).

The Company enters into collateral arrangements with its derivative counterparties that require the posting of collateral upon certain net exposure thresholds being met. As at December 31, 2019, the Company has and has posted $462 collateral in the form of Canadian federal government bonds for the benefit of its counterparties and accepted collateral of $27,879 from its counterparties comprised of $2,770 cash and $25,109 Canadian federal and provincial government bonds (2018 - the Company accepted collateral of $44,984 from its counterparties comprised of $10,680 cash and $34,304 Canadian federal and provincial government bonds).

Cash received from counterparties as collateral for derivative contracts is recognized within cash and cash equivalents, and a corresponding liability is recognized within derivative financial instruments on the consolidated statements of financial position. Securities received from counterparties as collateral are not recorded as assets. Securities delivered to counterparties as collateral for derivative financial instruments continue to be reflected as investment assets on the consolidated statements of financial position. The Company does not currently pledge cash to its counterparties as collateral for derivative contracts.

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

9. Investments (continued):

Securities lending:

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

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

In addition to earning fee income under the securities lending program, the Company continues to earn all interest, dividends and other income generated by the loaned securities while the securities are in the possession of counterparties.

These transactions are conducted under terms that are usual and customary to security lending activities, as well as requirements determined by exchanges where a financial institution acts as an intermediary.

As at December 31, 2019 and 2018 the Company had loaned the following investments under its securities lending program:

	2019	2018
Cash equivalents	$ 87,946	$ 80,455
Short-term investments	32,236	—
Bonds and debentures	419,143	608,847
Preferred shares	5,626	9,452
	$ 544,951	$ 698,754

As at December 31, 2019, the Company has accepted eligible securities as collateral with a fair value of $573,313 (2018 - $732,749).

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

9. Investments (continued):

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the fair value and the amount of change in the fair value of the Company's financial assets as at and for the year ending December 31, 2019 and December 31, 2018, showing separately the fair value of financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI") and the fair value of financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("Non-SPPI"):

December 31, 2019	SPPI		Non-SPPI	
Financial Asset	Fair value	Change in fair value	Fair value	Change in fair value
Short-term investments	$ 115,302	$ 4	$ —	$ —
Bonds and debentures	5,479,246	92,679	8,276	461
Preferred Shares	—	—	519,328	(28,401)
Total	$ 5,594,548	$ 92,683	$ 527,604	$ (27,940)

December 31, 2018	SPPI		Non-SPPI	
Financial Asset	Fair value	Change in fair value	Fair value	Change in fair value
Short-term investments	$ 48,683	$ (10)	$ —	$ —
Bonds and debentures	5,547,323	(70,974)	8,236	(219)
Preferred Shares	—	—	517,847	(90,278)
Total	$ 5,596,006	$ (70,984)	$ 526,083	$ (90,497)

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

9. Investments (continued):

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the credit risk ratings of SPPI financial assets:

December 31, 2019	Credit Risk	Carrying Value (Fair Value)	% of Fair Value
Bonds and debentures and short-term investments:			
AAA	Low	$ 2,429,444	43.4
AA	Low	1,077,851	19.3
A	Low	1,584,829	28.3
BBB	Low	496,220	8.9
BB	Other	6,204	0.1
		$ 5,594,548	100.0

December 31, 2018	Credit Risk	Carrying Value (Fair Value)	% of Fair Value
Bonds and debentures and short-term investments:			
AAA	Low	$ 2,293,710	41.0
AA	Low	1,008,112	18.0
A	Low	1,681,387	30.0
BBB	Low	606,683	10.9
BB	Other	6,114	0.1
		$ 5,596,006	100.0

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

10. Income taxes:

The provision for income taxes comprises the following:

	2019	2018
Current tax:		
Current income taxes	$ 149,873	$ 159,324
Current income tax adjustments in respect of prior years	(386)	3,168
	149,487	162,492
Deferred tax:		
Origination and reversal of temporary differences	219	(1,092)
Impact of changes in income tax rates	(1,497)	163
	(1,278)	(929)
Total income tax expense	$ 148,209	$ 161,563

Income taxes recognized in OCI comprise the following:

	2019	2018
Net income tax (recovery) related to AFS financial assets	$ 17,584	$ (47,378)
Income tax charge (recovery) related to re-measurement of employee benefit plan obligations	(1,233)	1,455
Total income tax recovery recognized in OCI	$ 16,351	$ (45,923)

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

10. Income taxes (continued):

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

		2019		2018
Income before income taxes	$	574,471	$	613,114
Combined basic Canadian federal and provincial income tax rate		26.90%		27.00%
Income tax expense based on statutory income tax rate	$	154,533	$	165,541
Increase (decrease) in income tax resulting from:				
Non-taxable income		(4,757)		(7,192)
Effect of (decreases) increases in income tax rates		(1,497)		163
Income tax adjustments in respect of prior years		(70)		3,051
Income tax expense	$	148,209	$	161,563

The difference between the effective income tax rate and statutory tax rate in 2019 is primarily attributable to non-taxable dividend income, changes in non-deductible share-based compensation expense and lower corporate tax rates.

The difference between the effective income tax rate and statutory tax rate in 2018 is primarily attributable to non-taxable dividend income and changes in non-deductible share-based compensation expense, offset by income tax adjustments in respect of prior years.

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

10. Income taxes (continued):

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

		2019		2018
Deferred tax assets:				
Employee benefits	$	18,219	$	15,433
Loss reserves		1,853		1,671
Tax losses available for carry forward		478		1,846
Unearned premiums reserve		—		8,857
Related Party Interest		9,426		—
Long-term Debt		1,202		—
		31,178		27,807
Deferred tax liabilities:				
Investments		(498)		(732)
Policy reserves		(66,550)		(65,777)
Property and equipment and intangible assets		(3,204)		(2,794)
Financing costs		53		(36)
		(70,199)		(69,339)
Net deferred tax liability	$	(39,021)	$	(41,532)

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

		2019		2018
Deferred tax liability, beginning of year	$	41,532	$	41,006
Recovery for the year		(1,278)		(929)
OCI recognized for the year		(1,233)		1,455
Deferred tax liability, end of year	$	39,021	$	41,532

All deferred tax assets have been recognized as at December 31, 2019 and 2018 as the Company has assessed it is probable that future taxable profits will be available against which the deferred tax benefits can be utilized and appropriate tax planning is in place to ensure all tax losses available for carry forward will be utilized.

11. Related party transactions and balances:

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

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

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

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

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

The President and Chief Executive Officer is required to own at least four times his base salary in applicable securities. Other specified senior executives are required to own at least two times their base salary in applicable securities. Share ownership requirements for the executives commence on their appointment date and must be satisfied within five years from the later of their appointment date or the date the plan is amended.

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

11. Related party transactions and balances (continued):

Compensation for the Company's eight key management personnel and six independent directors (2018 - seven key management personnel and six independent directors) is comprised of the following:

	2019	2018
Short-term employee benefits	$ 4,716	$ 4,159
Post-employment benefits	806	893
Share-based compensation	2,987	1,579
Director fees	920	639
Total compensation	$ 9,429	$ 7,270

(b) Interest in consolidated subsidiaries:

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

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

11. Related party transactions and balances (continued):

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

The Insurance Subsidiary and MICICC are regulated insurance companies governed by the provisions of the Insurance Company Act ("the Act"), which is administered by OSFI. The Insurance Subsidiary is also subject to legislation under PRMHIA. As such, these investees are subject to certain requirements and restrictions contained in PRMHIA and the Act. The Insurance Subsidiary and MICICC are required under the Act to meet an MICAT to support their outstanding mortgage insurance policies in force. Accordingly, the payment of dividends and other distributions by such regulated entities to the Company are subject to compliance with the MICAT and other applicable regulatory requirements.

(c) Other related party transactions:

The Company enters into transactions with Genworth Financial and its subsidiaries. Pursuant to the terms of the Transition Services Agreement entered into in 2009 between Genworth Canada and Genworth Financial, certain services will continue to be provided on a temporary, transitional basis after the close of the Brookfield Transaction. The services provided include finance (including investment services and accounting) and related services, human resources, employee benefits and related services; information technology, infrastructure and technical support services; and other specified services. The 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 charges of $6,824 in the year ended December 31, 2019 (2018 - $6,503). The balance owing for the services at December 31, 2019 is nil (2018 - $366 receivable). There have been no significant related party transactions related to the provision of services undertaken with Brookfield subsequent to December 12, 2019.

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

12. Leases:

The Company's lease portfolio includes leased premises, vehicles and office equipment. Information about the leases for which the company is a lessee is presented below.

Right-of-use assets	Leased Premises	Vehicles	Equipment	Total
Balance at January 1, 2019	$ 10,685	$ 809	$ —	$ 11,494
Additions	328	720	111	1,159
Disposals	—	(74)	—	(74)
Depreciation expense	(861)	(355)	(31)	(1,247)
Balance at December 31, 2019	$ 10,152	$ 1,100	$ 80	$ 11,332

Lease Liabilities:

The undiscounted value of lease liabilities are shown by contractual maturity of the lease below.

Terms to maturity	
Less than one year	$ 1,513
One to five years	6,096
More than five years	6,830
	$ 14,439

Lease liabilities included in the statement of financial position at December 31, 2019 are presented below.

Current	1,090
Non-current	10,500
	$ 11,590

12. Leases (continued):

Lease extension options:

Lease contracts related to leased premises contain extension options. The Company includes lease liabilities related to extension options when the Company has assessed that it is reasonably certain that these extension options will be exercised. The Company will reassess the likelihood of exercising the options if there is a significant event or change in circumstances. The table below provides information about the Company's lease extension options.

Lease type	Lease liabilities recognized for lease extensions	Potential future lease liabilities not included in lease liabilities
Leased premises	$ 3,411	$ 2,612

The following amounts have been recognized in the consolidated statement of income in respect of leases.

	2019
Interest on lease liabilities	450
Variable lease payments not included in the measurement of lease liabilities	1,505
Low value and short-term lease expenses	249
Depreciation expense related to right-of-use assets	1,247
Total expense	$ 3,451

13. Employee benefits:

Defined contribution pension benefit plan:

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

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

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

Defined benefit plans:

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

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

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

13. Employee benefits (continued):

Plan membership data used in the valuations includes the number of plan members and the average age, service period and pensionable earnings of plan members. For the SERP, actuarial valuations for the years ended December 31, 2019 and 2018 are based on plan membership data as at the respective period ends. The weighted average duration of the SERP is 21 years. For the NPPRB plan, actuarial valuations for the years ended December 31, 2019 and 2018 are based on plan membership data as at August 1, 2018. The weighted average duration of the NPPRB plan is 24 years.

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

The SERP and NPPRB plans are unregistered and are not subject to specific legislation.

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

13. Employee benefits (continued):

Benefit plan governance:

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

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

	SERP		NPPRB		Total	
	2019	2018	2019	2018	2019	2018
Accrued net benefit liabilities under employee benefit plans	$ 31,930	$ 27,691	$ 22,130	$ 18,815	$ 54,060	$ 46,506

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

	SERP		NPPRB		Total	
	2019	2018	2019	2018	2019	2018
Accrued net benefit liabilities of active plan members	$ 18,485	$ 17,915	$ 15,991	$ 14,188	$ 34,476	$ 32,103
Accrued net benefit liabilities of retirees and deferred vested benefit recipients	13,445	9,776	6,139	4,627	19,584	14,403
Accrued net benefit liabilities under employee benefit plans	$ 31,930	$ 27,691	$ 22,130	$ 18,815	$ 54,060	$ 46,506

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

13. Employee benefits (continued):

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

	SERP		NPPRB		Total	
	2019	2018	2019	2018	2019	2018
Defined benefit expense:						
Benefits earned by employees	$ 897	$ 983	$ 891	$ 1,498	$ 1,788	$ 2,481
Prior service costs	—	157	—	—	—	157
Interest costs on accrued benefit liability	1,067	958	729	819	1,796	1,777
Defined benefit expense for the year	1,964	2,098	1,620	2,317	3,584	4,415
Defined contribution expense for the year	2,291	2,401	—	—	2,291	2,401
Total pension and non-pension post-retirement benefit expense for the year	$ 4,255	$ 4,499	$ 1,620	$ 2,317	$ 5,875	$ 6,816

The actuarial losses recognized in the consolidated statements of comprehensive income relating to the SERP are $2,874 for the year ended December 31, 2019 (2018 - actuarial gains of $27). The actuarial losses recognized in the consolidated statements of comprehensive income relating to the NPPRB plan are $1,824 (2018 - actuarial gains of $5,663).

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

13. Employee benefits (continued):

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

	SERP		NPPRB		Total	
	2019	2018	2019	2018	2019	2018
Accrued net benefit liabilities under employee benefit plans, beginning of year	$ 27,691	$ 26,128	$ 18,815	$ 22,265	$ 46,506	$ 48,393
Benefits earned by employees during the year	897	983	891	1,498	1,788	2,481
Prior service costs	—	157	—	—	—	157
Interest costs on accrued liability incurred during the year	1,067	958	729	819	1,796	1,777
Benefits paid to pensioners during the year	(599)	(508)	(129)	(104)	(728)	(612)
Actuarial losses (gains)from plan re-measurement	2,874	(27)	1,824	(5,663)	4,698	(5,690)
Accrued net benefit liabilities under employee benefit plans	$ 31,930	$ 27,691	$ 22,130	$ 18,815	$ 54,060	$ 46,506

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

	SERP		NPPRB		Total	
	2019	2018	2019	2018	2019	2018
Actuarial losses (gains):						
Experience losses (gains)	$ (1,604)	$ 1,074	$ (1,103)	$ (4,123)	$ (2,707)	$ (3,049)
Changes in assumptions:						
Financial assumptions	4,478	(1,101)	2,927	343	7,405	(758)
Demographic assumptions	—	—	—	(1,883)	—	(1,883)
Total changes in assumptions	4,478	(1,101)	2,927	(1,540)	7,405	(2,641)
	$ 2,874	$ (27)	$ 1,824	$ (5,663)	$ 4,698	$ (5,690)

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

13. Employee benefits (continued):

Defined benefit plan assumptions:

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

	SERP		NPPRB	
	2019	2018	2019	2018
Discount rate	3.20%	3.90%	3.20%	3.90%
Change in rate of compensation increase	3.00%	3.00%	3.00%	3.00%
Mortality	75% of male rates and 92% of female rates from the CPM 2014 Private Sector Table with generational mortality improvements using the Scale MI-2017 scale	75% of male rates and 92% of female rates from the CIA Private Sector Table with generational mortality improvements using the Scale MI-2017 scale	CPM2014 Private Sector Table with generational mortality improvements scale MI2017	CPM2014 Private Sector Table with generational mortality improvements scale MI2017
Assumed overall health care cost trend rate(1)	n/a	n/a	5.61%	5.63%

(1) Grading down to 4.0% per year in and after 2040.

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

13. Employee benefits (continued):

The following sensitivity analyses demonstrate the impact of a reasonable possible change in each significant valuation assumption as at December 31, 2019 and 2018 on the benefit obligations.

2019		SERP		NPPRB
Increase (decrease) in benefit obligations:				
Discount rate:				
Impact of 1% increase	$	(5,498)	$	(4,086)
Impact of 1% decrease	$	7,191	$	5,165
Change in rate of compensation increase:				
Impact of 1% increase	$	2,016		n/a
Impact of 1% decrease	$	(1,811)		n/a
Mortality rate:				
Impact of 1 additional year of life expectancy	$	678	$	271
Impact of 1 less year of life expectancy	$	(696)	$	(255)
Assumed overall health care cost trend rate:				
Impact of 1% increase		n/a	$	787
Impact of 1% decrease		n/a	$	(930)

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

13. Employee benefits (continued):

2018		SERP		NPPRB
Increase (decrease) in benefit obligations:				
Discount rate:				
Impact of 1% increase	$	(4,774)	$	(3,605)
Impact of 1% decrease	$	6,241	$	4,569
Change in rate of compensation increase:				
Impact of 1% increase	$	1,941		n/a
Impact of 1% decrease	$	(1,735)		n/a
Mortality rate:				
Impact of 1 additional year of life expectancy	$	546	$	231
Impact of 1 less year of life expectancy	$	(563)	$	(217)
Assumed overall health care cost trend rate:				
Impact of 1% increase		n/a	$	691
Impact of 1% decrease		n/a	$	(863)

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

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

13. Employee benefits (continued):

Benefit plan cash flows:

The SERP and NPPRB plans are unfunded. The Company pays these benefits as they become due.

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

	SERP		NPPRB	
	2019	2018	2019	2018
Benefits paid for defined benefit plans	$ 599	$ 508	$ 129	$ 104
Contribution to defined contribution plan	2,291	2,401	—	—
	$ 2,890	$ 2,909	$ 129	$ 104

The Company expects to contribute the following amounts to its employee benefit plans during the annual period beginning after December 31, 2019:

Defined contribution plan	$ 2,293
SERP	691
NPPRB	289
Total	$ 3,273

14. Share-based compensation:

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

Options are granted to employees with an exercise price equal to the Company's closing share price at the date of grant. Options vest over a period of three years (50% on each of the second and third anniversaries of the grant date or equally over three years). The Options generally expire at the earlier of 10 years and employee's termination from the date of grant and provide employees with the choice of settlement in either cash or shares of the Company. The range of exercise prices for the year ended December 31, 2019 is $22.61 to 44.84 (2018 - $19.00 to $41.49).

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

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

The Company's Board of Directors, at its sole discretion, may grant EDSUs to the Company's executive-level employees. EDSUs entitle employees to receive an amount equal to the fair value of the Company's shares. The Board of Directors determines the vesting and performance conditions, as well as the number of EDSUs to be granted. EDSUs may be redeemed only upon termination of employment.

DSUs entitle eligible members of the Company's Board of Directors to receive an amount equal to the fair value of the Company's shares. The number of DSUs granted is based on the portion of the Board member's annual retainer earned in the period. DSUs vest immediately on the date of grant and must be redeemed no later than December 15 of the calendar year, commencing immediately after the Director's termination date.

14. Share-based compensation (continued):

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

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

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

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

14. Share-based compensation (continued):

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

As at December 31, 2019, the Company has 1,063,801 common shares remaining that are available for distribution (2018 - 1,160,167).

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

2019	Number of Options	Weighted average exercise price	Fair value of Options	Number of RSUs	Fair value of RSUs	Number of DSUs	Fair value of DSUs	Number of PSUs	Fair value of PSUs	Number of EDSUs	Fair value of EDSUs
Outstanding as at January 1	648,001	$ 28.62	$ 6,832	136,539	$ 5,489	80,157	$ 3,223	93,988	$ 3,779	26,733	$ 1,075
Granted	78,200	44.84	—	45,912	2,076	6,418	300	45,193	1,667	—	—
Dividend equivalents granted	—	—	—	15,931	642	10,780	321	11,208	442	3,444	110
Exercised	(288,667)	25.81	(8,172)	(47,759)	(1,147)	—	—	(51,868)	(1,217)	—	—
Forfeited	—	—	—	(13,673)	(464)	—	—	(3,976)	(132)	—	—
Changes in fair value	—	—	10,600	—	1,186	—	1,687	—	833	—	530
Outstanding as at December 31	437,534	33.37	$ 9,260	136,950	$ 7,782	97,355	$ 5,532	94,545	$ 5,372	30,177	$ 1,715
Exercisable as at December 31	437,534	$ 29.39	$ 7,401	—	$ —	97,355	$ 5,532	—	$ —	—	$ —
Weighted average remaining contractual life (years)	5.3	—	—	1.8	—	—	—	1.8	—	1.1	—

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

14. Share-based compensation (continued):

2018	Number of Options	Weighted average exercise price	Fair value of Options	Number of RSUs	Fair value of RSUs	Number of DSUs	Fair value of DSUs	Number of PSUs	Fair value of PSUs	Number of EDSUs	Fair value of EDSUs
Outstanding as at January 1	824,763	$ 25.99	$ 12,618	127,748	$ 5,557	74,474	$ 3,240	91,147	$ 3,965	47,511	$ 2,067
Granted	57,400	41.49	—	44,383	1,841	7,259	292	35,891	1,433	1,697	70
Dividend equivalents granted	—	—	—	6,326	207	3,597	103	4,680	151	2,301	69
Exercised	(230,062)	22.19	(3,885)	(34,377)	(1,433)	(4,072)	(156)	(30,759)	(1,203)	(23,937)	(992)
Forfeited	(4,100)	41.49	(68)	(7,541)	(233)	(1,101)	(32)	(6,971)	(234)	(839)	(35)
Changes in fair value	—	—	(1,833)	—	(450)	—	(224)	—	(333)	—	(104)
Outstanding as at December 31	648,001	28.62	$ 6,832	136,539	$ 5,489	80,157	$ 3,223	93,988	$ 3,779	26,733	$ 1,075
Exercisable as at December 31	519,997	$ 27.11	$ 5,957	—	$ —	80,157	$ 3,223	—	$ —	—	$ —
Weighted average remaining contractual life (years)	4.7	—	—	1.7	—	—	—	1.7	—	1.3	—

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

14. Share-based compensation (continued):

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

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

	2019	2018
Share price at reporting date	$ 56.82	$ 40.20
Weighted average exercise price per share	$ 33.37	$ 28.62
Expected volatility	23.76%	24.07%
Expected option life (years)	9.8	9.0
Expected dividend yield	3.80%	5.08%
Weighted average risk-free interest rate	1.70%	1.87%

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

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

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

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

14. Share-based compensation (continued):

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

		2019		2018
Expenses arising from:				
Options	$	9,453	$	(845)
RSUs		3,238		1,594
PSUs		2,675		1,420
EDSUs		700		46
DSUs		2,309		191
	$	18,375	$	2,406
Effect of equity total return swaps	$	(12,627)	$	1,314
Net share-based compensation expense	$	5,748	$	3,720

		2019		2018
Total carrying amount of liabilities for cash-settled arrangements	$	23,979	$	17,394
Total intrinsic value of liability for vested benefits	$	19,188	$	10,658

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

15. Intangible Assets:

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

Cost		
Balance at January 1, 2018	$	48,516
Acquisitions - externally purchased		2,360
Balance at December 31, 2018		50,876
Acquisitions - externally purchased		3,600
Balance at December 31, 2019	$	54,476

Amortization		
Balance at January 1, 2018	$	40,164
Amortization for the year		2,677
Balance at December 31, 2018		42,841
Amortization for the year		3,041
Balance at December 31, 2019	$	45,882

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

Carrying amounts		
At December 31, 2018	$	8,035
At December 31, 2019	$	8,594

16. Transactions with lenders:

Gross premiums written from four major lenders (defined as lenders that individually account for more than 10% of the Company's gross premiums written) was $303,994, representing 43% of the Company's total gross premiums written for the year ended December 31, 2019 (2018 - gross premiums written from two major lenders that individually accounted for more than 10% of the Company's gross premiums written was $136,660 or 21%).

17. Goodwill:

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

Goodwill impairment test:

Goodwill is considered impaired to the extent that its carrying amount exceeds its recoverable amount. The recoverable amount of the Company's single CGU, which is its mortgage insurance business, was determined based on its value in use. Value in use was calculated by discounting the future cash flows generated from continuing use of the CGU.

The calculation of value in use incorporated five years of cash flow estimates. The Company's multi-year plan was used as a proxy for five years of future cash flow estimates. The multi-year plan represents the Company's best estimate of future income and cash flows and is approved by the Company's Board of Directors. The plan incorporates assumptions regarding premium growth rate, loss development and relevant industry and economic assumptions. Terminal value incorporated into the value in use calculations was estimated by applying a growth rate of 1.7% (2018 - 1.6%) to the last year of the multi-year plan cash flow estimate. The growth rates at December 31, 2019 and 2018 reflect the Canadian five year historical average core inflation rate, which does not exceed the long-term average growth rate for the industry. A pre-tax discount rate of 16.18% (2018 - 15.35%) was applied in determining the recoverable amount of the unit. The discount rates as at December 31, 2019 and 2018 were based on the Company's weighted average cost of capital, adjusted for liquidity and a risk premium.

Based on the value in use calculation, the recoverable amount of the unit was determined to be higher than its carrying amount. No goodwill impairment charge has been recognized in the year ended December 31, 2019 (2018 - nil).

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

18. Share capital:

The share capital of the Company comprises the following:

		2019		2018
Authorized:				
Unlimited common shares with nominal or no par value[1]		-		-
Issued:				
86,228,879 common shares (2018 - 87,591,163)	$	1,305,913	$	1,315,438
Share capital	$	1,305,913	$	1,315,438

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

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

	2019	2018
Common shares, January 1	87,591,163	90,942,040
Common shares issued in connection with share-based compensation plans	288,667	230,062
Common shares retired under share repurchase	(1,650,951)	(3,580,939)
Common shares, December 31	86,228,879	87,591,163

At December 31, 2019, Brookfield owned 48,944,645 common shares of the Company or approximately 56.8% (At December 31, 2018, subsidiaries of Genworth Financial Inc. owned 49,884,740 common shares of the Company or approximately 57.0%).

Share repurchases:

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

18. Share capital (continued):

earnings. Expenses incurred in connection with the share purchases are recorded in retained earnings.

On April 30, 2019, the Company received approval from the TSX for the Company to undertake a new normal course issuer bid ("2019 NCIB"). Pursuant to the 2019 NCIB, the Company can purchase, for cancellation, up to 4,379,933 shares, representing approximately 5% of its outstanding common shares as of April 26, 2019. Purchases of common shares under the 2019 NCIB were permitted to commence on May 7, 2019 and may conclude on the earlier of May 6, 2020 and the date on which the Company has purchased the maximum the maximum number of shares under the 2019 NCIB. During the year ended December 31, 2019 under the terms of the 2019 NCIB, the Company repurchased 1,650,951 shares for cancellation, for aggregate purchase price of $68,436.

On May 1, 2018 the Company received approval from the TSX for the Company to undertake a normal course issuer bid ("2018 NCIB"). Pursuant to the 2018 NCIB the Company could purchase, for cancellation, up to 4,489,616 shares representing approximately 5% of its outstanding common shares at the time. The 2018 NCIB expired on May 6, 2019. During the year ended December 31, 2018, under the terms of the 2018 NCIB, the Company repurchased 2,352,526 of its own common shares for cancellation on the open market, for an aggregate purchase price of $100,011.

On May 2, 2017 the Company received approval from the TSX for the Company to undertake a normal course issuer bid ("2017 NCIB"). Pursuant to the 2017 NCIB the Company could purchase, for cancellation, up to 4,597,385 shares representing approximately 5% of its outstanding common shares at the time. The 2017 NCIB expired on May 4, 2018. During the year ended December 31, 2018, under the terms of the 2017 NCIB, the Company repurchased 1,228,413 of its own common shares for cancellation on the open market, for an aggregate purchase price of $50,005.

Genworth Financial, Inc., the Company's majority shareholder at the time of the 2017, 2018 and the 2019 NCIB, through its subsidiaries, participated proportionately in the NCIB Transactions.

Prior to the completion of the December 12, 2019 sale of Genworth Financial’s ownership interest in the Company to Brookfield, the Company terminated the automatic share purchase plan (the "ASPP") and related automatic share disposition plan (the "ASDP") entered into in connection with the Company's current normal course issuer bid (the "2019 NCIB"). The ASPP and ASDP agreements facilitated the implementation of the 2019 NCIB, including purchases of common shares under the 2019 NCIB from Genworth Financial.

19. Long-term debt:

During the year ended December 31, 2019 the Company obtained consent to amend its third series debt supplement dated April 1, 2014 (the "Supplemental Indenture") to the trust indenture dated June 29, 2010 between the Company and BNY Trust Company of Canada, as trustee. The Supplemental Indenture was amended on May 13, 2019 (the “Amendment”) to increase the aggregate principal amount of the 4.242% debentures due April 1, 2024 (the “Series 3 Debentures”) that may be issued under the Supplemental Indenture from $160,000 to $300,000, thereby providing the Company with the right, but not the obligation, to offer for issuance up to an additional $140,000 principal amount of Series 3 Debentures, which additional Series 3 Debentures, if and when issued, would form part of the same series as the existing Series 3 Debentures. The Amendment required the consent of the holders of not less than a majority of the principal amount of the then outstanding Series 3 Debentures. The Amendment did not result in any change to the interest rate, payment schedule, maturity date or any other term of the existing Series 3 Debentures.

Subsequent to the receipt of consent to amend the Supplemental Indenture and the execution of the Amendment, on May 22, 2019, the Company completed an offering of $100,000 principal amount of Series 3 Debentures (the “Debenture Offering”), increasing the aggregate principal amount of Series 3 Debentures outstanding to $260,000. The Series 3 Debentures were issued under the Debenture Offering at a premium of $3,377, plus accrued and unpaid interest up to the date of issuance, and the Company incurred approximately $1,355 of expenses in connection with the Debenture Offering.

On June 26, 2019, the Company used the proceeds from the Debenture Offering to redeem a principal amount of $100,000 of its existing 5.68% Series 1 senior unsecured debentures due June 15, 2020 (the “Series 1 Debentures”). Pursuant to the terms of the trust indenture, the redemption price for the Series 1 Debentures redeemed was $103,263 plus accrued and unpaid interest up to the redemption date. The early redemption fee equal to the difference between the redemption price and the principal amount of the Series 1 Debentures of $3,263 has been recognized as an expense.

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

19. Long-term debt (continued):

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

	Series 1	Series 3
Date issued	June 29, 2010	April 1, 2014
Date of supplemental issue	—	May 22, 2019
Maturity date	June 15, 2020	April 1, 2024
Principal amount	$175,000	$260,000
Fixed annual rate	5.68%	4.242%
Semi-annual interest payment due each period on:	June 15	October 1
	December 15	April 1

The Company's long-term debt is a financial liability that is carried at amortized cost on the Company's consolidated statement of financial position. Long-term debt is classified as Level 2 in the fair value hierarchy.

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

December 31, 2019		Series 1		Series 3		Total
Carrying value	$	174,900	$	261,130	$	436,030
Fair value		177,615		273,250		450,865

December 31, 2018		Series 1		Series 3		Total
Carrying value	$	274,518	$	159,211	$	433,729
Fair value		284,471		161,064		445,535

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

19. Long-term debt (continued):

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Long Term Debt	Interest Payable
Balance at January 1, 2019	$ 433,729	$ 2,490
Net proceeds from Series 3 supplemental issue	102,022	—
Partial redemption of Series 1 debenture inclusive of the fee incurred on early redemption	(103,263)	—
Payment of the fee incurred on early redemption of the Series 1 debenture	3,263	—
Amortization of discount (premium) and capitalized borrowing costs	279	—
Interest expense on long-term debt	—	21,453
Interest paid	—	(21,267)
	2,301	186
Balance at December 31, 2019	$ 436,030	$ 2,676

20. Credit Facility:

The Company has in place a $300 million senior unsecured revolving syndicated credit facility, that matures on September 29, 2023. Any borrowings under the syndicated credit facility bears interest at a rate per annum equal to either a fixed rate based on a spread over Banker's Acceptance or a variable rate based on a spread over the Lender Prime Rate. The credit facility includes an accordion feature that permits the Company to request that individual commitments with respect to the credit facility be increased by an aggregate amount of up to $100 million. The Company also pays a standby fee based on the unused amount of the commitment which is recorded in interest expense in the consolidated statements of income. The syndicated credit facility includes customary representations, warranties, covenants, terms and conditions for transactions of this type.

As at December 31, 2019, there was no amount outstanding under the syndicated credit facility and all of the covenants were met (December 31, 2018 - nil).

Subsequent to December 31, 2019, this credit facility was terminated and replaced with an unsecured syndicated credit facility for an aggregate amount of up to $700 million, as described in note 24.

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

21. Earnings per share:

Basic earnings per share have been calculated using the weighted average number of shares outstanding of 86,682,766 (2018 - 89,656,310). Diluted earnings per share have been calculated using the diluted weighted average number of shares outstanding of 86,697,013 (2018 -90,183,338).

The following units were excluded from the diluted weighted average number of shares since their effect would have been anti-dilutive due to the cash settlement option:

	2019	2018
Options	437,534	53,300
RSUs	87,263	—
DSUs	94,445	—
PSUs	94,544	—
Total	713,786	53,300

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

21. Earnings per share (continued):

Earnings per share are presented below:

	2019	2018
Basic earnings per share:		
Net income	$ 426,262	$ 451,551
Diluted earnings per share:		
Re-measurement amount net of income taxes	(19)	(1,434)
Earnings for purposes of diluted earnings per share	$ 426,243	$ 450,117
Basic weighted average common shares outstanding, beginning of year	87,591,163	90,942,040
Effect of share-based compensation exercised during the year	77,759	132,102
Effect of repurchase of common shares during the year	(986,156)	(1,417,832)
Weighted average basic common shares outstanding during the year	86,682,766	89,656,310
Basic earnings per share	$ 4.92	$ 5.04
Diluted earnings per share:		
Basic weighted average common shares outstanding during the year	86,682,766	89,656,310
Effect of share-based compensation during the year	14,247	527,028
Diluted weighted average common shares outstanding during the year	86,697,013	90,183,338
Diluted earnings per share	$ 4.92	$ 4.99

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

22. Non-current assets and liabilities:

The following table presents assets and liabilities the Company expects to recover or settle after 12 months at December 31, 2019 and 2018.

	2019	2018
Assets:		
Derivative financial instruments	$ 59,922	$ 110,049
Bonds and debentures	4,980,849	5,128,162
Preferred shares	498,356	507,767
Subrogation recoverable	10,263	9,766
Total assets	5,549,390	5,755,744
Liabilities:		
Loss reserves	21,190	18,842
Derivative financial instruments	36,182	62,502
Accrued net benefit liabilities under employee benefit plans	53,080	45,590
Long-term debt	261,130	433,729
Total liabilities	371,582	560,663
Net liabilities due after one year	$ 5,177,808	$ 5,195,081

23. Fair value measurement:

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

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

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

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

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

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

23. Fair value measurement (continued):

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

	Carrying amount				Fair value		
2019	AFS	FVTPL	Loans and receivables	Other financial liabilities	Level 1	Level 2	Level 3
Financial assets measured at fair value:							
Short-term investments	$ 115,302	$ —	$ —	$ —	$ 85,595	$ 29,707	$ —
Derivative financial instruments	—	69,450	—	—	—	69,450	—
Bonds and debentures	5,487,522	—	—	—	—	5,487,522	—
Preferred shares	519,328	—	—	—	519,328	—	—
	6,122,152	69,450	—	—	604,923	5,586,679	—
Financial assets not measured at fair value:							
Cash and cash equivalents[(1)]	—	—	289,823	—	—	—	—
Accrued investment income and other receivables	—	—	37,675	—	—	—	—
	—	—	327,498	—	—	—	—
Financial liabilities measured at fair value:							
Derivative financial instruments[(1)]	—	(40,011)	—	—	—	(40,011)	—
Financial liabilities not measured at fair value:							
Accounts payable and accrued liabilities	—	—	—	(51,535)	—	—	—
Long-term debt	—	—	—	(436,030)	—	(450,865)	
	—	—	—	(487,565)	—	(450,865)	—
Total	$ 6,122,152	$ 29,439	$ 327,498	$ (487,565)	$ 604,923	$ 5,095,803	$ —

(1) Excludes $2,770 cash pledged as collateral by counterparties for derivative contracts

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

23. Fair value measurement (continued):

	Carrying amount				Fair value		
2018	AFS	FVTPL	Loans and receivables	Other financial liabilities	Level 1	Level 2	Level 3
Financial assets measured at fair value:							
Short-term investments	$ 48,683	$ —	$ —	$ —	$ 1,397	$ 47,286	$ —
Derivative financial instruments	—	110,049	—	—	—	110,049	—
Bonds and debentures	5,555,559	—		—	—	5,555,559	—
Preferred shares	517,847	—	—	—	517,847	—	—
	6,122,089	110,049	—	—	519,244	5,712,894	—
Financial assets not measured at fair value:							
Cash and cash equivalents[1]	—	—	266,846	—	—	—	—
Accrued investment income and other receivables	—	—	41,183	—	—	—	—
	—	—	308,029	—	—	—	—
Financial liabilities measured at fair value:							
Derivative financial instruments	—	(81,567)	—	—	—	(81,567)	—
Financial liabilities not measured at fair value:							
Accounts payable and accrued liabilities	—	—	—	(54,903)	—	—	—
Long-term debt	—	—	—	(433,729)	—	(445,535)	—
	—	—	—	(488,632)	—	(445,535)	—
Total	$ 6,122,089	$ 28,482	$ 308,029	$ (488,632)	$ 519,244	$ 5,185,792	$ —

[1] Excludes $10,680 cash pledged as collateral by counterparties for derivative contracts

23. Fair value measurement (continued):

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

During the years ended December 31, 2019 and 2018, the Company did not hold any investments measured at fair value using unobservable inputs (Level 3). Transfers between levels of the fair value hierarchy may occur if the inputs used to value the assets or liabilities change. Given the types of assets classified in Level 1, which are short-term investments and preferred shares, the Company does not typically have any transfers between Level 1 and Level 2 of the fair value hierarchy, and there were no such transfers during the years ended December 31, 2019 and 2018.

Valuation of Level 2 financial instruments:

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

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

Derivative financial instruments are non-exchange traded foreign currency forwards, cross currency interest rate swaps, equity total return swaps, interest rate swaps and interest rate floors. The value of these derivative financial instruments is determined using an income approach in which future cash flows expected from the contracts are discounted to reflect the current value of the derivative financial instruments. The following table describes the primary inputs used in valuing the Company's derivative financial instruments:

Derivative Financial Instrument	Primary Inputs
Foreign currency forwards and cross currency interest rate swaps	Interest rate yield curves and foreign currency exchange rates
Equity total return swaps	Market prices for referenced assets and interest rate yield curves
Interest rate swaps	Interest rate yield curves
Interest rate floors	Interest rate yield curves and implied volatility

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

23. Fair value measurement (continued):

The Company's long-term debt is a financial liability that is not carried at fair value on the Company's consolidated statements of financial position, for which fair value is disclosed in the notes to the consolidated financial statements (note 19). Fair values are obtained from independent pricing sources utilizing market observable information. The primary inputs used in the valuation of the long-term debt are interest rate curves and credit spreads.

24. Subsequent Events:

Common Stock Dividend:

On January 15, 2020, the Board of Directors of the Company declared a special dividend of $2.32 per common share, for an aggregate amount of approximately $200 million. This special dividend is to be paid on February 11, 2020, to shareholders of record at the close of business on January 28, 2020.

Credit Facility:

On January 16, 2020, the Company put in place an unsecured syndicated credit facility for an aggregate amount of up to $700 million (the "credit facilities") which is comprised of:

	Revolving Facility	Term Facility	Bridge Facility
Amount	Up to $300 million	Up to $200 million	Up to $200 million
Maturity Date	January 16, 2025	January 16, 2025	January 16, 2021
Tenure	5 years	5 years	12 months
Draw Period	5 years	First 4 months after closing	First 4 months after closing

The revolving facility includes an accordion feature that permits the Company to request that individual commitments with respect to the credit facility be increased by an aggregate amount of up to $100 million.

24. Subsequent Events (continued):

Any borrowings under the applicable facility will accrue interest on the outstanding principal amount from time to time of each:

i. prime rate loan at a rate per annum equal to a prime rate plus an applicable margin,

ii. U.S. base rate loan at the rate per annum equal to a U.S. base rate plus an applicable margin, and;

iii. LIBOR loan at the rate per annum equal to a LIBOR rate plus an applicable margin.

The Company also pays a standby fee based on the committed principal amount of the credit facilities, which is recorded in interest expense in the consolidated statement of income. The syndicated credit facility includes customary representations, warranties, covenants, terms and conditions for transactions of this type.

These syndicated credit facilities replaced an existing $300 million unsecured revolving credit facility that was terminated on January 16, 2020.

25. Comparatives:

Certain comparative figures have been reclassified to conform to financial statement presentation adopted in the current year.