

Genworth MI Canada Inc.

Management's Discussion and Analysis

For the quarter ended June 30, 2016

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 August 2, 2016 is prepared for the three and six months ended June 30, 2016. The unaudited condensed consolidated interim financial statements of the Company were prepared in accordance with International Financial Reporting Standards (“IFRS”). 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 Company’s expectations regarding the effect of the Canadian government guarantee legislative framework, the impact of proposed guideline changes by OSFI (as defined herein) and legislation introduced in connection with the Protection of Residential Mortgage or Hypothecary Insurance Act (“**PRMHIA**”) (as defined herein) and the effect of changes to the government guarantee mortgage eligibility rules, and the Company’s beliefs as to housing demand and home price appreciation, unemployment rates, the Company’s future operating and financial results, sales expectations regarding premiums written, capital expenditure plans, dividend policy and the ability to execute on its future operating, investing and financial strategies.

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; and potential conflicts of interest between the Company and its majority shareholder, Genworth Financial, Inc.

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 16, 2016. 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 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 net operating income, operating earnings per Common Share (basic), operating earnings per Common Share (diluted), shareholders' equity excluding accumulated other comprehensive income ("AOCI"), operating return on equity.

Other non-IFRS financial measures used by the Company to analyze performance for which no comparable IFRS measure is available include insurance in-force, new insurance written, loss ratio, expense ratio, combined ratio, operating return on equity, Minimum Capital Test ("MCT") ratio, delinquency ratio, investment yield, average reserve per delinquency, credit score, gross debt service ratio, ordinary dividend payout ratio, workout penetration, cures, effective tax rate, gross debt service ratio, book value per Common Share (basic) including AOCI, book value per Common Share (basic) excluding AOCI, book value per Common Share (diluted) including AOCI, book value per Common Share (diluted) excluding AOCI, and dividends paid per Common Share. 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 net operating income to net income, total net investment income to interest and dividend income, net of investment expenses, operating earnings per Common Share (basic) to earnings per Common Share (basic), operating earnings per Common Share (diluted) to earnings per Common Share (diluted), and shareholders' equity excluding AOCI to shareholders' equity.

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 "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 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 increasing 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 insurance is beneficial to lenders as they provide 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 are significantly 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, investment income, underwriting 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 mortgage insurance policies 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 affordable 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 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,	
<i>(in millions of dollars, unless otherwise specified)</i>	2016	2015	2016	2015
Income statement data				
Premiums written	\$ 249	\$ 205	\$ 366	\$ 335
Premiums earned	\$ 158	\$ 144	\$ 312	\$ 287
Losses on claims and expenses				
Losses on claims	32	25	69	56
Expenses	30	29	58	54
Total losses on claims and expenses	62	54	128	110
Net underwriting income	95	90	184	178
Net investment income	33	58	70	115
Interest expense	6	6	11	11
Income before income taxes	122	143	242	281
Net income	\$ 91	\$ 103	\$ 178	\$ 211
Net operating income ¹	\$ 99	\$ 92	\$ 190	\$ 188
Weighted average number of common shares outstanding				
Basic	91,807,935	92,459,207	91,802,793	92,806,650
Diluted ²	91,842,106	92,475,757	91,853,661	93,267,763
Earnings per common share				
Earnings per common share (basic)	\$ 0.99	\$ 1.12	\$ 1.94	\$ 2.27
Earnings per common share (diluted) ²	\$ 0.99	\$ 1.12	\$ 1.94	\$ 2.23
Selected non-IFRS financial measures ¹				
Operating earnings per common share (basic)	\$ 1.07	\$ 0.99	\$ 2.07	\$ 2.03
Operating earnings per common share (diluted) ²	\$ 1.07	\$ 0.99	\$ 2.07	\$ 2.02
Insurance in-force ³	\$ 443,448	\$ 375,868	\$ 443,448	\$ 375,868
Total new insurance written	\$ 31,700	\$ 10,862	\$ 39,606	\$ 20,648
Transactional new insurance written	\$ 5,769	\$ 6,761	\$ 9,183	\$ 10,670
Portfolio new insurance written	\$ 25,931	\$ 4,100	\$ 30,423	\$ 9,978
Loss ratio	21%	17%	22%	19%
Expense ratio	19%	20%	19%	19%
Combined ratio	40%	37%	41%	38%
Operating return on equity	12%	12%	11%	12%
MCT ratio ⁴	233%	231%	233%	231%
Delinquency ratio ⁵	0.10	0.10	0.10	0.10

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 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.

³ The Company estimates that the outstanding balance of insured mortgages was approximately \$197 billion as at March 31, 2016. Outstanding balances are reported on a quarter lag.

⁴ Company estimate at June 30, 2016.

⁵ Based on original insured loans in-force for which coverage terms have not expired and excludes delinquencies that have been incurred but not reported.

Key second quarter financial metrics:

The Company reported net income of \$91 million and net operating income of \$99 million in the second quarter of 2016, as compared to \$103 million and \$91 million, respectively, in the same quarter in the prior year.

- Premiums written of \$249 million increased by \$44 million, or 21%, as compared to the same quarter in the prior year. Premiums written from transactional insurance were lower by \$13 million, or 7%, from the prior year's period due to 15% lower new insurance written, primarily as a result of targeted underwriting changes in select markets and a slower housing market in oil-producing regions. This was partially offset by a higher average premium rate resulting from the June 2015 premium rate increase. Premiums written of \$78 million from portfolio insurance, on \$25.9 billion of new insurance written, were higher by \$57 million, as compared to the same quarter in the prior year as the Company experienced substantial increased demand for portfolio insurance in the quarter, in advance of the July 1, 2016 regulatory change that restricts the use of portfolio mortgage insurance, as described below.
- Net premiums earned of \$158 million were \$14 million, or 10%, higher than the same quarter in the prior year due to the relatively higher level of premiums written in the 2013, 2014 and 2015 books of business.
- Losses on claims of \$32 million were \$8 million, or 32%, higher than the same quarter in the prior year, primarily from oil-producing regions driving an increase in the average reserve per delinquency and an increase in new delinquencies, net of cures. The loss ratio was 21% for the quarter as compared to 17% in the same quarter in the prior year.
- Expenses of \$30 million increased by \$1 million, or 3%, resulting in an expense ratio of 19%. This ratio was one percentage point lower than the same quarter in the prior year. The expense ratio remained consistent with the Company's expected operating range of 18% to 20%.
- Net Investment income, excluding realized and unrealized investment gains and losses, of \$44 million was \$2 million, or 6%, higher than the same quarter in the prior year primarily due to an increase in the amount of invested assets and higher dividend income.

Year-to-date financial metrics:

The Company reported year-to-date net income of \$178 million and net operating income of \$190 million, as compared to \$211 million and \$188 million, respectively, in the prior year. The prior year's net income and net operating income included a non-recurring favourable tax item of \$5 million.

- Premiums written of \$366 million increased by \$30 million, or 9%, year-to-date as compared to the same period in the prior year. Transactional insurance premiums written of \$270 million were lower by \$18 million, on 14% lower new insurance written, primarily as a result of targeted underwriting changes in select areas and a slower housing market in oil-producing regions. This was partially offset by an increase in the average transactional insurance premium rate resulting from the 2015 premium rate increase. Portfolio insurance premiums written of \$96 million, on \$30.4 billion of new insurance written, were higher by \$49 million as the Company experienced substantial increased demand for portfolio insurance in the quarter in advance of the July 1, 2016 regulatory change that restricts the use of portfolio mortgage insurance.
- Premiums earned of \$312 million increased by \$24 million, or 9%, year-to-date as compared to the same period in the prior year due to the higher level of premiums written in the 2013, 2014 and 2015 books of business. The unearned premiums reserve was \$2.1 billion at the end of the second quarter, up \$54 million, or 3%, from December 31, 2015.
- Losses on claims of \$69 million were \$13 million, or 24%, higher year-to-date as compared to the same period in the prior year, primarily due to an increase in the average reserve per delinquency and an increase in new delinquencies, net of cures, from oil-producing regions.
- Expenses of \$58 million increased by \$5 million, or 9%, as compared to the same period in the prior year primarily due to higher share-based compensation expense. The expense ratio was 19%, comparable to the same period in the prior year, and remained consistent with the Company's expected operating range of 18 to 20%.
- Net investment income, excluding realized and unrealized gains and losses, of \$86 million was \$2 million, or 3%, higher than the same period in the prior year. The Company's investment portfolio had a market value of \$6.1 billion at June 30, 2016 and earned a pre-tax equivalent book yield of 3.3% year-to-date.

The regulatory capital ratio or MCT ratio was approximately 233%, 2 percentage points higher than the prior year's period, 48 percentage points higher than the Company's internal target MCT ratio of 185% and 13 percentage points higher than the Company's operating MCT holding target of 220%. The Company intends to operate with an MCT ratio modestly above its holding target.

Recent business and regulatory developments

Additional property tax on purchases of residential property in Metro Vancouver by foreign buyers

In order to help improve housing affordability, on July 25, 2016 the B.C. government introduced a four-pronged plan that includes an additional land transfer tax on foreign buyers. As of August 2nd, foreign individuals and corporations will be subject to an additional 15% land transfer tax on the purchase of residential property in Metro Vancouver. The company does not expect these changes to have a material impact on its business, as foreign borrowers are typically not eligible for high loan-to-value mortgage insurance.

Portfolio mortgage insurance

On February 3, 2016, the government published regulations to implement the prohibition that was announced in the Government's 2013 budget to limit portfolio mortgage insurance to only those mortgages that will be used in CMHC securitization programs and to prohibit the use of government guaranteed insured mortgages in private securitizations after a phase-in period for existing private securitizations. The regulations came into effect on July 1, 2016. These regulations are in addition to regulations passed in 2015 that prohibit the substitution of mortgages in insured pools after May 15, 2015 and limit the time period that a mortgage insurer can commit to insure mortgages in the future to no more than one year.

In the second quarter of 2016, Genworth Canada experienced increased demand for portfolio insurance in advance of the July 1, 2016 regulatory change and as a result the Company expects premiums written for 2016 from portfolio insurance to be modestly higher than the \$105 million written in 2015.

Although it is difficult to determine the long term impact of these changes at this time, the Company believes that the regulations may result in a decrease in demand for portfolio mortgage insurance.

Mortgage insurance eligibility rules

The February 3, 2016 regulations also included wording to implement the Minister of Finance's December 11, 2015 announcement to change to eligibility rules for new government-backed insured mortgages on properties priced above \$500,000. Effective February 15, 2016, the minimum down payment for new insured mortgages increased from 5% to 10% for the portion of the house price above \$500,000. The table below illustrates the minimum down payment by home purchase price for the current and new eligibility rules.

Home Purchase Price	Current Eligibility Rules		Eligibility Rules Effective February 15, 2016			
	Minimum Down Payment Percentage	Minimum Down Payment Amount	Minimum Down Payment Percentage	Minimum Down Payment Amount	Effective Loan-to-Value	Incremental Down Payment
\$500,000	5%	\$25,000	5.0%	\$25,000	95.0%	\$0
\$600,000	5%	\$30,000	5.8%	\$35,000	94.2%	\$5,000
\$700,000	5%	\$35,000	6.4%	\$45,000	93.6%	\$10,000
\$800,000	5%	\$40,000	6.9%	\$55,000	93.1%	\$15,000
\$900,000	5%	\$45,000	7.2%	\$65,000	92.8%	\$20,000
\$999,999	5%	\$50,000	7.5%	\$75,000	92.5%	\$25,000

The Company estimates that approximately 9% of the total transactional new insurance written by the Company in 2015 would have been impacted based on the new maximum effective loan to value by home price range. The table below illustrates the percentage distribution of these affected insured mortgages based on the 2015 transactional new insurance written by home purchase price range:

Home Purchase Price Range	New Insurance Written	Incremental Down Payment
<= \$500,000	0.0%	\$0
\$500,001 - \$600,000	4.7%	\$1 to \$5,000
\$600,001 - \$700,000	2.3%	\$5,001 to \$10,000
\$700,001 - \$800,000	1.1%	\$10,001 to \$15,000
\$800,001 - \$900,000	0.5%	\$15,001 to \$20,000
\$900,001 - \$999,999	0.4%	\$20,001 to \$25,000
Total	9.0%	

Considering this, the Company believes that the impact on its business will be modest as most borrowers impacted by the new rules may be able to afford the increase in down payment or might choose to purchase a lower-priced home.

Changes to the regulatory capital framework

On December 11, 2015, OSFI announced plans to update the regulatory capital framework for loans secured by residential real properties for both federally regulated mortgage insurers and deposit-taking institutions, including the following changes:

- For mortgage insurers, OSFI is contemplating a new standardized approach that updates the capital requirements for mortgage guarantee insurance risk and will also require more capital when house prices are high relative to borrower incomes; and
- For deposit-taking institutions using internal models for mortgage default risk, a risk-sensitive floor (for losses in the event of default) may be introduced that will be tied to increases in local property prices and/or to house prices that are high relative to borrower incomes.

OSFI will consult with federally regulated financial institutions and other stakeholders before making any changes, initially through a directed consultation with industry in 2016, followed by broader public consultation later in the year. OSFI expects to have final rules in place no later than 2017.

With respect to supplementary capital, on April 29, 2016 OSFI released for public consultation proposed updates to the regulatory capital requirements for loans secured by residential real estate for federally regulated deposit-taking institutions approved by OSFI to use the internal ratings-based (“IRB”) approach to credit risk. Included in the updates is the introduction of a risk-sensitive floor on IRB capital requirements to take into account periods where the value of properties pledged as collateral becomes less certain. According to OSFI, these updates are designed to ensure that capital requirements remain prudent in periods where house prices are high relative to household income and/or house prices are increasing rapidly in nominal terms and provide a measured and forward-looking response to the changing risks occurring in the Canadian mortgage market.

The proposed risk sensitive floor for loss given default (“LGD”) will be tied to the behavior of property prices, both in terms of recent housing price trends and the behavior of housing prices relative to household incomes using data for each of the 11 cities in the Teranet – National Bank House Price Index™ for those exposures within such cities, while using the composite-11 data for loans outside of the 11 cities. The Supplementary Capital Requirement Indicators (“SCRIs”) based primarily on the ratio of the Teranet for a metropolitan area index to the national per capita income is compared to a prescribed threshold value for that particular area. If the SCRI exceeds the threshold value for that metropolitan area, then the risk sensitive floor is applied at the beginning of a bank's next quarterly fiscal reporting period for exposures in that metropolitan area.

The Company expects that the same proposed methodology will be adopted to calculate SCRIs for the purpose of determining whether mortgage insurers will be required to hold supplementary capital over and above the base requirement on new insurance written in metropolitan areas where the SCRI exceeds the prescribed threshold. OSFI is in the process of consulting with mortgage insurers on the new capital framework including supplementary capital and the Company expects OSFI to publish a draft guideline on the new capital framework in September 2016.

The Company has reviewed the proposed methodology for calculating SCRI and observed that Calgary, Edmonton, Toronto, Vancouver and Victoria would breach their respective prescribed SCRI thresholds at the end of the first quarter of 2016. These metropolitan areas represent approximately 35% to 40% of transactional new insurance written in the first six months of 2016.

Calgary, Edmonton and Vancouver would have been in breach of the prescribed SCRI thresholds since 2010 or earlier and are currently more than 15% above the respective SCRI threshold. The anticipated changes from the proposed new capital framework, including the proposed supplementary capital requirement may impact the regulatory capital requirements for the Company however the final impact will not be known until OSFI publishes the supplementary capital requirements. The Company expects that transactional and portfolio insurance premium rates may have to be increased for affected metropolitan areas as a result of the implementation of the new capital framework in 2017.

Changes to National Housing Act Mortgage Backed Securities

On December 11, 2015, CMHC announced a price increase to the guarantee fees they charge issuers as well as annual limits for the new guarantees for both the National Housing Act Mortgage Backed Securities (“NHA MBS”) and Canada Mortgage Bonds (“CMBs”) effective July 1, 2016. CMHC guarantees the timely payment of interest and principal for NHA MBS and CMB, enabling approved financial institutions to pool eligible mortgages and transform them into marketable securities that can be sold to investors.

The table below illustrates the changes to the guarantee fees and annual limits:

Guarantee Fee	Prior to July 1, 2016	As of July 1, 2016
5-Year NHA Market MBS	30bps (annual guarantees <= \$6.0 billion)	30bps (annual guarantees <= \$7.5 billion)
5-Year NHA Market MBS	60bps (annual guarantees > \$6.0 billion)	80bps (annual guarantees > \$7.5 billion)
5-Year CMB	40bps	30bps + market NHA MBS fee

The guarantee fees are in addition to the mortgage insurance premium for insured mortgages. CMHC noted “the revised fee structure is intended to encourage the development of private market funding alternatives by narrowing the funding cost difference between government sponsored and private market funding sources and the higher guarantee fees for issuances beyond the threshold is designed to discourage excessive use of NHA MBS for liquidity or funding purposes.” The Company believes lender demand for portfolio mortgage insurance may be impacted as most of the mortgages that are portfolio-insured by the Company are pooled and securitized through the NHA MBS program.

Financial strength ratings

On May 17, 2016, DBRS confirmed the Insurance Subsidiary’s AA financial strength rating with a stable trend citing “the Insurance Company’s solid market position, seasoned insurance portfolio and advanced risk analytics, as well as its strong capital position relative to the capital required to meet insurance claim obligations. The confirmation also reflects the Company’s strong capital adequacy as assessed through the application of the DBRS residential mortgage-backed securities (RMBS) model, assuming a runoff scenario.” DBRS downgraded the Company’s issuer rating and senior unsecured debentures rating one notch to A (high) with a stable trend citing “DBRS’s concern that there is now a greater risk that OSFI, in a stressed mortgage market situation, may place restrictions on dividend payments from the Insurance Company.”¹

On September 3, 2015, Standard & Poor’s (“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 competitive position, low industry risk due to the Company’s disciplined underwriting initiatives, tight regulation and very strong earnings and capitalization.

Dividends

¹ DBRS May 17, 2016 press release: DBRS Confirms Ratings on Genworth Financial Mortgage Insurance Company Canada and Downgrades Genworth MI Canada Inc.

On May 27, 2016, the Company paid a quarterly dividend of \$0.42 per Common Share. The Company has increased its dividend in each of the last 6 years.

Share repurchase

On April 28, 2016, the Company received approval by the Toronto Stock Exchange for the Company to undertake a normal course issuer bid ("**NCIB**"). Pursuant to the NCIB, the Company can purchase, for cancellation, up to 4,589,958 shares representing approximately 5% of its outstanding Common Shares as of April 25, 2016. Purchases of Common Shares under the NCIB may commence on or after May 5, 2016 and will conclude on the earlier of May 4, 2017 and the date on which the Company has purchased the maximum number of shares under the NCIB.

The Company's prior NCIB, which commenced on April 28, 2015, expired on May 4, 2016. The Company did not purchase any shares under such NCIB during the three and six months ended June 30, 2016.

Regulatory capital

The Company manages its capital base to maintain a balance between capital strength, efficiency and flexibility. As at June 30, 2016, the Insurance Subsidiary's MCT ratio was approximately 233%, or 48 percentage points higher than its internal target of 185% and 13 percentage points higher than its holding target of 220%. The holding target is in place pending the development by OSFI of a new regulatory test for mortgage insurers, which is targeted for implementation in 2017. While the Insurance Subsidiary's internal capital target is calibrated to cover the various risks that the business would face in a severe recession, the holding target is designed to provide a capital buffer to allow management time to take the necessary actions should capital levels be pressured by deteriorating macroeconomic conditions.

E-21 – Operational Risk Management Guideline

In June 2016, OSFI released its E-21 Operational Risk Management Guideline (the "**E-21 Guideline**"). In the E-21 Guideline, OSFI defines operational risk "as the risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events. This includes legal risk but excludes strategic and reputational risk". The E-21 guideline sets out four principles: i) integrated and documented operational risk management framework; ii) support of a corporate governance structure including a risk appetite statement; iii) use of a "three lines of defense" approach to ensure accountability; and iv) comprehensive identification and assessment process. The E-21 Guideline is generally consistent with the Company's current operational risk management framework.

Maximum outstanding insured exposure for all private insured mortgages

The maximum outstanding insured exposure for all private insured mortgages permitted by the PRMHIA is \$300 billion. The Company estimates, that as of March 31, 2016, the outstanding principal amount of insured mortgages under PRMHIA was \$197 billion for Genworth-insured mortgages and \$241 billion for all privately insured mortgages. While the federal government has increased the cap to ensure that the private sector can continue to compete with CMHC in the past as the total of the outstanding principal mortgage amounts has approached the legislative cap, there is no guarantee that this will continue. The Company estimates that the private sector will remain below the cap for the remainder of 2016 and the first half of 2017 based on the current market share of the private mortgage insurers and the forecasted size of the mortgage originations market.

Credit facility

During the quarter the Company entered into a \$100 million senior unsecured revolving credit facility, which matures on May 20, 2019. The Company has not drawn on the credit facility as at June 30, 2016. The credit facility provides further financial flexibility in an efficient and cost effective manner.

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 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 in the following sections.

Premiums Written and Premiums Earned		
2016 Objective	Full Year 2016 Related Economic Indicator (Current Estimate)	Year to date Economic Indicator/Key Performance Metrics/Current Outlook
<p>Flat or modestly lower premiums written from transactional insurance compared to 2015 as the full year impact of the June 2015 price increase partially offsets the impact of an expected decline in mortgage originations.</p> <p>Total premiums written moderately higher compared to 2015, primarily due to higher portfolio insurance volumes.</p> <p>Moderate growth in premiums earned of 5% or greater for the full year.</p>	<p>Housing resales estimate Y/Y: 6%¹</p>	<p>Housing resales 10%²</p> <hr/> <p>Transactional premiums written decline: 6% Total premiums written increase: 9%</p> <p>As a result of the July 1, 2016 portfolio mortgage insurance changes, the Company has noted an increase in demand for portfolio insurance. Despite this anticipated growth in portfolio insurance volumes, total premiums written are still expected to be lower than in 2015 due to lower transactional insurance volumes.</p> <p>Premiums earned growth: 9%</p> <p>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 months as long as there are no significant changes to the Company's current premiums recognition curve. In addition to premiums earned of \$312 million in the first six months of 2016, the Company expects to earn between \$295 and \$310 million of premiums earned in the second half of 2016 from the unearned premiums of \$2.1 billion as at June 30, 2016. Total premiums earned for the second half of 2016 will also include premiums to be earned from premiums written in this period.</p>

Losses on Claims		
2016 Objective	Full Year 2016 Related Economic Indicators (Current Estimate)	Year to date Economic Indicator/Key Performance Metrics/Current Outlook
<p>Proactive risk management and focused loss mitigation strategies:</p> <ul style="list-style-type: none"> Loss ratio range of 25% to 40% Workout penetration greater than 55% 	<p>GDP estimate 1.3%³ National Unemployment estimate: 7.1% to 7.6%⁴ National Composite House Price Index growth estimate: 2% to 6%⁴ Average Oil Price estimate: US \$40 to US \$50⁴</p>	<p>GDP Q1'16 actual: 2.4%³ GDP Q2'16 estimate: (1)%³ National Unemployment at June 30, 2016: 6.8%⁷ National Composite House Price Index growth: 7%⁵ Average Oil Price: US \$40⁶</p> <hr/> <p>Loss Ratio: 22% Workout Penetration Rate: 59%</p> <p>As a result of the loss ratio performance through the first half of 2016 and the economic forecast for the balance of the year, the loss range for 2016 has been revised to 25% to 35%.</p>
Portfolio Quality and Risk Management		
2016 Objective	Full Year 2016 Related Economic Indicators (Current Estimate)	Year to date Economic Indicator/Key Performance Metrics/Current Outlook
<p>Maintain a high quality insurance portfolio through prudent underwriting guidelines, proactive risk management and disciplined underwriting:</p> <ul style="list-style-type: none"> Average Transactional Credit score of greater than 735 Average Transactional Gross Debt Service ratio of less than 26% Average Transactional Credit score below 660 of less than 5% 	<p>GDP estimate: 1.3%³ National Unemployment estimate: 7.1% to 7.6%⁴ National Composite House Price index growth estimate: 2% to 6%⁴ Average Oil Price estimate: US \$40 to US \$50⁴</p>	<p>GDP Q1'16 actual: 2.4%³ GDP Q2'16 estimate: (1)%³ National Unemployment at June 30, 2016: 6.8%⁷ National Composite House Price Index growth: 7%⁵ Average Oil Price: US \$40⁶</p> <hr/> <p>Average Transactional Credit Score: 753 Average Transactional Gross Debt Service Ratio: 24% Average Transactional Credit score below 660: 3%</p> <p>The Company continues to originate a high quality insurance portfolio.</p>

Capital Management		
2016 Objective	Full Year 2016 Related Economic Indicator (Current Estimate)	Year to date Key Performance Metrics/Current Outlook
<p>Proactively manage capital to balance capital strength, flexibility and efficiency:</p> <ul style="list-style-type: none"> • Ordinary Dividend Payout Ratio of 35% - 45% • Debt to Total Capital Ratio of less than or equal to 15% • MCT Ratio modestly above 220% 	n/a	<p>Year to date Ordinary Dividend Payout Ratio: 41%</p> <p>Debt to Total Capital Ratio as at June 30, 2016: 11%</p> <p>MCT Ratio as at June 30, 2016: 233%⁴</p> <p>The Company continues to maintain a strong capital base and intends to operate with an MCT ratio moderately above 225% until details around the new capital framework and the proposed supplementary capital are finalized.</p>
Investment Management		
2016 Objective	Full Year 2016 Related Economic Indicator (Current Estimate)	Year to date Economic Indicator/Key Performance Metrics/Current Outlook
<p>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.</p>	<p>5 year Government of Canada Bond Yields:</p> <p>Q3'16 estimate: 0.70%⁹</p> <p>Q4'16 estimate: 0.75%⁹</p>	<p>5 year Government of Canada Bond Yields at June 30, 2016: 0.57%⁸</p> <p>Year to date average investment yield: 3.3%</p> <p>Percentage of Investment Grade Bonds and Debentures as at June 30, 2016: 90%</p> <p>The quality of the Company's investment portfolio remains strong, but the lower prevailing interest rate environment continues to pressure the investment yield.</p>

¹ Canadian Real Estate Association ("CREA") Quarterly Forecast published June 15, 2016.

² CREA update published July 15, 2016.

³ Monetary Policy Report, July 13, 2016 Real GDP quarter over quarter percentage change at annual rates.

⁴ Company estimate.

⁵ Teranet – National Bank Home Price Index.

⁶ U.S. Energy Information Administration - WTI Light Crude Oil US\$/barrel.

⁷ Statistics Canada – Labour Force Survey.

⁸ Bloomberg.

⁹ Company estimate based on Forward Curve as at July 15, 2016.

Economic environment

The mortgage insurance business is affected by changes in economic growth, employment and housing market trends as well as changes in government policy.

Macroeconomic environment

The Bank of Canada¹ currently expects economic growth, as measured by real Canadian Gross Domestic Product (“GDP”), to grow by 1.3% in 2016 and 2.2% in 2017, in comparison to a growth rate of 1.1% in 2015. The Bank of Canada’s forecast has been revised down in light of a weaker outlook for business investment and a lower profile for exports, reflecting a downward adjustment to US investment spending. The Bank of Canada projects above-potential growth from the second half of 2016, lifted by rising US demand and supported by accommodative monetary and financial conditions. Federal infrastructure spending and other fiscal measures announced in the March federal government budget will also contribute to growth. Despite recent volatility, the Bank of Canada expects the underlying trend of export growth to continue, leading to an improvement in business investment. In addition, higher global oil prices, relative to recent prices, are helping to stabilize Canada’s energy sector and household spending is expected to increase moderately.

The overnight interest rate in Canada remained flat at 0.50% in the second quarter of 2016 and the low interest rate environment is expected to continue throughout 2016. Canada’s unemployment rate declined to 6.8% at the end of the second quarter of 2016 compared to 7.1% at the end of the first quarter of 2016 partly attributable to a decline in workforce participation. Oil prices are expected to range between US\$40 to US\$50 for the remainder of 2016 and management estimates that the average unemployment rate will be between 7.1% and 7.6% for 2016. As part of its proactive risk management strategy, the Company remains focused on maintaining strong insurance portfolio quality.

Housing market

Home resales in Canada increased approximately by 7% in the second quarter of 2016 compared to the second quarter in 2015 and approximately 3% compared to the first quarter of 2016. The National Composite House Price Index increased by 7% during the first half of 2016 by strong housing markets in British Columbia and Ontario which was partially offset by continued weakness in the oil-producing regions. National home resales are expected to increase by 6% in 2016, according to Canadian Real Estate Association’s latest forecast and the Company expects the increase in the National Composite House Price Index for 2016 to be in the range of 2% to 6%, mainly driven by Ontario and British Columbia.

¹ Monetary Policy Report, July 13, 2016.

Second Quarter Review

Table 2: Results of operations

<i>(in millions of dollars, unless otherwise specified)</i>	Three months ended June 30,				Six months ended June 30,			
	2016	2015	Change		2016	2015	Change	
Premiums written	\$ 249	\$ 205	\$ 44	21%	\$ 366	\$ 335	30	9%
Premiums earned	\$ 158	\$ 144	\$ 14	10%	\$ 312	\$ 287	24	9%
Losses on claims and expenses:								
Losses on claims	32	25	8	32%	69	56	13	24%
Expenses	30	29	1	3%	58	54	5	9%
Total losses on claims and expenses	62	54	9	16%	128	110	18	17%
Net underwriting income	95	90	5	6%	184	178	6	4%
Net investment income:								
Interest and dividend income, net of investment expenses	44	42	2	6%	86	83	2	3%
Net investment gains (losses)	(11)	17	(28)	NM	(16)	32	(48)	NM
Total net investment income	33	58	(26)	(44)%	70	115	(45)	(40)%
Interest expense	6	6	-	-	11	11	-	1%
Income before income taxes	122	143	(21)	(14)%	242	281	(39)	(14)%
Provision for income taxes	32	40	(8)	(19)%	64	70	(7)	(10)%
Net income	\$ 91	\$ 103	\$ (13)	(13)%	\$ 178	\$ 211	(32)	(15)%
Adjustment to net income, net of taxes:								
Net investment gains (losses)	8	(12)	20	NM	12	(23)	34	NM
Net operating income ¹	\$ 99	\$ 92	\$ 7	8%	\$ 190	\$ 188	2	1%
Effective tax rate	26.1%	27.7%	-	(1.6) pts	26.3%	25.0%	-	1.2 pts
Selected non-IFRS financial measures ¹								
New insurance written	\$ 31,700	\$ 10,862	\$ 20,838	NM	\$ 39,606	\$ 20,648	18,957	92%
Transactional new insurance written	\$ 5,769	\$ 6,761	\$ (992)	(15)%	\$ 9,183	\$ 10,670	(1,488)	(14)%
Portfolio new insurance written	\$ 25,931	\$ 4,100	\$ 21,830	NM	\$ 30,423	\$ 9,978	20,445	NM
Loss ratio	21%	17%	-	4 pts	22%	19%	-	3 pts
Expense ratio	19%	20%	-	(1) pts	19%	19%	-	pts
Combined ratio	40%	37%	-	2 pts	41%	38%	-	3 pts
Operating return on equity	12%	12%	-	pts	11%	12%	-	(1) pts
Investment yield	3.3%	3.3%	-	(.04) pts	3.2%	3.4%	-	(.12) pts

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.

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

<i>(in millions of dollars, unless otherwise specified)</i>	Three months ended June 30,				Six months ended June 30,			
	2016	2015	Change		2016	2015	Change	
New insurance written								
Transactional	\$ 5,769	\$ 6,761	\$ (992)	(15)%	\$ 9,183	\$ 10,670	\$ (1,488)	(14)%
Portfolio	25,931	4,100	21,830	NM	30,423	9,978	20,445	NM
Total	\$ 31,700	\$ 10,862	\$ 20,838	NM	\$ 39,606	\$ 20,648	\$ 18,957	92%
Premiums written								
Transactional	170	183	(13)	(7)%	270	288	(18)	(6)%
Portfolio	78	22	57	NM	96	48	49	NM
Total	\$ 249	\$ 205	\$ 44	21%	\$ 366	\$ 335	\$ 30	9%
Average premium rate (in basis points)								
Transactional	295	271	24	9%	293	269	25	9%
Portfolio	30	53	(22)	(43)%	32	48	(16)	(34)%
Total	78	189	(110)	(58)%	92	162	(70)	(43)%
Premiums earned	\$ 158	\$ 144	\$ 14	10%	\$ 312	\$ 287	\$ 24	9%

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

Current quarter

Transactional new insurance written was \$5.8 billion in the second quarter of 2016, representing a decrease of \$1.0 billion, or 15%, as compared to the same quarter in the prior year primarily as a result of targeted underwriting changes in high risk areas and a slower housing market in oil-producing regions. New insurance written from portfolio insurance was \$25.9 billion in the second quarter of 2016, as compared to \$4.1 billion in the prior year. The Company experienced increased demand for portfolio insurance in the quarter in advance of the July 1, 2016 regulatory change that restricts the use of portfolio mortgage insurance.

Premiums written from transactional insurance decreased by \$13 million, or 7%, to \$170 million in the second quarter of 2016 as compared to the prior year's period. The \$13 million decrease was primarily due to lower volumes of transactional insurance business, partially offset by a 24 basis point increase in the average premium rate to 2.95% primarily due to the June 2015 premium rate increase. Premiums written from portfolio insurance were \$78 million in the second quarter of 2016 as compared to \$22 million in the prior year's period primarily due to the increase in new insurance written for portfolio insurance. The average premium rate of 0.30% this quarter reflects the high quality portfolio and higher proportion of portfolio insured mortgages with loan-to-values below 65%.

Premiums earned increased by \$14 million, or 10%, to \$158 million in the second quarter of 2016, as compared to the prior year's period due to higher premiums earned from the higher levels of premiums written in 2013, 2014 and 2015.

Year-to-date

For the six months ended June 30, 2016, transactional new insurance written was \$9.2 billion, a decrease of \$1.5 billion, or 14%, as compared to the prior year primarily as a result of targeted underwriting changes in high risk areas and a slower housing market in oil-producing regions. New insurance written from portfolio insurance was \$30.4 billion in the six months ended June 30, 2016, as compared to \$10.0 billion in the prior year. The Company experienced increased demand for portfolio insurance in the quarter in advance of the July 1, 2016 regulatory change that restricts the use of portfolio mortgage insurance.

Premiums written from transactional insurance decreased by \$18 million, or 6%, to \$270 million in the six months ended June 30, 2016 as compared to the prior year's period. The \$18 million decrease was primarily due to lower volumes of transactional insurance business, partially offset by a 25 basis point increase in the average premium rate to 2.93% primarily due to the June 2015 premium rate increase. Premiums written from portfolio insurance were \$96 million in the six months ended June 30, 2016 as compared to \$48 million in the

prior year's period primarily due to an increase in new insurance written for portfolio insurance. The average premium rate of 0.32% in the six months ended June 30, 2016 reflects the high quality portfolio and higher proportion of portfolio insured mortgages with loan-to-values below 65%.

Premiums earned increased by \$24 million, or 9%, to \$312 million in the six months ended June 30, 2016, as compared to the prior year's period due to higher premiums earned from the relatively larger 2013, 2014 and 2015 books of business.

Table 4: Losses on claims

	Three months ended June 30,				Six months ended June 30,			
	2016	2015	Change		2016	2015	Change	
New delinquencies	1,164	1,052	112	11%	2,460	2,212	248	11%
Cures	812	733	79	11%	1,540	1,461	79	5%
New delinquencies, net of cures	352	319	33	10%	920	751	169	23%
Average reserve per delinquency (in thousands of dollars)	\$ 75	\$ 70	\$ 6	8%	\$ 75	\$ 70	\$ 6	8%
Losses on claims (in millions of dollars)	\$ 32	\$ 25	\$ 8	32%	\$ 69	\$ 56	\$ 13	24%
Loss ratio	21%	17%	-	4 pts	22%	19%	-	3 pts

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

Current quarter

New delinquencies, net of cures, of 352 were 33 higher than the same quarter in the prior year primarily due to pressure in oil-producing regions with an increase of 82 in Alberta and 50 in the Prairies region, partially offset by a decrease of 56 in Quebec, 23 in Ontario, and 21 in the Pacific region, as housing markets performed well in those regions.

Average reserve per delinquency increased by approximately \$6 thousand primarily due to a shift in regional mix towards oil-producing regions with higher average insured amounts and modest declines in house prices.

The resulting loss ratio was 21% in the second quarter of 2016, 4 percentage points higher than the same period in the prior year due to higher losses partially offset by higher earned premium.

Year-to-date

In the six months ended June 30, 2016, new delinquencies, net of cures, of 920 were 169 higher than the same period in the prior year primarily due to pressure in oil-producing regions with an increase of 218 in Alberta, and 97 in the Prairies region, partially offset by a decrease of 48 in Quebec, 60 in Ontario, and 33 in the Pacific region as housing markets performed well in those regions.

Average reserve per delinquency increased by approximately \$6 thousand primarily due to a shift in regional mix towards oil-producing regions with higher average insured amounts and modest declines in house prices.

The resulting loss ratio was 22% for the six months ended June 30, 2016, 3 percentage points higher than the same period in the prior year due to higher losses partially offset by higher earned premium.

Table 5: Expenses

<i>(in millions of dollars, unless otherwise specified)</i>	Three months ended June 30,				Six months ended June 30,			
	2016	2015	Change		2016	2015	Change	
Expenses								
Premium taxes and underwriting fees	\$ 19	\$ 16	\$ 2	15%	\$ 28	\$ 26	\$ 2	7%
Employee compensation	12	12	-	-	23	20	3	14%
Other	7	7	-	-	14	14	(1)	(4)%
Net change in deferred policy acquisition costs	(8)	(7)	(1)	16%	(7)	(8)	1	(7)%
Total	\$ 30	\$ 29	\$ 1	3%	\$ 58	\$ 54	\$ 5	9%
Expense ratio	19%	20%	-	(1) pts	19%	19%	-	-

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

Current quarter

Expenses increased by \$1 million, or 3%, to \$30 million in the second quarter of 2016 as compared to the same quarter in the prior year primarily the result of a \$2 million increase in premium taxes and underwriting fees related to higher levels of premiums written. The \$2 million increase was partially offset by a \$1 million decrease in the net change in deferred policy acquisition costs driven by higher levels of premiums written and offset by a higher level of amortization as a result of the relatively higher level of premiums written in 2013, 2014 and 2015.

The expense ratio decreased 1 percentage point to 19% for the second quarter of 2016, as compared to the same quarter in the prior year due to higher expenses, partially offset by higher earned premium.

Year-to-date

Expenses increased by \$5 million, or 9%, to \$58 million in the six months ended June 30, 2016 as compared to the same period in the prior year primarily the result of an increase in premium taxes and underwriting fees, related to higher levels of premiums written, employee compensation and a net increase in deferred policy acquisition costs. Employee compensation increased by \$3 million primarily due to higher share based compensation expense. Net change in deferred policy acquisition costs decreased by \$1 million primarily due to a higher level of amortization as a result of the relatively higher level of premiums written in 2013, 2014 and 2015.

The expense ratio of 19% for the six months ended June 30, 2016 remained relatively unchanged, as compared to the same period in the prior year as higher expenses were offset by higher earned premium.

Table 6: Net investment income

<i>(in millions of dollars, unless otherwise specified)</i>	Three months ended June 30,				Six months ended June 30,			
	2016	2015	Change		2016	2015	Change	
Interest and dividend income, net of investment expenses	\$ 44	\$ 42	\$ 2	6%	\$ 86	\$ 83	\$ 2	3%
Net realized gain from investments, derivatives and foreign exchange	(1)	14	(14)	NM	(1)	24	(25)	NM
Net unrealized gain (loss) from derivatives and foreign exchange	(8)	3	(11)	NM	(13)	8	(21)	NM
Impairment loss	(3)	-	(3)	NM	(3)	-	(3)	NM
Total net investment income	\$ 33	\$ 58	\$ (26)	(44)%	\$ 70	\$ 115	\$ (45)	(40)%
Invested assets, end of period	\$ 6,080	\$ 5,700	\$ 380	7%	\$ 6,080	\$ 5,700	\$ 380	7%
Investment yield, average over period	3.3%	3.3%	-	(0.0) pts	3.2%	3.4%	-	(0.1) pts

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

Current quarter

Interest and dividend income, net of investment expenses, increased by \$2 million, or 6%, to \$44 million in the second quarter of 2016, primarily due to an increased level of invested assets and higher dividend income, partially offset by the impact of the low interest rate environment on the reinvestment of fixed income maturities. The average investment yield for the quarter was 3.3%, relatively unchanged as compared to the investment yield in the prior year's period. Invested assets increased by \$380 million as a result of strong growth in premiums written in 2016.

The Company recorded \$1 million of realized losses in the second quarter of 2016 as compared to a \$14 million gain, primarily due to the sale of common equities in the second quarter of 2015, during which period the Company sold its dividend-paying common shares.

Unrealized gain (loss) decreased by \$11 million compared to the same quarter in the prior year which primarily reflects the impact of the movement in foreign exchange rates on the Company's invested assets denominated in U.S. dollars, partially offset by foreign exchange-related derivatives activity. The Company also recorded an unrealized impairment loss of \$3 million in the quarter.

Year-to-date

Interest and dividend income, net of investment expenses, increased by \$2 million, or 3%, to \$86 million in the six months ended June 30, 2016, primarily due to an increased level of invested assets and higher dividend income, partially offset by the impact of the low interest rate environment on the reinvestment of fixed income maturities as compared to the same period in the prior year. The average investment yield for the six months ended June 30, 2016 was 3.2% as compared to 3.4% in the same period in the prior year. Invested assets increased by \$380 million as a result of strong growth in premiums written in 2016.

The Company recorded \$1 million of realized loss in the six months ended June 30, 2016 as compared to a \$24 million gain in the same period in the prior year, during which period the Company decided to sell its dividend paying Common Shares.

Unrealized gain (loss) decreased by \$21 million in the six months ended June 30, 2016 as compared to the same period in the prior year which primarily reflects the impact of the movement in foreign exchange rates on the Company's invested assets denominated in U.S. dollars, partially offset by foreign exchange-related derivatives activity. The Company also recorded an unrealized impairment loss of \$3 million.

Table 7: Net Income

<i>(in millions of dollars, unless otherwise specified)</i>	Three months ended June 30,				Six months ended June 30,			
	2016	2015	Change		2016	2015	Change	
Income before income taxes	\$ 122	\$ 143	\$ (21)	(14)%	\$ 242	\$ 281	\$ (39)	(14)%
Provision for income taxes	32	40	(8)	(19)%	64	70	(7)	(10)%
Net income	\$ 91	\$ 103	\$ (13)	(13)%	\$ 178	\$ 211	\$ (32)	(15)%
Effective tax rate	26.1%	27.7%	-	(1.6) pts	26.3%	25.0%	-	1.2 pts

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

Current quarter

The effective tax rate was 26.1% in the second quarter of 2016, a decrease of approximately 1.6 percentage points from 27.7% in the prior year's period. The decrease was primarily the result of an increase in the Alberta provincial tax rate in the prior year's period and higher non-taxable dividend income in the current period, partially offset by increases in tax rates in certain other provinces in the current year's period.

Net income decreased by \$13 million, or 13%, to \$91 million, primarily as a result of lower net investment income and higher losses partially offset by higher earned premium.

Year-to-date

The effective tax rate was 26.3% in the six months ended June 30, 2016, an increase of approximately 1.2 percentage points from 25.0% in the prior year's period. The increase was primarily the result an approximately \$5 million favourable non-recurring tax adjustment for prior periods recorded in the first quarter of 2015 partially offset by higher non-taxable dividend income in the current year's period.

Net income decreased by \$32 million, or 15%, to \$178 million, primarily as a result of lower net investment income, higher losses, higher expenses and the prior period favourable tax adjustment, partially offset by higher earned premium.

Summary of quarterly results

Table 8: Summary of quarterly results

<i>(in millions of dollars, unless otherwise specified)</i>	Q2'16	Q1'16	Q4'15	Q3'15	Q2'15	Q1'15	Q4'14	Q3'14
Premiums written	\$ 249	\$ 117	\$ 213	\$ 260	\$ 205	\$ 130	\$ 178	\$ 217
Premiums earned	\$ 158	154	151	148	144	143	143	140
Losses on claims	32	37	35	31	25	31	37	30
Expenses	30	28	27	28	29	24	30	24
Net underwriting income	95	88	90	89	90	87	76	87
Total investment Income	33	37	47	39	58	57	47	51
Net income	91	88	98	90	103	107	86	98
Adjustment to net income net of taxes:								
Fee on early redemption of long term debt	-	-	-	-	-	-	-	-
Net investment (gains) losses	8	3	(3)	3	(12)	(11)	(3)	(6)
Net operating income ¹	\$ 99	\$ 91	\$ 95	\$ 92	\$ 92	\$ 97	\$ 84	\$ 93
Earnings per common share:								
Earnings per common share (basic)	\$0.99	\$ 0.96	\$ 1.06	\$ 0.98	\$ 1.12	\$ 1.15	\$ 0.92	\$ 1.03
Earnings per common share (diluted) ²	\$0.99	\$ 0.96	\$ 1.03	\$ 0.96	\$ 1.12	\$ 1.08	\$ 0.91	\$ 1.01
Selected non-IFRS financial measures: ¹								
Loss ratio	21%	24%	23%	21%	17%	22%	26%	21%
Expense ratio	19%	19%	18%	19%	20%	17%	21%	17%
Combined ratio	40%	42%	41%	40%	37%	39%	47%	38%
Operating earnings per common share (basic)	\$1.07	\$ 1.00	\$ 1.04	\$ 1.01	\$ 0.99	\$ 1.04	\$ 0.89	\$ 0.97
Operating earnings per common share (diluted) ²	\$1.07	\$ 0.99	\$ 1.03	\$ 1.00	\$ 0.99	\$ 1.03	\$ 0.89	\$ 0.97
Operating return on equity	12%	11%	12%	12%	12%	12%	11%	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 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, 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, investment income, underwriting 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 mortgage insurance policies written, which typically peak in the spring and summer months. 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 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 continues to achieve solid financial results driven by increasing premiums earned in recent quarters, a consistent expense ratio and relatively favourable losses on claims.

Financial condition

Table 9: Statement of financial position highlights and selected financial data

<i>(in millions of dollars, unless otherwise specified)</i>	As at June 30, 2016	As at December 31, 2015	\$ Change	% Change
Total investments	\$ 6,080	\$ 5,917	163	3%
Other assets	259	261	(2)	(1)%
Subrogation recoverable	63	61	2	3%
Total assets	6,402	6,239	163	2.6%
Unearned premiums reserves	2,075	2,021	54	3%
Loss reserves	148	132	16	12%
Long-term debt	433	433	-	-
Other liabilities	196	234	(38)	(16)%
Total liabilities	2,852	2,819	32	1%
Shareholders' equity excluding Accumulated other comprehensive income ("AOCI") ¹	3,396	3,293	103	3%
Accumulated other comprehensive income ("AOCI")	154	127	28	22%
Shareholders' equity	3,550	3,420	131	4%
Total liabilities and shareholders' equity	\$ 6,402	\$ 6,239	163	3%
Selected non-IFRS financial measures¹				
MCT ratio ²	233%	234%	-	(1.1) pts
Book value per common share				
Number of common shares outstanding (basic)	91,843,525	91,795,125	48,400	-
Book value per common share including AOCI (basic)	\$ 38.66	\$ 37.26	1.40	4%
Book value per common share excluding AOCI (basic)	\$ 36.98	\$ 35.88	1.10	3%
Number of common shares outstanding (diluted) ³	92,881,121	92,872,626	8,495	-
Book value per common share including AOCI (diluted) ³	\$ 38.23	\$ 36.82	1.40	4%
Book value per common share excluding AOCI (diluted) ³	\$ 36.57	\$ 35.46	1.10	3%
Dividends paid per common share during the year	\$ 0.84	\$ 1.59		

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 The MCT ratio as at June 30, 2016 is a Company estimate and as at December 31, 2015 is the actual reported figure.

³ 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.

Financial instruments

As at June 30, 2016, the Company had total cash and cash equivalents and invested assets of \$6.1 billion in its investment portfolio. All of the Company's invested assets are classified as available-for-sale ("AFS") with the exception of cash and cash equivalents, and accrued investment income and other receivables which are classified as loans and receivables. 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, 2016			As at December 31, 2015		
	Fair value	%	Unrealized gains ³ (losses)	Fair value	%	Unrealized gains ³ (losses)
<i>(in millions of dollars, unless otherwise specified)</i>						
Asset backed bonds and debentures ¹	\$ 190	3%	\$ 22	\$ 178	3%	\$ 32
Corporate bonds and debentures:						
Financials	985	16%	33	940	16%	34
Energy	480	8%	34	452	8%	28
Infrastructure	99	2%	8	99	2%	6
All other sectors	647	11%	57	564	10%	56
Total Corporate bonds and debentures	2,211	36%	132	2,054	35%	124
Short term investments						
Canadian federal government treasury bills ²	123	2%	-	78	1%	-
Total Short term investments	123	2%	-	78	1%	-
Government bonds and debentures:						
Canadian federal government ²	1,964	32%	91	1,963	33%	79
Canadian provincial and municipal governments	1,003	16%	85	1,006	17%	73
Total Government bonds and debentures	2,967	49%	177	2,969	50%	152
Preferred Shares:						
Financials	189	3%	(31)	155	3%	(20)
Energy	32	1%	(2)	15	-	(2)
All other sectors	98	2%	(16)	78	1%	(11)
Total Preferred Shares	319	5%	(49)	248	4%	(33)
Total invested assets	\$ 5,809	96%	\$ 282	\$ 5,527	93%	\$ 276
Cash and cash equivalents	271	4%	-	391	7%	-
Total investments	\$ 6,080	100%	\$ 282	\$ 5,917	100%	\$ 276
Accrued investment income and other receivables	29	-	-	28	-	-
Derivative financial instruments	1	-	-	-	-	-
Total Invested assets, accrued investment income and other receivables	\$ 6,110	100%	\$ 282	\$ 5,946	100%	\$ 276

Note: Amounts may not total due to rounding.

¹ Asset backed bonds are comprised entirely of collateralized loan obligations.

² Canadian federal government bonds and treasury bills includes \$123 million (December 31, 2015 - \$85 million) in collateral posted for the benefit of the Company's counterparties to its derivative financial instrument contracts.

³ Unrealized gains include unrealized foreign exchange gains of \$65 million (December 31, 2015- \$97 million).

Unrealized gains on AFS securities in the portfolio were \$282 million, which included \$65 million of unrealized foreign exchange gains. Unrealized gains increased \$6 million from the end of 2015 primarily as a result of a decrease in government bond rates partially offset by the decline in preferred share values, as well as a decrease in unrealized foreign exchange gains due to the appreciation of the Canadian dollar.

The Company's average investment yield for the quarter ended June 30, 2016 was 3.3%, 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 Interim Capital Requirements for Mortgage Insurance Companies, Minimum Capital Test Guideline effective January 1, 2015. Based on this 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 the lower of S&P or Fitch Rating Services ratings.

Table 11: Invested assets by credit rating for the portfolio

Credit Rating	As at June 30, 2016			As at December 31, 2015		
	Fair value	%	Unrealized gains (losses)	Fair value	%	Unrealized gains (losses)
<i>(in millions of dollars, unless otherwise specified)</i>						
Cash and cash equivalents	\$ 271	5%	\$ -	\$ 391	7%	\$ -
AAA	2,157	37%	95	2,160	38%	90
AA	1,137	20%	98	1,024	18%	93
A	1,696	29%	96	1,703	30%	87
BBB	492	9%	41	387	7%	37
Below BBB	10	0%	2	5	-	1
Total investments (excluding preferred shares)	\$ 5,761	100%	\$ 331	\$ 5,670	100%	\$ 308
Preferred shares						
P2	228	72%	(37)	227	92%	(32)
P3	90	28%	(12)	20	8%	(1)
Total Preferred shares	319	100%	(49)	248	100%	(33)
Total invested assets and cash and cash equivalents	\$ 6,080		282	\$ 5,917		\$ 276

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 four 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.

Asset-backed bonds and debentures

The Company held \$190 million in asset-backed bonds as of June 30, 2016, up from \$178 million as of December 31, 2015. These securities are floating rate collateralized loan obligations (“CLOs”) denominated in U.S. dollars of which 91% are rated AA and above, and 9% are rated A.

Corporate bonds and debentures

As of June 30, 2016, approximately 36% of the investment portfolio was held in corporate bonds and debentures, up from 35% at December 31, 2015. The proceeds from maturities in the six months ended June 30, 2016 were reinvested back into the current portfolio asset mix. 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 16% of the investment portfolio, or approximately 45% of the corporate bonds and debentures. The Company continuously monitors and repositions its exposure to the financial sector, which represents greater than 50% of the corporate issuances of fixed income securities in the Canadian marketplace. Energy sector exposure through corporate bonds and debentures represents 8% of the investment portfolio, which consist of the following:

- 46% is in pipelines and distribution companies that are primarily regulated entities with stable cash flows; and
- 54% is in integrated oil and gas companies with large market capitalizations.

Securities rated BBB and below were \$501 million, or 9% of invested assets, as of June 30, 2016.

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, 2016, 49% of the investment portfolio was invested in sovereign fixed income securities, consisting of 32% in federal fixed income securities and 16% in provincial fixed income securities, as compared to 50% as of December 31, 2015.

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 \$123 million in Canadian short-term treasury bills in the investment portfolio as of June 30, 2016 as compared to \$78 million as of December 31, 2015.

Preferred shares

As of June 30, 2016, the Company held \$319 million of preferred shares, of which the financial sector represented 59%. 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 MCT guidelines. As a result of the continued low interest rate environment, the value of the Company's preferred share investment holdings have an unrealized loss of \$49 million at June 30, 2016.

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 holdings based on near-term liquidity needs, market conditions and perceived favourable future investment opportunities. The Company's cash holdings in the investment portfolio were \$271 million as of June 30, 2016, a decrease of \$120 million from the \$391 million in cash holdings as of December 31, 2015. The decrease was primarily due to cash holdings in the fourth quarter of 2015 being higher due to timing of investment maturities.

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 five primary sources of funds, consisting of premiums written from operations, investment income, cash and short-term investments, investment maturities or sales and proceeds from the issuance of debt and equity. 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 the future financial years.

Table 12: Summary of the Company's cash flows

<i>(in millions of dollars, unless otherwise specified)</i>	Six months ended June 30,	
	2016	2015
Cash provided by (used in):		
Operating activities	\$ 249	\$ 200
Financing activities	(76)	(121)
Investing activities	(293)	(55)
Change in cash and cash equivalents	(120)	134
Cash and cash equivalents, beginning of period	391	190
Cash and cash equivalents, end of period	\$ 271	\$ 325

Note: Amounts may not total due to rounding.

The Company generated \$249 million of cash flows from operating activities in the six months ended June 30, 2016, as compared to \$200 million in the prior year's period. The higher cash flows from operating activities in the current period was primarily the result of higher levels of premiums written.

The Company utilized \$76 million of cash flows for financing activities in the six months ended June 30, 2016, primarily related to the payment of ordinary dividends of \$0.42 per Common Share per quarter, as compared to \$121 million primarily related to the payment of ordinary dividends of \$0.39 per Common Share per quarter as well as the repurchase of Common Shares under its NCIB in the prior year's period.

The Company utilized \$293 million of cash flows from investing activities in the six months ended June 30, 2016, primarily from the purchase of bonds and debentures, preferred shares and short-term investments, as compared to \$55 million in the prior year's period.

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, 2016, the Company held liquid assets of \$747 million, comprised of \$271 million in cash and cash equivalents, and \$476 million in bonds and debentures maturing within one year in order to maintain financial flexibility. Of the \$476 million liquid assets, \$166 million were held outside of the Insurance Subsidiary. As at June 30, 2016, the duration of the fixed income portfolio was 3.7 years.

In addition to cash and cash equivalents, 51%, or \$3,090 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 hedging purposes and for the purpose of modifying the risk profile of the Company's investment portfolio, subject to exposure limits specified within the Company's investment policy guidelines, which have been approved by the Board of Directors.

The Company uses derivative financial instruments in the form of foreign currency forwards and cross currency interest rate swaps to mitigate foreign currency risk associated with bonds and 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.

Table 13: Fair value and notional amounts of derivatives by terms of maturity, in Canadian dollars

	Net Fair value	Notional Amount (<i>in millions</i>)				Total
		1 year or less	1–3 years	3–5 years	Over 5 years	
June 30, 2016						
Foreign currency forwards	\$(35)	\$24	\$24	\$47	\$187	\$282
Cross currency interest rate swaps	\$(24)	\$127	\$43	\$45	\$112	\$327
Equity total return swaps	\$ -	\$16	-	-	-	\$16
Interest rate swaps	\$(3)	-	-	\$800	-	\$800
Total	\$(62)	\$167	\$67	\$892	\$299	\$1,425
December 31, 2015						
Foreign currency forwards	\$(45)	\$14	\$26	\$36	\$213	\$289
Cross currency interest rate swaps	\$(37)	\$144	\$28	\$19	\$34	\$225
Equity total return swaps	\$(2)	\$20	-	-	-	\$20
Total	\$(84)	\$177	\$54	\$55	\$247	\$533

Note: Amounts may not total due to rounding.

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, 2016, the Company invested approximately \$3 million in underwriting, loss mitigation and risk management technologies enhancements. The Company expects that future capital expenditures will continue to be allocated to underwriting, loss mitigation, and risk management technology improvements. The Company expects that capital expenditures in 2016 will be in the \$3 million to \$5 million range and it is anticipated that such expenditures will be funded primarily from operating cash flows.

Capital management

Minimum capital test

The Insurance Subsidiary is regulated by OSFI. Under the MCT, 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 MCT purposes, to capital required.

Under the PRMHIA and the *Insurance Companies Act (Canada)* (“ICA”), the minimum MCT ratio for the Insurance Subsidiary is 175%. In conjunction with this requirement, the Insurance Subsidiary has set its internal MCT target capital ratio to 185%. The Company manages its capital base to maintain a balance between capital strength, efficiency and flexibility. As at June 30, 2016, the Insurance Subsidiary's MCT ratio was approximately 233%, or 48 percentage points higher than the Company's internal target of 185% and 13 percentage points higher than the Company's holding target of 220%. While the Company's internal MCT capital target is calibrated to cover the various risks that the business would face in a severe recession, the holding target ratio is designed to provide a capital buffer to allow management time to take the necessary actions should capital levels be pressured by deteriorating macroeconomic conditions. Under this framework, capital in excess of the holding target may be redeployed.

Capital above the amount required to meet the Insurance Subsidiary's MCT 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, for acquisitions, for repayment of debt, or for such other uses as permitted by law and approved by the Board.

During the third quarter of 2014, OSFI released an advisory guideline, *Interim Capital Requirements for Mortgage Insurance Companies*, for use on an interim basis starting in 2015 pending the completion of a new regulatory test for mortgage insurance companies which is expected to take effect in 2017. This guideline was developed by adjusting the 2015 *Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies*, to reflect the specific characteristics of the mortgage insurance business until the new capital guideline for mortgage insurance companies is developed.

Table 14: MCT as at June 30, 2016 and as at December 31, 2015

<i>(in millions, unless otherwise specified)</i>		
Minimum Capital Test	As at June 30, 2016	As at December 31, 2015
Capital available	\$3,698¹	\$3,633
Capital required	\$1,587¹	\$1,552
MCT ratio	233%¹	234%

¹ Company estimate

The Company's MCT estimate as at June 30, 2016 of 233% was down marginally compared to the MCT as at December 31, 2015. The increase to capital available was due primarily to profitability and a modest increase in unrealized gains in the investment portfolio which was partially offset by the Insurance Subsidiary's dividends. The increase in capital required was primarily due to an increase in insurance margin risk from seasonally higher premiums written in the second quarter of 2016 partially offset by a decrease in interest rate risk as the Company entered into \$800 million of interest rate swaps during the six months ended June 30, 2016. The Company uses fixed for floating interest rate swaps in conjunction with the management of interest rate risk related to its fixed income securities.

Debt

The Company proactively manages capital to balance capital strength, flexibility and efficiency. The Company currently has \$433 million in long-term debt, issued in two series, with a debt-to-capital ratio as at June 30, 2016 of 11%.

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

(in millions unless otherwise specified)

Series	Series 1	Series 3
Timing of maturity	3–5 years	After 5 years
Principal amount outstanding	\$275	\$160
Date issued	June 29, 2010	April 1, 2014
Maturity date	June 15, 2020	April 1, 2024
Fixed annual rate	5.68%	4.242%
Semi-annual interest payments due each year on	June 15, December 15	October 1, April 1
Debenture Ratings		
S&P ¹	BBB+, (Stable)	BBB+, (Stable)
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 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.
- The Company will not request that the rating agencies withdraw their ratings of the debentures.

In the case of certain events of default under the terms of the debentures issued by the Company in 2010 and 2014, 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.

For more specific details on the terms and conditions of the Company's debentures, please see the relevant prospectus, copies of which are available on the SEDAR website at www.sedar.com.

Credit facility

On May 20, 2016, the Company entered into a \$100 million senior unsecured revolving credit facility, which matures on May 20, 2019. Any borrowings under the credit facility will bear interest at a rate per annum equal to, either a fixed rate based on a spread over Bankers' Acceptance or a variable rate based on a spread over the Lender Prime Rate. The Company will also pay a standby fee based on the unused amount of the commitments. The credit facility includes customary representations, warranties, covenants, terms and conditions for transactions of this type.

As at June 30, 2016 there was no amount outstanding under the credit facility and all of the financial covenants were fully met.

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 May 17, 2016, DBRS confirmed the Insurance Subsidiary's AA financial strength rating with a stable trend citing "the Insurance Company's solid market position, seasoned insurance portfolio and advanced risk analytics, as well as its strong capital position relative to the capital required to meet insurance claim obligations. The confirmation also reflects the Company's strong capital adequacy as assessed through the application of the DBRS residential mortgage-backed securities (RMBS) model, assuming a runoff scenario." DBRS downgraded the Company's issuer rating and senior unsecured debentures rating one notch to A (high) with a stable trend citing "DBRS's concern that there is now a greater risk that OSFI, in a stressed mortgage market situation, may place restrictions on dividend payments from the Insurance Company."²

On September 3, 2015, S&P affirmed the Insurance Subsidiary's A+ rating and the Company's BBB+ rating and stable outlook. S&P noted that the Company had a strong competitive position, low industry risk due the Company's disciplined underwriting initiatives and tight governmental regulation and very strong earnings and capitalization.

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+, Stable	A (High), Stable

Capital transactions

Share repurchase

On April 28, 2016, the Company received approval by the Toronto Stock Exchange for the Company to undertake an NCIB. Pursuant to the NCIB, the Company can purchase, for cancellation, up to 4,589,958 shares representing approximately 5% of its outstanding Common Shares as at April 25, 2016. Purchases of Common Shares under the NCIB may commence on or after May 5, 2016 and will conclude on the earlier of May 4, 2017 and the date on which the Company has purchased the maximum number of shares under the NCIB.

² DBRS May 17, 2016 press release: DBRS Confirms Ratings on Genworth Financial Mortgage Insurance Company Canada and Downgrades Genworth MI Canada Inc.

The Company's prior NCIB which commenced on April 28, 2015, expired on May 4, 2016. The Company did not purchase any shares under such NCIB during the three and six months ended June 30, 2016. The Company had made purchases in 2015 pursuant to such NCIB.

The Company's major shareholder, Genworth Financial Inc., intends to participate proportionately to maintain its approximately 57.2% ownership interest in the Company throughout the course of the NCIB, if any shares are purchased. Shareholders may obtain a copy of the NCIB notice, without charge, by contacting the Company.

Restrictions on dividends and capital transactions

The Insurance Subsidiary is subject to certain restrictions with respect to dividend and capital transactions. The 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, 2016 and December 31, 2015

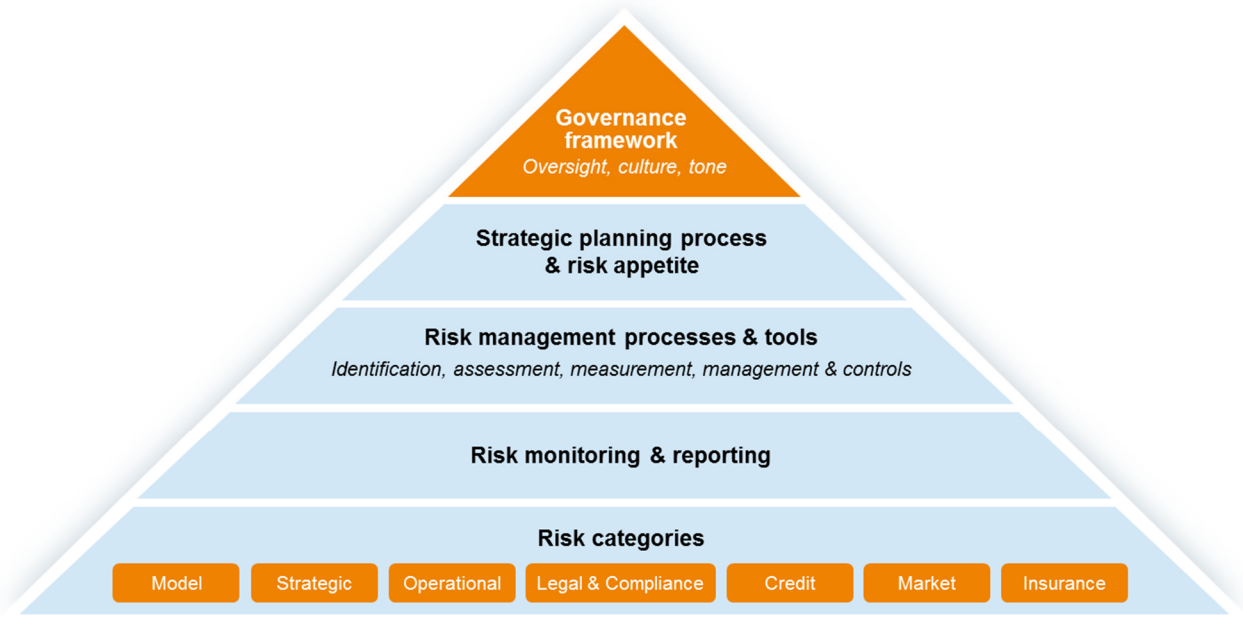
	June 30, 2016	December 31, 2015
Common Shares, beginning of period (January 1)	91,795,125	93,147,778
Common Shares issued in connection with share-based compensation plans	48,400	101,543
Common Shares repurchased and cancelled	-	(1,454,196)
Common Shares, end of period	91,843,525	91,795,125

At June 30, 2016, Genworth Financial, Inc. beneficially owned 52,562,042 Common Shares of the Company, or approximately 57.2% of the Company's outstanding Common Shares, through its wholly-owned subsidiaries, Genworth Financial International Holdings LLC ("GFIH"), Genworth Mortgage Insurance Corporation ("GMIC") and Genworth Mortgage Insurance Corporation of North Carolina ("GMICNC") which held approximately 40.7%, 14.9% and 1.7% of the Common Shares of the Company, respectively. On October 1, 2015 Brookfield Life Assurance Limited transferred its 40.7% ownership interest in the Company to GFIH. Subsequent to this transaction, Genworth Financial Inc., which is listed on the New York Stock Exchange, continued to beneficially own approximately 57.2% of the Common Shares of the Company through GMIC, GMICNC and GFIH, respectively.

Risk management

Enterprise risk management framework

Risk management is a critical part of Genworth Canada’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

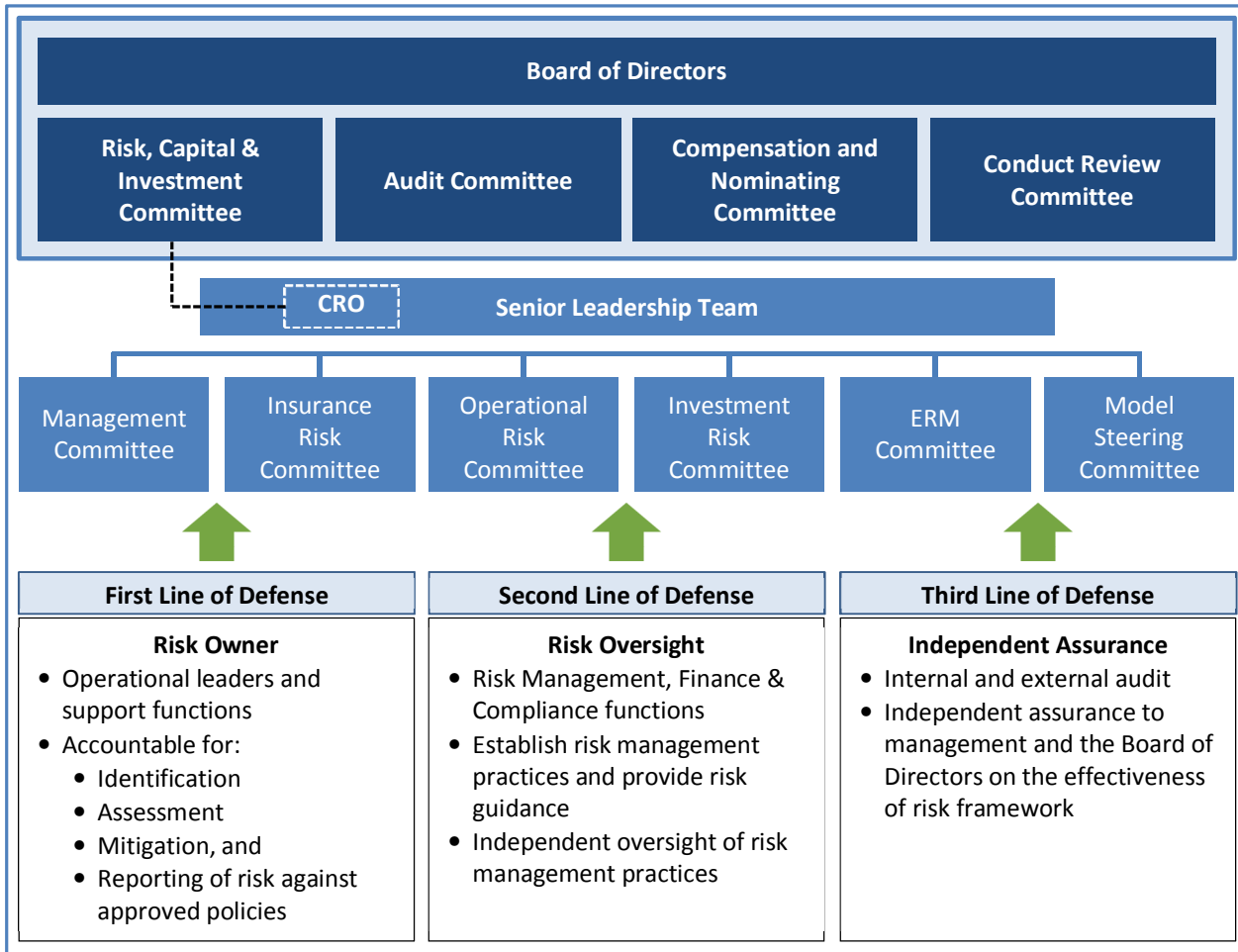
The Company’s governance framework is designed to ensure the Board of Directors and management have effective oversight of the risks faced by the Company with clearly defined and articulated roles and responsibilities and inter-relationships. The governance framework is comprised of three core elements:

- I. Board of Directors’ oversight of risk and risk management practices;
- II. Management’s oversight of risks; and
- III. The “three lines of defense” operating model.

The Board of Directors 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 of Directors 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 of Directors of the Company and 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 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 key 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.

Where possible 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 no less than 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 and operating procedures.

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 adverse scenarios.

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 business decisions are based on an understanding of risk;
- Ensure a deep understanding of risk drivers as they relate to our key objectives;
- 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 Self-Assessment ("ORSA") framework. The key elements and considerations of ORSA 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 is forward looking and is done in conjunction with the Company's business and strategic planning.

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.
- **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

Genworth Canada'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. For Genworth Canada-insured transactional mortgages, the average credit score has increased by over 25 points since 2008 to 754 for the second quarter of 2016, the average home price has increased modestly since 2011 to \$288,000 for the second quarter of 2016 and the average gross debt service ratio has remained relatively stable around 24 to 25%, which is well below the industry accepted maximum.

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 mortgage insurance balances by book of business

	As at March 31, 2016			As at December 31, 2015		
	Transactional	Portfolio	Total	Transactional	Portfolio	Total
2009 & prior	49	24	45	49	25	45
2010	67	32	60	67	32	61
2011	71	41	65	71	41	65
2012	76	41	59	76	42	59
2013	80	45	62	81	46	62
2014	86	52	68	87	53	69
2015	92	58	72	92	59	72
2016	94	65	74	-	-	-
Total	72	49	62	72	49	62

¹ Amounts may not total due to rounding.

² This is based on the amounts reported by lenders surveyed, which represents the vast majority of insurance in-force. Outstanding mortgage insured balances are reported on a one quarter lag.

³ Loan to value ratio is based on loan amount including capitalized premium, where applicable.

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 criteria includes 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 Risk Committee on a monthly basis. The Company closely monitors the delinquency performance as a key indicator of insurance portfolio performance.

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 approved 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 of all three areas are reviewed by management on a monthly basis.

Market and credit risk

The Company monitors and manages the credit risk, liquidity risk and market risk, including interest rate risk, equity price 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-.

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 MCT 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, equity price 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.

Equity price risk

Equity price risk is the risk that the fair values of equities will decrease as a result of changes in the levels of equity indices and the values of individual stocks. Equity price risk exposure arises from the Company's investment in Common Shares. The Company has policies to limit and monitor exposures to individual equity investment issuers and its aggregate exposure to equities.

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 international 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 (“**COSO**”) 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 quarter ending June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company’s controls over financial reporting.

Changes in accounting policies and future accounting standards

There have been no changes in accounting policies during the quarter ending June 30, 2016.

IFRS 9 - Financial instruments

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

While the new standard is generally effective for years beginning on or after January 1, 2018, in December 2015 the IASB published an Exposure Draft *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*, which proposes to allow some insurers optional transitional relief until the forthcoming insurance accounting standard is available for implementation. The proposed options would allow (a) entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4 a temporary exemption to defer the implementation of IFRS 9, which may allow alignment of the implementation of IFRS 9 with the forthcoming insurance accounting standard, or alternatively (b) give entities issuing insurance contracts the option to remove from profit or loss the incremental volatility caused by changes in the measurement of specified financial assets upon application of IFRS 9. Based on feedback received, in April 2016, the IASB broadened the eligibility criteria for deferral such that it is expected most insurers will qualify for the temporary exemption. A

fixed expiry date for the temporary exemption is to be determined. Additional financial statement disclosures will be required for insurers that opt to take the temporary exemption.

The Company is evaluating the impact of IFRS 9 on its financial assets and financial liabilities and the option for the deferral of IFRS 9 adoption.

IFRS 4 - Insurance contracts

In June 2014, the IASB issued a revised exposure draft proposing a comprehensive measurement approach for all types of insurance contracts, which would replace the existing *IFRS 4 Insurance Contracts*. Deliberations of the exposure draft have substantially concluded and in its February 2016 meeting, the IASB decided to commence its formal process for drafting the final standard. The final standard is expected to be issued in late 2016 or early 2017 and its effective date is not expected to be before 2020.

The Company is monitoring the development of IFRS 4 and assessing the impact of its adoption.

IFRS 16 - Leases

IFRS 16 was issued on January 13, 2016. The new standard will replace existing lease guidance in IFRS and related interpretations, and requires companies to bring most leases on-balance sheet. The new standard is effective for years beginning on or after January 1, 2019.

The Company is assessing the impact of IFRS 16.

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.

Accounting estimates

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. The rates or formulae under which premiums are earned relate to the loss emergence pattern in each year of coverage. In order to match premiums earned to losses on claims, premiums written are recognized as premiums earned using a factor-based premium recognition curve.

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.

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. Loss reserves are recognized when the first scheduled mortgage payment is missed by a mortgage borrower. 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.

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. 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 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.

Accounting judgments

Objective evidence of impairment of AFS financial assets

Financial assets not carried at Fair Value Through Profit and Loss are assessed at each reporting period to determine whether there is existence of objective evidence of impairment.

For investments in bonds 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 preferred shares is deemed to exist when the Company does not expect full recovery of the amortized cost of the investment based on the estimate of cash flows to be collected or when the Company intends to sell the investment prior to recovery from its unrealized loss position.

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

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 subsidiaries consist of information technology, finance, human resources, legal and compliance, and other specified services. The services rendered by the Company and the Insurance Subsidiary relate mainly to financial reporting and tax compliance support services. These transactions are in the normal course of business and are at terms and conditions no less favourable than market. Balances owing for service transactions are non-interest bearing and are settled on a quarterly basis. The Company incurred net related party charges of approximately \$3 million in the six months ended June 30, 2016, as compared to \$3 million in prior year's period.

Reinsurance

During the year ended December 31, 2015, the Company, through its indirect subsidiary MIC Insurance Company Canada, terminated its retrocession agreement with a third party reinsurance company, under which the Company assumed reinsurance risk for approximately 33% of the retroceded liabilities on claims paid by Genworth Financial Mortgage Insurance Pty Limited, an Australian company ("Genworth Australia") in excess of 700 million Australian dollars within any one year up to a maximum exposure to the Company of 30 million Australian dollars less claims paid by the Company in prior years. The term of the agreement was for 3 years. Under the Agreement, the Company received premium equal to 6.75% of the maximum exposure of 30 million Australian dollars in the first year of coverage and 5.75% of the maximum exposure in the second and third years of coverage.

During the six months ended June 30, 2015, the Company recognized \$490 of premiums and no losses were incurred.

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 net operating income, operating earnings per Common Share (basic), operating earnings per Common Share (diluted), shareholders' equity excluding AOCI, operating return on equity. 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

<i>(in millions of dollars, unless otherwise specified)</i>	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Total net investment income	\$ 33	\$ 58	\$ 70	\$ 115
Adjustment to total net investment income:				
Net (gain) loss on investments	11	(17)	16	(32)
Interest and dividend income, net of investment expenses	\$ 44	\$ 42	\$ 86	\$ 83
Net income	91	103	178	211
Adjustments to net income, net of taxes:				
Net (gain) loss on investments	8	(12)	12	(23)
Net operating income	\$ 99	\$ 92	\$ 190	\$ 188
Earnings per common share (basic)	\$ 0.99	\$ 1.12	\$ 1.94	\$ 2.27
Adjustment to earnings per common share, net of taxes:				
Net (gain) loss on investments	0.09	(0.13)	0.13	(0.25)
Operating earnings per common share (basic)	\$ 1.07	\$ 0.99	\$ 2.07	\$ 2.03
Earnings per common share (diluted) ¹	\$ 0.99	\$ 1.12	\$ 1.94	\$ 2.23
Adjustment to earnings per common share, net of taxes:				
Share based compensation re-measurement amount	-	-	-	0.03
Net (gain) loss on investments	0.09	(0.13)	0.13	(0.24)
Operating earnings per common share (diluted) ¹	\$ 1.07	\$ 0.99	\$ 2.07	\$ 2.02
Shareholders' equity	\$ 3,550	\$ 3,360	\$ 3,550	\$ 3,360
Adjustment to shareholders' equity:				
Accumulated other comprehensive income ("AOCI")	(154)	(182)	(154)	(182)
Shareholders' equity excluding AOCI	\$ 3,396	\$ 3,178	\$ 3,396	\$ 3,178

Note: Amounts may not total due to rounding.¹The difference between basic and diluted number of Common Shares outstanding 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, new insurance written, loss ratio, expense ratio, combined ratio, operating return on equity, MCT ratio, delinquency ratio, investment yield, average reserve per delinquency, credit score, gross debt service ratio, ordinary dividend payout ratio, workout penetration, cures, effective tax rate, gross debt service ratio, book value per Common Share (basic) including AOCI, book value per Common Share (basic) excluding AOCI, book value per Common Share (diluted) including AOCI, book value per Common Share (diluted) excluding AOCI, and dividends paid per Common Share.

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 "Glossary" at the end of this MD&A.

<i>(in millions of dollars, unless otherwise specified)</i>	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Selected non-IFRS financial measures				
Insurance in force	\$ 443,448	\$ 375,868	\$ 443,448	\$ 375,868
New insurance written	\$ 31,700	\$ 10,862	\$ 39,606	\$ 20,648
Loss ratio	21%	17%	22%	19%
Expense ratio	19%	20%	19%	19%
Combined ratio	40%	37%	41%	38%
Operating return on equity	12%	12%	11%	12%
MCT ratio ¹	233%	231%	233%	231%
Delinquency ratio	0.10%	0.10%	0.10%	0.10%
Investment yield	3.3%	3.3%	3.2%	3.4%
Average reserve per delinquency	75	70	75	70
Credit score	754	742	753	740
Debt service ratio	24%	24%	24%	24%
Ordinary dividend payout ratio	39%	39%	41%	38%
Workout penetration	61%	59%	59%	57%
Cures	812	733	1,540	1,461
Effective tax rate	26.1%	27.7%	26.3%	25.0%
Book value per common share				
Number of common shares outstanding (basic)	91,843,525	91,792,879	91,843,525	91,792,879
Book value per common share including AOCI (basic)	\$ 38.66	\$ 36.60	\$ 38.66	\$ 36.60
Book value per common share excluding AOCI (basic)	\$ 36.98	\$ 34.62	\$ 36.98	\$ 34.62
Number of common shares outstanding (diluted) ²	92,881,121	92,859,819	92,881,121	92,859,819
Book value per common share including AOCI (diluted) ²	\$ 38.23	\$ 36.18	\$ 38.23	\$ 36.18
Book value per common share excluding AOCI (diluted) ²	\$ 36.57	\$ 34.23	\$ 36.57	\$ 34.23
Dividends paid per common share	\$ 0.42	\$ 0.39	\$ 0.84	\$ 0.78

¹The Company estimates that the outstanding balance of insured mortgages was approximately \$197 billion as at March 31, 2016. Outstanding balances are reported on a quarter lag.

²The MCT ratio as at June 30, 2016 is the company estimate and as at June 30, 2015 is the actual reported figure.

³Based on original insured loans in-force for which coverage terms have not expired and excludes delinquencies that have been incurred but not reported.

⁴The difference between basic and diluted number of Common Shares outstanding is caused by the potentially dilutive impact of share-based compensation awards.

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 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.

“average premium rate” means the average premiums written collected divided by the new insurance written

“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.

“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.

“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.

“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 premium earned and is used to assess the profitability of the Company’s insurance underwriting activities.

“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.

“delinquency ratio” means the ratio (expressed as a percentage) of the total number of delinquent loans to the total original number of policies in-force 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.

“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.

“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.

“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.

“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.

“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.

“government guarantee fund” means the trust account that was in place under the terms of the Government Guarantee Agreement until January 1, 2013 and which was intended to provide the Canadian federal government with a source of funds in the event it was required to make a guarantee payment.

“general portfolio” or **“investment portfolio”** means invested assets (including cash and cash equivalents, short-term investments, bonds or other fixed income securities and equity investments) and which excluded amounts held in the government guarantee fund prior to its termination on January 1, 2013, when such amounts were incorporated in the general portfolio.

“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 borrowers 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.

“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). This measure is an indicator of the core operating performance of the investment portfolio.

“investment yield” means the net investment income before investment fees and excluding net investment gains (losses) tax affected for dividends for a 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 net investment income using the average of beginning and ending investments book value, for such quarter.

“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.

“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.

“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.

“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.

“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.

“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 FVTPL securities and the cost of interest rate swaps representing 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.

“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.

“new insurance written” means the original principal balance of mortgages, including any capitalized premiums, insured during a specified period. 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.

“operating earnings per Common Share (basic)” means the net operating income divided by the basic 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 is a better indicator of core operating performance.

“operating return on equity” means the net operating income for a period divided by the average of the beginning and ending 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.

“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.

“premium 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.

“shortfall sale” means a sale of a property by the owner for less than the amount owing on the mortgage.

“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” 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 ratio 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.

The Company's full glossary is posted on the Company's website at <http://investor.genworthmicanada.ca> and can be accessed by clicking on the link under the Investor Resources heading on the bottom navigation bar.