Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

GENWORTH MI CANADA INC.

Six months ended June 30, 2020 and 2019
(Unaudited)

GENWORTH MI CANADA INC.

Condensed Consolidated Interim Statements of Financial Position
(In thousands of Canadian dollars)
(Unaudited)

	Notes	June 30, 2020	December 31, 2019
Assets			
Cash and cash equivalents[(1)]	5	$ 418,948	$ 292,593
Short-term investments	5	82,914	115,302
Accrued investment income and other receivables		37,175	37,675
Derivative financial instruments	5	112,716	69,450
Bonds and debentures and other	5	5,527,241	5,487,522
Preferred shares	5	454,004	519,328
Total invested assets, accrued investment income and other receivables		6,632,998	6,521,870
Income taxes recoverable		36	148
Subrogation recoverable	4(c)	46,840	56,173
Prepaid assets		4,017	3,897
Deferred tax asset		12,492	13,458
Property and equipment		1,233	805
Right-of-use assets		11,099	11,332
Intangible assets		9,078	8,594
Deferred policy acquisition costs	4(d)	204,422	205,898
Goodwill		11,172	11,172
Total assets		$ 6,933,387	$ 6,833,347
Liabilities and Shareholders' Equity			
Liabilities:			
Accounts payable and accrued liabilities		$ 43,298	$ 51,535
Income taxes payable		50,975	41,265
Loss reserves	4(b)	168,072	141,196
Share-based compensation liabilities	7	10,027	23,979
Derivative financial instruments[(1)]	5	163,926	42,781
Lease liabilities		11,475	11,590
Debt outstanding	9	634,178	436,030
Unearned premiums reserve	4(a)	2,108,938	2,110,849
Accrued net benefit liabilities under employee benefit plans		55,489	54,060
Deferred tax liability		55,550	52,479
Total liabilities		3,301,928	2,965,764
Shareholders' equity:			
Share capital	10	1,309,557	1,305,913
Retained earnings		2,249,793	2,551,001
Accumulated other comprehensive income		72,109	10,669
Total shareholders' equity		3,631,459	3,867,583
Total liabilities and shareholders' equity		$ 6,933,387	$ 6,833,347

[(1)] Cash includes $19,580 (December 31, 2019 - $2,770) 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 condensed consolidated interim financial statements.

On behalf of the Board:

(signed) "Stuart Levings" Director

(signed) "Neil Parkinson" Director

GENWORTH MI CANADA INC.

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

	Notes	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Premiums written	4(a)	$ 227,011	$ 194,772	$ 341,050	$ 300,102
Premiums earned	4(a)	$ 172,087	$ 168,700	$ 342,961	$ 337,244
Losses on claims	4(b)	46,158	25,595	70,774	51,031
Expenses:					
Premium taxes and underwriting fees		16,043	14,309	24,924	22,920
Employee compensation		10,677	11,333	25,628	23,832
Office, computer and software		5,993	5,733	11,822	11,902
Professional fees		1,157	1,326	2,813	2,563
Promotional and travel		436	1,004	1,452	2,250
Regulatory fees and assessments		597	564	1,147	1,108
Total expenses		34,903	34,269	67,786	64,575
Net change in deferred policy acquisition costs	4(d)	(3,003)	(423)	1,476	2,715
		31,900	33,846	69,262	67,290
Net underwriting income		94,029	109,259	202,925	218,923
Investment income:					
Interest		37,740	43,056	79,458	85,622
Dividends		6,985	6,826	14,099	13,324
Net realized gains on sale of investments		2,199	12,223	6,934	12,808
Net losses on derivatives and foreign exchange		(2,512)	(15,452)	(29,442)	(37,055)
Total investment income		44,412	46,653	71,049	74,699
General investment expenses		(1,671)	(758)	(3,454)	(1,619)
		42,741	45,895	67,595	73,080
Interest expense		5,826	5,911	13,492	11,907
Fee on early redemption of long-term debt	9	—	3,263	1,776	3,263
Income before income taxes		130,944	145,980	255,252	276,833
Income taxes:					
Current		33,330	40,190	58,983	66,435
Deferred		(55)	(4,226)	4,037	3,296
		33,275	35,964	63,020	69,731
Net income for the period attributable to owners of the Company		$ 97,669	$ 110,016	$ 192,232	$ 207,102
Earnings per share:	8				
Basic		$ 1.13	$ 1.26	$ 2.23	$ 2.37
Diluted		$ 1.13	$ 1.26	$ 2.14	$ 2.37

See accompanying notes to the condensed consolidated interim financial statements.

GENWORTH MI CANADA INC.

Condensed Consolidated Interim Statements of Comprehensive Income
(In thousands of Canadian dollars)
(Unaudited)

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Net income	$ 97,669	$ 110,016	$ 192,232	$ 207,102
Other comprehensive income:				
Items that may be reclassified subsequently to income:				
Net change in fair value of Available-for-Sale ("AFS") financial assets (a)	155,933	11,647	63,588	81,453
Gains on AFS financial assets realized and reclassified to income (b)	(1,437)	(2,596)	(2,148)	(1,703)
Total other comprehensive income for the period attributable to owners of the Company (c)	154,496	9,051	61,440	79,750
Total comprehensive income attributable to owners of the Company	$ 252,165	$ 119,067	$ 253,672	$ 286,852

(a) Net of income tax of $56,324 for the three months ended June 30, 2020 (June 30, 2019 - $4,179) and net of income tax of $22,957 for the six months then ended (June 30, 2019 - $30,009).

(b) Net of income tax of $518 for the three months ended June 30, 2020 (June 30, 2019 - $958) and net of income tax of $777 for the six months then ended (June 30, 2019 - $629).

(c) Net of income tax of $55,806 for the three months ended June 30, 2020 (June 30, 2019 - $3,221) and net of income tax of $22,180 for the six months then ended (June 30, 2019 - $29,380).

See accompanying notes to the condensed consolidated interim financial statements.

GENWORTH MI CANADA INC.

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

	Share capital	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance at January 1, 2020	$ 1,305,913	$ 2,551,001	$ 10,669	$ 3,867,583
Comprehensive income:				
Net income	—	192,232	—	192,232
Other comprehensive income	—	—	61,440	61,440
Total comprehensive income	—	192,232	61,440	253,672
Total transactions recognized directly in equity:				
Dividends on common shares(1)	—	(493,440)	—	(493,440)
Issuance of common shares	3,644	—	—	3,644
Total transactions recognized directly in equity	3,644	(493,440)	—	(489,796)
Balance at June 30, 2020	$ 1,309,557	$ 2,249,793	$ 72,109	$ 3,631,459

	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	—	$ 207,102	—	207,102
Other comprehensive income	—	—	79,750	79,750
Total comprehensive income	—	207,102	79,750	286,852
Total transactions recognized directly in equity:				
Dividends on common shares(1)	—	(123,732)	—	(123,732)
Issuance of common shares	599	—	—	599
Repurchase of common shares (note 10)	(24,369)	(44,067)	—	(68,436)
Total transactions recognized directly in equity	(23,770)	(167,799)	—	(191,569)
Balance at June 30, 2019	$ 1,291,668	$ 2,750,592	$ 43,261	$ 4,085,521

(1)The Company paid ordinary dividends of $0.54 per common share in the first and second quarters of 2020 and two special dividends of $2.32 per common share in the first quarter of 2020. (The Company paid ordinary dividends of $0.51 per common share in the first and second quarter of 2019 and a special dividend of $0.40 per common share in the second quarter of 2019).

See accompanying notes to the condensed consolidated interim financial statements.

GENWORTH MI CANADA INC.

Condensed Consolidated Interim Statements of Cash Flows
(In thousands of Canadian dollars)
(Unaudited)

	Six months ended June 30, 2020	Six months ended June 30, 2019
Cash provided by (used in):		
Operating activities:		
Net income	**$ 192,232**	**$ 207,102**
Adjustments for non-cash items in net income:		
Amortization of intangible assets and depreciation of property and equipment	2,516	2,287
Expensing of deferred policy acquisition costs	33,679	33,645
Income taxes	63,020	69,731
Interest income	(79,458)	(85,622)
Dividend income	(14,099)	(13,324)
Net realized gains on sale of investments	(6,934)	(12,808)
Net losses on derivatives and foreign exchange	29,442	37,055
Interest expense	13,492	11,907
Fee on early redemption of long-term debt	1,776	3,263
Net share-based compensation expense	3,663	2,222
	239,329	255,458
Change in non-cash balances related to operations:		
Accrued investment income and other receivables	(5,302)	(1,922)
Prepaid assets	(120)	703
Subrogation recoverable	9,333	5,105
Deferred policy acquisition costs	(32,203)	(30,930)
Accounts payable and accrued liabilities	(12,233)	(10,906)
Loss reserves	26,876	5,429
Unearned premiums reserve	(1,911)	(37,142)
Accrued net benefit liability under employee benefit plans	1,429	1,503
	225,198	187,298
Cash generated from (used in) operating activities:		
Interest received from bonds and debentures	85,153	90,530
Dividends received from preferred shares	14,271	12,983
Interest paid on debt outstanding	(9,509)	(11,200)
Income taxes paid	(71,223)	(46,241)
Share-based compensation awards settled in cash	(5,170)	(4,398)
Net cash generated from operating activities	**238,720**	**228,972**
Financing activities:		
Net proceeds from long-term debt issuance	298,108	102,022
Redemption of long-term debt including fee on early redemption	(176,776)	(103,263)
Net proceeds from term loan	71,098	—
Dividends paid	(493,440)	(123,732)
Repurchase of common shares	—	(68,436)
Proceeds from exercise of stock options	1,667	264
Payment of lease liabilities	(553)	(457)
Net cash used in financing activities	**(299,896)**	**(193,602)**
Investing activities:		
Purchase of short-term investments	(120,715)	(146,378)
Proceeds from sale or maturities of short-term investments	153,453	88,821
Purchase of bonds	(690,611)	(816,014)
Proceeds from sale or maturities of bonds	872,851	856,961
Purchase of preferred shares	(18,649)	(22,084)
Proceeds from sale of preferred shares	4,620	12,757
Purchase of intangible assets and property and equipment	(2,755)	(1,430)
Derivative financial instruments	(10,663)	6,495
Net cash generated from (used in) investing activities	**187,531**	**(20,872)**
Increase in cash and cash equivalents	126,355	14,498
Cash and cash equivalents, beginning of period	292,593	277,526
Cash and cash equivalents, end of period	**$ 418,948**	**$ 292,024**

See accompanying notes to the condensed consolidated interim 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 condensed consolidated interim financial statements as at and for the six months ended June 30, 2020 reflect the consolidation of the Company and these subsidiaries.

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% 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. At June 30, 2020, Brookfield held approximately 56.7% of the common shares of the Company.

1. Reporting entity (continued):

Impact of COVID-19 pandemic:

In the three and six months ended June 30, 2020, the COVID-19 pandemic has created challenges to the economy and market conditions in Canada and globally.

Since March 2020, the Canadian federal and provincial governments announced several economic and regulatory actions to support households, businesses, and financial institutions to improve the stability of the Canadian financial system and economy in response to challenges posed by COVID-19 and market conditions. These measures include programs to assist Canadians facing loss of employment and possible foreclosure, eviction or other financial hardships as a direct result of the economic ramifications of COVID-19.

The Company, as well as Canada's other mortgage insurers, have indicated a commitment to providing homeowners with solutions to mitigate temporary financial hardship due to COVID-19. Consistent with lenders' policies for uninsured mortgages, the Company, as well as Canada's other mortgage insurers, have communicated that lenders are permitted to defer up to six (6) monthly mortgage payments for borrowers impacted by COVID-19. The goal of this program is to give borrowers affected by COVID-19 the opportunity to return to work so that they can avoid defaulting on their mortgages. Based on reporting on Genworth-insured mortgages by the largest lenders as of June 30, 2020, the Company estimates that approximately 13.7% of the balance of its outstanding insured mortgages have taken mortgage deferrals. In some cases, the deferral may not be enough for the borrowers to keep their mortgage in good standing at the end of the deferral period and they may then go into default. These measures will likely impact the Company's future losses on claims including possibly delaying the timing of reported delinquencies in the short to medium term and in the longer term possibly increasing the ultimate losses on claims, depending on the value of home prices or increased costs that could arise in the foreclosure process due to delays and increased burdens on government offices and the court system. Effective in the second quarter of 2020, the Company has included a provision in its Incurred But Not Reported ("IBNR") reserve for its estimate of those borrowers that otherwise would have become delinquent in the reporting period if the mortgage payment deferrals had not taken place and are likely to ultimately result in a claim to the Company after the end of the deferral period.

For existing delinquencies, the timeline for collection and foreclosures will likely be longer primarily due to the temporary suspension of collection and foreclosure activities by lenders, and the possibility of a longer court process in some provinces as they deal with a backlog of cases in response to COVID-19. As a result, losses on claims may be adversely impacted as time-related costs such as property taxes, accrued interest and property management costs will likely increase. The Company has reflected the impact of the increased foreclosure costs in its loss reserves.

1. Reporting entity (continued):

Additional information on the Company's estimated impact of COVID-19 is included in note 4.

2. Basis of presentation:

(a) Statement of compliance:

These condensed consolidated interim financial statements were prepared in accordance with International Accounting Standard ("IAS") 34: Interim Financial Reporting. Accordingly, the condensed consolidated interim financial statements contain selected explanatory notes to the financial statements and do not include all the disclosures required by International Financial Reporting Standards ("IFRS"). Full disclosures were included in the Company's annual consolidated financial statements for the year ended December 31, 2019.

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

(b) Use of estimates and judgments:

The preparation of these condensed consolidated interim 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 condensed consolidated interim financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates. In the three and six months ended June 30, 2020, the Company considered the impact of COVID-19 in the determination of significant judgments and estimates, including in the determination of loss reserves and in impairment testing for financial instruments. Effective in the second quarter of 2020, given the reported number of mortgage payment deferrals, the Company recorded an IBNR loss reserve for its estimate of those borrowers that otherwise would have become delinquent in the reporting period if the mortgage payment deferrals had not taken place and are likely to ultimately result in a claim to the Company after the end of the deferral period. A description of assumptions used and judgment applied in estimating the IBNR reserve is included in note 4.

2. Basis of presentation (continued):

(c) Seasonality:

The mortgage insurance business is seasonal in nature. While net premiums earned, investment income and underwriting and administrative expenses are relatively stable from quarter to quarter, premiums written and losses may vary each quarter. These variations are driven by the level of mortgage originations and related mortgage policies written, which typically peak in the spring and summer months. Delinquencies and losses on claims vary from quarter to quarter primarily as the result of prevailing economic conditions as well as the characteristics of the insurance in-force portfolio, such as size and age. Typically, losses on claims increase during the winter months, due primarily to an increase in new delinquencies, and decrease during the spring and summer months. The Company currently expects that the COVID-19 pandemic will impact typical seasonality patterns in 2020, and has muted the typical seasonal pattern for increased transactional premiums written in the second quarter.

3. Significant accounting policies and changes in accounting standards:

The Company's complete accounting policies have been included in the consolidated financial statements for the year ended December 31, 2019. Accounting policies and methods of computation followed in the preparation of these condensed consolidated interim financial statements are consistent with those applied by the Company in the annual consolidated financial statements for the year ended December 31, 2019 except for the adoption of new amendments effective in 2020 as noted below and the adoption of a new methodology to estimate IBNR reserves as described in note 4.

Amendments to IFRS 3: Definition of a business

In October 2019, the IASB issued amendments to IFRS 3: Business combinations (“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.

On January 1, 2020, the Company adopted the amendments to IFRS 3 prospectively. The amendments had no impact on the Company’s consolidated financial statements.

Amendments to IFRS 7: Financial instruments: disclosures (“IFRS 7”), IFRS 9: Financial instruments (“IFRS 9”) and IAS 39: Financial instruments: recognition and measurement (“IAS 39”): Interest rate benchmark reform.

3. Significant accounting policies and changes in accounting standards (continued):

The amendments to IFRS 7, IFRS 9 and IAS 39 provide a number of areas of relief which apply to all hedging relationships that are directly affected by benchmark reform. The amendment is effective for annual reporting periods on or after January 1, 2020. The amendments had no impact to the Company's condensed consolidated interim financial statements. Although the Company uses derivatives for economic hedging purposes, the Company does not currently apply hedge accounting.

Amendments to IFRS 16: Leases, COVID-19-Related Rent Concessions

The amendment permits lessees, as a practical expedient, not to assess whether eligible COVID-19 related rent concessions are lease modifications, and instead to account for those rent concessions as if they were not lease modifications. The amendment is effective for annual reporting periods on or after June 1, 2020. The amendment has no impact to the Company's condensed consolidated interim financial statements as the Company did not receive rent concessions during the COVID-19 pandemic.

Future accounting standards:

IFRS 17: Insurance contracts ("IFRS 17") and IFRS 9

Disclosure of the requirements of IFRS 17 and IFRS 9 were included in the Company's annual consolidated financial statements for the year ended December 31, 2019.

The original effective date of IFRS 17 was for annual periods beginning on or after January 1, 2021. However, in June 2019, the IASB issued an exposure draft which proposed amendments to IFRS 17, including the deferral of the effective date. In June 2020, the IASB finalized the amendments to IFRS 17 and the effective date of IFRS 17 was deferred by two years to January 1, 2023. The fixed expiry date of the temporary exemption from applying IFRS 9 for qualifying insurers was also extended to January 1, 2023. The other amendments are not expected to have a significant impact on the Company's condensed consolidated interim financial statements.

The Company plans to adopt IFRS 17 on the required effective date together with IFRS 9. In addition, the Company continues to monitor developments and industry discussions related to the Standards and is currently evaluating the impact that IFRS 17, in conjunction with IFRS 9, will have on its consolidated financial statements.

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

4. Insurance contracts:

(a) Premiums and unearned premiums reserve:

The following table presents movement in unearned premiums reserve and the impact on premiums written and earned:

	Six months ended June 30, 2020	Six months ended June 30, 2019
Unearned premiums reserve, beginning of period	$ 2,110,849	$ 2,088,536
Premiums written during the period	341,050	300,102
Premiums earned during the period	(342,961)	(337,244)
Unearned premiums reserve, end of period	$ 2,108,938	$ 2,051,394

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.

Under the potential economic scenarios related to the impact of COVID-19, the loss emergence pattern could be prolonged. As a result, a change to the related premium recognition curve is expected.

(b) Losses on claims and loss reserves:

Loss reserves comprise the following:

	June 30, 2020	December 31, 2019
Case reserves	$ 113,747	$ 94,490
Incurred but not reported reserves	43,912	39,731
Impact of discounting	(1,338)	(1,803)
Provision for adverse deviation	11,751	8,778
Total loss reserves	$ 168,072	$ 141,196

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

4. Insurance contracts (continued):

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

		Six months ended June 30, 2020		2019
Loss reserves, beginning of period	$	141,196	$	123,764
Claims paid during the period		(43,898)	$	(45,602)
Losses on claims incurred during the period		70,774		51,031
Loss reserves, end of period	$	168,072	$	129,193

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.

Impact of COVID-19 on loss reserves

In recognition that many homeowners in Canada may face financial challenges because of the COVID-19 pandemic, Canadian mortgage insurers have agreed to provide solutions to mitigate temporary financial hardship faced by Canadian homeowners.

In the first quarter of 2020, Canadian mortgage insurers had advised that for insured mortgages in default, lenders should cease all legal enforcement and collection activities until further notice. On June 29, 2020, the mortgage insurers notified lenders that legal enforcement may resume or commence on insured mortgages. The additional carrying costs incurred from delaying the foreclosure process, including property taxes, accrued interest and property management costs, have been reflected in the Company’s loss reserves.

Additionally, in the first quarter of 2020, Canadian mortgage insurers have communicated that lenders are permitted to defer up to 6 monthly mortgage payments for borrowers impacted by COVID-19. Overall, the Company expects the majority of payment deferrals will return to making scheduled mortgage payments after the end of the deferral period. However, the Company expects that a subset of insured mortgages will end up in default after the deferral period ends. As a result, effective in the second quarter of 2020, the Company has included a provision in its Incurred But Not Reported ("IBNR") reserve for the estimate of the losses that would have otherwise occurred in the reporting period had mortgage payment deferrals not been in place.

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

4. Insurance contracts (continued):

The Company estimates the IBNR reserve for payment deferrals using the Company's internal loss forecasting model and multiple economic scenarios for regional unemployment and home prices. A base case, upside and downside scenario were determined and probability-weighted, with the base case receiving the highest weight.

The following table provides the primary national macroeconomic variables used in the loss forecasting model to estimate the IBNR related to mortgages under payment deferral arrangements. The economic assumptions are management's estimates based primarily on the available forecasts published by the Canadian banks and Moody's Analytics.

	Base Case Scenario		Upside Scenario		Downside Scenario	
	Second half of 2020	2021	Second half of 2020	2021	Second half of 2020	2021
Probability weight	65%		5%		30%	
Real GDP growth rate %[1]	(7.1)%	5.0%	(5.0)%	5.5%	(9.0)%	1.0%
Unemployment ("UE") rate %[2]	11.9%	8.6%	11.5%	8.0%	16.2%	10.5%
HPI growth rate %[3]	(8.7)%	1.3%	(2.7)%	1.3%	(10.1)%	(5.7)%

(1)GDP is based on the projected annual change for the full year 2020 and 2021

(2)UE rate for the second half is the average unemployment rate for the second half of 2020; UE rate for the year 2021 is the average UE rate for the year

(3)HPI growth rate for the second half of 2020 is the change from June 2020 to December 2020 and for 2021 is the year over year change from December 2020 to December 2021

The IBNR reserve is sensitive to the inputs used in internally developed models, macroeconomic variables in the forward-looking forecasts, the probability weightings of the three scenarios, and other factors considered when applying expert credit judgment. Changes in these inputs, assumptions, models, and judgments would have an impact on the assessment of credit risk and the measurement of IBNR reserve.

The total IBNR reserve of $48,922 includes $41,433 related to mortgages under payment deferral obligations that the Company estimates would otherwise would have become delinquent in the reporting period.

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

4. Insurance contracts (continued):

(c) Subrogation recoverable:

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

	Six months ended June 30, 2020	2019
Subrogation rights related to real estate, beginning of period	$ 42,087	$ 42,824
Subrogation rights related to real estate acquired as a result of settling claims, at fair value	70,485	79,493
Change in market value of real estate on hand	3,165	4,902
Subrogation rights related to real estate disposed of during the period	(83,744)	(90,020)
Subrogation rights related to real estate, end of period	31,993	37,199
Borrower recoveries, beginning of period	14,086	13,286
Net estimated future borrower recoveries recognized	2,578	2,922
Borrower recoveries received	(1,969)	(2,483)
Impact of discounting	235	134
Provision for adverse deviation	(83)	(53)
Borrower recoveries, end of period	14,847	13,806
Subrogation recoverable, end of period	$ 46,840	$ 51,005

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 quarterly to ensure it reflects the most current historical experience of successful recoveries. Borrower recoveries are discounted to take into account the time value of money and include an explicit margin for adverse deviation. The additional carrying costs incurred from delaying the foreclosure process has been reflected in the net realizable value of subrogation rights related to real estate.

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

4. Insurance contracts (continued):

(d) Deferred policy acquisition costs:

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

	Six months ended June 30, 2020	2019
Deferred policy acquisition costs, beginning of period	$ 205,898	$ 206,386
Policy acquisition costs deferred during the period	32,203	30,930
Deferred policy acquisition costs expensed during the period	(33,679)	(33,645)
Net change in deferred policy acquisition costs during the period	(1,476)	(2,715)
Deferred policy acquisition costs, end of period	$ 204,422	$ 203,671

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

5. Investments:

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

	June 30, 2020				December 31, 2019			
	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 [(2)]	$ 140,668	$ 140,668	$ —	2.2	$ 140,946	$ 140,946	$ —	2.2
Cash [(1)]	278,280	278,280	—	4.3	151,647	151,647	—	2.4
	418,948	418,948	—	6.5	292,593	292,593	—	4.6
AFS investments:								
Short-term investments:								
Canadian federal government treasury bills	82,914	82,914	—	1.3	85,595	85,595	—	1.3
Canadian provincial government	—	—	—	—	29,707	29,719	(12)	0.5
	82,914	82,914	—	1.3	115,302	115,314	(12)	1.8
Government bonds and debentures [(2)]:								
Canadian federal government	1,985,733	1,869,008	116,725	30.6	2,018,430	1,997,619	20,811	31.5
Canadian provincial and municipal governments	755,213	696,901	58,312	11.6	766,556	734,373	32,183	11.9
	2,740,946	2,565,909	175,037	42.2	2,784,986	2,731,992	52,994	43.4
Corporate bonds and debentures:								
Financial	768,798	738,419	30,379	11.9	779,961	766,371	13,590	12.2
Utility	363,010	338,681	24,329	5.6	349,050	337,063	11,987	5.4
Energy	332,859	313,882	18,977	5.1	334,635	322,725	11,910	5.2
Infrastructure	90,566	83,477	7,089	1.4	119,753	114,755	4,998	1.9
All other sectors	671,537	637,906	33,631	10.4	599,470	580,804	18,666	9.3
	2,226,770	2,112,365	114,405	34.4	2,182,869	2,121,718	61,151	34.0
Collateralized loan obligations	559,525	573,107	(13,582)	8.6	519,667	524,210	(4,543)	8.1
Total AFS bonds and debentures and other	5,527,241	5,251,381	275,860	85.2	5,487,522	5,377,920	109,602	85.5
Preferred shares:								
Financial	300,150	405,116	(104,966)	4.6	335,632	392,526	(56,894)	5.2
Utility	74,985	101,888	(26,903)	1.2	82,483	99,203	(16,720)	1.3
Energy	66,594	103,715	(37,121)	1.0	85,380	100,807	(15,427)	1.3
All other sectors	12,275	20,206	(7,931)	0.2	15,833	21,064	(5,231)	0.3
	454,004	630,925	(176,921)	7.0	519,328	613,600	(94,272)	8.1
Total investments	$ 6,483,107	$ 6,384,168	$ 98,939	100.0	$ 6,414,745	$ 6,399,427	$ 15,318	100.0

[(1)]Cash includes $19,580 (December 31, 2019 - $2,770) 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.
[(2)] The Company had collateral posted of $111,482 comprised of $364 Canadian federal government treasury bills, $16,982 Canadian provincial government bonds and $94,136 Canadian federal government bonds for the benefit of the Company's counterparties to its derivative financial instrument contracts, as described in the derivative financial instruments section of note 5 (December 31, 2019 - collateral posted of $462 for the benefit of the Company's counterparties to its derivative financial instrument contracts).

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

5. Investments (continued):

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

	June 30, 2020	December 31, 2019
Terms to maturity:		
Federal, provincial and municipal bonds and debentures and short-term investments:		
1 year or less	$ 405,467	$ 414,143
1 - 3 Years	566,289	726,931
3 - 5 Years	705,630	620,769
5 - 10 Years	1,000,238	995,918
Over 10 Years	146,236	142,527
	2,823,860	2,900,288
Corporate bonds and debentures and collateralized loan obligations:		
1 year or less	222,471	207,832
1 - 3 Years	675,451	721,155
3 - 5 Years	582,842	575,485
5 - 10 Years	809,070	662,656
Over 10 Years	496,461	535,408
	2,786,295	2,702,536
	$ 5,610,155	$ 5,602,824

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

(a) Investments denominated in foreign currencies:

Collateralized loan obligations ("CLOs") of $559,525 (December 31, 2019 - $519,667) are denominated in U.S. dollars. The CLOs are structured credit securities, collateralized by U.S. bank loans with an average AA credit rating that pay interest based on floating interest rates indexed to the London Interbank Offered Rate. Additionally, corporate bonds and debentures includes $496,957 (December 31, 2019 - $474,334) of emerging market bonds and $200,316 of global bonds (December 31, 2019 - $186,958) denominated in U.S. dollars.

(b) Investment impairment assessment:

For investments in bonds and debentures and preferred shares, evaluation of whether impairment has occurred is based on the Company's best estimate of the cash flows expected to be collected at the individual investment level.

5. Investments (continued):

No impairment losses were recognized during the three and six months ended June 30, 2020 (June 30, 2019 - nil). In the six months ended June 30, 2020, due to market volatility driven by the COVID-19 pandemic and resulting decreases in interest rates, the Company's preferred shares have experienced significant declines in fair value. The Company has assessed that the decline in fair value is temporary in nature. Based on the credit quality of the issuers and expectations of continued dividend income from the preferred shares, the Company expects full recoverability of the investments and has the intent and ability to hold the investments until their recovery in value.

(c) 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 and CLOs 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.

During the three months ended March 31, 2020, the Company entered into a term loan denominated in U.S. dollars under its existing term facility and executed additional foreign currency forwards to mitigate the foreign exchange risk associated with the loan. During the three months ended June 30, 2020, the Company repaid the U.S. dollar term loan and terminated the related foreign currency forwards. Additional disclosure of the Company's term loan is included in note 9.

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 risks associated with share-based compensation expense. Additional disclosure of the Company's equity total return swaps is included in note 7.

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 counterparty agree to exchange interest rate cash flows based on a specified notional amount from a fixed rate to a floating rate.

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

5. Investments (continued):

The Company uses interest rate floors to mitigate the downside risk that may arise from its existing fixed-for-floating interest rate swaps. 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.

During the three months ended June 30, 2020, the Company entered into a floating rate Prime Rate loan under its existing term facility. The interest on the loan is calculated at the Bankers' Acceptance rate plus an applicable margin. The Company executed additional fixed-for-floating interest rate swaps to hedge interest rate risk related to the loan. Additional disclosure of the Prime Rate loan is included in note 9.

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

				Notional amount				
June 30, 2020	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	$ 11,503	$ (44,862)	$ (33,359)	$ 631,810	$ 92,148	$ 71,090	$ 78,704	$ 873,752
Cross currency interest rate swaps	—	(20,933)	(20,933)	70,666	86,689	68,991	88,643	314,989
Equity total return swaps	823	—	823	15,101	—	—	—	15,101
Interest rate swaps	45,287	(78,551)	(33,264)	800,000	2,700,000	3,075,600	—	6,575,600
Interest rate floors	55,103	—	55,103	550,000	2,450,000	—	—	3,000,000
Total	$ 112,716	$(144,346)	$ (31,630)	$2,067,577	$5,328,837	$3,215,681	$ 167,347	$10,779,442

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

5. Investments (continued):

December 31, 2019	Derivative asset	Derivative liability[1]	Net fair value	Notional amount: 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

[1] Excludes $19,580 cash pledged as collateral by counterparties for derivative contracts (December 31, 2019 - $2,770).

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

	Six months ended June 30, 2020	2019
Unrealized foreign exchange gains (losses) on bonds and debentures denominated in U.S. dollars	$ 50,441	$ (50,731)
Unrealized (losses) gains on foreign currency forward and cross currency interest rate swap contracts	(55,829)	40,272
Realized foreign exchange gains	826	260
Net losses on foreign exchange	(4,562)	(10,199)
Losses on interest rate swap contracts	(77,498)	(39,076)
Gains on interest rate floor contracts	52,618	12,220
Net losses on interest rate swap and interest rate floor contracts [1]	$ (24,880)	$ (26,856)
Net losses on derivatives and foreign exchange	$ (29,442)	$ (37,055)

[1] Includes $11,348 of net realized interest rate swap and interest rate floor income related to contractual cash flows (June 30, 2019 - net realized income of $15,908).

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

5. Investments (continued):

The Company enters into collateral arrangements with its derivative counterparties that require the posting of collateral to its derivative financial instruments upon certain net exposure thresholds being met. As at June 30, 2020, the Company has posted $111,482 of collateral comprised of $364 Canadian federal government treasury bills, $16,982 Canadian provincial government bonds and $94,136 Canadian federal government bonds for the benefit of its counterparties and accepted collateral of $25,635 from its counterparties comprised of $19,580 cash and $6,055 Canadian federal government bonds. (As at December 31, 2019, the Company had posted $3,460 collateral in the form of Canadian federal government bonds for the benefit of its counterparties and accepted collateral of $42,353 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 condensed consolidated interim 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 condensed consolidated interim statements of financial position. The Company does not currently pledge cash to its counterparties as collateral for derivative contracts.

(d) Securities lending:

The Company loaned the following investments under its securities lending program:

		June 30, 2020		December 31, 2019
Cash equivalents	$	50,233	$	87,946
Short-term investments		—		32,236
Bonds and debentures		549,267		419,143
Preferred shares		3,738		5,626
	$	603,238	$	544,951

As at June 30, 2020, the Company has accepted eligible securities as collateral with a fair value of $631,476 (December 31, 2019 - $573,313).

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

5. Investments (continued):

(e) Fair value measurements:

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

- Level 1 - inputs used to value the financial instruments are unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs used to value the financial instruments are other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3 - inputs used to value the financial instruments are not based on observable market data.

The following tables set forth the classification of financial instruments carried at fair value based on the fair value hierarchy:

June 30, 2020	Level 1	Level 2	Level 3	Total
Bonds and debentures and other	$ —	$ 5,527,241	$ —	$ 5,527,241
Preferred shares	454,004	—	—	454,004
Short-term investments	82,914	—	—	82,914
Derivative financial instruments assets	—	112,716	—	112,716
Derivative financial instruments liability[1]	—	(144,346)	—	(144,346)
	$ 536,918	$ 5,495,611	$ —	$ 6,032,529

December 31, 2019	Level 1	Level 2	Level 3	Total
Bonds and debentures and other		$ 5,487,522	$ —	$ 5,487,522
Preferred shares	519,328	—	—	519,328
Short-term investments	85,595	29,707	—	115,302
Derivative financial instruments assets	—	69,450	—	69,450
Derivative financial instruments liability(1)	—	(40,011)	—	(40,011)
	$ 604,923	$ 5,546,668	$ —	$ 6,151,591

[1] Excludes $19,580 cash pledged as collateral by counterparties for derivative contracts (December 31, 2019 - $2,770).

5. Investments (continued):

During the six months ended June 30, 2020 and the year ended December 31, 2019, the Company did not hold any investments measured at fair value using unobservable inputs (Level 3). The Company reviews the fair value hierarchy classifications each reporting period. Changes in the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers between levels at the beginning fair value for the reporting period in which the changes occur. 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 period ended June 30, 2020 and the year ended December 31, 2019.

Valuation of Level 2 financial instruments:

Fair values of bonds and debentures, including CLOs, are obtained primarily from industry-standard pricing services and third party brokers 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 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)

5. Investments (continued):

At June 30, 2020, the Company's short-term investments, bonds and debentures and preferred shares are classified as AFS in accordance with IAS 39. The AFS financial assets are recorded at fair value on the Company's consolidated statements of financial position with changes in their fair value recorded in other comprehensive income. As at June 30, 2020, the Company did not have any short-term investments, bonds and debentures or preferred shares that were held for trading or whose performance was evaluated on a fair value basis.

The following additional disclosure, required by IFRS 4 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 six months ended June 30, 2020 and 2019, 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").

June 30, 2020	SPPI		Non-SPPI	
Financial Asset	Fair value	Change in fair value	Fair value	Change in fair value
Short-term investments	$ 82,914	$ 12	$ —	$ —
Bonds and debentures and other	5,518,358	166,017	8,883	241
Preferred shares	—	—	454,004	(82,649)
Total	$ 5,601,272	$ 166,029	$ 462,887	$ (82,408)

June 30, 2019	SPPI		Non-SPPI	
Financial Asset	Fair value	Change in fair value	Fair value	Change in fair value
Short-term investments	$ 106,363	$ 16	$ —	$ —
Bonds and debentures and other	5,595,335	138,530	8,301	414
Preferred shares	—	—	499,317	(29,829)
Total	$ 5,701,698	$ 138,546	$ 507,618	$ (29,415)

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

5. Investments (continued):

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

June 30, 2020	Credit Risk	Carrying Value (Fair Value)	% of Fair Value
Bonds and debentures and other and short-term investments:			
AAA	Low	$ 2,342,587	41.8
AA	Low	1,197,023	21.4
A	Low	1,445,117	25.8
BBB	Low	610,238	10.9
BB	Other	6,307	0.1
		$ 5,601,272	100.0

June 30, 2019	Credit Risk	Carrying Value (Fair Value)	% of Fair Value
Bonds and debentures and other and short-term investments:			
AAA	Low	$ 2,387,706	41.8
AA	Low	972,724	17.1
A	Low	1,736,934	30.5
BBB	Low	598,097	10.5
BB	Other	6,237	0.1
		$ 5,701,698	100.0

6. Related party and transitional transactions and balances:

During the first quarter of 2020, the Company entered into agreements with investment managers Oaktree Capital Management L.P. (Oaktree) and Brookfield Public Securities Group LLC (PSG Brookfield) to provide investment management services for certain investment portfolios, replacing investment management services provided by Genworth Financial. Transactions with Oaktree and PSG Brookfield commenced in the second quarter of 2020.

The Company incurred charges of $337 in the three months ended June 30, 2020 for services provided by Brookfield entities. The balance owing for the services at June 30, 2020 is $337 (December 31, 2019 - nil).

6. Related party and transitional transactions and balances (continued):

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 $1,531 and $3,082 for the three and six and six months ended June 30, 2020 for services provided by Genworth Financial (June 30, 2019 - $1,721 and $3,430). The balance owing for the services at June 30, 2020 is $673 (December 31, 2019 - $nil) and is reported in accounts payable and accrued liabilities in the condensed consolidated interim statements of financial position.

7. Share-based compensation:

The Company provides long-term incentive plans for the granting of stock options ("Options"), restricted share units ("RSUs"), directors' deferred share units ("DSUs"), performance share units ("PSUs"), and executive deferred share units (“EDSUs”). 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 June 30, 2020, the Company has 983,799 (2019 - 1,063,801) common shares remaining that are available for distribution.

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. Equity total return swaps are contracts by which one counter-party 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 condensed consolidated interim statements of income.

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

7. Share-based compensation (continued):

The following table summarizes information about the Company's share-based compensation plans:

	Number of share-based awards outstanding as at June 30, 2020		Fair value of share-based awards as at June 30, 2020		Share-based compensation expense for three months ended June 30, 2020		Share-based compensation expense for six months ended June 30, 2020
Options	435,334	$	1,550	$	407	$	(5,270)
RSUs	133,314		4,427		422		119
DSUs	115,496		3,836		355		(1,696)
PSUs	100,042		3,322		358		605
EDSUs	34,283		1,139		87		(562)
	818,469	$	14,274	$	1,629	$	(6,804)
Effect of equity total return swaps				$	(1,362)	$	10,467
Net share-based compensation expense				$	267	$	3,663

Total share based compensation liability as of June 30, 2020 was $10,027 (December 31, 2019 - $23,979).

8. Earnings per share:

Basic earnings per share have been calculated using the weighted average number of shares outstanding of 86,291,079 and 86,274,675 for the three and six months ended June 30, 2020 (2019 - 86,985,187 and 87,287,620). Diluted earnings per share have been calculated using the diluted weighted average number of shares outstanding of 86,358,432 and 86,577,939 for the three and six ended June 30, 2020 (2019 - 87,103,687 and 87,535,129).

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:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Options	435,334	634,101	191,500	594,867
RSUs	48,140	—	—	—
DSUs	113,175	84,782	—	—
PSUs	65,160	29,331	65,160	29,331
Total	661,809	748,214	256,660	624,198

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

8. Earnings per share (continued):

Basic and diluted earnings per share:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Basic earnings per share:				
Net income	$ 97,669	$ 110,016	$ 192,232	$ 207,102
Diluted earnings per share:				
Re-measurement amount net of income taxes	(72)	(3)	(6,988)	189
Earnings for purposes of diluted earnings per share	$ 97,597	$ 110,013	$ 185,244	$ 207,291
Basic common shares outstanding, beginning of period	86,291,079	87,598,663	86,228,879	87,591,163
Effect of share-based compensation exercised during the period	—	3,798	45,796	6,799
Effect of repurchase of common shares during the period	—	(617,274)	—	(310,342)
Weighted average basic common shares outstanding, during the period	86,291,079	86,985,187	86,274,675	87,287,620
Basic earnings per share	$ 1.13	$ 1.26	$ 2.23	$ 2.37
Diluted earnings per share:				
Basic weighted average common shares outstanding during the period	86,291,079	86,985,187	86,274,675	87,287,620
Effect of share-based compensation during the period	67,353	118,500	303,264	247,509
Diluted weighted average common shares outstanding, during the period	86,358,432	87,103,687	86,577,939	87,535,129
Diluted earnings per share	$ 1.13	$ 1.26	$ 2.14	$ 2.37

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

9. Debt Outstanding:

Summary of debt outstanding:

Issuance	Maturity Date	Initial term (years)	Coupon Rate	Coupon Payment	Principal Amount	Net Carrying Value		
						June 30, 2020	March 31, 2020	December 31, 2019
Debentures:								
Series 1	June 15, 2020	10	5.680%	June 15 and December 15	$ 175,000	$ —	$ —	$ 174,900
Series 3	April 21, 2024	10	4.242%	April 1 and October 1	260,000	261,002	261,066	261,130
Series 4	March 1, 2027	7	2.955%	March 1 and September 1	300,000	298,195	298,135	—
LIBOR Loan under Term Facility(1)	January 16, 2025	5	2.934%	May 11, August 11, November 11 and February 11	67,777	—	67,123	—
Prime Rate Loan under Term Facility(2)	January 16, 2025	5	1.820%	May 11, August 11, November 11 and February 11	$ 75,600	74,981	—	—
						$ 634,178	$ 626,324	$ 436,030

(1) Coupon rate derived as 3 month LIBOR rate plus an applicable margin

(2) Coupon rate derived as 3 month Bankers' Acceptance rate plus an applicable margin

The debentures are accounted for at amortized cost which equals their carrying value. The debentures may be redeemed at the option of the issuer, in whole or in part at any time, at a redemption price equal to the greater of the Government of Canada Yield at the date of redemption plus a margin or their par value.

On February 20, 2020, the Company completed an offering of $300,000 principal amount of debentures due March 1, 2027 ("Series 4"). The Series 4 debentures were issued for gross proceeds of $299,997, before approximate issuance costs of $1,889.

On March 23, 2020, the Company used the proceeds from the Series 4 Debenture offering, in part, to redeem aggregate principal amount of its 5.680% Series 1 debentures with a principal amount of $175,000 which were to mature on June 15, 2020. The redemption price for the Series 1 Debentures was $176,776 plus accrued and unpaid interest up to the redemption date. An early redemption fee equal to the difference between the redemption price and the principal amount of $1,776 was recognized in income in the three months ended March 31, 2020.

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

9. Debt Outstanding (continued):

Debt outstanding is classified as Level 2 in the Fair Value hierarchy. Fair value of debt outstanding was $628,929 at June 30, 2020 (December 31, 2019 - $450,865). As at June 30, 2020 and December 31, 2019, the Company was in compliance with all debt covenants.

Movement in the Company's debt outstanding:

	Debt outstanding	Interest Payable[1]
Balance at January 1, 2020	$ 436,030	$ 2,677
Net proceeds from Series 4 issuance	298,108	—
Redemption of Series 1 debenture inclusive of the fee incurred on early redemption	(176,776)	—
Payment of the fee incurred on early redemption of the Series 1 debenture	1,776	—
Proceeds from borrowings under credit facility	274,276	—
Repayments of borrowings under credit facility	(203,178)	—
Amortization of discount (premium) and capitalized borrowing costs	129	—
Movement in foreign exchange	3,813	—
Interest expense on debentures	—	10,884
Interest paid	—	(8,203)
Balance at June 30, 2020	$ 634,178	$ 5,358

[1] Accrued interest payable is recorded in accounts payable and accrued liabilities included in the condensed consolidated interim statements of financial position.

Credit Facility:

On January 16, 2020, the Company entered into an unsecured syndicated credit facility for an aggregate amount of up to $700 million composed of a senior unsecured revolver of $300 million which matures in January 2025 (the “Revolving Facility”), a $200 million five-year term loan which matures in January 2025 (the “Term Facility”) and a $200 million four-month bridge facility originally scheduled to mature in January 2021 (the “Bridge Facility” and, together with the Revolving Facility and the Term Facility, the “Credit Facility”). On February 28, 2020, the Company terminated the Bridge Facility. The Credit Facility replaced an existing facility of $300 million.

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

9. Debt Outstanding (continued):

	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
Status	Active	Active and drawn	Terminated

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.

Pursuant to the Credit Facility agreement, the Company may specify whether credit is extended by way of a Prime Rate Loan, a U.S. Base Rate Loan, or a LIBOR Loan. 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 Credit Facility includes customary representations, warranties, covenants, terms and conditions for transactions of this type.

On February 10, 2020, the Company borrowed US $150,000 or approximately $198,676, under the Term Facility. During the three months ended March 31, 2020, the Company repaid US $102,000 or approximately $136,066 of this amount. The interest on the Term Facility has been calculated at the London Inter-bank Offered Rate ("LIBOR") rate plus the applicable margin. The outstanding amount on the Term Facility as at March 31, 2020 was US $48,000 or approximately $67,123. In order to mitigate the foreign exchange risk associated with the Term Facility, the Company executed additional foreign exchange forward derivative contracts.

On May 11, 2020, the Company repaid its existing LIBOR Loan under the Term Facility in the amount of US $48,000 and replaced it with a Prime Rate Loan under the Term Facility of $75,600. The foreign currency forward contracts related to the LIBOR Loan have been terminated. The interest on the Prime Rate loan has been calculated at the Bankers' Acceptance rate plus the applicable margin. On May 11, the Company executed additional interest rate swaps to mitigate the interest rate risk associated with the Prime Rate Loan.

The outstanding amount on the Term Facility as at June 30, 2020 was $75,600 or $74,981 net of capitalized costs. As at June 30, 2020, there was no amount outstanding under the Revolving Facility and all covenants under the Credit Facilities were fully met.

10. Share capital:

On April 30, 2019, the Company received approval from the Toronto Stock Exchange (the "TSX") for the Company to undertake a new normal course issuer bid ("2019 NCIB") following the expiration of its prior normal course issuer bid. Pursuant to the 2019 NCIB, the Company could purchase, for cancellation, up to 4,379,933 shares, representing approximately 5% of its outstanding common shares as at April 26, 2019. Purchases of common shares under the 2019 NCIB were permitted to commence on May 7, 2019 and were to conclude on the earlier of May 6, 2020 and the date on which the Company has purchased the maximum number of shares under the 2019 NCIB.

During the six months ended June 30, 2020, the Company did not purchase any shares under the 2019 NCIB. The 2019 NCIB was not renewed subsequent to its expiry on May 6, 2020. During the three months ended June 30, 2019 under the terms of the 2019 NCIB, the Company repurchased 1,650,951 shares for cancellation, for an aggregate purchase price of $68,436.

In connection with the closing of the sale of the Company, the Company terminated the automatic share purchase plan and the related automatic share disposition plan entered into with the 2019 NCIB that facilitated the purchase of common shares from Genworth Financial.

11. Capital management and regulatory requirements:

Effective January 1, 2019, the Company is subject to the “Mortgage Insurer Capital Adequacy Test” (“MICAT”). The MICAT consolidates OSFI's capital requirements for mortgage insurers into a single document, incorporating elements from OSFI's January 1, 2017 advisory, on “Capital Requirements for Federally Regulated Mortgage Insurers” and relevant chapters of the “2018 Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies”. The OSFI supervisory MICAT target ratio and minimum MICAT ratio under government guarantee legislation for 2020 remains unchanged at 150% and the Company’s internal target ratio for 2020 under the MICAT remains unchanged at 157%.

In an effort to ease operational stress on financial institutions driven by the COVID-19 pandemic, on March 27, 2020, OSFI announced a series of regulatory adjustments to support the financial and operational resilience of federally regulated banks, insurers and private pension plans. In determining regulatory capital requirements of a mortgage insurer, provided there is no claim outstanding on a mortgage loan, mortgage insurers should not consider a mortgage loan to be delinquent or in arrears if a deposit-taking institution has approved a deferral of mortgage payments and the borrower respects the payment deferral terms and conditions. This capital treatment applies for the lesser of 6 months and the duration of the payment.

11. Capital management and regulatory requirements (continued):

OSFI also communicated its expectation for all federally regulated financial institutions that dividend increases and share buybacks should be suspended until further notice.

The Company has determined that it is in compliance with the MICAT at June 30, 2020 and December 31, 2019.

12. Comparatives:

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