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MIC.TO - Q1 2016 Genworth MI Canada Inc Earnings Call

EVENT DATE/TIME: APRIL 29, 2016 / 2:00PM GMT

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Genworth MI Canada Inc. 2016 first quarter earnings conference call. (Operator Instructions) I would like to remind everyone that this conference is being recorded today.

I will now turn the conference over to Jonathan Pinto, Vice President, Investor Relations. Mr. Pinto, you may proceed.

Jonathan Pinto - *Genworth MI Canada Inc. - VP of IR*

Thank you. Good morning, everyone, and thank you for joining Genworth Canada's first quarter 2016 earnings call. Leading today's call are Stuart Levings, our President and Chief Executive Officer, and Philip Mayers, our Chief Financial Officer. We will start with our prepared remarks, followed by an open question and answer session.

Our news release, including our management's discussion and analysis, the financial statements and financial supplements, were released last night and are posted on our website at www.genworth.ca. A link to our live webcast and the slides for today's discussion are also posted on our website. A replay of this call will be available via the other number noted in the press release and will also be available on our website following today's presentation. The call will be available online for approximately 45 days following today.

As a reminder, our presentation and discussion today contain a disclaimer on forward-looking statements and non-IFRS statements on disclosure. We note that our actual results may differ from statements that we make which are forward-looking. We advise you to read the cautionary note regarding these forward-looking statements.

As well, some of the financial metrics presented on this call today are non-IFRS measures and, as such, do not have a standardized meaning and are unlikely to be comparable to similar measures by other companies.

I would now like to turn the call over to Stuart to begin his remarks. Stuart?

Stuart Levings - *Genworth MI Canada Inc. - President, CEO*

Thanks, John. Good morning, everyone, and thanks for joining our first quarter earnings call. Today I will cover some key financial highlights from our performance this quarter, as well as a few perspectives on the mortgage, housing and labor markets, including an updated view on Alberta.

We are pleased with our forward results, which continue to demonstrate the strength of our business model. In particular, we are encouraged by our loss ratio and what we see in the oil producing regions, which continue to develop in line with our expectations. However, the current economic environment and our underwriting response has had a modest impact on our top line results. We believe the targeted underwriting changes made over the past 12 to 18 months focused on select stack risk factors remain prudent and appropriate, aimed at helping to ensure responsible homeownership in areas with elevated economic risk.

The ability to adjust our risk appetite and underwriting guidelines based on prevailing economic conditions is a key component of our dynamic risk management strategy. Our technology facilitates a very specific, localized approach, focused primarily on the marginal risk elements.

We continue to support mortgage lenders in Alberta, which as a region represented approximately 20% of our first quarter volumes. We remain committed to all our customers across Canada, as together we provide access to responsible homeownership.

For the quarter, we delivered net operating income of CAD91 million, down 4% over the prior quarter. This generated a return on equity of 11% and diluted earnings per share of CAD0.99. These results reflect the momentum we are starting to see on our earned premiums, driven by larger recent books and premium rate increases, offset by a marginally higher combined ratio.

Net premiums written totaled CAD117 million, down CAD13 million or 10% over the prior year period. In our view, this decline was driven by two key factors, a smaller transactional insurance market and modestly lower market share as a result of our targeted underwriting actions.

Based on discussions with a number of lenders, we believe there were fewer high loan-to-value mortgage transactions during the quarter, reflecting slower housing activity in oil exposed regions, along with increasing affordability pressure in the greater Toronto and Vancouver markets. As a result, we have softened our full-year expectations for written premiums on transactional insurance as noted in our MD&A.

During the quarter, the government announced that the implementation of the purpose test rules would take effect July 1 this year. These rules are designed to restrict the use of portfolio insured loans by requiring that they be placed in government securitization programs within six months of being insured.

As a result of this announcement, we have seen an increase in demand for this type of insurance. In addition to the CAD4.5 billion of portfolio insurance reported this quarter, we insured another CAD22 billion during the first three weeks of April. In our view, these transactions provide us with an opportunity to diversify our risks by adding additional high quality, low loan-to-value mortgages with geographic dispersions weighted towards the stronger economic regions within the country. We expect demand for portfolio insurance will decline to more historical levels in the second half of this year.

As I noted earlier, we are encouraged by our loss ratio of 24%, up 1 point over the prior quarter and marginally below our expected loss ratio range for the year. Generally speaking, our loss performance continues to reflect the quality of our insurance portfolio, together with the ongoing resilience in the Canadian housing and labor markets. While we are beginning to see a build in new delinquencies from Alberta, we also see continued strength in Ontario and BC, and early signs of improvement in Quebec.

We ended the quarter with an MCT ratio of 234%, flat to the prior quarter. While seasonal variation in new insurance written influences the level of our MCT ratio, our goal, as noted on prior calls, is to maintain a level between 225% to 230% as a modest buffer over our holding target. This range reflects our view on the current economic environment, including some flexibility as we work through the new OSFI Capital test under development for 2017.

While the current MCT ratio exceeds this range, we expect to see it return below 230% due to the normal seasonal uptick in new insurance written during the second and third quarters, as well as the larger than normal portfolio insurance transactions previously noted.

Our capital priorities remain focused on supporting our core business volumes and ordinary dividends. As part of our ongoing strategy to maintain capital efficiency, we recently took steps to renew our normal course issuer bid program. This allows us the flexibility to selectively purchase shares in the open market over the next 12 months.

Our book value at CAD37.23 per share, continues to grow, up more than 3% over the prior year, driven by ongoing profitability. When I think about the current environment, three key themes continue to prevail: low oil prices and the corresponding impact on economic growth, a three-speed housing market, with a widening gap between Toronto, Vancouver and the rest of the market, and an ongoing regulatory focus on the mortgage finance system.

Outside of the oil producing regions, we are generally encouraged by the stronger than expected economic indicators, including positive development with respect to the labor market and solid GDP results for the first few months of 2016. This, together with a generally balanced housing market, should bode well for the business over the course of the year.

The Vancouver and Toronto markets continue to show record sales volumes and house price appreciation, driven by a number of factors, including strong job growth, immigration and net migration inflows. That said, fewer first-time homebuyers can afford to purchase single detached homes in these cities, given the growing affordability pressure and the CAD1 million cap for higher loan-to-value mortgage insurance. As a result, our insured loans typically represent purchases of smaller homes in the greater Toronto and Vancouver regions, as reflected in the lower, more stable average house prices within our portfolio.

The first-time homebuyers we see in today's market continue to present as financially prudent applicants, as demonstrated by our credit and loan characteristics. Average credit scores in the first quarter remained high at 751, up 4 points over the prior quarter, while the average loan amount and gross debt service ratio saw marginal increases with the latter still well below the industry maximum. This is largely due to the profile of our insured borrowers, specifically dual-income families purchasing entry-level homes.

With regards to outstanding delinquencies, we saw an increase of 11% over the prior quarter, primarily due to seasonality and pressure in oil producing regions. Year-over-year, delinquencies are up 14%, driven mainly by Alberta, partly offset by improvements in Ontario and BC. We believe the current economic environment will continue to support strength in these provinces, helping to ease some of the pressure from the oil producing regions.

Recently, key members of my team and I spent some time in Alberta, speaking with a number of industry experts, including our customers, economists, realtors and appraisers. What we heard continues to support the consensus view of a lower for longer oil price scenario with increasing impact on the housing and labor markets. However, we also saw support for some of the resilience observed in the labor and housing market, important counterbalances, such as the ongoing strength in adjacent industries, like lumber and agriculture, as well as changing borrower behavior.

In addition to severance packages and employment insurance, borrowers are changing spending habits and lifestyle choices, essentially finding other ways to maintain their mortgage payments. We recognize however that pressure continues to build and many of these measures are time bound. Therefore, we expect new delinquencies from this region to increase gradually during the course of this year. In addition, we expect house prices to show some further softening, but still within our estimated range of 5% to 12% for the year.

Based on our discussions and observations, we are maintaining our estimate at loss ratio range of 25% to 40% for 2016. We continue to monitor the situation closely, focusing on a number of early indicators, including our homeowner assistance program data, as well as other housing and labor statistics. We will continue to refine and communicate this range as new market data emerges.

With that, I'll turn it over to Phil for a deeper look at our financial results.

Philip Mayers - *Genworth MI Canada Inc. - SVP, CFO*

Thanks, Stuart, and good morning. We reported solid net operating income of CAD91 million this quarter. This was lower by CAD4 million quarter over quarter, due to marginally higher losses and claims and expenses, which were partially offset by higher premiums earned.

As Stuart noted, total premiums written of CAD117 million consisted of CAD99 million from transactional insurance and CAD18 million from portfolio insurance. While both business lines produced lower premiums written year over year, we have built a strong portfolio insurance pipeline and we closed approximately CAD22 billion of portfolio insurance in the first three weeks of April.

These portfolios have a very strong credit score profile with an average loan-to-value around 65%. As a result, the average premium rate on these portfolios is lower than that in the previous quarters. Overall, we expect a strong top line in the second quarter due to these portfolio insurance transactions.

As expected, we saw sequential and year-over-year growth from premiums earned to CAD154 million, primarily due to the higher levels of premiums written in recent years. This positive trend is expected to continue throughout 2016 and into 2017.

On the loss front, we reported losses and claims of CAD37 million, up by CAD2 million compared to the prior quarter. We're pleased with this result, especially in light of the emerging pressure in oil producing regions and a typical seasonal increase in delinquencies. The resulting loss ratio of 24% was marginally below our expected range for 2016.

We continued to focus on expense management and achieved an expense ratio of 19% on CAD28 million of total expenses. This level of expenses remains consistent with the Company's expected expense ratio range of 18% to 20%. Overall, underwriting income was CAD88 million, lowered by CAD1 million sequentially.

The investment portfolio contributed CAD41 million of interest and dividends, which was lower by CAD2 million compared to the previous quarter. The low interest rate environment continues to be challenging and the lower income this quarter reflects 3.1% book yield compared to a 3.3% in the prior quarter. Overall, net operating income of CAD91 million generated an operating return on equity of 11% and a fully diluted operating EPS of CAD0.99. We're pleased with these financial results, which contributed to a higher book value per share of CAD37.23.

Over the past five quarters, our underwriting profits and combined ratio have ranged from CAD87 million to CAD90 million, and 37% to 42% respectively. This consistency has been largely driven by sequential quarterly improvement in premiums earned, which has partially offset the higher losses on claims in recent quarters.

The primary drivers of losses and claims are the number of new delinquencies net of cures and the errors reserved per delinquency. This quarter, the number of net new delinquencies increased sequentially by 81, led by an increase in Alberta of 94. On a positive note, Ontario and Quebec experienced modest declines. This increase in net new delinquencies was expected, given typical winter seasonality and the economic pressure in oil producing regions. Compared to the prior quarter, the average reserve for delinquency was relatively flat overall.

Our expected 2016 loss ratio range is unchanged at 25% to 40%, as compared to the first quarter loss ratio of 24%. While the macroeconomic picture has improved, uncertainties remain. We will revisit our expected loss ratio range each quarter and will update it as warranted based on the best available information.

With CAD2 billion of unearned premiums, we expect sequential quarterly improvement in premiums earned, resulting in a 5% or higher growth rate in 2016. As well, this should result in a modest dampening effect on the 2016 loss ratio.

Our investment strategy remains unchanged with a continued focus on high quality, fixed income investments. As a result, the mix of our CAD5.9 billion investment portfolio is relatively unchanged, except for a modest increase in our allocations of preferred shares, given attractive after-tax dividend yields, which are above 5%. That being said, our portfolio yield now stands at 3.1%. We will continue our efforts to maintain or improve our portfolio yield over time, through proactively managing the portfolio mix within our risk appetite.

On the capital front, we ended the quarter with a minimum capital test or MCT ratio of approximately 234%. This is moderately above our targeted operating range of 225% to 230%, as we chose to maintain a higher capital level in response to a strong pipeline of portfolio insurance. For example, the required capital for the CAD22 billion of portfolio insurance written to date in April equates to approximately 3 to 4 MCT points.

As well, we took steps during the quarter to create a more capital efficient structure by hedging a portion of our interest rate risks related to the investment portfolio. We initiated a hedging program using fixed for floating interest rate swaps, partially hedged duration risk, and this resulted in lower required capital for interest rate risk. This has contributed to a flat MCT ratio, while building our holding company cash and liquid investments by CAD52 million to CAD173 million.

Another focal point in the first quarter was our ongoing discussions regarding the new standardized regulatory capital framework under development for implementation in 2017. While the new framework is more risk sensitive than the current MCT, we believe that the new framework should not result in a higher level of capital based on a stress testing results for severe kill events. That being said, we're not in a position to fully assess the impact of the new capital framework until such time as all the details are finalized in the second half of 2016. Until this time, we expect to maintain our MCT ratio above 225%.

In closing, we remain confident that our track record of solid profitability will continue throughout 2016.

I'll now turn the call back to Stuart to conclude our prepared remarks.

Stuart Levings - *Genworth MI Canada Inc. - President, CEO*

Thanks, Phil. In our view we have a sound business model, operating in a supportive regulatory environment. Our diversified portfolio and strong risk management teams position us well to manage through variability in economic performance. Looking ahead in 2016, our strategy remains focused primarily on prudent risk management while meeting the needs of our customers with a best in class service experience.

Thanks for listening. That concludes our prepared remarks. I will now turn the call back to the Operator to commence with the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator instructions) As a reminder, the conference is being recorded for replay purposes. (Operator instructions) Geoff Kwan, RBC Capital Markets.

Geoff Kwan - *RBC Capital Markets - Analyst*

My first question was on the portfolio insurance side of your business. You mentioned in the MD&A that you guys had seen a big jump in activity in the first few weeks of April. And just doing the rough math based on your guidance on what you think you'll do for this year, and you take a look what you did in Q1 and generally how the pricing on bulk insurance is, it seems to imply that for the second half of this year you're not expecting much in the way of new premiums written.

I just wanted to confirm is that the right way to think about it? And I know it's a little bit of a crystal ball, but given the changes in the government and what they'll allow in CMHCs and non-CMHC securitization conduits, looking out to 2017, does that maybe suggest is that for the premiums written there might be meaningfully lower than what you might get this year?

Stuart Levings - *Genworth MI Canada Inc. - President, CEO*

It's Stuart here. Yes, I think the way we look at it is the changes that are coming July 1 are really going to restrict some of the bigger bulk deals we've been seeing. We'll still be seeing, I would call it the more regular mono line type bulk business we typically do during the year, but certainly this year will be characterized by a much more significant first half year in terms of bulk or portfolio insurance and a smaller second half.

The other piece to note in that is as Phil alluded in the comments, the portfolios we've seen this year so far have been extremely good quality with low LTVs and good credit scores. And obviously the pricing reflects the quality. So premium levels as a whole are going to reflect that and therefore be a little lower. So despite there is a huge amount of volume from an NIW point of view, the premium related to that would probably be lower than what you would see in a typical run rate from prior years.

Geoff Kwan - *RBC Capital Markets - Analyst*

And then the second question I had was I know it's still early days, but just with respect to the down payment changes that the government implemented, does it sort of feel like it may be having a little bit of an impact in terms of your business in terms of -- obviously you target the first time homebuyer.

Stuart Levings - *Genworth MI Canada Inc. - President, CEO*

Yes, I mean I wouldn't say there's been a material impact. I think we have noticed an impact in Calgary for sure, as that's already a stressed market. And when you look at the prices there, over CAD500,000, that market's taken a particularly hard hit. When you think about Toronto, Vancouver, majority of our buyers are buying below CAD500,000 anyway, so that didn't really impact us as much. But I think we would point to Calgary, Edmonton as having had a more material impact from a result of that change.

Geoff Kwan - *RBC Capital Markets - Analyst*

And just one last question I had was I think in the past you've talked about if we started to see a little bit more of a stress environment, from a staffing level's perspective you have some flexibility to maybe move some people from, let's call it the origination side into on the claims management side. From where you stand today, if we did start to see more meaningful uptick in terms of delinquencies and whatnot, is that kind of observation of the statement true or maybe just provide some commentary on that.

Stuart Levings - *Genworth MI Canada Inc. - President, CEO*

We always have that ability because there is a lot of fungibility, if you will, between our underwriting and our loss mitigation staff. We haven't had to do that yet. If we do see materially higher delinquencies, we could always do that, but at this point we're still very able to manage the level of delinquencies we're seeing. And there's a fair bit of scale within that team in any event. So yes, we're in a good position to manage what we think is in the pipeline for this year.

Operator

Paul Holden, CIBC.

Paul Holden - *CIBC - Analyst*

Just wanted to ask you on the claims losses in Q1, which is normally the seasonally higher quarter, but yet it came in below your 2016 guidance range. Was there kind of anything unusual with the Q1 claims losses that would not make you revise your 2016 guidance?

Stuart Levings - *Genworth MI Canada Inc. - President, CEO*

It's Stuart here. I think the key thing to keep in mind here is that yes, there's normally seasonality in the Q1 quarter and I think we did see some of that, particularly in Alberta. I would say that we see very strong markets in Ontario and BC that offset that, as we mentioned in the comments. So our expectation is that Alberta's going to continue to build through the course of this year in terms of new delinquencies, and at some point you'd expect Ontario and BC to perhaps even normalize a little bit.

As a result of that, we're not ready to revise our loss expectations for the year, but as we mentioned, we're definitely going to re-look at that in the second quarter, and if we see another quarter where we feel comfortable with the losses and we are able to revise our guidance, we're definitely going to do so in the second quarter call.

Paul Holden - *CIBC - Analyst*

And not all of the incremental delinquencies from Alberta really translated into additional claims losses in Q1. And you said it's some offset from BC and Ontario. Can you kind of work us through sort of how that works in terms of the actual math itself? Like was there some kind of release of provision for first development or something along those lines?

Philip Mayers - *Genworth MI Canada Inc. - SVP, CFO*

It's Phil. I mean you're absolutely correct. Certainly we saw some favorability and I think we also saw some favorability in Quebec, where Quebec didn't see the same typical seasonal increases that we would have typically expected. But I think you also noted that we did see some favorable development from our December 31 reserves. That was both in terms of a lower level of expected delinquencies overall, as well as we always have some conservatism in our reserving and certainly as we settled claims we did also see that we settled for amounts lower than what we reserved.

So to put it in perspective, that's probably CAD3 million to CAD4 million of favorable development that would have also contributed to the 24% loss ratio.

Geoff Kwan - *RBC Capital Markets - Analyst*

And is it possible that similar factors could play out in future quarters leading to additional reserve -- favorable reserve development of the same magnitude, give or take?

Philip Mayers - *Genworth MI Canada Inc. - SVP, CFO*

Yes, well in 2015 we had about a 5% favorable development and we believe that our reserve and practices do have a degree of conservatism, especially in light of the uncertainties around real estate prices. So there is the potential, but certainly our loss ratio range does not necessarily anticipate that.

Stuart Levings - *Genworth MI Canada Inc. - President, CEO*

Oh I would add to this that we did see early signs of improvement in Quebec, as you noted and that could continue. And if we go into the summer months and that does continue, I think overall we're going to see a pretty good loss ratio outcome. And as we mentioned in our last call, if consensus economic forecasts play out, as they're starting to, we would expect to come in at the lower end of our loss ratio range in any event.

Paul Holden - *CIBC - Analyst*

And then a question with respect to the NCIB renewal. Has your appetite to actually repurchase stock changed? Are you, i.e., do you think the pace of repurchases is really going to accelerate here?

Stuart Levings - *Genworth MI Canada Inc. - President, CEO*

It's really just an opportunity to renew it as it came up for renewal. We have said before, and we will say again, that right now we want to have more certainty around the OSFI capital test coming out for 2017, as well as the current economic environment. There is certainly appetite to look at capital efficiency and certainly that's why we renewed it and we could be comfortable doing something in the latter half of the year, but it's going to depend on getting more clarity on some of those capital drivers.

Paul Holden - *CIBC - Analyst*

And then final question related to premiums written on transactional insurance. I mean, we're seeing some pretty big resale numbers out of Toronto and Vancouver. Does that suggest that all of that additional activity is taking place at a price point that's above where you typically insure?

Stuart Levings - *Genworth MI Canada Inc. - President, CEO*

Yes, it's interesting. When we looked at the data, we looked at sales in prices below CAD500,000 in those two cities. And they were actually down year over year, which would suggest exactly that. We're seeing a lot of activity there, but not necessarily in our sort of target market, if you will. So I think that speaks to both the fact that there's fewer and fewer homes available in that price point, and secondly there is still affordability pressure. So homes are selling at record levels, but they're not selling in our space.

Operator

(Operator instructions) Graham Ryding, TD Securities.

Graham Ryding - *TD Securities - Analyst*

My first question just on similar theme. The drop in your new insurance written was certainly in contrast to the activity in the broader market. It sounds like affordability in the first-time homebuyer is not the same percentage of the overall market that it perhaps was last year. Was there also a market share dynamic there at all? Like did you pull back more in some markets and that contributed to the year-over-year drop in activity?

Stuart Levings - *Genworth MI Canada Inc. - President, CEO*

It's Stuart here. And yes, as I mentioned in my prepared comments, we do feel like there was some share loss, particularly in markets like Alberta, where we have taken some very specific targeted underwriting actions. We still feel that those are the appropriate responses to that environment and we're simply exercising more caution on those marginal risk loans that are in the most economically sensitive areas there.

I think in our view, our share is still in that 32% to 33% range. Clearly we don't have exact data on market share. As you know, it's an estimate at best, but we do feel that not all players in this space have necessarily reacted the same way as we have. In particular, our main competitor appears to have not necessarily viewed their risk appetite the same way as we have.

We haven't by any means pulled back or out of the market. We still did 20% of our volume in that market and that's pretty much in line with our main competitor, it just appears we have a slightly different take on risk appetite.

Graham Ryding - *TD Securities - Analyst*

Appreciate the color, Phil, that you gave around the movement in your actual losses on claims relative to the movement in delinquencies. Was there any impact there just around your loss mitigation programs? Did that have an impact on the actual amount that you had to reserve?

Philip Mayers - *Genworth MI Canada Inc. - SVP, CFO*

I think our loss mitigation programs have proven to be successful over the years and we didn't really see any year-over-year change in the effectiveness of our program. So I think that has not been a major driver of the first quarter results. I think largely it's been, as I mentioned, very strong performance out of Ontario and Pacific, and flat to improvement in Quebec. And that perhaps was one that we did not anticipate, and we're certainly hopeful that that continues throughout the year.

Graham Ryding - *TD Securities - Analyst*

So it sounds like it was more a dynamic among the actual claims that you paid out.

Philip Mayers - *Genworth MI Canada Inc. - SVP, CFO*

Yes, it's really driven more by new delinquencies net of cured and the fact that we have some favorable developments.

Graham Ryding - *TD Securities - Analyst*

And then when we think about your penetration rate, I think it's 55% in terms of workouts, is that evenly distributed across the provinces or would there be some variants? I'm thinking about the Alberta market in particular.

Philip Mayers - *Genworth MI Canada Inc. - SVP, CFO*

I think in most markets we're in a pretty tight range, somewhere in that 50% to 60%. Largely speaking, we obviously focus on the markets where there's the highest potential to save dollars, so there's clearly a very strong focus on the Alberta market. And the team is doing a nice job in that market and the workout penetration is really tracking it, if not modestly above the national average.

Graham Ryding - *TD Securities - Analyst*

And maybe one last one, if I could, just on your outlook for the investment yield. Given where the forecast is for bond yields and stuff, where should we expect your investment yield to bottom out at?

Philip Mayers - *Genworth MI Canada Inc. - SVP, CFO*

I think the good news is this year our maturities are only about CAD350 million. And so therefore it's probably more manageable than it has been in the past where maturities were more in the range of CAD600 million.

Clearly our focus is still on investment grade fixed income. We're continuing to look at the preferred share market, we see some good value there in the relative risk return tradeoff. So we'll continue to make portfolio mix changes on the margin. Nothing wholesale, but clearly we're looking to maintain the yield somewhere around the 3.1 that it's at.

And hopefully over time -- we recently saw a move up in the five-year government of Canada. That certainly helps. But we'll continue to be very, I would say strategic in our decision making in that area. And obviously a small portion of preferred shares goes a long way because with dividend yields above 5% on an after-tax basis, that can largely offset the pressure that could come from low interest rates on the renewals.

Operator

Since there are no further questions, this concludes today's conference call. Thank you for your participation in the Genworth MI Canada Inc. 2016 first quarter earnings conference call. You may now disconnect.