

Consolidated Financial Statements
(In Canadian dollars)

GENWORTH MI CANADA INC.

Years ended December 31, 2018 and 2017

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, 2019
Toronto, Canada



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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, 2018 and 2017
- 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, 2018 and 2017, 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.



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- 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, 2019

GENWORTH MI CANADA INC.

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

December 31, 2018 and 2017

	Notes	2018	2017
Assets			
Cash and cash equivalents	9	\$ 277,526	\$ 286,980
Short-term investments	9	48,683	221,397
Accrued investment income and other receivables		41,183	31,902
Derivative financial instruments	9	110,049	151,321
Bonds and debentures and other	9	5,555,559	5,394,204
Preferred shares	9	517,847	546,775
Total cash, invested assets, accrued investment income and other receivables		6,550,847	6,632,579
Income taxes recoverable		50,782	—
Subrogation recoverable	6(c)	56,110	59,303
Prepaid assets		4,578	3,518
Property and equipment		939	1,345
Intangible assets	15	8,035	8,352
Deferred policy acquisition costs	6(d)	206,386	208,046
Goodwill	17	11,172	11,172
Total assets		<u>\$ 6,888,849</u>	<u>\$ 6,924,315</u>
Liabilities and Shareholders' equity			
Liabilities:			
Accounts payable and accrued liabilities		\$ 54,903	\$ 64,665
Income taxes payable		—	43,637
Loss reserves	6(b)	123,764	118,951
Share-based compensation liabilities	14	17,394	23,485
Derivative financial instruments	9	92,247	59,698
Long-term debt	19	433,729	433,299
Unearned premiums reserve	6(a)	2,088,536	2,129,758
Accrued net benefit liabilities under employee benefit plans	13	46,506	48,393
Deferred tax liabilities	10	41,532	41,006
Total liabilities		<u>\$ 2,898,611</u>	<u>\$ 2,962,892</u>
Shareholders' equity:			
Share capital	18	1,315,438	1,359,220
Retained earnings		2,711,289	2,524,589
Accumulated other comprehensive (loss) income		(36,489)	77,614
Total shareholders' equity		<u>3,990,238</u>	<u>3,961,423</u>
Total liabilities and shareholders' equity		<u>\$ 6,888,849</u>	<u>\$ 6,924,315</u>

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, 2018 and 2017

	Notes	2018	2017
Premiums written	6(a)	\$ 638,995	\$ 662,706
Premiums earned	6(a)	\$ 680,217	\$ 675,851
Losses on claims	6(b)	100,041	68,865
Expenses:			
Premium taxes and underwriting fees		48,942	50,704
Employee compensation		45,405	49,552
Office		21,124	21,300
Professional fees		4,895	4,458
Promotional and travel		4,961	4,734
Regulatory fees and assessments		2,120	3,142
Total expenses		127,447	133,890
Net change in deferred policy acquisition costs	6(d)	1,660	(1,236)
		129,107	132,654
Net underwriting income		451,069	474,332
Investment income:			
Interest		168,895	165,819
Dividends		25,673	21,368
Net realized (losses) gains on sale of investments		(1,110)	3,422
Net (losses) gains from derivatives and foreign exchange		(3,951)	79,182
Total investment income		189,507	269,791
General investment expenses		(3,846)	(4,806)
		185,661	264,985
Interest expense	19	23,616	23,526
Income before income taxes		613,114	715,791
Income taxes:	10		
Current		162,492	185,621
Deferred		(929)	2,664
		161,563	188,285
Net income for the year attributable to owners of the Company		\$ 451,551	\$ 527,506
Earnings per share:	21		
Basic		\$ 5.04	\$ 5.76
Diluted		\$ 4.99	\$ 5.76

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, 2018 and 2017

	2018	2017
Net income	\$ 451,551	\$ 527,506
Other comprehensive loss:		
Items that will not be reclassified subsequently to income:		
Re-measurement of employee benefit obligations, net of income tax of \$1,455 (2017 - \$875)	4,155	(2,377)
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 \$46,698 (2017 - \$4,441)	(112,467)	(11,830)
Gains on AFS financial assets reclassified to income, net of income tax of \$680 (2017 - \$1,310)	(1,636)	(3,490)
Total other comprehensive loss for the period attributable to owners of the Company, net of income tax of \$45,923 (2017 - \$6,626)	(109,948)	(17,697)
Total comprehensive income attributable to owners of the Company	\$ 341,603	\$ 509,809

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, 2018 and 2017

	Share capital	Retained earnings	Accumulated other comprehensive income	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
	Share capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at January 1, 2017	\$ 1,368,658	\$ 2,186,988	\$ 92,934	\$ 3,648,580
Comprehensive income:				
Net income	—	527,506	—	527,506
Other comprehensive loss	—	—	(17,697)	(17,697)
Total comprehensive income	—	527,506	(17,697)	509,809
Total transactions recognized directly in equity:				
Dividends on common shares ⁽¹⁾	—	(164,147)	—	(164,147)
Issuance of common shares	7,186	—	—	7,186
Repurchase of common shares (note 18)	(16,624)	(23,381)	—	(40,005)
Re-measurement of employee benefit obligations, net of income tax	—	(2,377)	2,377	—
Total transactions recognized directly in equity	(9,438)	(189,905)	2,377	(196,966)
Balance at December 31, 2017	\$ 1,359,220	\$ 2,524,589	\$ 77,614	\$ 3,961,423

⁽¹⁾ The Company paid dividends of \$0.47 per common share in the first, second, and third quarters and \$0.51 per common share in the fourth quarter of 2018 (\$0.44 per common share in the first, second and third quarters of 2017 and \$0.47 per common share in the fourth quarter of 2017).

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, 2018 and 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Net income	\$ 451,551	\$ 527,506
Adjustments for non-cash items in net income:		
Amortization of intangible assets and depreciation of property and equipment	3,137	3,666
Expensing of deferred policy acquisition costs	67,599	66,819
Income taxes	161,563	188,285
Interest income	(168,895)	(165,819)
Dividend income	(25,673)	(21,368)
Net realized losses (gains) on sale of investments	1,110	(3,422)
Net losses (gains) on derivatives and foreign exchange	3,951	(79,182)
Interest expense	23,616	23,526
Net share-based compensation expense	3,720	6,737
	521,679	546,748
Change in non-cash balances related to operations:		
Accrued investment income and other receivables	(3,834)	(2,235)
Prepaid assets	(1,060)	(788)
Subrogation recoverable	3,193	7,939
Deferred policy acquisition costs	(65,939)	(68,055)
Accounts payable and accrued liabilities	(365)	(5,228)
Loss reserves	4,813	(44,516)
Unearned premiums reserve	(41,222)	(13,145)
Accrued net benefit liability under employee benefit plans	3,803	3,431
	421,068	424,151
Cash generated from (used in) operating activities:		
Interest received from bonds and debentures	170,175	173,578
Dividends received from preferred shares	25,757	21,747
Interest paid on long-term debt	(22,407)	(22,407)
Income taxes paid	(209,914)	(155,561)
Share-based compensation awards settled in cash	(3,837)	(3,052)
Net cash generated from operating activities	380,842	438,456
Financing activities:		
Dividends paid	(172,536)	(164,147)
Repurchase of common shares	(150,016)	(40,005)
Proceeds from exercise of stock options	5,104	3,744
Net cash used in in financing activities	(317,448)	(200,408)
Investing activities:		
Purchase of short-term investments	(265,828)	(527,755)
Proceeds from sale or maturities of short-term investments	439,182	513,112
Purchase of bonds	(1,621,341)	(1,339,559)
Proceeds from sale or maturities of bonds	1,456,321	1,304,574
Purchase of preferred shares	(80,015)	(73,016)
Proceeds from sale of preferred shares	26,682	2,882
Purchase of intangible assets and property and equipment	(2,414)	(1,609)
Derivative financial instruments	(25,435)	44,231
Net cash used in in investing activities	(72,848)	(77,140)
(Decrease) increase in cash and cash equivalents	(9,454)	160,908
Cash and cash equivalents, beginning of period	286,980	126,072
Cash and cash equivalents, end of period	\$ 277,526	\$ 286,980

See accompanying notes to the consolidated financial statements.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2018 and 2017

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.

Genworth Financial Inc. ("Genworth Financial"), a public company listed on the New York Stock Exchange, indirectly holds approximately 57.0% (December 31, 2017 - 57.1%) of the common shares of the Company.

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, 2018 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.

On October 21, 2016, Genworth Financial, Inc. ("Genworth Financial") entered into an agreement and plan of merger (the "Merger Agreement") with Asia Pacific Global Capital Co., Ltd. ("the Parent"), a limited liability company incorporated in the People's Republic of China and a subsidiary of China Oceanwide Holdings Group Co., Ltd., a limited liability company incorporated in the People's Republic of China (together with its affiliates, "China Oceanwide"), and Asia Pacific Global Capital USA Corporation ("Merger Sub"), a Delaware corporation and an indirect, wholly-owned subsidiary of Asia Pacific Insurance USA Holdings LLC ("Asia Pacific Insurance") which is a Delaware limited

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

1. Reporting entity (continued):

liability company and owned by China Oceanwide, pursuant to which, subject to the terms and conditions set forth therein, Merger Sub would merge with and into Genworth Financial with Genworth Financial surviving the merger as an indirect, wholly-owned subsidiary of Asia Pacific Insurance.

At a special meeting held on March 7, 2017, Genworth Financial's stockholders voted on and approved a proposal to adopt the Merger Agreement. In June 2018, the parties to the transaction announced that the Committee on Foreign Investment in the United States had completed its review of the proposed transaction and concluded that there are no unresolved national security concerns with respect to the proposed transaction. The transaction has received all required U.S. insurance regulatory approvals. The closing of the transaction remains subject to other conditions, including the receipt of other required regulatory approvals in Canada and by the U.S. Financial Industry Regulatory Authority ("FINRA"). In addition, China Oceanwide will need to receive clearance in China for currency conversion and the transfer of funds. On January 30, 2019, Genworth Financial, the Parent and Merger Sub entered into an eighth waiver and agreement of each party's right to terminate the Merger Agreement. The eighth waiver and agreement extends the deadline to March 15, 2019 to allow additional time for continued regulatory review of the transaction.

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, 2019.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

2. Basis of presentation (continued):

(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.

(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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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.

(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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

3. Significant accounting policies (continued):

- (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.

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

3. Significant accounting policies (continued):

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.

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

3. Significant accounting policies (continued):

(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, 2018 and 2017.

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.

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

3. Significant accounting policies (continued):

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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.

4. Changes in accounting standards:

(a) Changes in accounting standards effective January 1, 2018:

The following amendments to existing standards have been issued by the IASB and are effective for annual periods beginning on or after January 1, 2018.

(i) Share based payments (Amendments to IFRS 2):

In June 2016, the IASB issued amendments to IFRS 2 which clarify how to account for certain types of share-based payment transactions.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

4. Changes in accounting standards (continued):

The amendments provide requirements on the accounting for:

- i. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- ii. share-based payment transactions with a net settlement feature for withholding tax obligations; and
- iii. the effect of a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled

The amendments to IFRS 2 had no impact on the Company's financial statements.

- (ii) IFRIC Interpretation 22: Foreign currency transactions and advance consideration ("IFRIC 22"):

In December 2016, the IASB issued IFRIC 22 which provides guidance on the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency.

IFRIC 22 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, 2018.

- (i) IFRS 9: Financial instruments ("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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

4. Changes in accounting standards (continued):

IFRS 9 also introduces a single impairment model for financial instruments not measured at FVTPL 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 accounting with risk management activities.

IFRS 9 is generally effective for years 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: Insurance contracts ("IFRS 17"), (a) a temporary exemption to defer the implementation of IFRS 9, or alternatively (b) the option to remove from profit or loss the incremental volatility caused by changes in the measurement of specified financial assets upon application of IFRS 9. Additional financial statement disclosures will be required for entities that apply either of the options.

Entities that apply the optional temporary relief were initially required to adopt IFRS 9 on annual periods beginning on or after January 1, 2021. However, on November 14, 2018, the IASB deferred both the effective date of IFRS 17 and the expiry date for the optional relief in respect of IFRS 9 by one year. Therefore, entities that apply the optional temporary relief will be required to adopt IFRS 9 on January 1, 2022, which aligns with the new effective date of IFRS 17.

The Company evaluated its liabilities at December 31, 2015, the prescribed date of assessment under the optional temporary relief provisions and concluded that all of the liabilities are predominantly connected with insurance. Approximately 77% of the Company's liabilities at December 31, 2015 are liabilities that arise from contracts within the scope of IFRS 17 and approximately 23% of the Company's liabilities at December 31, 2015 are liabilities that arise because the Company issues insurance contracts and fulfills obligations arising from insurance contracts. Additionally, the Company has not previously applied any version of IFRS 9. Therefore, the Company is an eligible insurer that qualifies for optional relief from the application of IFRS 9.

As at January 1, 2018, the Company has elected to apply the optional temporary relief under IFRS 4 that permits the deferral of the adoption of IFRS 9 for eligible insurers. The Company will continue to apply IAS 39 until January 1, 2022. See note 9 (Investments) for additional disclosures which enable comparison between the Company and entities that applied IFRS 9 at January 1, 2018.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

4. Changes in accounting standards (continued):

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

In May 2017, the IASB published IFRS 17, 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 under IFRS 17 is based on the following:

- 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 that measures the effects of uncertainty about the amount and timing of future cash flows; and
- iv. 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 a 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 profit-making and groups of contracts expected to be onerous.

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 method may be used.

The initial date of IFRS 17 was annual periods beginning on or after January 1, 2021. On November 14, 2018, in response to stakeholders' concerns and implementation challenges, the IASB deferred the effective date of IFRS 17 by one year. Therefore, the effective date of IFRS 17 is annual periods beginning on or after January 1, 2022.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

4. Changes in accounting standards (continued):

IFRS 17 will materially change the recognition and measurement of insurance contracts and the corresponding presentation and disclosures in the Company's financial statements. In addition, it could have a material effect on tax and regulatory capital positions that are dependent on IFRS accounting values.

(iii) IFRS 16: Leases ("IFRS 16"):

In January 2016, the IASB issued IFRS 16 which sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 replaces IAS 17: Leases ("IAS 17"). The new standard removes the current requirement of classifying leases as finance or operating leases by introducing a single lessee accounting model. Under the new model, the lessee will be required to recognize a right of use asset and a lease liability for the lease component of future payments. Lessees will also be required to replace operating lease expenses with the depreciation expense for the right of use assets and interest expense on lease liabilities in the statement of income. There are no significant changes to lessor accounting requirements.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with retrospective application and some practical expedients available on adoption.

IFRS 16 will result in leases currently classified as operating leases being recorded on the Company's statement of financial position. The Company will apply a modified retrospective approach to transition by electing to record right of use assets based on the corresponding lease liabilities with no impact to retained earnings. The Company will adjust its statement of financial position as of January 1, 2019, the date of initial application, with no restatement of comparative periods. On transition, the Company qualifies for and expects to utilize various practical expedients that are available including practical expedients around (a) lease classification and (b) exclusion of some initial costs from the measurement of the right of use asset recognized on transition. The Company is finalizing its position on the adoption of IFRS 16 and the impact of adoption of the standard is being determined.

(iv) 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 when there is uncertainty over income tax treatments. An entity is required to recognize and measure its taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates applying this interpretation.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

4. Changes in accounting standards (continued):

IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The interpretation requires retrospective application, with some practical expedients available on adoption.

The Company is currently assessing the impact of IFRIC 23.

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:

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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 legal, property maintenance and other loss adjustment expenses incurred in the claim settlement process. Loss reserves consist of individual case reserves, Incurred But Not Reported ("IBNR") reserves and supplemental loss reserves for potential adverse deviation.

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

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

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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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
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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:

	2018	2017
Unearned premium reserves, beginning of year	\$ 2,129,758	\$ 2,142,903
Premiums written during the year	638,995	662,706
Premiums earned during the year	(680,217)	(675,851)
Unearned premium reserves, end of year	\$ 2,088,536	\$ 2,129,758

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 which both 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 dynamic regression 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, 2018 and 2017 identified a surplus in the Company's unearned premiums reserve and thus no premium deficiency reserve is required at these reporting dates.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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:

	2018	2017
Case reserves	\$ 82,581	\$ 79,914
Incurred but not reported reserves	35,480	33,205
Discounting	(2,161)	(1,757)
Provision for adverse deviation	7,864	7,589
Total loss reserves	\$ 123,764	\$ 118,951

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

6. Insurance contracts (continued):

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

	2018	2017
Loss reserves, beginning of year	\$ 118,951	\$ 163,467
Claims paid during the year	(95,228)	(113,381)
Net losses on claims incurred during the year:		
Losses on claims related to the current year	115,183	105,861
Favourable development on losses on claims related to prior years	(15,142)	(36,996)
Loss reserves, end of year	\$ 123,764	\$ 118,951

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, 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 the year ended December 31, 2017, the Company experienced favourable development of \$36,996, or approximately 23% of the total loss reserves at the beginning of the year. The favourable development was caused primarily by improving economic conditions in Quebec and strong housing markets in Ontario and British Columbia, offsetting modest unfavourable development in Alberta, Saskatchewan and Manitoba.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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).

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Claims incurred at the end of											
the default year	\$ 196,586	\$ 175,189	\$172,200	\$ 143,388	\$ 132,299	\$ 118,498	\$ 132,945	\$ 156,910	\$ 105,861	\$ 115,183	
Claims incurred one year later	218,890	193,820	193,226	141,957	128,042	112,834	119,428	128,609	101,046	—	
Claims incurred two years later	247,663	217,034	196,377	140,572	126,540	109,894	114,127	121,913	—	—	
Claims incurred three years later	252,041	218,884	195,903	140,196	126,293	109,697	113,154	—	—	—	
Claims incurred four years later	255,282	218,088	194,969	139,809	125,596	109,189	—	—	—	—	
Claims incurred five years later	254,725	217,036	194,383	139,297	125,340	—	—	—	—	—	
Claims incurred six years later	253,795	217,624	193,142	137,919	—	—	—	—	—	—	
Claims incurred seven years later	252,995	216,877	192,626	—	—	—	—	—	—	—	
Claims incurred eight years later	252,995	216,877	—	—	—	—	—	—	—	—	
Claims incurred nine years later	252,995	—	—	—	—	—	—	—	—	—	
Current estimate of claims incurred	\$ 252,995	\$ 216,877	\$192,626	\$ 137,919	\$ 125,340	\$ 109,189	\$ 113,154	\$ 121,913	\$ 101,046	\$ 115,183	\$ 1,486,242
Cumulative payments to date	\$ 252,995	\$ 216,877	\$192,626	\$ 137,274	\$ 125,279	\$ 108,770	\$ 112,228	\$ 117,551	\$ 78,789	\$ 20,089	\$ 1,362,478
Current loss reserves	\$ —	\$ —	\$ —	\$ 645	\$ 61	\$ 419	\$ 926	\$ 4,362	\$ 22,257	\$ 95,094	\$ 123,764
Current estimate of surplus (deficiency)	\$ (56,409)	\$ (41,688)	\$ (20,426)	\$ 5,469	\$ 6,959	\$ 9,309	\$ 19,791	\$ 34,997	\$ 4,815	\$ —	
Surplus (deficiency) of initial gross loss reserve	(29)%	(24)%	(12)%	4%	5%	8%	15%	22%	5%	—	

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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.

2018 Sensitivity factor	Change in assumptions	Impact on income before income taxes	Impact on shareholders' equity
Claim frequency	+10%	\$ (24,949)	\$ (18,213)
	-10%	24,949	18,213
Claim severity	+10%	\$ (24,949)	\$ (18,213)
	-10%	24,949	18,213

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

6. Insurance contracts (continued):

(c) Subrogation recoverable:

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

	2018	2017
Subrogation rights related to real estate, beginning of year	\$ 45,533	\$ 51,225
Subrogation rights related to real estate acquired as a result of settling claims, at fair value	167,396	203,658
Change in market value of real estate on hand	4,838	5,289
Subrogation rights related to real estate disposed of during the year	(174,943)	(214,639)
Subrogation rights related to real estate, end of year	42,824	45,533
Estimated borrower recoveries, beginning of year	13,770	16,017
Net estimated borrower recoveries recognized	4,903	1,637
Borrower recoveries received	(4,790)	(5,133)
Discounting	(247)	(135)
Provision for adverse deviation	(350)	1,384
Estimated borrower recoveries, end of year	13,286	13,770
Subrogation recoverable, end of year	\$ 56,110	\$ 59,303

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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:

	2018	2017
Deferred policy acquisition costs, beginning of year	\$ 208,046	\$ 206,810
Policy acquisition costs deferred during the year	65,939	68,055
Deferred policy acquisition costs expensed during the year	(67,599)	(66,819)
Net change in deferred policy acquisition costs during the year	(1,660)	1,236
Deferred policy acquisition costs, end of year	\$ 206,386	\$ 208,046

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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 prime 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, 2018 compared to December 31, 2017.

(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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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 cyclicity 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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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.

	2018		2017	
Ontario	\$	233,626 36%	\$	262,052 40%
Alberta		131,595 21%		122,821 19%
British Columbia		74,033 12%		87,390 13%
Quebec		103,600 16%		94,192 14%
Other		96,141 15%		96,251 14%
	\$	638,995 100%	\$	662,706 100%

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, 2018 is \$6,329,431 (2017 - \$6,404,902) and comprises \$48,683 (2017 - \$221,397) of short-term investments, \$41,183 (2017 - \$31,902) of accrued investment income and other receivables, \$5,555,559 (2017 - \$5,394,204) of bonds and debentures, \$517,847 (2017 - \$546,775) of preferred shares, \$110,049 of derivative financial instruments in an asset position (2017 - \$151,321) and \$56,110 (2017 - \$59,303) of subrogation recoverable.

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2018 and 2017

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.

Credit rating	2018		2017	
	Carrying value amount	%	Carrying value amount	%
Bonds and debentures and short-term investments:				
AAA	\$ 2,293,710	40.9	\$ 2,320,746	41.3
AA	1,008,112	18.0	1,125,624	20.0
A	1,681,387	30.0	1,593,226	28.4
BBB	614,919	11.0	566,130	10.1
BB	6,114	0.1	9,875	0.2
	5,604,242	100.0	5,615,601	100.0
Preferred Shares				
P2	408,006	78.8	429,666	78.6
P3	109,841	21.2	117,109	21.4
	517,847	100.0	546,775	100.0
	\$ 6,122,089		\$ 6,162,376	

As at December 31, 2018, 88.9% of the Company's bonds and debentures were rated 'A' or better, compared to 89.7% at December 31, 2017. As at December 31, 2018 and December 31, 2017, all of the Company's preferred shares were rated P3 or better.

The Company did not hold any impaired financial assets at December 31, 2018 and 2017.

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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.

	2018		2017	
	Carrying value amount	%	Carrying value amount	%
By country of issuance:				
Canada	\$ 4,935,716	80.6	\$ 5,289,503	85.8
Other	1,186,373	19.4	872,873	14.2
	\$ 6,122,089	100.0	\$ 6,162,376	100.0
By industry:				
Government	\$ 2,858,207	46.7	\$ 3,074,059	49.9
Bank, insurance, and other financial institutions	1,105,698	18.1	1,172,779	19.0
Energy - Direct ⁽¹⁾	65,900	1.1	75,948	1.2
Energy - Indirect ⁽¹⁾	361,878	5.9	371,961	6.0
Infrastructure	120,823	1.9	98,109	1.6
Collateralized loan obligations ⁽²⁾	531,881	8.7	357,495	5.8
All other sectors	1,077,702	17.6	1,012,025	16.5
	\$ 6,122,089	100.0	\$ 6,162,376	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 rebalancing as deemed necessary.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
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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, 2018, the Company's net derivative assets were \$28,482 (2017 - \$129,683 net derivative asset) and the Company has posted \$1,800 collateral in the form of Canadian federal government bonds for the benefit of its counterparties and accepted collateral of \$44,984 from its counterparties comprised of \$10,680 cash and \$34,304 Canadian federal and provincial government bonds (2017 - the Company accepted collateral of \$109,577 from its counterparties comprised of \$38,060 cash and \$71,517 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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2018 and 2017

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, 2018, the Company has cash and cash equivalents of \$266,846 excluding \$10,680 cash pledged as collateral to the Company from its derivative counterparties (2017 - \$248,920 excluding \$38,060 cash pledged as collateral to the Company from its derivative counterparties) and short-term investments of \$48,683 (2017 - \$221,397).

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
2018	\$ 476,080	\$ 1,417,012	\$ 1,282,422	\$ 1,717,176	\$ 711,552	\$ 5,604,242
2017	\$ 732,244	\$ 1,186,860	\$ 1,290,854	\$ 1,895,862	\$ 509,781	\$ 5,615,601

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

7. Financial risk management (continued):

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

	Within 1	1 - 3	3 - 5	5 - 10	Over 10	
2018	year	years	years	years	years	Total
Non-derivative financial liabilities:						
Accounts payable and accrued liabilities	\$ 54,903	\$ —	\$ —	\$ —	\$ —	\$ 54,903
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
	Within 1	1 - 3	3 - 5	5 - 10	Over 10	
2017	year	years	years	years	years	Total
Non-derivative financial liabilities:						
Accounts payable and accrued liabilities	\$ 64,665	\$ —	\$ —	\$ —	\$ —	\$ 64,665
Income taxes payable	43,637	—	—	—	—	43,637
Loss reserves (at Actuarial Present Value)	101,134	17,817	—	—	—	118,951
Long-term debt	—	275,000	—	160,000	—	435,000
Derivative financial liabilities:						
Derivative financial instruments	38,870	2,382	10,634	7,812	—	59,698
Total	\$ 248,306	\$ 295,199	\$ 10,634	\$ 167,812	\$ —	\$ 721,951

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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 in conjunction with the management of interest rate risk related to its fixed income investments. During the year ended December 31, 2018, the Company commenced purchasing interest rate floors. 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.

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 decrease 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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

7. Financial risk management (continued):

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 decrease the market value of the Company's interest rate swaps by the same amount.

As at December 31, 2018, the Company has interest rate floor contracts with a notional value of \$3,000,000 and has paid premium of \$8,100. 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 \$8,168. Conversely, a 100 basis point, or 1%, decrease in interest rates would increase the market value of the Company's interest rate floors by \$46,819.

As at December 31, 2017, 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 \$225,418, representing 3.66% of the \$6,162,376 fair value of these investments, and decrease the value of loss reserves by \$769. 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 \$242,308 representing 3.93% of the fair value, and increase the value of loss reserves by approximately \$783.

As at December 31, 2017, 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 \$132,530. 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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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.

	2018	2017
Bonds and debentures denominated in U.S. dollars ⁽¹⁾	\$ 1,186,373	\$ 872,873
Less: Foreign currency forward contract notional amount	532,754	416,325
Cross currency interest rate swap notional amount	587,733	438,509
Total derivative financial instrument notional amount	1,120,487	854,834
Net currency exposure from financial instruments	\$ 65,886	\$ 18,039

⁽¹⁾ Bonds and debentures denominated in U.S. dollars consists of \$467,666 of emerging market debt (2017 - \$402,609), \$531,881 of collateralized loan obligations (2017 - \$357,495) and \$186,826 of Global bonds (2017 - \$112,769).

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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 (“MCT”) to support its outstanding mortgage insurance in force. The MCT ratio is calculated based on methodology prescribed by OSFI. On January 1, 2017, the capital advisory titled “Capital Requirements for Federally Regulated Mortgage Insurers” came into effect, replacing OSFI's advisory, “Interim Capital Requirements for Mortgage Insurance Companies”, which had been in effect since January 1, 2015. The advisory provides a regulatory capital framework for determining the capital requirements for mortgage insurance companies. The framework is more risk sensitive compared to the previous framework and incorporates additional risk attributes, including credit score, remaining amortization and outstanding loan balance.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

8. Capital management and regulatory requirements (continued):

The advisory focuses 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 will be 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.

Effective January 1, 2017, the OSFI supervisory target ratio and the minimum MCT ratio under PRMHIA is 150%.

As at December 31, 2018, the Insurance Subsidiary had an MCT ratio of approximately 171% (2017 - 172%) and management has determined that the Insurance Subsidiary has complied with regulatory capital requirements.

On August 9, 2018, OSFI issued the guideline entitled "Mortgage Insurer Capital Adequacy Test" ("2019 MICAT") that became effective on January 1, 2019. The new guideline consolidates OSFI's current 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 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 current calculation.
- The 2019 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 existing regulatory capital framework to use the updated 2016 credit score for 2015 and prior books in the calculation of the total asset requirement.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

8. Capital management and regulatory requirements (continued):

- 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.

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

9. Investments:

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

	2018				2017			
	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	142,342	142,342	—	2.2	\$ 127,168	\$ 127,168	\$ —	2.0
Cash ⁽¹⁾	135,184	135,184	—	2.1	159,812	159,812	—	2.5
	277,526	277,526	—	4.3	286,980	286,980	—	4.5
AFS investments:								
Short-term investments:								
Canadian federal government treasury bills	48,683	48,699	(16)	0.8	221,397	221,403	(6)	3.4
Government bonds and debentures:								
Canadian federal government ⁽²⁾	1,951,652	1,934,829	16,823	30.5	1,907,016	1,890,802	16,214	29.6
Canadian provincial and municipal governments	857,872	834,076	23,796	13.4	945,646	907,128	38,518	14.7
	2,809,524	2,768,905	40,619	43.9	2,852,662	2,797,930	54,732	44.3
Corporate bonds and debentures:								
Financial	780,336	788,413	(8,077)	12.2	843,456	838,550	4,906	13.1
Energy	342,916	343,298	(382)	5.4	349,221	341,324	7,897	5.4
Infrastructure	120,823	118,747	2,076	1.9	98,109	94,019	4,090	1.5
All other sectors	970,079	979,412	(9,333)	15.2	893,261	878,736	14,525	13.9
	2,214,154	2,229,870	(15,716)	34.7	2,184,047	2,152,629	31,418	33.9
Collateralized loan obligations	531,881	540,322	(8,441)	8.2	357,495	355,990	1,505	5.5
Total AFS bonds and debentures	5,555,559	5,539,097	16,462	86.8	5,394,204	5,306,549	87,655	83.7
Preferred Shares:								
Financial	325,362	367,441	(42,079)	5.1	329,323	318,501	10,822	5.1
Energy	84,862	95,457	(10,595)	1.3	98,688	91,654	7,034	1.5
All other sectors	107,623	120,820	(13,197)	1.7	118,764	112,213	6,551	1.8
	517,847	583,718	(65,871)	8.1	546,775	522,368	24,407	8.4
Total investments	6,399,615	6,449,040	(49,425)	100.0	\$ 6,449,356	\$ 6,337,300	\$ 112,056	100.0

⁽¹⁾ Cash includes \$10,680 (December 31, 2017 - \$38,060) 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, 2018, the Company had collateral posted of \$1,800 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, 2017 - nil).

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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⁾.

	2018	2017
Terms to maturity:		
Federal, provincial and municipal bonds and debentures and short-term investments:		
1 year or less	\$ 350,833	\$ 472,119
1 - 3 years	816,380	736,343
3 - 5 years	582,308	662,414
5 - 10 years	895,411	970,631
Over 10 years	213,275	232,552
	2,858,207	3,074,059
Corporate bonds and debentures and collateralized loan obligations:		
1 year or less	125,247	260,125
1 - 3 years	600,632	450,517
3 - 5 years	700,114	628,440
5 - 10 years	821,765	925,231
Over 10 years	498,277	277,229
	2,746,035	2,541,542
	\$ 5,604,242	\$ 5,615,601

⁽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 \$531,881 (2017 - \$357,495) are denominated in U.S. dollars. The CLOs are structured credit securities, collateralized by U.S. bank loans with an average AAA credit rating, that pay interest based on floating interest rates indexed to the London Interbank Offered Rate. Additionally, corporate bonds and debentures includes \$467,666 of emerging market bonds (2017 - \$402,609) and \$186,826 of Global bonds (2017 - \$112,769) 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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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.

During the year ended December 31, 2018, the Company commenced purchasing interest rate floors. 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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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:

December 31, 2018	Derivative asset	Derivative liability ⁽¹⁾	Net fair value	Notional Amount				Total
				1 year or less	1 - 3 years	3 - 5 years	Over 5 years	
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

December 31, 2017	Derivative asset	Derivative liability ⁽¹⁾	Net fair value	Notional Amount				Total
				1 year or less	1 - 3 years	3 - 5 years	Over 5 years	
Foreign currency forwards	\$ 6,135	\$ (21,608)	\$ (15,473)	\$ 184,921	\$ 28,401	\$ 85,772	\$ 117,231	\$ 416,325
Cross currency interest rate swaps	13,735	(30)	13,705	36,336	155,870	83,949	162,354	438,509
Equity total return swaps	381	—	381	27,398	—	—	—	27,398
Interest rate swaps	131,070	—	131,070	—	—	3,500,000	—	3,500,000
Total	\$ 151,321	\$ (21,638)	\$ 129,683	\$ 248,655	\$ 184,271	\$ 3,669,721	\$ 279,585	\$ 4,382,232

(1) Excludes \$10,680 cash pledged as collateral by counterparties for derivative contracts (December 31, 2017 - \$38,060).

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

9. Investments (continued):

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

	2018	2017
Unrealized foreign exchange gain (loss) on bonds and debentures denominated in U.S. dollars	\$ 88,218	\$ (82,501)
Unrealized (losses) gains on foreign currency forward and cross currency interest rate swap contracts	(86,215)	42,552
Realized foreign exchange gains	600	26,336
Net gains (losses) on foreign exchange	2,603	(13,613)
(Losses) gains on interest rate swap contracts ⁽¹⁾	(7,364)	92,795
Gains on interest rate floor contracts ⁽¹⁾	810	—
Net (losses) gains on derivatives and foreign exchange	\$ (3,951)	\$ 79,182

⁽¹⁾ Includes \$21,735 of net realized interest rate swap and interest rate floor income related to contractual cash flows (December 31, 2017 - \$492 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, 2018, the Company has and has posted \$1,800 collateral in the form of Canadian federal government bonds for the benefit of its counterparties and accepted collateral of \$44,984 from its counterparties comprised of \$10,680 cash and \$34,304 Canadian federal and provincial government bonds (2017 - the Company accepted collateral of \$109,577 from its counterparties comprised of \$38,060 cash and \$71,517 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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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, 2018 and 2017 the Company had loaned the following investments under its securities lending program:

	2018	2017
Cash equivalents	\$ 80,455	\$ 120,086
Short-term investments	—	633
Bonds and debentures	608,847	350,402
Preferred shares	9,452	7,423
	<hr/>	<hr/>
	\$ 698,754	\$ 478,544

As at December 31, 2018, the Company has accepted eligible securities as collateral with a fair value of \$732,749 (2017 - \$501,536).

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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, 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"):

Financial Asset	SPPI		Non-SPPI	
	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)

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the credit risk ratings of SPPI financial assets at December 31, 2018:

Credit Rating	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

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

10. Income taxes:

The provision for income taxes comprises the following:

	2018	2017
Current tax:		
Current income taxes	\$ 159,324	\$ 186,425
Current income tax adjustments in respect of prior years	3,168	(804)
	162,492	185,621
Deferred tax:		
Origination and reversal of temporary differences	(1,092)	2,470
Impact of changes in income tax rates	163	194
	(929)	2,664
Total income tax expense	\$ 161,563	\$ 188,285

Income taxes recognized in OCI comprise the following:

	2018	2017
Net income tax recovery related to AFS financial assets	\$ (47,378)	\$ (5,751)
Income tax charge (recovery) related to re-measurement of employee benefit plan obligations	1,455	(875)
Total income tax recovery recognized in OCI	\$ (45,923)	\$ (6,626)

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

10. Income taxes (continued):

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

	2018	2017
Income before income taxes	\$ 613,114	\$ 715,791
Combined basic Canadian federal and provincial income tax rate	27.00%	26.81%
Income tax expense based on statutory income tax rate	\$ 165,541	\$ 191,904
Increase (decrease) in income tax resulting from:		
Non-taxable income	(7,192)	(3,605)
Effect of increases in income tax rates	163	194
Income tax adjustments in respect of prior years	3,051	(208)
Income tax expense	\$ 161,563	\$ 188,285

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.

The difference between the effective income tax rate and statutory tax rate in 2017 is primarily attributable to non-taxable dividend income.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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:

	2018	2017
Deferred tax assets:		
Employee benefits	\$ 15,433	\$ 16,043
Loss reserves	1,671	1,600
Tax losses available for carry forward	1,846	10,366
Unearned premiums reserve	8,857	—
	<u>27,807</u>	<u>28,009</u>
Deferred tax liabilities:		
Investments	(732)	(949)
Policy reserves	(65,777)	(64,772)
Property and equipment and intangible assets	(2,794)	(3,035)
Financing costs	(36)	(259)
	<u>(69,339)</u>	<u>(69,015)</u>
Net deferred tax liability	\$ (41,532)	\$ (41,006)

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

	2018	2017
Deferred tax liability, beginning of year	\$ 41,006	\$ 39,217
Expense for the year	(929)	2,664
OCI recognized for the year	1,455	(875)
Deferred tax liability, end of year	\$ 41,532	\$ 41,006

All deferred tax assets have been recognized as at December 31, 2018 and 2017 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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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 (2017- three times) his base salary in applicable securities. Other specified senior executives are required to own at least two times (2017- one time) 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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

11. Related party transactions and balances (continued):

Compensation for the Company's seven key management personnel and six independent directors (2017 - seven key management personnel and six independent directors) is comprised of the following:

		2018		2017
Short-term employee benefits	\$	4,159	\$	4,245
Post-employment benefits		893		760
Share-based compensation		1,579		2,214
Director fees		639		1,183
Total compensation	\$	7,270	\$	8,402

(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%

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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 Investees are required under the Act to meet an MCT to support their outstanding mortgage insurance policies in force. Accordingly, the payment of dividends and other distributions by the Insurance Subsidiary to the Company are subject to compliance with the MCT and other applicable regulatory requirements.

(c) Other related party transactions:

The Company enters into related party transactions with Genworth Financial Inc. and its subsidiaries. Services rendered by Genworth Financial Inc. and its subsidiaries consist of information technology, finance, human resources, legal and compliance and other specified services. The services rendered by the Company and the Insurance Subsidiary relate mainly to financial reporting and tax compliance support services. These transactions are in the normal course of business and are at terms and conditions no less favourable than market. Balances owing for service transactions are non-interest bearing and are settled on a quarterly basis.

The Company incurred net related party charges of \$6,503 for the year ended December 31, 2018, recorded in office expenses in the consolidated statements of income (2017 - \$6,269). The balance owing for related party services at December 31, 2018 is \$366 (2017 - \$168 receivable) and is reported in accounts payable and accrued liabilities in the consolidated statements of financial position.

During the year ended December 31, 2018, the Company repurchased 3,580,939 (2017 - 1,114,260) of its own common shares for cancellation on the open market for an aggregate purchase price of \$150,016 (December 31, 2017 - \$40,005). Genworth Financial Inc., through its subsidiaries, participated proportionately in the share purchase transaction. See note 18 for additional disclosure on the share repurchase transaction.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

12. Commitments:

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

Future minimum lease commitments at December 31, 2018 and 2017 are as follows:

	2018	2017
Less than 1 year	\$ 2,770	\$ 2,818
Later than 1 year but less than 5 years	8,959	10,057
	<u>\$ 11,729</u>	<u>\$ 12,875</u>

Lease payments recognized as an expense for the year ended December 31, 2018 were \$3,084 (2017 - \$3,058).

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

13. Employee benefits:

Defined contribution pension benefit plan:

The Company's eligible employees participate in a registered defined contribution pension plan. The plan has immediate vesting. 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 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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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, 2018 and 2017 are based on plan membership data as at the respective period ends. The weighted average duration of the SERP is 20 years. For the NPPRB plan, actuarial valuations for the years ended December 31, 2018 and 2017 are based on plan membership data as at August 1, 2018 and June 1, 2015, respectively. The weighted average duration of the NPPRB plan is 23 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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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	
	2018	2017	2018	2017	2018	2017
Accrued net benefit liabilities under employee benefit plans	\$ 27,691	\$ 26,128	\$ 18,815	\$ 22,265	\$ 46,506	\$ 48,393

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

	SERP		NPPRB		Total	
	2018	2017	2018	2017	2018	2017
Accrued net benefit liabilities of active plan members	\$ 17,915	\$ 16,996	\$ 14,188	\$ 18,127	\$ 32,103	\$ 35,123
Accrued net benefit liabilities of retirees and deferred vested benefit recipients	9,776	9,132	4,627	4,138	14,403	13,270
Accrued net benefit liabilities under employee benefit plans	\$ 27,691	\$ 26,128	\$ 18,815	\$ 22,265	\$ 46,506	\$ 48,393

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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	
	2018	2017	2018	2017	2018	2017
Defined benefit expense:						
Benefits earned by employees	\$ 983	\$ 966	\$ 1,498	\$ 1,321	\$ 2,481	\$ 2,287
Prior service costs	157	—	—	—	157	—
Interest costs on accrued benefit liability	958	925	819	760	1,777	1,685
Defined benefit expense for the year	2,098	1,891	2,317	2,081	4,415	3,972
Defined contribution expense for the year	2,401	2,371	—	—	2,401	2,371
Total pension and non-pension post-retirement benefit expense for the year	\$ 4,499	\$ 4,262	\$ 2,317	\$ 2,081	\$ 6,816	\$ 6,343

The actuarial gains recognized in the consolidated statements of comprehensive income relating to the SERP are \$27 for the year ended December 31, 2018 (2017 - actuarial losses of \$1,304). The actuarial gains recognized in the consolidated statements of comprehensive income relating to the NPPRB plan are \$5,663 (2017 - actuarial losses of \$1,948).

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

13. Employee benefits (continued):

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

	SERP		NPPRB		Total	
	2018	2017	2018	2017	2018	2017
Accrued net benefit liabilities under employee benefit plans, beginning of year	\$ 26,128	\$ 23,390	\$ 22,265	\$ 18,320	\$ 48,393	\$ 41,710
Benefits earned by employees during the year	983	966	1,498	1,321	2,481	2,287
Prior service costs	157	—	—	—	157	—
Interest costs on accrued liability incurred during the year	958	925	819	760	1,777	1,685
Benefits paid to pensioners during the year	(508)	(457)	(104)	(84)	(612)	(541)
Actuarial (gains) losses from plan re-measurement	(27)	1,304	(5,663)	1,948	(5,690)	3,252
Accrued net benefit liabilities under employee benefit plans	\$ 27,691	\$ 26,128	\$ 18,815	\$ 22,265	\$ 46,506	\$ 48,393

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	
	2018	2017	2018	2017	2018	2017
Actuarial losses (gains):						
Experience losses (gains)	\$ 1,074	\$ (485)	\$ (4,123)	\$ (137)	\$ (3,049)	\$ (622)
Changes in assumptions:						
Financial assumptions	(1,101)	1,571	343	1,897	(758)	3,468
Demographic assumptions	—	218	(1,883)	188	(1,883)	406
Total changes in assumptions	(1,101)	1,789	(1,540)	2,085	(2,641)	3,874
	\$ (27)	\$ 1,304	\$ (5,663)	\$ 1,948	\$ (5,690)	\$ 3,252

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

13. Employee benefits (continued):

Defined benefit plan assumptions:

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

	SERP		NPPRB	
	2018	2017	2018	2017
Discount rate	3.90%	3.70%	3.90%	3.70%
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 CIA 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	5.63%	6.07%

⁽¹⁾ Grading down to 4.50% per year in and after 2029.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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, 2018 and 2017 on the benefit obligations.

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)

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

13. Employee benefits (continued):

2017		SERP	NPPRB
Increase (decrease) in benefit obligations:			
Discount rate:			
Impact of 1% increase	\$	(4,691)	\$ (4,230)
Impact of 1% decrease	\$	6,156	\$ 5,357
Change in rate of compensation increase:			
Impact of 1% increase	\$	2,084	n/a
Impact of 1% decrease	\$	(1,866)	n/a
Mortality rate:			
Impact of 1 additional year of life expectancy	\$	108	\$ 430
Impact of 1 less year of life expectancy	\$	(161)	\$ (408)
Assumed overall health care cost trend rate:			
Impact of 1% increase		n/a	\$ 1,076
Impact of 1% decrease		n/a	\$ (1,214)

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

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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:

	Pension		Post-Retirement Benefits	
	2018	2017	2018	2017
Benefits paid for defined benefit plans	\$ 508	\$ 457	\$ 104	\$ 84
Contribution to defined contribution plan	2,401	2,371	—	—
	\$ 2,909	\$ 2,828	\$ 104	\$ 84

The Company expects to contribute the following amounts to its employee benefit plans during the annual period beginning after December 31, 2018:

Defined contribution plan	\$ 2,396
SERP	661
NPPRB	255
Total	\$ 3,312

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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, 2018 is \$19.00 to \$41.49 (2017 - \$19.00 to \$33.89).

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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 recoupment 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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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, 2018, the Company has 1,160,167 common shares remaining that are available for distribution (2017 - 1,230,781).

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

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	—

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

14. Share-based compensation (continued):

2017	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	957,063	\$ 24.09	\$ 7,802	137,430	\$ 4,626	64,214	\$ 2,161	97,378	\$ 3,278	45,283	\$ 1,524
Granted	69,600	33.89	—	43,736	1,482	6,969	265	43,247	1,451	—	—
Dividend equivalents granted	—	—	—	6,162	181	3,291	91	4,274	125	2,228	66
Exercised	(192,200)	19.48	(4,355)	(43,014)	(1,430)	—	—	(48,633)	(1,622)	—	—
Forfeited	(9,700)	23.47	(212)	(16,566)	(473)	—	—	(5,119)	(128)	—	—
Changes in fair value	—	—	9,383	—	1,171	—	723	—	861	—	477
Outstanding as at December 31	824,763	25.99	\$ 12,618	127,748	\$ 5,557	74,474	\$ 3,240	91,147	\$ 3,965	47,511	\$ 2,067
Exercisable as at December 31	682,860	\$ 25.26	\$ 11,018	—	—	74,474	\$ 3,240	—	—	—	—
Weighted average remaining contractual life (years)	4.7	—	—	1.7	—	—	—	1.7	—	1.8	—

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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:

	2018	2017
Share price at reporting date	\$ 40.20	\$ 43.50
Weighted average exercise price per share	\$ 28.62	\$ 25.99
Expected volatility	24.07%	24.45%
Expected option life (years)	9.0	9.8
Expected dividend yield	5.08%	4.32%
Weighted average risk-free interest rate	1.87%	1.70%

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

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14. Share-based compensation (continued):

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

	2018	2017
Expenses arising from:		
Options	\$ (845)	\$ 8,090
RSUs	1,594	1,972
PSUs	1,420	2,173
EDSUs	46	598
DSUs	191	1,077
	\$ 2,406	\$ 13,910
Effect of equity total return swaps	\$ 1,314	\$ (7,173)
Net share-based compensation expense	\$ 3,720	\$ 6,737

	2018	2017
Total carrying amount of liabilities for cash-settled arrangements	\$ 17,394	\$ 23,485
Total intrinsic value of liability for vested benefits	\$ 10,658	\$ 17,339

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

15. Intangible Assets:

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

Cost		
Balance at January 1, 2017	\$	47,019
Acquisitions - externally purchased		1,497
Balance at December 31, 2017		48,516
Acquisitions - externally purchased		2,360
Balance at December 31, 2018	\$	50,876

Amortization		
Balance at January 1, 2017	\$	36,949
Amortization for the year		3,215
Balance at December 31, 2017		40,164
Amortization for the year		2,677
Balance at December 31, 2018	\$	42,841

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

Carrying amounts		
At December 31, 2017	\$	8,352
At December 31, 2018	\$	8,035

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

16. Transactions with lenders:

Gross premiums written from two major lenders (defined as a lender that individually accounts for more than 10% of the Company's gross premiums written) was \$136,660, representing 21.4% of the Company's total gross premiums written for the year ended December 31, 2018 (2017 - gross premiums written from one major lender that accounted for more than 10% of the Company's gross premiums written was \$67,271 or 10.2%).

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 1.6% (2017 - 1.7%) to the last year of the multi-year plan cash flow estimate. The growth rates at December 31, 2018 and 2017 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 15.35% (2017 - 16.9%) was applied in determining the recoverable amount of the unit. The discount rates as at December 31, 2018 and 2017 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, 2018 (2017 - nil).

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

18. Share capital:

The share capital of the Company comprises the following:

	2018	2017
Authorized:		
Unlimited common shares with nominal or no par value ⁽¹⁾		
1 special share ⁽²⁾		
Issued:		
87,591,163 common shares (2017 - 90,942,040)	\$ 1,315,438	\$ 1,359,220
1 special share	—	—
Share capital	\$ 1,315,438	\$ 1,359,220

⁽¹⁾ Holders of common shares will, except where otherwise provided by law and subject to the rights of the holder of the special share, be entitled to elect a portion of the Board of Directors, vote at all meetings of shareholders of the Company and be entitled to one vote per common share. Holders of common shares are entitled to receive dividends as and when declared by the Board 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.

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

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

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

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

18. Share capital (continued):

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

	2018	2017
Common shares, January 1	90,942,040	91,864,100
Common shares issued in connection with share-based compensation plans	230,062	192,200
Common shares retired under share repurchase	(3,580,939)	(1,114,260)
Common shares, December 31	87,591,163	90,942,040

At December 31, 2018, subsidiaries of Genworth Financial Inc. owned 49,884,740 common shares of the Company or approximately 57.0% (2017 - 51,925,742 or approximately 57.1%).

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

On May 2, 2017 the Company received approval by the Toronto Stock Exchange 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 NCIB expired on May 4, 2018.

During the year ended December 31, 2017, under the terms of the 2017 NCIB, the Company repurchased 1,114,260 shares for cancellation, for an aggregate purchase price of \$40,005.

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 MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

18. Share capital (continued):

During the year ended December 31, 2018, the Company received approval by the Toronto Stock Exchange for the Company to undertake a normal course issuer bid ("2018 NCIB"). Pursuant to the 2018 NCIB, the Company can purchase, for cancellation, up to 4,489,616 shares representing approximately 5% of its outstanding common shares. Purchases of common shares under the 2018 NCIB could commence on or after May 7, 2018 and will conclude on the earlier of May 6, 2019 and the date on which the Company has purchased the maximum number of shares under the 2018 NCIB.

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.

The Company's majority shareholder, Genworth Financial Inc., through its subsidiaries, participated proportionately in the 2018 and 2017 NCIBs.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

19. Long-term debt:

On June 29, 2010, the Company completed an offering of \$275,000 principal amount of senior unsecured debentures ("Series 1"). The Series 1 debentures were issued for gross proceeds of \$274,862 or a price of \$99.95, before approximate issuance costs of \$2,413.

On April 1, 2014, the Company completed an offering of \$160,000 principal amount of senior unsecured debentures ("Series 3"). The Series 3 debentures were issued at par, before approximate issuance costs of \$1,365.

All debentures issued are redeemable at the option of the Company in whole or in part, at any time subject to an early redemption fee.

The issuance costs and discount are amortized over the respective terms of the debentures using the effective interest method.

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

	Series 1	Series 3
Date issued	June 29, 2010	April 1, 2014
Maturity date	June 15, 2020	April 1, 2024
Principal amount	\$275,000	\$160,000
Fixed annual rate	5.68%	4.242%
Semi-annual interest payment due each period on:	June 15 December 15	October 1 April 1

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

19. Long-term debt (continued):

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

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

December 31, 2017		Series 1	Series 3	Total
Carrying value	\$	274,219	\$ 159,080	\$ 433,299
Fair value		292,762	163,182	455,944

The Company's long-term debt is classified as a Level 2 financial instrument, as described in note 23, as the fair value of the debt is determined using observable market data.

The Company incurred interest expense of \$23,616 and \$23,526 for the years ended December 31, 2018 and 2017, respectively, with accrued interest payable of \$2,490 at December 31, 2018 (December 31, 2017 - \$2,490).

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

	Long Term Debt		Interest Payable
Balance at January 1, 2018	\$	433,299	\$ 2,490
Amortization of discount and capitalized borrowing costs		430	—
Interest expense on long-term debt		—	22,407
Interest paid		—	(22,407)
		430	—
Balance at December 31, 2018	\$	433,729	\$ 2,490

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

20. Credit Facility:

On September 29, 2017, the Company entered into a \$200 million senior unsecured revolving syndicated credit facility, with maturity date September 29, 2022. Any borrowings under the syndicated credit facility will bear 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 \$50 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.

On October 26, 2018, the Company increased the existing senior unsecured revolving syndicated credit facility to \$300 million, together with an increase in the accordion feature from \$50 million to \$100 million. The maturity date of the credit facility was extended to September 29, 2023.

As at December 31, 2018, there was no amount outstanding under the syndicated credit facility and all of the covenants were met (December 31, 2017 - nil).

21. Earnings per share:

Basic earnings per share have been calculated using the weighted average number of shares outstanding of 89,656,310 (2017 - 91,583,907). Diluted earnings per share have been calculated using the diluted weighted average number of shares outstanding of 90,183,338 (2017 -91,625,024).

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:

	2018	2017
Options	53,300	824,763
RSUs	—	82,543
DSUs	—	67,374
PSUs	—	61,132
Total	53,300	1,035,812

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

21. Earnings per share (continued):

Earnings per share are presented below:

	2018	2017
Basic earnings per share:		
Net income	\$ 451,551	\$ 527,506
Diluted earnings per share:		
Re-measurement amount net of income taxes	(1,434)	(83)
Earnings for purposes of diluted earnings per share	\$ 450,117	\$ 527,423
Basic weighted average common shares outstanding, beginning of year		
	90,942,040	91,864,100
Effect of share-based compensation exercised during the year	132,102	114,141
Effect of repurchase of common shares during the year	(1,417,832)	(394,334)
Weighted average basic common shares outstanding during the year	89,656,310	91,583,907
Basic earnings per share	\$ 5.04	\$ 5.76
Diluted earnings per share:		
Basic weighted average common shares outstanding during the year	89,656,310	91,583,907
Effect of share-based compensation during the year	527,028	41,117
Diluted weighted average common shares outstanding during the year	90,183,338	91,625,024
Diluted earnings per share	\$ 4.99	\$ 5.76

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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, 2018 and 2017.

	2018	2017
Assets:		
Derivative financial instruments	\$ 110,049	\$ 144,267
Bonds and debentures	5,128,162	4,883,357
Preferred shares	507,767	538,622
Subrogation recoverable	9,766	9,623
Total assets	5,755,744	5,575,869
Liabilities:		
Loss reserves	18,842	17,817
Derivative financial instruments	62,502	20,828
Accrued net benefit liabilities under employee benefit plans	45,590	47,637
Long-term debt	433,729	433,299
Total liabilities	560,663	519,581
Net liabilities due after one year	\$ 5,195,081	\$ 5,056,288

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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.

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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		
	AFS	FVTPL	Loans and receivables	Other financial liabilities	Level 1	Level 2	Level 3
2018							
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 ⁽¹⁾	—	(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

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

23. Fair value measurement (continued):

	Carrying amount				Fair value		
	AFS	FVTPL	Loans and receivables	Other financial liabilities	Level 1	Level 2	Level 3
2017							
Financial assets measured at fair value:							
Short-term investments	\$ 221,397	\$ —	\$ —	\$ —	\$ 166,279	\$ 55,118	\$ —
Derivative financial instruments	—	151,321	—	—	—	151,321	—
Bonds and debentures	5,394,204	—	—	—	—	5,394,204	—
Preferred shares	546,775	—	—	—	546,775	—	—
	6,162,376	151,321	—	—	713,054	5,600,643	—
Financial assets not measured at fair value:							
Cash and cash equivalents ⁽¹⁾	—	—	248,920	—	—	—	—
Accrued investment income and other receivables	—	—	31,902	—	—	—	—
	—	—	280,822	—	—	—	—
Financial liabilities measured at fair value:							
Derivative financial instruments	—	(21,638)	—	—	—	(21,638)	—
Financial liabilities not measured at fair value:							
Accounts payable and accrued liabilities	—	—	—	(64,665)	—	—	—
Long-term debt	—	—	—	(433,299)	—	(455,944)	—
	—	—	—	(497,964)	—	(455,944)	—
Total	\$ 6,162,376	\$ 129,683	\$ 280,822	\$ (497,964)	\$ 713,054	\$ 5,123,061	\$ —

⁽¹⁾ Excludes \$38,060 cash pledged as collateral by counterparties for derivative contracts

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017.

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

GENWORTH MI CANADA INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2018 and 2017

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. Comparatives:

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