Genworth MI Canada Inc.

Management's Discussion and Analysis

For the three and six months ended June 30, 2019

Interpretation

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

The following Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of operations as approved by the Company's board of directors (the "**Board**") on July 29, 2019 is prepared for the three and six months ended June 30, 2019. The unaudited condensed consolidated interim financial statements of the Company were prepared in accordance with International Financial Reporting Standards ("**IFRS**"), as issued by the International Accounting Standards Board ("**IASB**"). This MD&A should be read in conjunction with the Company's financial statements.

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

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

Caution regarding forward-looking information and statements

Certain statements made in this MD&A contain forward-looking information within the meaning of applicable securities laws ("**forward-looking statements**"). When used in this MD&A, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions, as they relate to the Company are intended to identify forward-looking statements. Specific forward-looking statements in this document include, but are not limited to, statements with respect to the impact of guideline changes by OSFI and legislation introduced in connection with the Protection of Residential Mortgage or Hypothecary Insurance Act ("**PRMHIA**"); the effect of changes to the mortgage insurance rules, including government guarantee mortgage eligibility rules and Ontario's Fair Housing Plan; and the Company's beliefs as to housing demand and home price appreciation, key macroeconomic factors, unemployment rates; the Company's future operating and financial results; the operating range for the Company's expense ratio; expectations regarding premiums written; capital expenditure plans, dividend policy and the ability to execute on its future operating, investing and financial strategies; and the potential disposition by Genworth Financial, Inc. of its equity interests in the Company.

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

The Company's actual results and performance could differ materially from those anticipated in these forward-looking statements as a result of both known and unknown risks, including: the continued availability of the Canadian government's guarantee of private mortgage insurance on terms satisfactory to the Company; the Company's expectations regarding its revenues, expenses and operations; the Company's plans to implement its strategy and operate its business; the Company's expectations regarding the compensation of directors and officers; the Company's anticipated cash needs and its estimates regarding its capital expenditures, capital requirements, reserves and its needs for additional financing; the Company's plans for and timing of expansion of service and products; the Company's ability to accurately assess and manage risks associated with the policies that are written; the Company's ability to accurately manage market, interest and credit risks; the Company's ability to maintain ratings, which may be affected by the ratings of its majority shareholder, Genworth Financial, Inc.; interest rate fluctuations; a decrease in the volume of high loan-to-value mortgage originations; the cyclical nature of the mortgage insurance industry; changes in government regulations and laws mandating mortgage insurance; the acceptance by the Company's lenders of new technologies and products; the Company's ability to attract lenders and develop and maintain lender relationships; the Company's competitive position and its expectations regarding competition from other providers of mortgage insurance in Canada; anticipated trends and challenges in the Company's business and the markets in which it operates; changes in the global or Canadian economies; a decline in the Company's regulatory capital or an increase in its regulatory capital requirements; loss of members of the Company's senior management team; potential legal, tax and regulatory investigations and actions; the failure of the Company's computer systems or potential cyber threats; potential conflicts of interest between the Company and its majority shareholder, Genworth Financial, Inc.; the potential disposition by Genworth Financial, Inc. of its equity interests in the Company; and Genworth Financial Inc. closing or failing to execute on a merger agreement with subsidiaries of China Oceanwide Holdings Group Co., Ltd. more fully described on Page 17 "*Genworth Financial, Inc. transaction.*"

This is not an exhaustive list of the factors that may affect any of the Company's forward-looking statements. Some of these and other factors are discussed in more detail in the Company's Annual Information Form (the "**AIF**") dated March 22, 2019. Investors and others should carefully consider these and other factors and not place undue reliance on the forward-looking statements. Further information regarding these and other risk factors is included in the Company's public filings with provincial and territorial securities regulatory authorities (including the Company's AIF) and can be found on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") website at www.sedar.com. The forward-looking statements contained in this MD&A represent the Company's views only as of the date hereof. Forward-looking statements contained in this MD&A are based on management's current plans, estimates, projections, beliefs and opinions and the assumptions related to these plans, estimates, projections, beliefs and opinions may change, and are presented for the purpose of assisting the Company's security holders in understanding management's current views regarding those future outcomes and may not be appropriate for other purposes. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company does not undertake to update any forward-looking statements, except to the extent required by applicable securities laws.

Non-IFRS financial measures

To supplement the Company's consolidated financial statements, which are prepared in accordance with IFRS, the Company uses certain non-IFRS financial measures to analyze performance. The Company's key performance indicators and certain other information included in this MD&A include non-IFRS financial measures. Such non-IFRS financial measures used by the Company to analyze performance include, among others, net operating income (excluding fee on early redemption of debt, as applicable), operating investment income, interest and dividend income, net of investment expenses, operating earnings per common share (basic) and operating earnings per common share (diluted).

Other non-IFRS financial measures used by the Company to analyze performance for which no comparable IFRS measure is available include insurance in-force, outstanding insured mortgage balances, new insurance written, loss ratio, expense ratio, combined ratio, operating return on equity, investment yield, Mortgage Insurer Capital Adequacy Test ("**MICAT**") ratio, Minimum Capital Test ("**MCT**") ratio and delinquency ratio on outstanding insured mortgage balances. The Company believes that these non-IFRS financial measures provide meaningful supplemental information regarding its performance and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making. Non-IFRS financial measures do not have standardized meanings and are unlikely to be comparable to any similar measures presented by other companies.

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

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

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Business profile

Business background

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

The Company offers both transactional and portfolio mortgage insurance.

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

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

Seasonality

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

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

Distribution and marketing

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

Overview

Second quarter financial highlights

Table 1: Selected financial information

	Three months ended June 30,		Six months ended June 30,	
(in millions of dollars, unless otherwise specified)	**2019**	**2018**	**2019**	**2018**
Premiums written				
Transactional insurance	**187**	166	**287**	276
Portfolio insurance	**8**	5	**13**	11
Total premiums written	**$ 195**	$ 172	**$ 300**	$ 287
Premiums earned	**$ 169**	$ 171	**$ 337**	$ 342
Losses on claims	**26**	25	**51**	47
Expenses	**34**	33	**67**	65
Total losses on claims and expenses	**59**	57	**118**	112
Net underwriting income	**109**	114	**219**	231
Interest and dividend income, net of investment expenses[1]	**49**	46	**97**	93
Realized income from the interest rate hedging program	**7**	5	**16**	8
Net (losses) gains from investments, derivatives and foreign exchange[2]	**(10)**	(2)	**(40)**	10
Total investment income	**46**	49	**73**	111
Interest expense	**6**	6	**12**	12
Fee on early redemption of long-term debt	**3**	-	**3**	-
Income before income taxes	**146**	157	**277**	330
Net income	**$ 110**	$ 116	**$ 207**	$ 244
Net operating income[1]	**$ 120**	$ 117	**$ 239**	$ 237
Weighted average number of common shares outstanding				
Basic	**86,985,187**	89,822,762	**87,287,620**	90,285,170
Diluted[3]	**87,103,687**	89,947,816	**87,535,129**	90,780,422
Earnings per common share				
Earnings per common share (basic)	**$ 1.26**	$ 1.29	**$ 2.37**	$ 2.70
Earnings per common share (diluted)[3]	**$ 1.26**	$ 1.29	**$ 2.37**	$ 2.68
Selected non-IFRS financial measures[1]				
Operating earnings per common share (basic)	**$ 1.38**	$ 1.31	**$ 2.74**	$ 2.62
Operating earnings per common share (diluted)[3]	**$ 1.38**	$ 1.31	**$ 2.73**	$ 2.61
Outstanding insured mortgage balances[4]	**$ 205,200**	$ 213,600	**$ 205,200**	$ 213,600
Transactional new insurance written	**$ 5,310**	$ 4,751	**$ 8,212**	$ 7,907
Portfolio new insurance written	**$ 2,426**	$ 1,092	**$ 3,441**	$ 2,245
Loss ratio	**15%**	14%	**15%**	14%
Expense ratio	**20%**	19%	**20%**	19%
Combined ratio	**35%**	33%	**35%**	33%
Operating return on equity	**12%**	12%	**12%**	12%
MICAT/MCT ratio[5]	**169%**	170%	**169%**	170%
Delinquency ratio on outstanding insured mortgage balances	**0.19%**	0.19%	**0.19%**	0.19%

Note: Amounts may not total due to rounding.
[1] These financial measures are not calculated based on IFRS. See the "Non-IFRS financial measures" section at the end of this MD&A for additional information. [2] Includes realized and unrealized gains and losses from derivatives and foreign exchange, excluding realized income and expense from the interest rate hedging program. [3] The difference between basic and diluted number of common shares outstanding, basic and diluted earnings per common share, and basic and diluted operating earnings per common share is caused by the potentially dilutive impact of share-based compensation awards. [4] This estimate is based on the amounts reported by lenders to the Company which represents the vast majority of outstanding insured mortgage balances. [5] Company estimate at June 30, 2019. Effective January 1, 2019, the MCT ratio was replaced with the MICAT ratio. The OSFI supervisory MICAT target ratio and minimum MICAT ratio under PRMHIA for 2019 remains at 150% and the Company's internal target ratio for 2019 under the MICAT remains unchanged at 157%.

Key second quarter of 2019 financial results:

The Company reported net income of $110 million and net operating income of $120 million in the second quarter of 2019 as compared to $116 million and $117 million, respectively, in the same quarter in the prior year.

- Total premiums written of $195 million increased by $23 million, or 14%, as compared to the same quarter in the prior year. Premiums written from transactional insurance were $187 million, an increase of $20 million, or 12%, as compared to the same quarter in the prior year, primarily due to a modestly larger transactional mortgage originations market. Premiums written from portfolio insurance were $8 million, an increase of $3 million, or 59%, as compared to the same quarter in the prior year, primarily due to higher lender demand for portfolio insurance, partially offset by a lower average premium rate.
- Premiums earned of $169 million decreased by $3 million, or 2%, as compared to the same quarter in the prior year, reflecting relatively lower levels of total premiums written in 2017 and 2018 as compared to the preceding years.
- Losses on claims of $26 million were $1 million, or 4%, higher as compared to the same quarter in the prior year, primarily due to a higher average reserve per delinquency, resulting from a higher proportion of outstanding delinquencies in Alberta, partially offset by a decrease in new reported delinquencies, net of cures, and increased favourable loss reserve development of $7 million as compared to $5 million in the same quarter in the prior year. The loss ratio was 15% for the quarter as compared to 14% in the same quarter in the prior year.
- Expenses of $34 million were $1 million, or 4%, higher as compared to the same quarter in the prior year, primarily due to modestly higher professional fees and software maintenance expenses, and lower deferral of policy acquisition costs. The expense ratio for the quarter was 20% as compared to 19% in the same quarter in the prior year and is consistent with the Company's expected operating range of 18% to 20%.
- Operating investment income of $56 million increased by $5 million, or 11%, as compared to the same quarter in the prior year, primarily due to an increase in realized income from the interest rate hedging program and a higher average amount of invested assets.
- Net losses from investments, derivatives and foreign exchange, excluding realized income from the interest rate hedging program, were $10 million in the second quarter of 2019, an increase of approximately $9 million as compared to net losses from investments, derivatives and foreign exchange of $2 million in the same quarter in the prior year. The increase in net losses was primarily due to a decline in the market value of the Company's interest rate swaps used to hedge interest rate risk, resulting from a lower interest rate environment, and the impact of changes in foreign exchange rates on the Company's invested assets denominated in U.S. dollars, partially offset by realized gains on sale of fixed income securities and an increase in market value of the interest rate floors.
- The Company issued $100 million principal amount of long-term debt in the second quarter of 2019 by re-opening its Series 3 debentures that mature in April 2024. The proceeds of this debt issuance were used to redeem $100 million principal amount of the Company's Series 1 debentures maturing in June 2020. The Company incurred an approximately $3 million fee for the early partial redemption of the Series 1 debentures in the second quarter of 2019.

Year-to-date financial results:

The Company reported net income of $207 million and net operating income of $239 million in the six months ended June 30, 2019 as compared to $244 million and $237 million, respectively, in the prior year period.

- Total premiums written of $300 million increased by $13 million, or 5%, as compared to the prior year period. Premiums written from transactional insurance were $287 million, an increase of $11 million, or 4%, as compared to the prior year period, primarily due to a modestly larger transactional mortgage originations market. Premiums written from portfolio insurance were $13 million, an increase of $2 million, or 15%, as compared to the prior year period, primarily due to higher lender demand for portfolio insurance, partially offset by a lower average premium rate.
- Premiums earned of $337 million decreased by $5 million, or 1%, as compared to the prior year period, reflecting relatively lower levels of total premiums written in 2017 and 2018 as compared to the preceding years.
- Losses on claims of $51 million were $4 million, or 10%, higher as compared to the prior year period, primarily due to a higher average reserve per delinquency, resulting from a higher proportion of outstanding delinquencies in Alberta, partially offset by a decrease in new delinquencies, net of cures. Favourable loss reserve development was $12 million in the six months ended

June 30, 2019, consistent with the prior year period. The loss ratio was 15% for the period as compared to 14% in the prior year period, due to the increase in losses on claims and decrease in premiums earned.

- Expenses of $67 million were $2 million, or 4%, higher as compared to the prior year period, primarily due to modestly higher professional fees and software maintenance expenses, and lower deferral of policy acquisition costs. The expense ratio for the period was 20% as compared to 19% in the prior year period and is consistent with the Company's expected operating range of 18% to 20%.
- Operating investment income of $113 million increased by $12 million, or 12%, as compared to the prior year period, primarily due to an increase in realized income from the interest rate hedging program and a modestly higher average amount of invested assets.
- Net losses from investments, derivatives and foreign exchange, excluding realized income from the interest rate hedging program, were $40 million, a decrease of approximately $50 million as compared to net gains from investments, derivatives and foreign exchange of $10 million in the prior year period. The decrease was primarily due to a substantial decline in the market value of the Company's interest rate swaps used to hedge interest rate risk, resulting from a lower interest rate environment, and the impact of changes in foreign exchange rates on the Company's invested assets denominated in U.S. dollars, partially offset by realized gains on sale of fixed income securities and an increase in market value of the interest rate floors.
- The Company issued $100 million principal amount of long-term debt in the second quarter of 2019 by re-opening its Series 3 debentures that mature in April 2024. The proceeds of this debt issuance were used to redeem $100 million principal amount of the Company's Series 1 debentures maturing in June 2020. The Company incurred an approximately $3 million fee for the early partial redemption of the Series 1 debentures in the second quarter of 2019.
- The regulatory capital ratio or MICAT ratio of approximately 169% was three points lower as compared to the MCT ratio at December 31, 2018 and was 12 percentage points higher than the internal MICAT ratio target of 157% and 19 percentage points higher than the OSFI Supervisory MICAT target ratio of 150%.

Performance against strategic priorities

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

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

The Company's long-term objective is to enhance shareholder value by achieving a return on equity that exceeds its cost of capital and by increasing net income over time. The Company's priorities to achieve its long-term objective are identified below:

2019 Planning metrics	Year-to-date performance
Premiums Written and Premiums Earned	
Relatively flat to modestly higher transactional new insurance written and premiums written.	Transactional new insurance written increase: **4%** Transactional premiums written increase: **4%** New insurance written from transactional insurance increased by 4% as compared to the prior year period, primarily due to a modestly larger transactional mortgage originations market due to stable macroeconomic and regulatory environments, and lower mortgage rates. Transactional premiums written increased by 4% as a result of higher transactional new insurance written. Mortgage insurance commitments for transactional insurance have trended higher year-over-year and, as a result, the Company has revised its expectations for transactional new insurance written and premiums written to be modestly higher for the full year, as compared to the prior year.
Modestly higher portfolio new insurance written and premiums written.	Portfolio new insurance written increase: **53%** Portfolio premiums written increase: **15%** New insurance written from portfolio insurance increased by 53% as compared to the prior year period, primarily due to increased lender demand. Portfolio insurance premiums written increased by 15% as compared to the prior year period due to higher new insurance written, partially offset by a lower average premium rate, primarily as a result of improved portfolio quality and a higher proportion of insured mortgages with loan-to-value ratios of less than 75%, which have lower average premium rates. The Company expects stable lender demand for portfolio insurance over the remainder of 2019. The premiums written expectations for the full year remain unchanged.

2019 Planning metrics	Year-to-date performance
Premiums Written and Premiums Earned (continued)	
Modestly higher premiums written.	Total premiums written increase: **5%** Total premiums written increased by 5% as compared to the prior year period, primarily due to a modestly larger transactional mortgage originations market and higher demand for portfolio insurance. The Company's expectation for modestly higher premiums written remains unchanged for the full year.
Premiums earned flat to modestly lower.	Premiums earned decrease: **1%** The Company realized $337 million of premiums earned, 1% lower than the prior year period. Given the single upfront premium model, the Company is generally able to reliably estimate the proportion of unearned premiums that will be earned into revenues as premiums earned over the next 12 to 18 months, as long as there are no significant changes to the Company's current premium recognition curve. In addition to premiums earned of $337 million in the six months ended June 30, 2019, the Company expects to realize between $310 and $330 million of premiums earned in the remaining six months of 2019 from the unearned premiums reserve of $2.1 billion as at June 30, 2019. Total premiums earned for the remaining six months of 2019 will also include premiums to be earned from premiums written in that period.
Losses on Claims	
Loss ratio range of 15% to 25%	Loss ratio: **15%** The Company's loss ratio of 15% was at the lower-end of the Company's anticipated range of 15% to 25% for 2019. The loss ratio performance was favourably impacted by stable or improving home prices and stable or low unemployment in most regions in Canada, particularly Québec, Ontario and the Pacific region. The Company's expectations for full year loss ratio range remains 15% to 25%, with a bias towards the lower half of the range.
Portfolio Quality and Risk Management	
Maintain a high-quality insurance portfolio through prudent underwriting guidelines, proactive risk management and disciplined underwriting: • Average transactional credit score of greater than 730 • Average transactional credit score below 660 of less than 5%	Average transactional credit score: **749** Average transactional credit score below 660: **2%** The Company continues to originate a high-quality insurance portfolio in 2019 with an average transactional credit score of 749, primarily due to continued underwriting discipline.

2019 Planning metrics	Year-to-date performance
Capital Management	
Prudently manage capital to balance capital strength, flexibility and efficiency:	
• Ordinary dividend payout ratio of 35% to 45%	Ordinary dividend payout ratio: **37%**
• Debt-to-total capital ratio of less than or equal to 15%	Debt-to-total capital ratio as at June 30, 2019: **10%** The Company issued $100 million of long-term debt in the second quarter of 2019 by re-opening its Series 3 debentures that mature in April 2024. The proceeds of this debt issuance were used to redeem $100 million principal amount of the Company's Series 1 debentures maturing in June 2020. As at June 30, 2019, $175 million aggregate principal amount of the Series 1 debentures remained outstanding.
• Holding Company cash and liquid investments greater than or equal to $100 million	Holding Company cash and liquid investments as at June 30, 2019: **$95 million cash and cash equivalents and $300 million undrawn credit facility held outside of the Insurance Subsidiary**
• MICAT ratio modestly above 165%	MICAT ratio as at June 30, 2019: **Estimated at 169%**
• Redeployment of $500 million to $700 million of capital, in addition to regular quarterly dividends, with a bias to the lower half of this range	Redeployment of capital above regular quarterly dividends in 2019: **$103 million, consisting of share repurchases of $68 million and the payment of a special dividend on common shares of the Company of $34 million in the second quarter of 2019** The Company reviews its sources and uses of capital on a quarterly basis to make informed decisions on the redeployment of capital. The regulatory capital requirements related to the seasoning of the Company's outstanding insured mortgage balances are influenced by changes in the loan-to-value and credit score mix of outstanding mortgage balances, the repayment pattern including scheduled payments and partial pre-payments, and the lapse rate of insurance coverage related to full repayments, refinances or sale of the property. In the first quarter of 2019 the Company lowered the expected level of capital redeployment from $500 to $700 million to $400 to $550 million for the full year, due to the identified trend of lower lapse rates, as compared to 2017 and prior years, and the potential for a larger transactional market size.

2019 Planning metrics	Year-to-date performance
Investment Management	
Optimize investment portfolio to maximize investment yield while maintaining a high-quality investment portfolio to minimize the correlation of risk with our insurance in-force:	The Company maintained a high-quality investment portfolio, with 92% of its holdings in cash and investment grade bonds and debentures, including collateralized loan obligations, and 8% in preferred shares. Overall, the Company achieved an investment yield of 3.2% in the six months ended June 30, 2019.
• Operating investment income expected to be modestly higher inclusive of a positive operating income contribution of $30 to $40 million from the Company's interest rate hedging program	Operating investment income of $113 million was $12 million, or 12%, higher as compared to the prior year period, primarily from an increase in the realized income from the interest rate hedging program and a higher average amount of invested assets. The impact of the realized income from the interest rate hedging program was $16 million in the six months ended June 30, 2019 as compared to $8 million in the prior year period. As a result of a lower interest rate environment in 2019, the Company lowered its expectations in the first quarter of 2019 for the operating income contribution from its interest rate hedging program to be $20 to $30 million. In total, the Company expects the operating investment income to be flat or modestly higher for the full year.

Recent business and regulatory developments

Budget 2019 - Investing in the middle class

On March 19, 2019, in the 2019 federal budget, the Government of Canada introduced the “First-Time Home Buyer Incentive” program (“**FTHBI**”), which is scheduled to start receiving applications on September 2, 2019, with the first closing taking effect on or after November 1, 2019. Under the FTHBI, eligible first-time homebuyers who have the minimum down-payment for an insured mortgage could apply to finance a portion of their home purchase through a shared equity mortgage. The Company has been informed by representatives of the Government of Canada that mortgages insured by the Company will be eligible to participate in the program on the same basis as mortgages insured by CMHC. Under the FTHBI, the Government of Canada will provide funding for a 5 percent shared equity mortgage for an existing home or 5 or 10 percent shared equity mortgage for a newly constructed home. Homeowners can repay the shared equity amount in full at any time without a pre-payment penalty. Repayment is required at the earlier of the time that the subject property is sold or 25 years. The repayment amount will be based on the property’s fair market value at time of repayment including the proportional share of the property’s appreciation or depreciation.

The FTHBI will be available to eligible first-time home buyers with household incomes under $120,000 per year and where the combined amount of first-time home buyers’ insured mortgage and the amount of the incentive is not greater than four times their annual household income. The specific details of the FTHBI are still being finalized and details announced to date are subject to changes.

The Company is participating in consultations with the Government of Canada and CMHC on this program, and believes it is premature to determine the potential impact of this announcement and/or its ultimate impact on the Company’s business.

Additionally, as part of the 2019 federal budget, the Government of Canada announced an update to the Home Buyers’ Plan which allowed first-time homebuyers to withdraw up to $25,000 from their Registered Retirement Savings Plan to purchase or build a home, without having to pay taxes upon withdrawal of the funds. The Government of Canada has increased the Home Buyers’ Plan withdrawal limit to $35,000 from the previous limit of $25,000, effective for withdrawals made after March 19, 2019.

Regulatory capital framework

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

The primary changes in the MICAT guideline are as follows:

- The total asset requirement, which is primarily based on loan-to-value, credit score, outstanding insured balance and remaining amortization, was increased by 5% relative to the prior calculation.
- The MICAT guideline requires the use of credit scores at the time of origination in the calculation of the total asset requirement throughout the duration of the mortgage insurance coverage. This eliminated the requirement to use the updated 2016 credit score for 2015 and prior books in the prior calculation of the total asset requirement.
- There was a transitional arrangement that provided a phase-in period for the increased capital required for insurance risk on outstanding insured mortgages as at December 31, 2018, which has run off in the second quarter of 2019. The Company expects that in 2019 the impact of the elimination of the one-time update to credit score for 2015 and prior books should more than offset the 5% increase in the total asset requirement on existing insurance in-force.

For transactional new insurance written in 2019 and thereafter, the Company believes that its long-run pricing return on equity will continue to be 13% or greater following the 5% increase in the total asset requirement for insurance risk, assuming current premium rates, similar portfolio quality to the 2018 new insurance written and a long-run loss ratio range of 20 to 25%. The Company conducts an annual pricing review in accordance with regulatory requirements and expects to take into account the increased capital requirements for new insurance written in 2019 and thereafter as part of the pricing review.

Long-term debt

During the three months ended June 30, 2019, the Company solicited and obtained consent to amend its third series supplement dated April 1, 2014 (the "**Supplemental Indenture**") to the trust indenture dated June 29, 2010 between the Company and BNY Trust Company of Canada, as trustee. The Supplemental Indenture was amended on May 13, 2019 (the “**Amendment**”) to increase the aggregate principal amount of the 4.242% debentures due April 1, 2024 (the “**Series 3 Debentures**”) that may be issued under the Supplemental Indenture from $160 million to $300 million, thereby providing the Company with the right, but not the obligation, to offer for issuance up to an additional $140 million principal amount of Series 3 Debentures, which additional Series 3 Debentures, if and when issued, would form part of the same series as the existing Series 3 Debentures. The Amendment required the consent of the holders of not less than a majority of the principal amount of the then outstanding Series 3 Debentures. The Amendment did not result in any change to the interest rate, payment schedule, maturity date or any other term of the existing Series 3 Debentures.

Subsequent to the receipt of consent to amend the Supplemental Indenture and the execution of the Amendment, on May 22, 2019, the Company completed an offering of $100 million principal amount of Series 3 Debentures (the “**Debenture Offering**”), increasing the aggregate principal amount of Series 3 Debentures outstanding to $260 million. The Series 3 Debentures issued under the Debenture Offering were issued at a premium of approximately 3.38% to par, plus accrued and unpaid interest up to the date of issuance, and the Company incurred approximately $1 million of expenses in connection with the Debenture Offering.

On June 26, 2019, the Company used the proceeds from the Debenture Offering to redeem a principal amount of $100 million of its existing 5.68% Series 1 senior unsecured debentures due June 15, 2020 (the “**Series 1 Debentures**”). Pursuant to the terms of the trust indenture, the redemption price for the Series 1 Debentures so redeemed was approximately $103 million plus accrued and unpaid interest up to the redemption date.

OSFI technology and cyber security reporting advisory

On January 24, 2019, OSFI published the Technology and Cybersecurity Incident Reporting Advisory applicable to all Federally Regulated Financial Institutions (“**FRFIs**”). This advisory, which came into effect March 31, 2019, creates new incident reporting obligations on FRFIs to report technology or cybersecurity incidents to OSFI that “have the potential to, or has been assessed to, materially impact the normal operations of a FRFI, including confidentiality, integrity or availability of its systems and information” and which have been “assessed by a FRFI to be of a high or critical severity level.” The Company believes that the implementation of this advisory will not have a material impact on its operations and that its current technology and cybersecurity incident management practices are well suited to ensure compliance with these requirements.

OSFI corporate governance guideline

On September 18, 2018, OSFI released the final version of its revised and updated Corporate Governance Guideline (the “**Governance Guideline**”) which sets out OSFI’s expectations regarding corporate governance of FRFIs. The changes mainly serve to detail the distinction between the roles and responsibilities of the Board and senior management and emphasize the independent status of the Board. The Company believes that the Governance Guideline will not have a material impact on its operations and that its practices materially meet the requirements set out in the Governance Guideline; however, the Company is in the process of reviewing all policies and procedures to ensure compliance with the Governance Guideline.

Share repurchase

On May 1, 2018, the Company received approval from the Toronto Stock Exchange (the "**TSX**") for the Company to undertake a normal course issuer bid ("**2018 NCIB**"). Pursuant to the 2018 NCIB, the Company could purchase, for cancellation, up to 4,489,616 shares, representing approximately 5% of its outstanding common shares as of April 27, 2018. The 2018 NCIB expired on May 6, 2019. During 2019, the Company did not purchase any shares under the 2018 NCIB.

On April 30, 2019, the Company received approval from the TSX for the Company to undertake a new normal course issuer bid ("**2019 NCIB**") following the expiration of the 2018 NCIB. Pursuant to the 2019 NCIB, the Company can purchase, for cancellation, up to 4,379,933 shares, representing approximately 5% of its outstanding common shares as of April 26, 2019. Purchases of common shares under the 2019 NCIB were permitted to commence on or after May 7, 2019 and will conclude on the earlier of May 6, 2020 and the date on which the Company has purchased the maximum number of shares under the 2019 NCIB.

During the three months ended June 30, 2019, under the terms of the 2019 NCIB, the Company repurchased 1,650,951 shares for cancelation, for an aggregate purchase price of approximately $68 million. The Company's majority shareholder, Genworth Financial Inc., through its subsidiaries, participated proportionately in the 2019 NCIB.

Dividends

On May 29, 2019, the Company paid a quarterly dividend of $0.51 per common share. On June 28, 2019 the Company paid a special dividend of $0.40 per common share for an aggregate amount of approximately $34 million.

Guideline B-21

On March 1, 2019, OSFI issued a revised version of Guideline B-21 "Residential Mortgage Insurance Underwriting Practices and Procedures" ("**Guideline B-21**"). While the basic framework of the Guideline B-21 has not changed, and the six fundamental principles for sound residential mortgage insurance underwriting remain, the changes made to the Guideline B-21 reinforce OSFI's expectations that federally regulated mortgage insurers must remain vigilant in their mortgage insurance underwriting practices. In addition to updates made to contemplate recent changes to the Corporate Governance Guideline issued by OSFI in September 2018, additional changes made to the Guideline B-21 are intended to align the Guideline B-21 with that of the Guideline B-20 "Residential Mortgage Underwriting Practices and Procedures" ("**Guideline B-20**"), which sets out OSFI's expectations for prudent residential mortgage underwriting by FRFIs, in the areas of income verification, property valuation, as well as fraud detection and prevention. Although the changes made to the Guideline B-21 are new for federally regulated mortgage insurers, it is not expected that the changes will have a material impact given that federally regulated lenders have already been subject to the same rules since January 1, 2018 under Guideline B-20.

Anti-money laundering

In November 2018, the House of Commons' Standing Committee on Finance released a report which recommended that the Government of Canada extend the scope of the "Proceeds of Crime (Money Laundering) and Terrorist Financing Act" requirements to the real estate sector, mortgage insurers, land registry and title insurance companies. Such recommendation has not yet been implemented or finalized. As such, the Company believes it is premature at this time to determine the impact of such potential amendments.

Changes in tax implications on future stock options grants

On June 17, 2019, the Government of Canada released proposed legislation that would apply a $200,000 annual cap on the employee stock options that may vest, per employee, in a year, based on the fair market value of the underlying share, that can continue to receive-preferential tax treatment in the form of a 50% deduction of the excess of the fair value of the share over the exercise price. The rules will apply for stock options granted as of January 1, 2020. It is premature to determine the impact of these changes on the Company's future compensation structure.

Genworth Financial, Inc. transaction

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 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. In addition, China Oceanwide will need to receive clearance in China for currency conversion and the transfer of funds. 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**").

On July 1, 2019, Genworth Financial, the Parent and Merger Sub announced that the parties had entered into an eleventh waiver and agreement of each party's right to terminate the Merger Agreement. In conjunction with the extension, Genworth Financial has received China Oceanwide's consent to solicit interest in a potential disposition of its interest in the Company. The parties decided to consider strategic alternatives for the Company as a result of the absence of any substantive progress in discussions on the transaction with Canadian regulators. The eleventh waiver and agreement extends the merger agreement deadline to not later than November 30, 2019, which China Oceanwide and Genworth Financial believe should allow sufficient time for the parties to explore disposition options.

There can be no assurance that a disposition by Genworth Financial of all or any portion of the common shares of the Company that it currently owns will occur or that it will occur in the manner or on the terms and conditions contemplated in the Genworth Financial announcement of July 1, 2019.

Economic environment

The mortgage insurance business is influenced by macroeconomic conditions. Specifically, the level of premiums written is influenced by economic growth, interest rates, unemployment, housing activity, home prices and government policy among other factors. Losses on claims are primarily impacted by unemployment rates, home prices and housing activity.

Key Macroeconomic Factors Influencing Business Performance	
Second Quarter of 2019 or as at June 30, 2019	**Estimate for Full Year 2019 or as at December 31, 2019**
Housing resales Y/Y: **6.3%**[1]	Housing resales Y/Y: **1.2%**[1]
National Composite House Price Index change: **1%**[2]	National Composite House Price Index change: **-2% to 2%**[2]
Average Oil Price: **US $60**[3]	Average Oil Price: **US $50 to US $65**[3]
5-year Government of Canada Bond Yields: As at June 30, 2019: **1.39**[4] Average six months ended June 30, 2019: **1.64**[4]	5-year Government of Canada Bond Yields: As at December 31, 2019: **1.40 to 1.60%**[4] Average full year 2019: **1.50 to 1.70%**[4]
GDP Estimate: **1.3%**[5]	GDP Estimate: **1.3%**[5]
Average Unemployment rate: **5.5%**[6]	Average Unemployment rate: **5.7% to 6.1%**[6]

[1] Canadian Real Estate Association ("**CREA**"), Average Y/Y. [2] Teranet-National Bank House Price Index (Average Y/Y); Management estimate (Full year 2019). [3] U.S. Energy Information Administration - WTI Light Crude Oil US$/barrel; Management estimate (Full year 2019). [4] Bloomberg; Management estimate. [5] Bank of Canada – July 2019 Monetary Policy Report; 2019 Average Annual Real GDP growth projection. [6] Statistics Canada – Labour Force Survey; Management estimate (Full Year 2019).

Macroeconomic environment

The Bank of Canada estimates economic growth, as measured by real Canadian Gross Domestic Product ("**GDP**"), of 1.3% for 2019 as compared to 2018 GDP of 1.8%. The lower forecast reflects slower growth in early 2019, primarily due to lower government spending, housing activity, business investment and exports. The Bank of Canada expects growth to pick up, starting in the second quarter, with stronger housing activity, healthy consumption, business investment outside the energy sector and export growth strengthening global demand.

The overnight interest rate in Canada remains unchanged at 1.75% in 2019 following three rate increases in 2018. Weaker economic growth prospects have dampened expectations of additional rate increases by the Bank of Canada in 2019.

Canada's average unemployment rate declined to 5.5% in the second quarter of 2019 from 5.8% in the first quarter of 2019 driven by strong employment levels.

The average prices of WTI Light Crude Oil ("**WTI**") and Western Canadian Select Crude Oil ("**WCS**") were US$60 (second quarter of 2019) and US$53 (April and May 2019) per barrel respectively, and the Company expects that price range in 2019 to be in US$50 to US$65 and US$35 to US$50 per barrel respectively. While the large price differential between WTI and WCS has narrowed in 2019, primarily driven by Alberta's curtailed production, the Company believes that ongoing infrastructure constraints may pressure the price of WCS in 2019, thereby contributing to the economic outlook for Alberta.

Housing market

The Teranet-National Bank House Price Index increased by approximately 1% in the second quarter of 2019 as compared to the same quarter in the prior year, largely driven by increases in Ontario and Québec with modest softening in Alberta and the Greater Vancouver Area.

National home sales in the second quarter of 2019 increased by approximately 6% compared to the same period in 2018, primarily due to strong home sales, predominantly in Toronto, the Prairies region and Québec, partially offset by continued weakness in in Alberta and British Columbia.

National home sales in 2019, according to CREA, are expected to increase by 1.2%, with increases of 3.9% in Ontario and 7.7% in Québec, partially offset by declines of 13.3% in British Columbia and 0.9% in Alberta.

Second quarter review

Table 2: Results of operations

	Three months ended June 30,				Six months ended June 30,			
(in millions of dollars, unless otherwise specified)	**2019**	**2018**	**Change**		**2019**	**2018**	**Change**	
Premiums written	**$ 195**	$ 172	$ 23	14 %	**$ 300**	$ 287	$ 13	5 %
Premiums earned	**$ 169**	$ 171	$ (3)	(2)%	**$ 337**	$ 342	$ (5)	(1)%
Losses on claims and expenses:								
Losses on claims	**26**	25	1	4 %	**51**	47	4	10 %
Expenses	**34**	33	1	4 %	**67**	65	2	4 %
Total losses on claims and expenses	**59**	57	2	4 %	**118**	112	7	6 %
Net underwriting income	**109**	114	(5)	(4)%	**219**	231	(12)	(5)%
Investment income:								
Interest and dividend income, net of investment expenses[1]	**49**	46	3	7 %	**97**	93	5	5 %
Realized income from the interest rate hedging program	**7**	5	2	47 %	**16**	8	7	88 %
Net (losses) gains from investments, derivatives and foreign exchange[2]	**(10)**	(2)	(9)	NM	**(40)**	10	(50)	NM
Total investment income	**46**	49	(3)	(6)%	**73**	111	(38)	(34)%
Interest expense	**6**	6	-	-	**12**	12	-	-
Fee on early redemption of long-term debt	**3**	-	3	NM	**3**	-	3	NM
Income before income taxes	**146**	157	(11)	(7)%	**277**	330	(53)	(16)%
Provision for income taxes	**36**	41	(5)	(12)%	**70**	86	(16)	(19)%
Net income	**$ 110**	$ 116	$ (6)	(5)%	**$ 207**	$ 244	$ (37)	(15)%
Adjustment to net income, net of taxes:								
Fee on early redemption of long-term debt	**2**	-	2	-	**2**	-	2	-
Net losses (gains) from investments, derivatives and foreign exchange[2]	**8**	1	6	NM	**29**	(7)	36	NM
Net operating income[1]	**$ 120**	$ 117	$ 3	2 %	**$ 239**	$ 237	$ 2	1 %
Effective tax rate	**24.6%**	26.1%		(1.5) pts	**25.2%**	26.1%		(0.9) pts
Selected non-IFRS financial measures[1]								
Transactional new insurance written	**$ 5,310**	$ 4,751	$ 559	12 %	**$ 8,212**	$ 7,907	$ 305	4 %
Portfolio new insurance written	**$ 2,426**	$ 1,092	$ 1,334	122 %	**$ 3,441**	$ 2,245	$ 1,196	53 %
Loss ratio	**15%**	14%		1 pts	**15%**	14%		2 pts
Expense ratio	**20%**	19%		1 pts	**20%**	19%		1 pts
Combined ratio	**35%**	33%		2 pts	**35%**	33%		2 pts
Operating return on equity	**12%**	12%		- pts	**12%**	12%		- pts
Investment yield	**3.3%**	3.2%		0.1 pts	**3.2%**	3.2%		0.1 pts

Note: Amounts may not total due to rounding. NM means Not Meaningful.
[1] These financial measures are not calculated based on IFRS. See the "Non-IFRS financial measures" section at the end of this MD&A for additional information.
[2] Includes realized and unrealized gains and losses from derivatives and foreign exchange, excluding realized income and expense from the interest rate hedging program.

Table 3: New insurance written, premiums written, and premiums earned

	Three months ended June 30,				Six months ended June 30,			
(in millions of dollars, unless otherwise specified)	**2019**	2018	Change		**2019**	2018	Change	
New insurance written								
Transactional	**$ 5,310**	$ 4,751	$ 559	12 %	**$ 8,212**	$ 7,907	$ 305	4 %
Portfolio	**2,426**	1,092	1,334	122 %	**3,441**	2,245	1,196	53 %
Total	**$ 7,736**	$ 5,844	$ 1,892	32 %	**$ 11,653**	$ 10,152	$ 1,501	15 %
Premiums written								
Transactional	**187**	166	20	12 %	**287**	276	11	4 %
Portfolio	**8**	5	3	59 %	**13**	11	2	15 %
Total	**$ 195**	$ 172	$ 23	14 %	**$ 300**	$ 287	$ 13	5 %
Average premium rate *(in basis points)*								
Transactional	**352**	350	1	-	**350**	349	1	-
Portfolio	**33**	46	(13)	(28)%	**38**	50	(12)	(25)%
Total	**252**	294	(42)	(14)%	**258**	283	(25)	(9)%
Premiums earned	**$ 169**	$ 171	$ (3)	(2)%	**$ 337**	$ 342	$ (5)	(1)%

Note: Amounts may not total due to rounding.

Current quarter

Transactional new insurance written was $5.3 billion in the second quarter of 2019, an increase of $0.6 billion, or 12%, as compared to the same quarter in the prior year. The increase was primarily a result of a modestly larger transactional mortgage originations market due to stable macroeconomic and regulatory environments, and lower mortgage rates.

New insurance written from portfolio insurance was $2.4 billion in the second quarter of 2019, an increase of $1.3 billion as compared to the same quarter in the prior year, primarily due to higher lender demand for portfolio insurance in the period.

Premiums written from transactional insurance were $187 million in the second quarter of 2019, an increase of $20 million, or 12%, as compared to the same quarter in the prior year. The increase was primarily related to higher transactional new insurance written. The average premium rate of 352 basis points in the second quarter of 2019 was relatively consistent with the same quarter in the prior year.

Premiums written from portfolio insurance were $8 million in the second quarter of 2019, an increase of $3 million, or 59%, as compared to the same quarter in the prior year. The increase was primarily due to higher new insurance written from portfolio insurance partially offset by a 13 basis point lower average premium rate as a result of improved portfolio quality.

Premiums earned of $169 million in the second quarter of 2019 decreased by $3 million, or 2%, as compared to the same quarter in the prior year, reflecting relatively lower levels of total premiums written in 2017 and 2018 as compared to the preceding years.

Year-to-date

Transactional new insurance written was $8.2 billion in the six months ended June 30, 2019, an increase of $0.3 billion, or 4%, as compared to the prior year period. The increase was primarily a result of a modestly larger mortgage originations market due to stable macroeconomic and regulatory environments, and lower mortgage rates.

New insurance written from portfolio insurance was $3.4 billion in the six months ended June 30, 2019, an increase of $1.2 billion, or 53%, as compared to the prior year period, primarily due to higher lender demand for portfolio insurance in the period.

Premiums written from transactional insurance were $287 million in the six months ended June 30, 2019, an increase of $11 million, or 4%, as compared to the prior year period. The increase was primarily related to higher transactional new insurance written. The average premium rate of 350 basis points in the six months ended June 30, 2019, was relatively consistent with the prior year period.

Premiums written from portfolio insurance were $13 million in the six months ended June 30, 2019, an increase of $2 million, or 15%, as compared to the prior year period. The increase was primarily due to higher new insurance written from portfolio insurance partially offset by a 12 basis point lower average premium rate, as a result of improved portfolio quality and a higher proportion of insured mortgages with loan-to-value ratios of less than 75%, which have lower average premium rates.

Premiums earned of $337 million in the six months ended June 30, 2019 decreased by $5 million, or 1%, as compared to the prior year period, reflecting relatively lower levels of total premiums written in 2017 and 2018 as compared to the preceding years.

Table 4: Losses on claims

	Three months ended June 30,				Six months ended June 30,			
	2019	**2018**	**Change**		**2019**	**2018**	**Change**	
New reported delinquencies	**882**	1,000	(118)	(12)%	**1,847**	1,972	(125)	(6)%
Cures	**601**	640	(39)	(6)%	**1,161**	1,247	(86)	(7)%
New reported delinquencies, net of cures	**281**	360	(79)	(22)%	**686**	725	(39)	(5)%
Average reserve per delinquency *(in thousands of dollars)*	**$ 76**	$ 68	$ 8	12 %	**$ 76**	$ 68	$ 8	12 %
Losses on claims *(in millions of dollars)*	**$ 26**	$ 25	$ 1	4 %	**$ 51**	$ 47	$ 4	10 %
Loss ratio	**15%**	14%		1 pts	**15%**	14%		2 pts

Note: Amounts may not total due to rounding.

Current quarter

Losses on claims were $26 million in the second quarter of 2019, an increase of $1 million, or 4%, as compared to the same quarter in the prior year. The increase was primarily due to a higher average reserve per delinquency, resulting from a higher proportion of outstanding delinquencies in Alberta, partially offset by a decrease in new reported delinquencies, net of cures, and increased favourable loss reserve development of $7 million as compared to $5 million of favourable loss reserve development experienced in the same quarter in the prior year.

New reported delinquencies, net of cures, of 281 were 79 lower than in the same quarter in the prior year, primarily due to decreases in Québec (56), Ontario (35), the Atlantic region (19) and the Prairies region (11), which were partially offset by increases in Alberta (41) and the Pacific region (1). The average reserve per delinquency increased by approximately $8 thousand primarily due to a shift in the regional delinquency mix resulting from an increase in the number of outstanding delinquencies in Alberta, which carry a higher average reserve amount.

The resulting loss ratio was 15% in the second quarter of 2019, one percentage point higher than the same quarter in the prior year mainly due to the increase in losses on claims.

Year-to-date

Losses on claims were $51 million in the six months ended June 30, 2019, an increase of $4 million, or 10%, as compared to the prior year period. The increase was primarily due to a higher average reserve per delinquency, resulting from a higher proportion of outstanding delinquencies in Alberta, partially offset by a decrease in new reported delinquencies, net of cures. Losses on claims in the six months ended June 30, 2019 included $12 million of favourable loss reserve development from the December 31, 2018 loss reserve, consistent with the favourable loss reserve development experienced in the prior year period.

New reported delinquencies, net of cures, of 686 were 39 lower than the prior year period driven by decreases in Québec (90), Ontario (30), the Atlantic region (24) and the Prairies region (10), partially offset by increases in Alberta (100) and the Pacific region (15). The average reserve per delinquency increased by approximately $8 thousand primarily due to a shift in the regional delinquency mix resulting from an increase in the number of outstanding delinquencies in Alberta, which carry a higher average reserve amount.

The resulting loss ratio was 15% in the six months ended June 30, 2019, two percentage point higher than the prior year period due to higher losses on claims and decrease in premiums earned.

Table 5: Expenses

	Three months ended June 30,				Six months ended June 30,			
(in millions of dollars, unless otherwise specified)	**2019**	**2018**	**Change**		**2019**	**2018**	**Change**	
Expenses								
Premium taxes and underwriting fees	**$ 14**	$ 14	$ -	-	**$ 23**	$ 23	$ -	-
Employee compensation	**11**	12	-	-	**24**	23	-	-
Other	**9**	8	1	9 %	**18**	16	2	11 %
Expenses before net change in deferred policy acquisition costs	**34**	34	1	2 %	**65**	62	2	3 %
Deferral of policy acquisition costs	**(17)**	(18)	1	4 %	**(31)**	(32)	1	2 %
Amortization of deferred policy acquisition costs	**17**	17	-	-	**34**	34	-	-
Total	**$ 34**	$ 33	$ 1	4 %	**$ 67**	$ 65	$ 2	4 %
Expense ratio	**20%**	19%		1 pts	**20%**	19%		1 pts

Note: Amounts may not total due to rounding.

Current quarter

Total expenses of $34 million increased by $1 million and the expense ratio of 20% was one percentage point higher in the second quarter of 2019 as compared to the same quarter in the prior year. Expenses before net change in deferred policy acquisition costs increased by $1 million, or 2%, to $34 million in the second quarter of 2019 as compared to the same quarter in the prior year. The increase was primarily due to a $1 million increase in professional fees and software maintenance expenses. Deferral of policy acquisition costs decreased by approximately $1 million and the amortization of previously deferred policy acquisition costs was consistent with the same quarter in the prior year.

Year-to-date

Total expenses of $67 million increased by $2 million and the expense ratio of 20% was one percentage point higher in the six months ended June 30, 2019 as compared to the prior year period. Expenses before net change in deferred policy acquisition costs increased by $2 million, or 3%, to $65 million in the six months ended June 30, 2019 as compared to the prior year period. The increase was primarily due to a $2 million increase in professional fees and software maintenance expenses. Deferral of policy acquisition costs decreased by approximately $1 million and the amortization of previously deferred policy acquisition costs was consistent with the prior year period.

Table 6: Investment income

	Three months ended June 30,				Six months ended June 30,			
(in millions of dollars, unless otherwise specified)	**2019**	2018	Change		**2019**	2018	Change	
Interest and dividend income, net of investment expenses[1]	**$ 49**	$ 46	$ 3	7 %	**$ 97**	$ 93	$ 5	5 %
Realized income from the interest rate hedging program	**7**	5	2	47 %	**16**	8	7	88 %
Operating investment income[1]	**56**	51	5	11 %	**113**	101	12	12 %
Net realized gains (losses) on sale of investments	**12**	-	12	NM	**13**	(1)	14	NM
Net (losses) gains from derivatives and foreign exchange[2]	**(23)**	(2)	(20)	NM	**(53)**	10	(63)	NM
Total investment income	**$ 46**	$ 49	$ (3)	(6)%	**$ 73**	$ 111	$ (38)	(34)%
Invested assets, average over period	**$ 6,481**	$ 6,359	$ 122	2 %	**$ 6,450**	$ 6,420	$ 30	-
Investment yield, average over period	**3.3%**	3.2%		0.1 pts	**3.2%**	3.2%		0.1 pts

Note: Amounts may not total due to rounding. NM means Not Meaningful.
[1] This financial measure is not calculated based on IFRS. See the "Non-IFRS financial measures" section at the end of this MD&A for additional information.
[2] Includes realized and unrealized gains and losses from derivatives and foreign exchange, excluding realized income and expense from the interest rate hedging program.

Current quarter

Operating investment income of $56 million was $5 million higher in the second quarter of 2019 as compared to the same quarter in the prior year, primarily due to an increase in realized income from the interest rate hedging program and a higher average amount of invested assets. The average amount of invested assets increased by $122 million, or 2%, over the period, primarily as a result of contributions from premiums written in 2018 and 2019. Realized income from the interest rate hedging program of $7 million primarily represented the difference between the average Canadian Dollar Offered Rate ("**CDOR**") of 200 basis points and the average fixed pay rate of 117 basis points.

The investment yield for the second quarter of 2019 was 3.3%, relatively unchanged as compared to the same quarter in the prior year.

The Company recorded $12 million net realized gains on sales of investments in the second quarter of 2019 as compared to less than $1 million net realized gains in the same quarter in the prior year, primarily due to the sale of fixed income securities.

Net losses from derivatives and foreign exchange, excluding realized income from the interest rate hedging program, were $23 million, in the second quarter of 2019, an increase of $20 million as compared to net losses from derivatives and foreign exchange of $2 million in the same quarter in the prior year. Net losses from derivatives and foreign exchange in the second quarter of 2019 were primarily due to a decline of $17 million in the market value of the Company's interest rate swaps used to hedge interest rate risk, resulting from a lower interest rate environment, and a decline of $11 million from the impact of the appreciation of the Canadian dollar on the Company's invested assets denominated in U.S. dollars, partially offset by an increase of $5 million in market value of the interest rate floors. Net losses from derivatives and foreign exchange of $2 million in the same quarter in the prior year were primarily due to a decrease in the market value of the Company's interest rate swaps.

Year-to-date

Operating investment income of $113 million was $12 million higher in the six months ended June 30, 2019 as compared to the prior year period, primarily due to an increase in realized income from the interest rate hedging program and a modestly higher average amount of invested assets. The average amount of invested assets increased by $30 million over the period, primarily as a result of higher levels of premiums written in 2018 and 2019 and relatively low losses on claims. Realized income from the interest rate hedging program of $16 million represented the difference between the average CDOR of 208 basis points and the average fixed pay rate of 117 basis points.

The investment yield for the period was 3.2%, relatively unchanged as compared to the prior year period.

The Company recorded $13 million net realized gains on sales of investments in the six months ended June 30, 2019 as compared to $1 million of net realized losses in the prior year period, primarily due to the sale of fixed income securities.

Net losses from derivatives and foreign exchange, excluding realized income from the interest rate hedging program, were $53 million, in the six months ended June 30, 2019, a decrease of $63 million as compared to net gains from derivatives and foreign exchange of $10 million in the prior year period. Net losses from derivatives and foreign exchange in 2019 were primarily due to a decline of $56 million in the market value of the Company's interest rate swaps used to hedge interest rate risk, resulting from a lower interest rate environment, and a decline of $10 million from the impact of the appreciation of the Canadian dollar on the Company's invested assets denominated in U.S. dollars, partially offset by an increase of $13 million in market value of the interest rate floors. Net gains from derivatives and foreign exchange of $10 million in the prior year period were primarily due to an increase of $4 million in the market value of the Company's interest rate swaps and an increase of $6 million from the impact of the depreciation of the Canadian dollar on the Company's invested assets denominated in U.S. dollars.

Table 7: Net Income

	Three months ended June 30,				Six months ended June 30,			
(in millions of dollars, unless otherwise specified)	**2019**	2018	Change		**2019**	2018	Change	
Income before income taxes	**$ 146**	$ 157	$ (11)	(7)%	**$ 277**	$ 330	$ (53)	(16)%
Provision for income taxes	**36**	41	(5)	(12)%	**70**	86	(16)	(19)%
Net income	**$ 110**	$ 116	$ (6)	(5)%	**$ 207**	$ 244	$ (37)	(15)%
Effective tax rate	**24.6%**	26.1%		(1.5) pts	**25.2%**	26.1%		(0.9) pts

Note: Amounts may not total due to rounding.

Current quarter

Income before income taxes decreased by $11 million, or 7%, to $146 million and net income decreased by $6 million, or 5%, to $110 million in the second quarter of 2019 as compared to the same quarter in the prior year, primarily as a result of lower investment income related to net losses from derivatives and foreign exchange, lower premiums earned, higher losses on claims and expenses, and a fee on early redemption of long-term debt. The effective tax rate was 24.6% for the second quarter of 2019, a decrease of approximately 150 basis points as compared to the same quarter in the prior year, primarily as a result of lower Alberta corporate tax rates.

Year-to-date

Income before income taxes decreased by $53 million, or 16%, to $277 million and net income decreased by $37 million, or 15%, to $207 million in the six months ended June 30, 2019 as compared to the prior year period, primarily as a result of lower investment income related to net losses from derivatives and foreign exchange, lower premiums earned and higher losses on claims and expenses, and a fee on early redemption of long-term debt. The effective tax rate was 25.2% for the six months ended June 30, 2019, a decrease of approximately 90 basis points as compared to the prior year period, as a result of lower Alberta corporate tax rates.

Table 8: Statement of financial position highlights

(in millions of dollars, unless otherwise specified)		As at June 30, 2019		As at December 31, 2018		Change	
Total investments	$	**6,501**	$	6,400	$	102	2 %
Other assets		**281**		323		(42)	(13)%
Derivative financial instruments		**75**		110		(35)	(32)%
Subrogation recoverable		**51**		56		(5)	(9)%
Total assets		**6,909**		6,889		20	-
Unearned premiums reserve		**2,051**		2,089		(37)	(2)%
Loss reserves		**129**		124		5	4 %
Long-term debt		**436**		434		2	1 %
Derivative financial instruments		**49**		92		(43)	(47)%
Other liabilities		**157**		160		(3)	(2)%
Total liabilities		**2,823**		2,899		(76)	(3)%
Shareholders' equity excluding accumulated other comprehensive income ("**AOCI**")		**4,042**		4,027		16	-
AOCI		**43**		(36)		80	NM
Shareholders' equity		**4,086**		3,990		95	2 %
Total liabilities and shareholders' equity	$	**6,909**	$	6,889	$	20	-
Book value per common share							
Number of common shares outstanding (basic)		**85,954,112**		87,591,163		(1,637,051)	(2)%
Book value per common share including AOCI (basic)	$	**47.53**	$	45.56	$	1.97	4 %
Book value per common share excluding AOCI (basic)	$	**47.03**	$	45.97	$	1.06	2 %
Number of common shares outstanding (diluted)[1]		**86,621,409**		88,261,921		(1,640,512)	(2)%
Book value per common share including AOCI (diluted)[1]	$	**47.17**	$	45.21	$	1.96	4 %
Book value per common share excluding AOCI (diluted)[1]	$	**46.67**	$	45.62	$	1.05	2 %
Dividends paid per common share during the year[2]	$	**1.42**	$	1.92			

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

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

[2] Dividends paid per common share include payment of special dividends for the six months ended June 30, 2019 and full year 2018.

Summary of quarterly results

Table 9: Summary of quarterly results

(in millions of dollars, unless otherwise specified)	**Q2'19**	Q1'19	Q4'18	Q3'18	Q2'18	Q1'18	Q4'17	Q3'17
Premiums written	**$ 195**	$ 105	$ 156	$ 196	$ 172	$ 115	$ 164	$ 202
Premiums earned	**169**	169	169	169	171	171	171	170
Losses on claims	**26**	25	30	23	25	22	15	23
Expenses	**34**	33	32	32	33	32	34	34
Net underwriting income	**109**	110	106	114	114	117	121	113
Interest and dividend income, net of investment expenses[1]	**49**	48	50	49	46	47	48	45
Realized income from the interest rate hedging program	**7**	9	7	6	5	4	2	-
Net (losses) gains from investments, derivatives and foreign exchange[2]	**(10)**	(30)	(46)	10	(2)	11	15	37
Total investment income	**46**	27	11	64	49	62	64	82
Interest expense	**6**	6	6	6	6	6	6	6
Fee on early redemption of long-term debt	**3**	-	-	-	-	-	-	-
Net income	**$ 110**	$ 97	$ 80	$ 128	$ 116	$ 128	$ 132	$ 140
Adjustment to net income, net of taxes:								
Fee on early redemption of long-term debt	**2**	-	-	-	-	-	-	-
Net losses (gains) from investments, derivatives and foreign exchange[2]	**8**	22	37	(7)	1	(8)	(11)	(27)
Net operating income[1]	**$ 120**	$ 119	$ 117	$ 121	$ 117	$ 119	$ 121	$ 112
Earnings per common share:								
Earnings per common share (basic)	**$ 1.26**	$ 1.11	$ 0.90	$ 1.43	$ 1.29	$ 1.41	$ 1.45	$ 1.52
Earnings per common share (diluted)[3]	**$ 1.26**	$ 1.10	$ 0.88	$ 1.42	$ 1.29	$ 1.38	$ 1.45	$ 1.52
Selected non-IFRS financial measures[1]								
Loss ratio	**15%**	15%	18%	14%	14%	13%	9%	13%
Expense ratio	**20%**	20%	19%	19%	19%	19%	20%	20%
Combined ratio	**35%**	35%	37%	32%	33%	32%	29%	33%
Operating earnings per common share (basic)	**$ 1.38**	$ 1.36	$ 1.32	$ 1.35	$ 1.31	$ 1.31	$ 1.33	$ 1.23
Operating earnings per common share (diluted)[3]	**$ 1.38**	$ 1.35	$ 1.32	$ 1.35	$ 1.31	$ 1.31	$ 1.33	$ 1.23
Operating return on equity	**12%**	12%	12%	12%	12%	12%	13%	12%

Note: Amounts may not total due to rounding.
[1] These financial measures are not calculated based on IFRS. See the "Non-IFRS financial measures" section at the end of this MD&A for additional information. [2] Includes realized and unrealized gains and losses from derivatives and foreign exchange, excluding realized income and expense from the interest rate hedging program. [3] The difference between basic and diluted earnings per common share and basic and diluted operating earnings per common share is caused by the potentially dilutive impact of share-based compensation awards.

The Company's key financial measures for each of the last eight quarters are summarized in the table above. These highlights illustrate the Company's profitability, operating return on equity, loss ratio, expense ratio and combined ratio. The transactional mortgage insurance business is seasonal. Premiums written vary each quarter, while premiums earned, interest and dividend income, net of investment expenses, and administrative expenses tend to be relatively stable from quarter to quarter. The variations in premiums written are driven by mortgage origination activity and associated new insurance written, which typically peak in the spring and summer months, in addition to changes in market share and premium rates. Portfolio mortgage insurance volume and mix varies from quarter to quarter based on lender demand. Losses on claims vary from quarter to quarter, primarily as the result of prevailing economic conditions and characteristics of the insurance in-force portfolio, such as loan size, age, seasonality and geographic mix of delinquencies. Typically, losses on claims increase during the winter months primarily due to an increase in new delinquencies and decrease during the spring and summer months.

In the fourth quarter of 2017, losses on claims decreased significantly due to fewer new reported delinquencies, net of cures, lower average reserve per delinquency and a favourable development from the prior reporting period’s loss reserve. The Company’s financial results for the second quarter of 2019 were driven by stable premiums earned, relatively consistent expense and loss ratios, and lower investment income. The lower level of investment income in the three most recent quarters is primarily a result of the impact of declining interest rates on the Company’s interest rate swap derivatives.

Financial condition

Financial instruments

As at June 30, 2019, the Company had total cash and cash equivalents and invested assets of approximately $6.5 billion in its investment portfolio. All of the Company's invested assets are classified as available-for-sale ("**AFS**"). Cash and cash equivalents, and accrued investment income and other receivables are classified as loans and receivables, and derivative financial instruments are classified as Fair Value through Profit or Loss ("**FVTPL**"). Fair value measurements for AFS securities are based on quoted market prices for identical assets when available. In the event an active market does not exist, estimated fair values are obtained primarily from industry-standard pricing sources using market observable information and through processes such as benchmark curves, benchmarking of like securities and quotes from market participants.

Table 10: Invested assets by asset class for the portfolio

Asset Class	As at June 30, 2019			As at December 31, 2018		
(in millions of dollars, unless otherwise specified)	Fair value	%	Unrealized gains (losses)	Fair value	%	Unrealized gains (losses)
Collateralized loan obligations	**$ 538**	**8**	**$ (4)**	$ 532	8	$ (8)
Corporate bonds and debentures:						
Financial	**769**	**12**	**16**	780	12	(8)
Energy	**350**	**5**	**13**	343	5	-
Infrastructure	**122**	**2**	**6**	121	2	2
Utilities	**389**	**6**	**13**	365	6	(1)
All other sectors	**639**	**10**	**18**	605	9	(8)
Total corporate bonds and debentures	**2,269**	**35**	**66**	2,214	35	(16)
Short-term investments:						
Canadian federal government treasury bills	**106**	**2**	**-**	49	1	-
Total short-term investments	**106**	**2**	**-**	49	1	-
Government bonds and debentures:						
Canadian federal government	**1,946**	**30**	**51**	1,952	30	17
Canadian provincial and municipal governments	**852**	**13**	**42**	858	13	24
Total government bonds and debentures	**2,798**	**43**	**93**	2,810	44	41
Preferred shares:						
Financial	**316**	**5**	**(60)**	325	5	(42)
Energy	**83**	**1**	**(16)**	85	1	(11)
Utilities	**84**	**1**	**(15)**	90	1	(11)
All other sectors	**15**	**-**	**(4)**	17	-	(2)
Total preferred shares	**499**	**8**	**(96)**	518	8	(66)
Total invested assets	**$ 6,209**	**96**	**$ 60**	$ 6,122	96	$ (49)
Cash and cash equivalents[1]	**292**	**4**	**-**	278	4	-
Total investments	**$ 6,501**	**100**	**$ 60**	$ 6,400	100	$ (49)
Accrued investment income and other receivables	**41**		**-**	41		-
Derivative financial instruments (asset net of liability and cash collateral)	**26**		**26**	18		18
Total invested assets, derivatives, accrued investment income and other receivables	**$ 6,568**		**$ 86**	$ 6,459		$ (32)

Note: Amounts may not total due to rounding.

[1] Cash and cash equivalents includes $9 million (December 31, 2018 - $ 11 million) of collateral posted to the benefit of the Company from its derivative counterparties with a corresponding liability to return the collateral in liabilities for derivative financial instruments.

Unrealized gains on AFS securities in the portfolio were $60 million, an increase of $109 million from the unrealized losses of $49 million at December 31, 2018, primarily as a result of a decrease in interest rates in 2019. The unrealized gains position as at June 30, 2019, includes $96 million unrealized losses from preferred shares, primarily as a result of the impact of lower expectations for higher interest rates. The Company has economically hedged a portion of its foreign exchange and interest rate risk and the net market value of these derivatives is a net asset value of $26 million as compared to a net asset value of $18 million as at December 31, 2018. Excluding the liability of $9 million cash pledged as collateral as at June 30, 2019 and the liability of $11 million cash pledged as collateral as at December 31, 2018, the net market value of these derivatives is a net asset value of $35 million as at June 30, 2019 as compared to a net asset value of $28 million as at December 31, 2018.

The Company's average investment yield for the six months ended June 30, 2019 was 3.2%, which included the favourable impact of non-taxable dividend income from its preferred shares.

The Company assigns credit ratings based on the asset risk guideline as outlined in OSFI's Mortgage Insurer Capital Adequacy Test guideline. Based on the guideline, the Company assigns ratings from DBRS when available. The majority of the assets in the Company's current investment portfolio have a DBRS rating. In the absence of a DBRS rating, the Company assigns Standard & Poor's ("**S&P**") or Moody's ratings.

Table 11: Invested assets by credit rating for the portfolio

Credit Rating	**As at June 30, 2019**			**As at December 31, 2018**		
(in millions of dollars, unless otherwise specified)	**Fair value**	**%**	**Unrealized gains (losses)**	**Fair value**	**%**	**Unrealized gains (losses)**
Cash and cash equivalents	**$ 292**	**5**	**$ -**	$ 278	5	$ -
AAA	**2,388**	**40**	**50**	2,294	39	14
AA	**973**	**16**	**36**	1,008	17	9
A	**1,737**	**29**	**52**	1,681	29	1
BBB	**606**	**10**	**18**	615	10	(8)
Below BBB	**6**	**-**	**-**	6	-	-
Total investments (excluding preferred shares)	**$ 6,002**	**100**	**$ 155**	$ 5,882	100	$ 16
Preferred shares						
P2	**396**	**79**	**(72)**	408	79	(52)
P3	**104**	**21**	**(24)**	110	21	(14)
Total preferred shares	**499**	**100**	**(96)**	518	100	(66)
Total investments	**$ 6,501**		**$ 60**	$ 6,400		$ (49)

Note: Amounts may not total due to rounding.

Investment portfolio management

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

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

Collateralized loan obligations

The Company held approximately 8% of the investment portfolio in collateralized loan obligations as of June 30, 2019, relatively consistent to the level as at December 31, 2018. These securities are floating rate collateralized loan obligations denominated in U.S. dollars, of which 60% are rated AAA, 33% are rated AA and 7% are rated A.

Corporate bonds and debentures

As of June 30, 2019, approximately 35% of the investment portfolio was held in corporate bonds and debentures, relatively consistent to the level as at December 31, 2018. The investment policy limits the percentage of the portfolio that can be invested in any single issuer or group of related issuers. Financial sector exposure through corporate bonds and debentures represents 12% of the investment portfolio, or approximately 34% of the corporate bonds and debentures. The Company continuously monitors and repositions its exposure to the financial sector, which represents a significant proportion of the corporate issuances of fixed income securities in the Canadian marketplace. The Company is mindful of correlation risk and looks for opportunities to diversify the portfolio outside of Canada to sectors and issuers that have a lower correlated risk to Canada. Utilities sector and energy sector exposure through corporate bonds and debentures represents 6% and 5%, respectively, of the investment portfolio.

Securities rated BBB and below BBB were $606 million and $6 million, respectively, or 9% of the investment portfolio, as of June 30, 2019.

Government bonds and debentures

The Company's investment policy requires that a minimum of 30% of the investment portfolio be invested in sovereign fixed income securities. As of June 30, 2019, 43% of the investment portfolio was invested in sovereign fixed income securities, consisting of approximately 30% in federal fixed income securities and 13% in provincial and municipal fixed income securities, relatively consistent with December 31, 2018.

Canadian federal government treasury bills held by the Company consist primarily of short-term investments with original maturities greater than 90 days and less than 365 days. The Company held $106 million in Canadian federal government short-term treasury bills in the investment portfolio as of June 30, 2019, an increase of $58 million from December 31, 2018.

Preferred shares

As of June 30, 2019, the Company held $499 million of preferred shares, of which the financial sector represented 63%. The Company believes that preferred shares have a comparable dividend yield to common shares and offer a more attractive risk and capital adjusted return profile to that of common shares under the current MICAT guidelines. The preferred shares are in an unrealized loss position of $96 million as at June 30, 2019, an increase in loss of $30 million as compared to December 31, 2018, primarily as a result of the impact of lower expectations for higher interest rates. Utilities sector and energy sector exposure through preferred shares represents 3% of the investment portfolio.

Cash and cash equivalents

Cash and cash equivalents consist primarily of cash in bank accounts and government treasury bills with original maturities of 90 days or less. The Company determines its target cash and cash equivalents based on near-term liquidity needs, market conditions and perceived favourable future investment opportunities. The Company's cash and cash equivalents in the investment portfolio were $292 million, or 4%, as of June 30, 2019, relatively consistent to the level as at December 31, 2018. Refer to "Liquidity" section below for additional information.

Liquidity

The purpose of liquidity management is to ensure there is sufficient cash to meet all of the Company's financial commitments and obligations. The Company has six primary sources of funds, consisting of premiums written from operations, investment income, cash and short-term investments, investment maturities or sales, proceeds from the issuance of debt and equity, and an undrawn credit facility. The Company has an aggregate outstanding amount of $436 million in debt, of which the Series 1 debentures with outstanding principal of $175 million matures on June 15, 2020. The Company plans to repay the maturing Series 1 debentures at the time of maturity or earlier through a combination of issuing new term debt, borrowing under the syndicated credit facility or utilizing cash and liquid assets held outside the Insurance Subsidiary. The Company believes it has the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill its cash requirements during the current financial year and in future financial years.

Table 12: Summary of the Company's cash flows

	Six months ended June 30,	
(in millions of dollars)	**2019**	**2018**
Cash provided by (used in):		
Operating activities	**$ 229**	$ 115
Financing activities	**(194)**	(131)
Investing activities	**(21)**	1
Change in cash and cash equivalents	**$ 14**	$ (15)
Cash and cash equivalents, beginning of period	**278**	287
Cash and cash equivalents, end of period	**$ 292**	$ 272

Note: Amounts may not total due to rounding.

The Company generated $229 million of cash from operating activities in the six months ended June 30, 2019 as compared to $115 million generated in the prior year period. The higher cash generated from operating activities was primarily the result of higher levels of premiums written and lower income tax payments in the six months ended June 30, 2019.

The Company utilized $194 million of cash related to financing activities in the six months ended June 30, 2019, primarily related to the payment of ordinary and special dividends of $124 million and approximately $68 million for the repurchase of common shares under the 2019 NCIB. In the prior year period, the Company utilized $131 million of cash flows, primarily related to the payment of ordinary dividends of $85 million and approximately $50 million for the repurchase of common shares under its normal course issuer bid in effect at such time. Net cash proceeds from the issuance of Series 3 Debentures of $102 million was offset by the cash utilized to redeem $100 million principal amount of Series 1 debentures and the payment of the related $3 million early redemption fee.

The Company utilized $21 million of cash for net purchases of investments in the six months ended June 30, 2019 as compared to $1 million generated in the prior year period, primarily from the proceeds of sales or maturities of investments.

The Company maintains a portion of its investment portfolio in cash and liquid securities to meet working capital requirements and other financial commitments. As of June 30, 2019, the Company held liquid assets of $866 million, comprised of $292 million in cash and cash equivalents, and $574 million in bonds and debentures and short-term investments maturing within one year, in order to maintain financial flexibility. Of the $866 million liquid assets, $95 million were held outside of the Insurance Subsidiary. As at June 30, 2019, the duration of the fixed income portfolio was 3.7 years.

In addition to cash and cash equivalents, 45%, or $2,904 million, of the Company's investment portfolio comprises federal and provincial government securities for which there is a highly liquid market. Funds are used primarily for operating expenses, claims payments, and interest expense, as well as dividends and other distributions to shareholders. Potential liquidity risks are discussed in more detail in the "Risk Factors" section of the Company's AIF.

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.

The Company uses foreign currency forwards and cross currency interest rate swaps to mitigate foreign currency risk associated with bonds and collateralized loan obligations 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 risks associated with share-based compensation expense.

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

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

Table 13: Fair value and notional amounts of derivatives by terms of maturity

				Notional Amount				
(in millions of dollars, unless otherwise specified)	**Derivative asset**	**Derivative liability[1]**	**Net fair value**	**1 year or less**	**1–3 years**	**3–5 years**	**Over 5 years**	**Total**
June 30, 2019								
Foreign currency forwards	$ 7	$ (31)	$ (23)	$ 407	$ 47	$ 87	$ 107	$ 647
Cross currency interest rate swaps	2	(10)	(8)	259	126	73	126	584
Equity total return swaps	-	-	-	24	-	-	-	24
Interest rate swaps	45	-	45	-	3,500	-	-	3,500
Interest rate floors	21		21	-	3,000	-	-	3,000
Total	**$ 75**	**$ (40)**	**$ 35**	**$ 690**	**$ 6,673**	**$ 160**	**$ 233**	**$ 7,755**
December 31, 2018								
Foreign currency forwards	$ -	$ (49)	$ (49)	$ 284	$ 29	$ 93	$ 126	$ 533
Cross currency interest rate swaps	-	(31)	(31)	100	252	77	158	588
Equity total return swaps	-	(1)	(1)	25	-	-	-	25
Interest rate swaps	101	-	101	-	2,000	1,500	-	3,500
Interest rate floors	9	-	9	-	1,500	1,500	-	3,000
Total	**$ 110**	**$ (82)**	**$ 28**	**$ 409**	**$ 3,782**	**$ 3,170**	**$ 284**	**$ 7,645**

Note: Amounts may not total due to rounding.
[1] Excludes $9 million cash pledged as collateral by counterparties for derivative contracts as at June 30, 2019 (December 31, 2018 - $11 million).

Capital expenditures

The Company's capital expenditures primarily relate to technology investments aimed at improving operational efficiency and effectiveness for sales, underwriting, risk management and loss mitigation. In the six months ended June 30, 2019, the Company invested approximately $1 million in underwriting, loss mitigation and risk management technologies enhancements, relatively consistent with the expenditures in the prior year period. The Company expects that future capital expenditures will continue to be related to underwriting, loss mitigation, and risk management technology improvements, and that capital expenditures in 2019 will be in the $3 million to $5 million range. It is anticipated that such expenditures will be funded primarily from operating cash flows.

Capital management

Mortgage insurer capital adequacy test

The Insurance Subsidiary is regulated by OSFI and is subject to the MICAT requirements which went into effect January 1, 2019. Under the MICAT, an insurer calculates a ratio of capital available to capital required in a prescribed manner. Mortgage insurers are required to maintain a minimum ratio of regulatory capital available, as defined for MICAT purposes, to capital required. The MICAT included a transitional arrangement that provided for a phase-in period for the increased capital required for insurance risk on outstanding mortgages as at December 31, 2018, which has run off in the second quarter of 2019. Additionally, there continues to be a phase in of the impact on the capital requirements for operational risk as at January 1, 2017, resulting from the changes to the capital requirements for insurance risk under the 2017 "Capital Requirements for Federally Regulated Mortgage Insurers". The Company has established an internal MICAT target ratio of 157% as compared to the OSFI supervisory MICAT target ratio of 150% and the minimum MICAT ratio under PRMHIA of 150%.

As at June 30, 2019, the Insurance Subsidiary's MICAT ratio estimate was approximately 169%, 19 percentage points higher than the OSFI Supervisory MICAT target ratio and 12 percentage points higher than the Company's internal MICAT target ratio of 157%.

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

Table 14: MICAT as at June 30, 2019 and MCT as at December 31, 2018

(in millions of dollars, unless otherwise specified)	**As at June 30, 2019**	**As at December 31, 2018**
Capital available	**$4,419**	$4,370
Capital required	**$2,608**	$2,548
MICAT/MCT ratio[1]	**169%**	172%

[1] Company estimate at June 30, 2019. Effective January 1, 2019, the MCT ratio was replaced with the MICAT ratio. The OSFI supervisory MICAT target ratio and minimum MICAT ratio under PRMHIA for 2019 remains at 150% and the Company's internal target ratio for 2019 under the MICAT remains unchanged at 157%.

Capital available increased modestly in the six months ended June 30, 2019, primarily due to profitability net of the Insurance Subsidiary's dividends paid, and the change in the unrealized loss position of the investment portfolio of $49 million as at December 31, 2018 to an unrealized gain position of $60 million as at June 30, 2019. Capital required increased in the same period primarily due to new insurance written for both transactional and portfolio insurance, a decrease in the benefit from the phased-in capital required for operational risk under the 2017 MCT guidelines and an increase in interest rate risk due to aging of the interest rate swaps. These increases were partially offset by the decline in outstanding insured mortgage balances on 2018 and prior books of business.

The Company expects that in 2019 the impact of the elimination of the one-time update to credit score for 2015 and prior books should more than offset the 5% increase in the total asset requirement on existing on insurance in force. The transitional arrangement for the increased capital required for insurance risk on outstanding mortgages at December 31, 2018 ran off in the second quarter of 2019.

Debt

The Company proactively manages capital to balance capital strength, flexibility and efficiency. The Company currently has an aggregate outstanding amount of $436 million in long-term debt, issued in two series, with a debt-to-capital ratio as at June 30, 2019 of 10%.

During the second quarter of 2019, the Company issued $100 million of long-term debt by re-opening its Series 3 debentures that mature in April 2024. The proceeds of that debt issuance were used to redeem $100 million principal amount of the Company's Series 1 debentures maturing in June 2020. The following table illustrates the Company's long-term debt position as at June 30, 2019.

Table 15: Details of the Company's long-term debt

Series	Series 1	Series 3
Timing of maturity	Less than 1 year	3 – 5 years
Principal amount outstanding	$175 million	$260 million
Date issued	June 29, 2010	April 1, 2014
Date of supplemental issue		May 22, 2019
Maturity date	June 15, 2020	April 1, 2024
Fixed annual rate	5.68%	4.242%
Semi-annual coupon payments due each year on	June 15, December 15	October 1, April 1
Debenture Ratings		
S&P[1]	BBB+	BBB+
DBRS[1]	A (High), Stable	A (High), Stable

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

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

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

As of June 30, 2019, all debt covenants have been met.

In the case of certain events of default under the terms of the debentures issued by the Company in 2010, 2014 and 2019, the aggregate unpaid principal amount of such debentures, together with all accrued and unpaid interest thereon and any other amounts owing with respect thereto, shall become immediately due and payable. The events of default that would trigger such an acceleration of payment include if the Company takes certain voluntary insolvency actions, such as instituting proceedings for its winding up, liquidation or dissolution, or consents to the filing of such proceedings against it; or if involuntary insolvency proceedings go uncontested by the Company or are not dismissed within a specified time period, or the final order sought in such proceedings is granted against the Company.

The summary above does not include all details relating to the Company's debentures. For all details on the terms and conditions of the Company's debentures, please see the relevant prospectus, prospectus supplement, trust indenture and supplemental trust indenture, copies of which are available with the Company's filings on the SEDAR website at www.sedar.com.

Credit facility

The Company has a $300 million unsecured revolving syndicated credit facility, with a scheduled maturity date of September 29, 2023. The credit facility includes an accordion feature that permits the Company to request that individual commitments with respect to the credit facility be increased by an aggregate amount of up to $100 million.

Any borrowings under the syndicated credit facility will either be discounted at a rate per annum equal to either a one-, two-, three- or six-month (as selected by the Company from time to time) Banker's Acceptance discount rate or will bear interest at a variable rate based on a spread over the agent bank's prime rate. The Company also pays a standby fee based on the unused amount of the commitment which is recorded in interest expense in the consolidated statements of income. The syndicated credit facility includes customary representations, warranties, covenants, terms and conditions for transactions of this type.

As at June 30, 2019 there was no amount outstanding under the credit facility and the Company was in compliance in all material respects with its covenants.

Financial strength ratings

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

On August 20, 2018, DBRS confirmed the Insurance Subsidiary's AA financial strength rating and the Company's A (high) rating with stable trends citing "the Company's strong market position, good risk underwriting and management expertise, high quality insurance portfolio and its strong capital position relative to the capital required to meet insurance-claim obligations."[1]

On September 5, 2018, S&P affirmed the Insurance Subsidiary's A+ rating with a stable outlook and the Company's BBB+ rating with a stable outlook. S&P noted that the Company had a strong business risk and very strong financial risk profiles, sustained strong operating performance and sizeable market share, benefited from the strength of its market position, capital levels and stable underwriting performance.

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

Capital transactions

On May 1, 2018, the Company received approval from the TSX for the Company to undertake the 2018 NCIB. Pursuant to the 2018 NCIB, the Company could purchase, for cancellation, up to 4,489,616 shares, representing approximately 5% of its outstanding common shares as of April 27, 2018. The 2018 NCIB expired on May 6, 2019. During 2019, the Company did not purchase any shares under the 2018 NCIB.

On April 30, 2019, the Company received approval from the TSX for the Company to undertake the 2019 NCIB following the expiration of the 2018 NCIB. Pursuant to the 2019 NCIB, the Company can purchase, for cancellation, up to 4,379,933 shares, representing

[1] DBRS August 20, 2018 press release: DBRS Confirms Ratings Genworth Financial Mortgage Insurance Co. Canada at AA and Genworth MI Canada Inc. at A (high), Stable Trends.

approximately 5% of its outstanding common shares as of April 26, 2019. Purchases of common shares under the 2019 NCIB were permitted to commence on or after May 7, 2019 and will conclude on the earlier of May 6, 2020 and the date on which the Company has purchased the maximum number of shares under the 2019 NCIB.

During the three months ended June 30, 2019, under the terms of the 2019 NCIB, the Company repurchased 1,650,951 shares for cancelation, for an aggregate purchase price of approximately $68 million. The Company's majority shareholder, Genworth Financial Inc., through its subsidiaries, participated proportionately in the 2019 NCIB.

Restrictions on dividends and capital transactions

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

Outstanding share data

Table 16: Changes in the number of common shares outstanding at June 30, 2019 and December 31, 2018

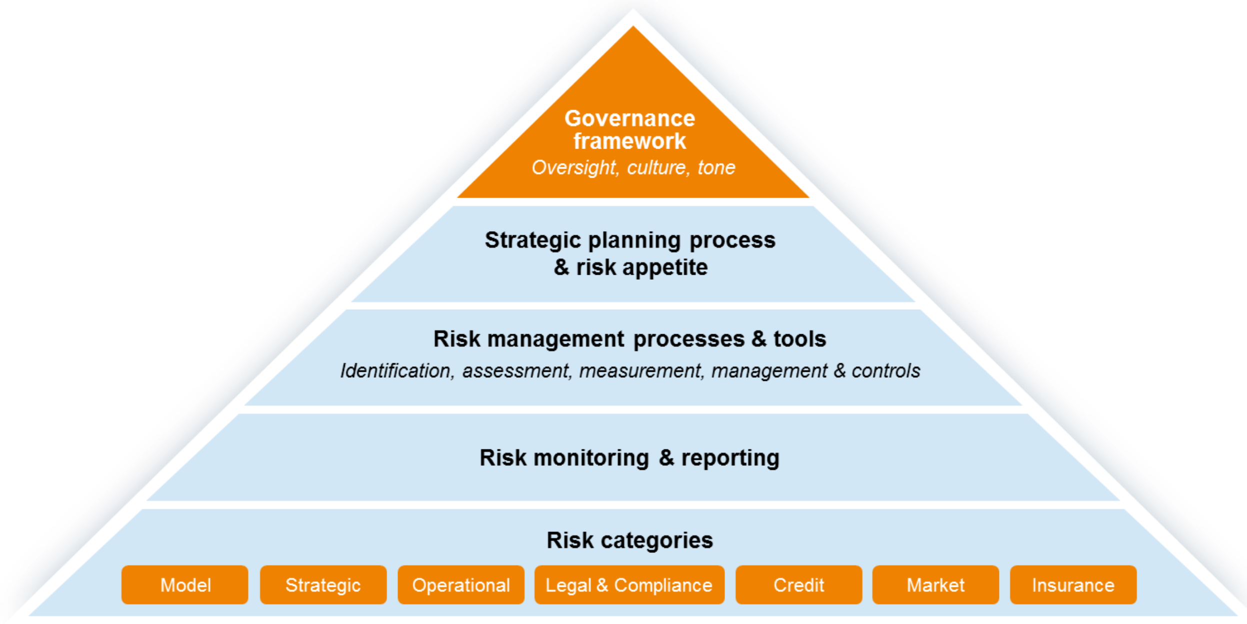
	June 30, 2019	December 31, 2018
Common shares, beginning of period	**87,591,163**	90,942,040
Effect of share repurchase	**(1,650,951)**	(3,580,939)
Common shares issued in connection with share-based compensation plans	**13,900**	230,062
Common shares, end of period	**85,954,112**	87,591,163

At June 30, 2019, Genworth Financial, Inc. beneficially owned 48,944,645 common shares, or approximately 56.9% of the Company's outstanding common shares, through its wholly-owned subsidiaries, Genworth Financial International Holdings LLC and Genworth Mortgage Insurance Corporation which held approximately 40.5% and 16.5% of the common shares, respectively.

Risk management

Enterprise risk management framework

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



Governance framework

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

I. Board's oversight of risk and risk management practices;

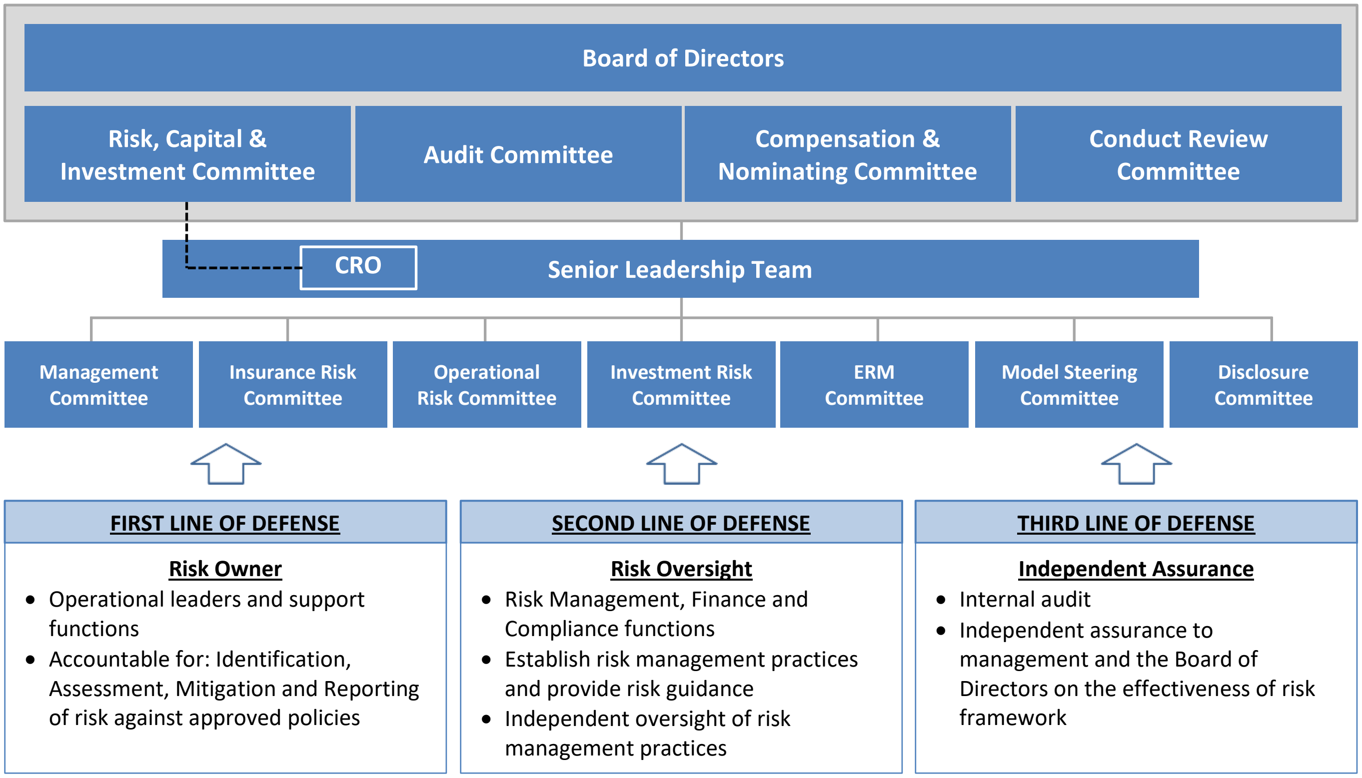
II. Management's oversight of risks; and

III. The "three lines of defense" operating model.

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

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

The Board and the board of directors of the Insurance Subsidiary use a "three lines of defense" approach to risk management, which serves to allocate accountability and responsibility for risk management within the various business functions, as outlined in the chart below.



Risk principles

The Company employs the following methods of managing risk that originate from the business objectives of the Company:

- Ensure the expected outcomes of risk-taking activities are consistent with the Company's strategies and risk appetite;
- Ensure there is an appropriate balance between risk, return, capital, and liquidity in order to meet policyholder obligations and maximize shareholder value throughout economic cycles;
- Ensure an understanding of risk drivers as they relate to the Company's key objectives, including addressing potential reputational risk;
- Employ a "three lines of defense" risk governance model, which ensures that a responsibility for risk management is shared across the business;
- Proactively address emerging risks as they arise; and
- Ensure strict adherence to legal, compliance and regulatory requirements.

The Company's ERM framework and internal control procedures are designed to reduce the level of volatility in its financial results. The Company's ERM framework is linked to its business strategy and decision-making framework. One of the key tools is the Own Risk and Solvency Assessment ("**ORSA**") framework. The key elements and considerations of the Company's ORSA framework include: the comprehensive identification and assessment of risks and the adequacy of the Company's risk management; the assessment of the Company's current and likely future capital needs and solvency positions in light of its risk assessments; the distinguishing of Board oversight and management responsibility for such processes; detailing related monitoring and reporting requirements; and detailing the Company's internal controls and objective review process and procedures for such risk assessments. The Company's ORSA framework is forward-looking and is undertaken in conjunction with the Company's business and strategic planning.

Risk appetite framework

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

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

The Company has set risk limits and tolerances that guide the business and ensure that risk taking activities are within its risk appetite. The Company's risk tolerances and limits will be assessed for appropriateness at least annually and on a more frequent basis if there is a major change to the economic or business environment. The Company communicates risk tolerances and limits across the organization through its policies, limit structures, operating procedures and risk reporting.

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

Risk controls

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

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

Risk categories

Insurance risk

The Company's mortgage insurance risk management involves actively managing its borrower credit quality, product and geographic exposures. The Company carefully monitors portfolio concentrations by borrower credit quality, product and geography against pre-determined risk tolerances, taking into account the conditions of the housing market and economy in each region of Canada. The Company continued to originate a high-quality insurance portfolio in the six months ended June 30, 2019 with an average transactional credit score of 749 primarily due to continued underwriting diligence. The average home price for transactional insurance originations in the period has increased to approximately $337 thousand, representing a modest increase of approximately 2%, over the prior year period. The average gross debt service ratio for 2019 was 24%, consistent with the prior year period and below the PRMHIA mortgage stress test threshold of 39%.

To the extent that home prices appreciate over time and/or the principal amount of the loan is paid down, the effective loan-to-value of the Company's insurance written in a given year decreases.

Table 17: Estimated effective loan-to-value % of the Company's outstanding insured mortgage balances[1] by book of business

	As at June 30, 2019			As at December 31, 2018		
	Transactional	Portfolio	Total	Transactional	Portfolio	Total
2009 & prior	**33**	**17**	**27**	35	17	28
2010	**49**	**24**	**39**	50	25	40
2011	**53**	**25**	**38**	54	26	39
2012	**57**	**30**	**41**	59	31	42
2013	**61**	**32**	**42**	62	33	44
2014	**67**	**38**	**48**	67	39	49
2015	**70**	**40**	**48**	71	41	49
2016	**75**	**45**	**56**	77	46	57
2017	**86**	**54**	**76**	87	55	78
2018	**91**	**54**	**78**	93	55	81
2019	**94**	**59**	**86**	-	-	-
Total	**64**	**37**	**49**	64	37	49

[1] This estimate is based on the amounts reported by lenders to the Company, which represents the vast majority of insurance in-force.

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

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

Quality Assurance

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

Through the Company's risk management system, it takes active steps to identify and prevent fraud. This includes collaborating with industry participants to promote best practices within the mortgage industry and to identify emerging trends, performing quality assurance audits on lender institutions and maintaining a proprietary database of properties or persons known to have been involved in fraud or misrepresentation.

Market and credit risk

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

Credit risk

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

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

Liquidity risk

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

Market risk

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

Interest rate risk

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

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 exchange forward contracts and cross-currency interest rate swaps to mitigate currency risk.

Emerging markets risk

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

Counterparty risk

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

Financial reporting controls and accounting disclosures

Disclosure controls and procedures and internal controls over financial reporting

As required by National Instrument 52-109, the Company has in place disclosure controls and procedures and internal controls over financial reporting, designed under the Committee of Sponsoring Organizations of the Treadway Commission (Framework (2013)) to ensure the disclosure of all material information or changes relating to the Company to all members of the public in a fair and timely manner. Such controls and procedures ensure that all relevant material is gathered and reported to senior management (including the CEO, CFO and General Counsel) and the Company's management-level disclosure committee on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation and certification of the Company's disclosure controls and procedures and internal controls over financial reporting is done regularly under supervision by the Company's CEO and CFO in accordance with the requirements of National Instrument 52-109 of the Canadian Securities Administrators, and such certifications are available with the Company's filings on the SEDAR website at www.sedar.com. The certifications filed in connection with certain interim and annual financial disclosure documents, confirm that the CEO and CFO have concluded that the design and operation of the disclosure controls and procedures and internal controls over financial reporting were effective, for such periods. There were no changes in the Company's internal controls over financial reporting during the second quarter of 2019 that have materially affected, or are reasonably likely to materially affect, the Company's controls over financial reporting.

Changes in accounting standards and future accounting standards

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

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. 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 is required to recognize a right of use asset and a lease liability for the lease component of future payments. Lessees are also 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.

The Company applied 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 adjusted 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 qualified for and utilized various practical expedients that are available including practical expedients around lease classification and exclusion of some initial costs from the measurement of the right of use asset recognized on transition.

IFRS 16 has resulted in leases previously classified as operating leases being recorded on the Company's statement of financial position including leases of real estate, vehicles and office equipment. As a result of the transition to IFRS 16, the Company has recognized approximately $12 million in lease liabilities and corresponding right of use assets in the statement of financial position at January 1, 2019.

IFRIC Interpretation 23 – Uncertainty over income tax treatments (“IFRIC 23”)

In June 2017, the IASB issued IFRIC 23 which clarifies how to apply the recognition and measurement requirement in IAS 12 – Income taxes, 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.

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

Future accounting standards

The following new accounting standards have been issued by the IASB and are expected to be adopted by the Company after December 31, 2019.

IFRS 17 - Insurance contracts (“IFRS 17”)

In May 2017, the IASB issued IFRS 17, which is a comprehensive standard that establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 will replace IFRS 4 – Insurance contracts (“**IFRS 4**”).

The measurement approach for insurance liabilities under IFRS 17 is based on the following:

(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 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 methods may be used.

In response to concerns and challenges raised by stakeholders, on June 26, 2019, the IASB published an Exposure Draft (“**ED**”) that proposes targeted amendments to IFRS 17. The IASB’s objective for the amendments is to provide meaningful support to entities implementing IFRS 17 if those amendments do not change the fundamental principles of IFRS 17 in a manner that would result in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17, and if the amendments would avoid unduly disrupting implementation already under way or risking undue delays in the effective date of IFRS 17. The ED proposes eight targeted amendments to IFRS 17 as well as a number of minor amendments and clarifications to the standard under IFRS 17. One of the amendments proposes to defer the effective date of IFRS 17 by one year, from annual reporting periods beginning on or after January 1, 2021 to annual reporting periods beginning on or after January 1, 2022, and to extend the temporary exemption from IFRS 9: Financial instruments (“**IFRS 9**”) by one year so that entities applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after January 1, 2022. All other proposed amendments do not significantly impact the Company. The comment period for the ED ends on September 25, 2019. The IASB expects to publish any resulting amendments to IFRS 17 mid-2020.

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

IFRS 17 will require more data, calculations, disclosures and controls compared to the current accounting standard. To support adoption of IFRS 17, the Company has established a formal governance framework and developed an implementation project plan. A multi-disciplinary project team has been established to analyze and implement IFRS 17 in accordance with the project plan. The Company has completed its evaluation of IFRS 17, including selecting accounting policies and elections available under IFRS 17. The Company is currently assessing the financial statement and business implications of adopting IFRS 17, identifying where changes to the Company's existing accounting and reporting processes as well as IT systems will be required and designing IFRS 17 methodologies which includes the continuous development of loss forecasting capabilities.

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. 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 hedge accounting with risk management activities.

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

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

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

Effective in reporting periods in 2018, an insurer that elected to apply the transitional relief under IFRS 4 is required to provide additional disclosure that enable comparison with entities that applied IFRS 9 at January 1, 2018. In order to compare with entities applying IFRS 9, the amendments to IFRS 4 require entities to disclose additional information regarding the contractual cash flow characteristics and credit exposure of their financial instruments. These disclosures are included in the Company's consolidated financial statements for the six months ended June 30, 2019.

Significant estimates and judgments

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

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

Premiums earned

Mortgage insurance premiums are deferred and then taken into underwriting revenues over the terms of the related policies 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 actuarial 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.

Loss reserves

Loss reserves represent the amount needed to provide for the expected ultimate net cost of settling claims including adjustment expenses related to defaults by borrowers (both reported and unreported) that have occurred on or before the reporting date. Loss reserves are discounted to take into account the time value of money and include a supplemental provision for adverse deviation. 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.

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

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

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

Subrogation recoverable

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

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

Deferred policy acquisition costs

Deferred policy acquisition costs are comprised of premium taxes, appraisal costs, risk fee, certain employee compensation, and other expenses that relate directly to the 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.

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.

Transactions with related parties

Services

The Company enters into related party transactions with Genworth Financial, Inc. and its subsidiaries. Services rendered by Genworth Financial, Inc. and affiliated companies 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, tax compliance and other support services. These transactions are in the normal course of business and are at terms and conditions no less favourable than market. Balances owing for service transactions are non-interest bearing and are settled on a quarterly basis. The Company incurred net related party charges of approximately $3 million in the six months ended June 30, 2019, consistent with the prior year period.

Non-IFRS financial measures

To supplement the Company's consolidated financial statements, which are prepared in accordance with IFRS, the Company uses non-IFRS financial measures to analyze performance. The Company's key performance indicators and certain other information included in this MD&A include non-IFRS financial measures. Such non-IFRS financial measures used by the Company to analyze performance include, among others, net operating income (excluding fee on early redemption of long-term debt), operating investment income, interest and dividend income, net of investment expenses, operating earnings per common share (basic) and operating earnings per common share (diluted). The Company believes that these non-IFRS financial measures provide meaningful supplemental information regarding its performance and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making. Non-IFRS financial measures do not have standardized meanings and are unlikely to be comparable to any similar measures presented by other companies.

Table 18: Non-IFRS financial measures reconciled to comparable IFRS measures for such periods

	Three months ended June 30,		Six months ended June 30,	
(in millions of dollars, unless otherwise specified)	**2019**	**2018**	**2019**	**2018**
Total investment income	**$ 46**	$ 49	**$ 73**	$ 111
Adjustment to investment income:				
Net losses (gains) from investments, derivatives and foreign exchange[1]	**10**	2	**40**	(10)
Operating investment income	**56**	51	**113**	101
Realized expense (income) from the interest rate hedging program	**(7)**	(5)	**(16)**	(8)
Interest and dividend income, net of investment expenses	**$ 49**	$ 46	**97**	$ 93
Net income	**110**	116	**207**	244
Adjustments to net income, net of taxes:				
Fee on early redemption of long-term debt	**2**	-	**2**	-
Net losses (gains) from investments, derivatives and foreign exchange[1]	**8**	1	**29**	(7)
Net operating income	**$ 120**	$ 117	**$ 239**	$ 237
Earnings per common share (basic)	**$ 1.26**	$ 1.29	**$ 2.37**	$ 2.70
Adjustment to earnings per common share, net of taxes:				
Fee on early redemption of long-term debt	**0.03**	-	**0.03**	-
Net losses (gains) from investments, derivatives and foreign exchange[1]	**0.09**	0.02	**0.34**	(0.08)
Operating earnings per common share (basic)	**$ 1.38**	$ 1.31	**$ 2.74**	$ 2.62
Earnings per common share (diluted)[2]	**$ 1.26**	$ 1.29	**$ 2.37**	$ 2.68
Adjustment to earnings per common share, net of taxes:				
Fee on early redemption of long-term debt	**0.03**	-	**0.03**	-
Share based compensation re-measurement amount	**-**	-	**-**	-
Net losses (gains) from investments, derivatives and foreign exchange[1]	**0.09**	0.02	**0.34**	(0.08)
Operating earnings per common share (diluted)[2]	**$ 1.38**	$ 1.31	**$ 2.73**	$ 2.61

Note: Amounts may not total due to rounding.

[1] Includes realized and unrealized gains and losses from derivatives and foreign exchange, excluding realized income and expense from the interest rate hedging program.

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

Other non-IFRS financial measures used by the Company to analyze performance for which no comparable IFRS measure is available include insurance in-force, outstanding insured mortgage balances, new insurance written, loss ratio, expense ratio, combined ratio, operating return on equity, investment yield, MICAT ratio, MCT ratio, and delinquency ratio on outstanding insured mortgage balances.

Table 19: Non-IFRS financial measures for which no comparable IFRS measure is available
For a more meaningful description of the measure, refer to the "Non-IFRS financial measures glossary".

	Three months ended June 30,		Six months ended June 30,	
(in millions of dollars, unless otherwise specified)	**2019**	**2018**	**2019**	**2018**
Selected non-IFRS financial measures				
Outstanding insured mortgage balances[1]	**$ 205,200**	$ 213,600	**205,200**	213,600
New insurance written	**$ 7,736**	$ 5,844	**$ 11,653**	$ 10,152
Transactional new insurance written	**$ 5,310**	$ 4,751	**$ 8,212**	7,907
Portfolio new insurance written	**$ 2,426**	$ 1,092	**$ 3,441**	2,245
Loss ratio	**15%**	14%	**15%**	14%
Expense ratio	**20%**	19%	**20%**	19%
Combined ratio	**35%**	33%	**35%**	33%
Operating return on equity	**12%**	12%	**12%**	12%
Investment yield	**3.3%**	3.2%	**3.2%**	3.2%
MICAT/MCT ratio[2]	**169%**	170%	**169%**	170%
Delinquency ratio on outstanding insured mortgage balances	**0.19%**	0.19%	**0.19%**	0.19%

[1] This estimate is based on amounts reported to the Company by lenders which represent the vast majority of outstanding insured mortgage balances.
[2] Company estimate at June 30, 2019. Effective January 1, 2019, the MCT ratio was replaced with the MICAT ratio. The OSFI supervisory MICAT target ratio and minimum MICAT ratio under PRMHIA for 2019 remains at 150% and the Company's internal target ratio for 2019 under the MICAT remains unchanged at 157%.

Non-IFRS financial measures glossary

In the first quarter of 2014, the Company revised its definition of net operating income (loss) to exclude after-tax fee on early redemption of long-term debt to better reflect the basis on which the performance of the Company's business is internally assessed and to reflect management's opinion that they are not indicative of overall operating trends.

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

"**delinquency ratio on outstanding insured mortgage balances**" means the ratio (expressed as a percentage) of the total number of delinquent loans to the total number of outstanding insured mortgages at a specified date. The delinquency ratio is an indicator of the emergence of losses on claims and the quality of the insurance portfolio and is a useful comparison to industry benchmarks and internal targets.

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

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

"**interest and dividend income, net of investment expenses**" means the total net investment income excluding investment gains (losses) from derivatives and foreign exchange. This measure is an indicator of the core operating performance of the investment portfolio.

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

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

"**Mortgage Insurer Capital Adequacy Test**" or "**MICAT**" means the minimum capital test for federally regulated mortgage insurance companies established by OSFI (as defined herein). Under MICAT, companies calculate an MICAT ratio of regulatory capital available to regulatory capital required using a defined risk-based methodology prescribed by OSFI in monitoring the adequacy of a company's capital. The MICAT ratio is a key metric of the adequacy of the Company's capital in comparison to regulatory requirements and is used for comparisons to other mortgage insurers and internal targets. Replaced "Minimum Capital Test" or "MCT" effective January 1, 2019.

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

"**net operating income**" means net income excluding after-tax net realized gains (losses) on sale of investments, unrealized gains (losses) on Fair Value through Profit or Loss ("**FVTPL**") securities, fee on early redemption of debt and including realized income (expense) from the interest rate hedging program as represented by the difference between the fixed rate and floating rate. Net operating income estimates the recurring after-tax earnings from core business activities and is an indicator of core operating performance.

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

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

"**operating investment income**" means the total net investment income excluding gains (losses) from derivatives and foreign exchange and including realized income (expense) from the interest rate hedging program. This measure is an indicator of the realized operating performance of the investment portfolio and related hedging program.

"**operating return on equity**" means the net operating income for a period divided by the average of the quarterly shareholders' equity, excluding AOCI, for such period. For quarterly results, the operating return is the annualized operating return on equity using the average of beginning and ending shareholders' equity, excluding AOCI, for such quarter. Operating return on equity is an indicator of return on invested capital in the core business activities.

"**outstanding insured mortgage balances**" means the amount of all mortgage insurance policies in effect at a specified date, based on the current balance of mortgages covered by such insurance policies, including any capitalized premiums. Outstanding insured mortgage balances measures the current total risk exposure under insurance contracts at any given time and is used to assess potential losses on claims.

"**portfolio new insurance written**" means the original principal balance of mortgages, insured during a specified period as part of a portfolio of mortgages that have a loan-to-value ratio equal to or less than 80% at the time the loan is insured. New insurance written measures the maximum potential risk exposure under insurance contracts added during a specific time period and is used to determine potential loss exposure.

"**transactional new insurance written**" means the original principal balance of mortgages, including any capitalized premiums, insured during a specified period predominantly on mortgages with a loan-to-value ratio of greater than 80% at the time the loan is originated. New insurance written measures the maximum potential risk exposure under insurance contracts added during a specific time period and is used to determine potential loss exposure.

Other Glossary

"**accumulated other comprehensive income**" or "**AOCI**" is a component of shareholders' equity and reflects the unrealized gains and losses, net of taxes, related to available-for-sale assets. Unrealized gains and losses on assets classified as available-for-sale are recorded in the consolidated statement of comprehensive income and included in accumulated other comprehensive income until recognized in the consolidated statement of income.

"**available-for-sale**" or "**AFS**" means investments recorded at fair value on the balance sheet, using quoted market prices, with changes in the fair value of these investments included in AOCI.

"**average premium rate**" means the average premiums written collected divided by the new insurance written.

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

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

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

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

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

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

"**case reserves**" means the expected losses associated with reported delinquent loans. Lenders report delinquent loans to the Company on a monthly basis. The Company analyzes reported delinquent files on a case-by-case basis and derives an estimate of the expected loss. Case reserve estimates incorporate the amount expected to be recovered from the ultimate sale of the residential property securing the insured mortgage.

"**claim**" means the amount demanded under a policy of insurance arising from the loss relating to an insured event.

"**common shares**" means the issued and outstanding common shares of the Company.

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

“**cures**” means previously reported delinquent loans where the borrower has made all scheduled mortgage payments or a successful workout has been completed and the loan is no longer considered a delinquent loan.

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

“**deferred policy acquisition costs**” means the expenses incurred in the acquisition of new business, comprised of premium taxes and other expenses that relate directly to the acquisition of new business. Policy acquisition costs are only deferred to the extent that they are in excess of the service fees and can be expected to be recovered from unearned premium reserves. Deferred policy acquisition costs are amortized into income in proportion to and over the periods in which premiums are earned.

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

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

“**effective loan-to-value**” means a Company estimate based on the estimated balance of loans insured divided by the estimated fair market value of the mortgaged property using the Teranet - National Bank Home Price Index Composite 11.

“**effective tax rate**” means the ratio (expressed as a percentage) of provision for income taxes to income before income taxes for a specified period. The effective tax rate measures the actual amount of pre-tax income the Company pays in taxes and is a useful comparison to industry benchmarks and prior periods.

“**Fair Value through Profit or Loss**” or “**FVTPL**” means investments recorded at fair value on the statement of financial position with changes in the fair value of these investments recorded in income.

“**gross debt service ratio**” or “**GDSR**” means the percentage of borrowers’ total monthly debt servicing costs, in respect of the debt in question, as a percentage of borrower’s monthly gross income. This is a key measure of household financial health.

“**incurred but not reported**” or “**IBNR**” reserves means the estimated losses on claims for delinquencies that have occurred prior to a specified date, but have not been reported to the Company.

“**investment portfolio**” means invested assets (including cash and cash equivalents, short-term investments, bonds or other fixed income securities and equity investments).

“**lapse rate**” means the rate of expiration of insurance coverage related to full repayments, refinances or sale of the property on the Company’s outstanding insured mortgage balances over a specified period.

“**loan-to-value ratio**” means the original balance of a mortgage loan divided by the original value of the mortgaged property.

“**loss adjustment expenses**” means all costs and expenses incurred by the Company in the investigation, adjustment and settlement of claims. Loss adjustment expenses include third-party costs as well as the Company’s internal expenses, including salaries and expenses of loss management personnel and certain administrative costs.

“**loss reserves**” means case reserves based on delinquencies reported to the Company, an estimate for losses on claims based on delinquencies that are IBNR, supplemental loss reserves for potential adverse developments related to claim severity and loss adjustment expenses representing an estimate for the administrative costs of investigating, adjusting and settling claims. Loss reserves are discounted to take into account the time value of money.

"**losses on claims**" means the estimated amount payable under mortgage insurance policies during a specified period. A portion of reported losses on claims represents estimates of costs of pending claims that are still open during the reporting period, as well as estimates of losses associated with claims that have yet to be reported and the cost of investigating, adjusting and settling claims.

"**market share**" or "**share**" of a mortgage insurer means the insurer's gross premiums written as a percentage of the reported gross premiums written of the Canadian mortgage insurance industry.

"**net gains or losses from investments, derivatives and foreign exchange**" means the sum of net realized gains or losses on sales of investments, net gains or losses from derivatives and foreign exchanges and impairment losses.

"**net underwriting income**" means the sum of premiums earned and fees and other income, less losses and sales, underwriting and administrative expenses during a specified period.

"**ordinary dividend payout ratio**" means the ratio (expressed as a percentage) of the dollar amount of ordinary dividends paid during a specified period to shareholders as a percentage of net operating income over the same period. This is a measure of the proportion of net operating income returned to shareholders in the form of ordinary dividends.

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

"**premium tax**" means a tax paid by insurance companies to provincial and territorial governments calculated as a percentage of gross premiums written.

"**premiums written**" means gross payments received from insurance policies issued during a specified period.

"**sales, underwriting and administrative expenses**" means the cost of marketing and underwriting new mortgage insurance policies and other general and administrative expenses, including premium taxes, risk fee and net of the change in deferred policy acquisition costs.

"**severity**" means the dollar amount of losses on claims.

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

"**total debt service ratio**" or "**TDSR**" means the borrowers' monthly debt servicing costs as a percentage of borrowers' monthly gross income.

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

"**underwriter**" means an individual who examines and accepts or rejects mortgage insurance risks based on the Company's approved underwriting policies and guidelines.

"**unearned premiums reserve**" or "**UPR**" means that portion of premiums written that has not yet been recognized as revenue. Unearned premium reserves are recognized as revenue over the policy life in accordance with the expected pattern of loss emergence as derived from actuarial analysis of historical loss development.

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