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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 third-quarter earnings conference call. (Operator Instructions) I would like to remind everyone that this conference call is being recorded today.

I will now turn the conference call over to Mr. 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 third-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 statement and financial supplement 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 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 Levings - *Genworth MI Canada Inc. - President and CEO*

Thanks, Jon. Good morning, and thank you for joining our third-quarter earnings call. We are pleased with our strong business performance this quarter, particularly our loss ratio, which continues to develop in line with our expectations, as well as the strong momentum in premiums earned, driven by premium rate increases and larger recent books of business.

Over the quarter, we delivered net operating income of CAD93 million, up 1% over the prior-year period. This generated an operating return on equity of 11% and diluted operating earnings per share of CAD1.02, up 2% over the prior-year period.

Premiums written totaled CAD223 million, down CAD37 million or 14% over the prior-year period. This was primarily due to targeted underwriting changes in select markets and a smaller transactional insurance market size, partially offset by a higher average premium rate from the June 2015 increase. First-time homebuyers have been feeling increasing levels of affordability pressure over the past 12 to 18 months, particularly in the Greater Toronto and Vancouver markets, forcing them to buy further out in the suburbs or target more affordable property types such as condos.

I will cover the recent changes to mortgage insurance eligibility rules later in my prepared remarks. However, we believe these changes will put additional pressure on affordability in the short term. As highlighted during our second-quarter earnings call, we saw a decline in the demand for portfolio insurance post-implementation of the purpose test rules, effective July 1 of this year.

New insurance written from portfolio insurance was CAD6.5 billion, down CAD19.4 billion from the prior quarter and up CAD400 million over the prior-year period. These transactions continue to reflect very high-quality portfolios with lower loan-to-value mixes and higher average credit scores, as evidenced by the lower average premium rate compared to the prior year.

As previously noted, we are pleased with our loss ratio, which came in at 25%, up 4 points over the prior quarter. This result is in line with our expectations, driven largely by a build in the number of net new delinquencies from oil-producing regions.

We ended the third quarter with an MCT ratio of 236%, up 3 points over the prior quarter. While this level is moderately higher than our target range of 225% to 230%, we have been managing capital to a higher level in light of the new test under development by OSFI. As noted in our press release dated September 23, 2016, OSFI released their draft advisory requesting industry comments on the new capital framework.

The proposed framework, much of which we support, represents a fairly material departure from the current model. Phil will cover this topic in greater detail during his prepared remarks. However, I will note that, subject to business and market conditions, we expect to be fully compliant with the new framework upon its implementation on January 1, 2017.

Overall, our capital priorities remain focused on supporting our core business volumes and ordinary dividend. On that note, we are very pleased to announce a 5% increase in our ordinary dividend to CAD0.44 per common share, up CAD0.02 over the last quarterly dividend. This change represents the seventh consecutive increase in our ordinary dividend since becoming a public Company in 2009.

Our book value, at CAD39.01 per share, continues to grow, up 8% over the prior-year period, driven by ongoing stability.

Turning to the economy, it's clear that the macroeconomic and housing themes discussed in our second-quarter earnings call continue to evolve. Economic growth remains constrained, as evidenced by the Bank of Canada's recently lowered expectations for 2017. Oil prices remain pressured and appear to be ranged down between CAD40 and CAD50 per barrel, while housing markets continue to diverge. That said, the focus is now largely on the Greater Toronto market versus the rest of the country, given the early signs of a slowdown in the Vancouver market. This slowing trend may be somewhat exacerbated by the recently-announced mortgage rule changes.

Outside of the Greater Toronto and Vancouver area, housing markets are generally stable. As you know, on October 3, 2016, the Minister of Finance announced a number of mortgage insurance rule changes, including the requirement to use the posted five-year mortgage rate published by the Bank of Canada to determine borrower debt service ratios on all insured loans after October 17 this year.

Based on our initial assessment, we concluded that approximately one-third of the borrowers we've insured year-to-date would no longer qualify under the maximum debt service ratios, as noted in our press release dated October 4, 2016. In that release, we also suggested that a portion of those borrowers impacted would likely still purchase a house by altering their price level or increasing the amount of their downpayment.

Upon further analysis, we determined that approximately 30% of those borrowers impacted are within 2 points beyond the maximum debt service ratio, either gross debt, total debt, or both, and could potentially find a lower-price home. In addition, a little over half of the total impacted borrowers are constrained by their total debt service ratio alone. In our view, a number of those borrowers may be able restructure or consolidate their other debts to improve their total debt service ratio. As a result, we believe the transactional insurance market may decline by approximately 15% to 25% in 2017.

The Minister also noted certain changes to the low loan-to-value mortgage insurance rules, including the elimination of a number of mortgage products such as newly-originated refinances and single-unit investment loans. In our October 4 press release, we indicated that these changes would reduce the volume of our portfolio insurance by approximately 50% to 55%. However, based on further clarifications provided by the Department of Finance regarding the grandfathering of mortgages originated prior to November 30, we revised our estimate and now anticipate a 25% to 35% reduction compared to the normalized run rate after the July 1, 2016 regulatory changes or purpose test rules.

Clearly, these changes will impact the size of our transactional and portfolio insurance markets. However, as is seen with previous mortgage rule changes, borrowers gradually adapt, and the market tends to recover. As noted, borrowers may alter their behavior, purchasing lower-priced homes, making larger downpayments, or restructuring other debts to address total debt service ratio constraints.

In addition, these changes may drive some price softening as housing activity slows, gradually helping to ease some of the affordability pressure evident today. Furthermore, the changes made to the low loan-to-value market may create an opportunity for a private non-government-guaranteed entity, as the loans eliminated by the changes are generally good, prime loans, a risk profile we are comfortable with. To that end, we are currently exploring such an entity, as it would enable us to recapture a portion of the portfolio insurance market.

Finally, I'd also like to point out that the impact on premiums written from the smaller market size should be partially offset by any future premium rate increases in response to the higher capital requirements as previously discussed.

Overall, our transactional portfolio quality remains extremely high, with an average credit score of 752 year-to-date. While the government changes create a smaller market, the portfolio quality is likely to improve as a number of marginal borrowers are excluded from the mix. Our typical first-time homebuyer continues to be fiscally prudent, limited by income growth and qualifying criteria, which is largely why the median house price in our portfolio remains well below the market average. Generally speaking, portfolio quality today is significantly improved over the 2007/2008 time period and should produce less performance volatility in a similar economic downturn.

On October 21, 2016, the Minister of Finance launched a consultation document to help determine the relative merit of modifying the distribution of risk in the housing finance system by requiring mortgage lenders to manage a modest portion of loan losses on insured mortgages that default. The comment period for this consultation ends on February 28, 2017.

While it's too early to comment on the potential impact of this process and its ultimate outcome, we have always been of the view that today's mortgage lenders are well-aligned with mortgage insurers in terms of risk management, underwriting quality, and document due diligence. We continue to see a high standard of underwriting from our lenders, and our portfolio performance supports this view. That said, we will participate in this consultation and are currently evaluating the various questions and proposals put forth by the government in the paper.

We ended the quarter with a total of 2,027 delinquencies outstanding, representing an increase of 312 delinquencies over the same quarter in the prior year, and an increase of 66 over the prior period. The year-over-year change was driven primarily by an increase of 360 delinquencies outstanding in Alberta, partially offset by decreases in Ontario, Quebec and British Columbia.

New delinquencies net of cures increased by 141 over the prior quarter, largely due to Alberta and to a lesser extent Quebec. While the Quebec region saw an increase quarter over quarter, the number was down from the same period in the prior year. We continue to view the Quebec market as generally improving, and expect to see this reflected in the region over the next few quarters.

We've been monitoring oil-exposed regions very closely over the past 18 months, and although oil prices have seen some stability since the beginning of the year, we recognize that these areas have sustained significant job losses. Since the end of 2014, the Alberta unemployment rate has increased 400 basis points to its current level of 8.5%.

While it took longer than we anticipated, we are seeing a build in new delinquencies from these regions. Third quarter new delinquencies net of cures in Alberta are up by 159 over the prior-year period and 109 over the prior quarter. We expect this trend to continue during the fourth quarter of this year and into 2017. We also expect house prices in Alberta to soften further, but still within our estimated range of approximately 5% to 10%.

That said, we remain optimistic that the outcome in Alberta will be less severe than what we saw in the 2007/2008 downturn, largely due to three important differences in the current cycle -- a significantly more conservative product suite, improvements in underwriting and fraud detection, and less housing overvaluation risk.

As a reminder, just over 30% of our peak losses in the 2007/2008 downturn were driven by products that the government eliminated in the years following the global financial crisis. In addition, housing values dropped materially during that cycle, as much as 20% for some property types in Calgary and Edmonton.

Improvements in underwriting include advances in property valuation routines, better fraud detection technology, and enhancements to our proprietary loan scoring model. The improvements are evident in our overall credit scores, our stable debt service ratios, and the very low level of early-term delinquencies. While we haven't taken any additional underwriting actions these past two quarters, we are comfortable with the quality of loans we've insured. The cumulative effect of past actions, together with a slower, more cautious housing market, has reduced our overall distribution of new business written in Alberta to approximately 17% year-to-date. We expect our new insurance written will stabilize around that level, with potential for modest growth over the next 12 to 18 months.

While we are maintaining our estimated loss ratio range of 25% to 35% for 2016, based on year-to-date results we expect to end the year with a full-year loss ratio in the lower half of this range. We will provide some early thoughts on our estimated range for the 2017 loss ratio at our annual Investor Day on December 7, 2016.

On an unrelated note, our major shareholder, Genworth Financial, recently announced that they've entered into a definitive agreement under which they will be acquired by China Oceanwide Holdings Group Company Limited, a family-owned international financial holding company. According to their October 23, 2016 press release on this matter, Genworth Financial intends to maintain its existing portfolio of businesses, including its mortgage insurance businesses in Canada and Australia.

The transaction is subject to approval by Genworth Financial stockholders and applicable regulators, including approval by the Minister of Finance under the Insurance Companies Act of Canada. We do not anticipate any change in our business strategy or day-to-day operations as a result of this announcement. Our management team and board of directors remain unchanged, and we are proud to serve our mortgage lenders as Canada's largest private residential mortgage insurance provider.

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

Phil Mayers - *Genworth MI Canada Inc. - SVP and CFO*

Thanks, Stuart, and good morning. Our financial results continue to be solid in a mixed economic climate. Overall, net operating income declined to CAD93 million, primarily due to the 4-point sequential increase in our loss ratio to 25%. This was partly offset by higher premiums earned.

Total premiums written were CAD223 million, down modestly sequentially. Premiums written from transactional insurance were CAD201 million, representing an increase of CAD30 million over the prior quarter due to a seasonally larger mortgage origination market and a modestly higher average premium rate.

As expected, we saw a significant decrease in premiums written from portfolio insurance after the implementation of the July 1, 2016 regulatory change which restricts the use of portfolio insurance by lenders. We achieved premiums written of CAD22 million and CAD6.5 billion of portfolio insurance. This compares to the CAD26 billion insured in the second quarter, prior to the regulatory change.

Premiums written grew by 10% year over year to CAD162 million. This growth reflects the higher level of premiums written in recent years, as evidenced by a 9% year-over-year increase in the unearned premiums reserve to CAD2.1 billion.

The continued pressure in the oil-producing regions was the principal driver behind our losses on claims of CAD41 million. New delinquencies net of cures increased by 141 sequentially, including an increase of 109 in Alberta, as Stuart noted. This was coupled with a modest 5% sequential increase in the average reserve for delinquency, reflective of the higher mix of Alberta delinquencies.

Looking forward to the coming quarters, we expect the elevated level of losses in Alberta to persist due to the ongoing macroeconomic pressure.

Our expense ratio was 20% on CAD33 million of total expenses and is consistent with the Company's expected operating range of 18% to 20%. Overall, underwriting income was CAD88 million, a sequential decrease of CAD7 million, as the increased losses on claims and expenses outweighed the higher level of premiums earned.

Our CAD6.2 billion investment portfolio contributed CAD44 million of interest and dividend income. This was flat sequentially as markedly higher invested assets offset the ongoing rate pressure.

In total, net operating income of CAD93 million generated an operating return on equity of 11% and a fully-diluted operating EPS of CAD1.02. Our diluted book value per share grew by 8% year over year and now stands at CAD39, inclusive of AOCI.

Our underwriting profits have been relatively consistent over the past five quarters, ranging between CAD88 million and CAD95 million. Generally, these results reflect a trend of increase in premiums earned, which has largely offset higher losses on claims.

Our loss ratio for the first 9 months in 2016 was 23%, and we expect that the full-year loss ratio will be in the lower half of our 25% to 35% range for 2016. This reflects the typical seasonal uptick in losses on claims in the fourth quarter.

In addition, we expect premiums earned in the coming quarters to be flat or markedly higher, driven by the stabilizing impact from our large unearned premiums reserve. Overall, we expect our solid underwriting profit to continue in the coming quarters.

Turning to investments, we manage our CAD6.2 billion portfolio with a focus on high-quality fixed-income investments, and maintaining or improving the portfolio yield over time. In 2016 we've offset the rate pressure by modestly increasing our allocation to investment grade preferred shares with attractive dividend yields. Sequentially, this has resulted in a relatively consistent portfolio yield of 3.2% and a portfolio duration of 3.8 years. Going forward, we will continue to actively manage the portfolio but do not anticipate any material shift in asset allocation.

With respect to capital management, our Minimum Capital Test, or MCT ratio, was approximately 236%, and we held CAD181 million of holding company cash and liquid investments. As well, as Stuart noted, we announced a CAD0.02 increase in our quarterly dividend to CAD0.44 per quarter. This puts us close to the top end of our targeted 35% to 45% dividend payout range. We feel comfortable with this level of ordinary dividends in light of our ongoing profitability, expected capital usage going forward, and existing capital flexibility.

We continue to operate with a strong MCT ratio to smoothly manage the transition to the new capital framework outlined in OSFI's draft advisory on Capital Requirements for Mortgage Insurers released in September. The proposed framework is more risk-sensitive and uses credit score, loan-to-value, remaining amortization, and outstanding loan balance to determine the total asset requirement for insurance risk.

The comment period with respect to the draft advisory ended on October 21, and the finalized advisory is expected to come into force on January 1, 2017. Under the new capital framework, the total asset requirement for insurance risk consists of a base requirement and a supplementary requirement. In turn, capital required for insurance risk will equal the total assets required less premium liabilities, consisting of unearned premium reserve and the reserve for incurred but not reported claims.

We favor this approach, given that it provides the appropriate pricing incentive. For example, an increase in the premium rate lowers the capital requirement, given that the total assets available to satisfy policyholder obligations remain the same. The base requirement applies to all insured mortgages, while the supplementary requirement only applies prospectively to mortgages insured after January 1, 2017 in cities where the regional house price to income ratio exceeds the OSFI-specified threshold. The metropolitan areas of Vancouver, Calgary, Edmonton and Toronto currently exceed their respective proposed threshold values by a significant margin, and will likely attract supplementary capital throughout 2017. These cities represent approximately 35% of our transactional new insurance written.

The new framework recalibrates the capital required at the current Holding Target of 220% to the OSFI Supervisory MCT Target of 150%. As a result, there is a meaningful difference between the MCT ratio under the new and old frameworks. For Genworth Canada, 1 MCT point under the current framework represents approximately CAD15 million, whereas under the new framework 1 MCT point represents approximately CAD25 million. Based on the draft advisory, we estimate that our pro forma MCT ratio was between 155% and 158% at September 30.

As part of the transition to the new framework, the draft advisory provides a phase-in period for the capital requirements in three areas -- legacy portfolio insured mortgages; legacy transactional insured mortgages with extended amortizations; and operational risk. The detail for the transitional provisions are outlined in our Management Discussion and Analysis.

As Stuart noted, we expect to be compliant with the new framework upon its implementation on January 1, 2017 subject to business and market conditions. Under the new framework, the base total asset requirement for insurance risk is substantially higher for loan-to-values less than or equal to 90% as compared to the equivalent total asset requirement under the current MCT.

The resulting higher level of required capital for both the base and supplementary requirements will likely result in premium rate increases in order to maintain appropriate returns on invested capital. In summary, despite several regulatory changes in 2016, our business model remains sound, with strong capitalization and a solid return profile. I'll now turn the call back to Stuart to conclude our prepared remarks.

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

Thanks, Phil. As we near the end of 2016, we remain focused on the following key areas -- active expense management; prudent underwriting targeting prime-quality first-time homebuyers purchasing homes below the market average and comfortably within our debt servicing guidelines; and proactive, industry-leading loss-mitigation efforts to reduce claim costs and avoid unnecessary foreclosures. We believe our prudent business model, with its high-quality insurance portfolio, stable revenue stream and conservative investment portfolio is well-positioned to withstand economic pressures. We remain confident that this model, together with the tailwinds from our strong level of unearned premiums, should position us well over the coming quarters.

Thanks for listening. That concludes our prepared remarks. We are ready to commence with Q&A, and I will now turn the call back to the operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Geoff Kwan, RBC Capital Markets.

Geoff Kwan - *RBC Capital Markets - Analyst*

Just had a couple of questions. The first one is just in relation to the changes announced by the Department of Finance. And just was wondering if you saw any spike in applications prior to the deadline, and if so, was it very material?

And then, secondly, just maybe any sort of general trends that you've seen since the announcement has happened, recognizing it's still early days.

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

Yes, Geoff. It's Stuart here. Thanks for the questions. Certainly, we did see a spike right before the actual cutoff date for the new qualifying rules, and there was a bit of a surge. And we typically do see that, as in past changes we saw the same thing. It doesn't really last, and it certainly has gone back to normal now. And I don't think I would say we've seen any additional changes in behavior since then. But, to your point, it's still pretty early on, so it will take some time to work its way through.

Geoff Kwan - *RBC Capital Markets - Analyst*

Okay. And just my second question -- I know you made some comments about the China Oceanwide deal. Just was curious if you've had any discussions with them, and also just in terms of approvals they need out of Canada -- I don't know if you're able to respond, but is it just with respect to OSFI and Competition Bureau or anything along those lines?

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

Yes. So, to your first point of your question, no, we have not spoken directly with them. It is, as you know, a transaction of our major shareholder. But as far as approvals are concerned, it would require essentially the Minister of Finance approval in Canada, which sort of goes through an OSFI application and with a recommendation to the Minister of Finance, and that's what would be required here.

Geoff Kwan - *RBC Capital Markets - Analyst*

Okay. Great. Thank you.

Operator

Paul Holden, CIBC.

Paul Holden - *CIBC World Markets - Analyst*

Given that regulatory capital requirements are going up January, when would you expect these potential rate increases to become effective?

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

Paul, the best answer would be January 1, but obviously it depends on how the industry responds. There are certain areas that we ourselves may lead in terms of pricing changes, and that would then be within our control and something we would see effective January 1. But there may also be other areas of pricing that are not as easy to lead. But certainly, we are of the view that the industry will respond rationally as they have in the past, again with capital changes, and therefore expect pricing to be responsive. I'm not sure it will be January 1 specifically; but early new year, it would be ideal.

Paul Holden - *CIBC World Markets - Analyst*

And I assume you would issue a press release if you were to go ahead with the rate increases then?

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

We haven't typically press released rate increases in the past. I think you will see it in the media generally, because it is certainly something that gets picked up and discussed. But we have not been of the practice of press releasing any changes in pricing ourselves. It'll be something we would discuss normally on the quarter. And I think, as I said, with the way the media is very focused on mortgage rule changes and mortgages in general, any change in pricing in the industry I suspect will be discussed in the media.

Paul Holden - *CIBC World Markets - Analyst*

Got it. Okay. And then, as we think about these higher capital requirements, and starting with high LTV, has there been any updated thoughts or estimates with respect to how much required capital could increase? You previously suggested for supplemental it could be an impact of 10% to 20%; and base, I'm not sure if you provided a number or not, but any updates there would be helpful.

Phil Mayers - *Genworth MI Canada Inc. - SVP and CFO*

Okay, Paul. Paul, it's Phil. I mean, in our slide deck, you do see that we do provide the one slide that includes the comparison of the total asset requirement between the old framework and the new framework, and from that you can effectively see, the outlined box demonstrates the amount of capital that would be required for an increase. But it's important to note any increase in the premium reduces the amount of the increase in the capital, because capital is really the equivalent of total asset requires minus premium liabilities, consisting primarily of unearned premiums.

I think the level of capital changes by loan-to-value. The good part is that the required capital is largely unchanged for a 95% loan-to-value, but the amount of capital increases as the loan-to-value decreases. So, I think, overall, we could see an increase in capital for new business, specifically in that range of 15%. But that's something that the guideline from OSFI has not finalized. There was a comment period. There is the potential for further adjustments to the capital model, and we won't be able -- won't be in a position until the final advisory's issued by OSFI to determine the final impact on capital.

I think the additional thing to note there is we've obviously prepared ourselves for contingencies, and our comment that we expect to be compliant is inclusive of any potential impact from these new regulations.

Paul Holden - *CIBC World Markets - Analyst*

Okay. And then, with respect to the portfolio insurance -- or really, I guess, low LTV in this case -- I know your prior graph on that had suggested that it might be 2 to 3 times higher in terms of capital requirements. Is that still the case?

Phil Mayers - *Genworth MI Canada Inc. - SVP and CFO*

That's still the case. I mean, we're still awaiting the finalized version. I think, certainly, we have made some commentary around that, around the total asset requirement. Our expectation would have been that it would have decreased more as the loan-to-value decreased, and that's certainly an ongoing topic of discussion within the industry and the regulator. So once again, we're waiting for the final guideline, but that is certainly something that has been a topic of discussion.

Paul Holden - *CIBC World Markets - Analyst*

And, I mean, you keep emphasizing waiting for the final guidelines. Is there anything particular in your commentary or from other industry participants that you're aware of, that would result in a material change to what's being proposed?

Phil Mayers - *Genworth MI Canada Inc. - SVP and CFO*

Well, I think we certainly have made representations and I think our representations are probably similar to those of other participants, and I think we're awaiting the response to those. Having said that, we're prepared to manage under the requirements as is. But, to your point, to the extent that capital for portfolio insurance increases 2 to 3 times, that clearly will be reflected in the price.

And back to Stuart's comment, portfolio insurance is one of those areas that is a risk-based pricing, but it's unique to each lender based on their portfolio characteristics, and that would be an area that we would be looking to move forward with price changes early in the new year.

Paul Holden - *CIBC World Markets - Analyst*

Okay. That kind of answers part of my next question I was going to ask, which is, can we use those kind of guidelines for higher capital requirements as to what price increases we might see for January? So, the answer on portfolio insurance is clearly yes. Is the answer on the transactional insurance the same? So, roughly a price increase of 15% or so?

Phil Mayers - *Genworth MI Canada Inc. - SVP and CFO*

I think that's a good proxy. I think the one thing to remember is that any increase in price reduces the required increase in capital, so there is a kind of a relationship between increase in price and the ultimate increase in required capital. But I think 15% is a reasonable proxy. It will vary by loan-to-value, based on the capital for that specific loan-to-value category.

Paul Holden - *CIBC World Markets - Analyst*

Okay. That's helpful, thank you. And then, Stuart, you mentioned potential opportunities in portfolio insurance through your private MI subsidiary. So, that's an interesting comment, and I don't think something we've seen in the past in the Canadian marketplace. So maybe can you elaborate just a little bit on how that might work in terms of private-type guarantees that you could provide to lenders?

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

Yes, Paul. What we're looking at here is, there is obviously now some demand for insurance on product that has been eliminated, in particular the low-ratio refinances. And that would be something that we were quite happy with the risk before; we would be happy to continue to insure that risk if we were able to do so. And that would be doable potentially in a non-government-guaranteed entity such as the one we have.

Obviously there's a couple of things we would need to think through in terms of overall market demand for that. We'd need to get it rated, and capitalized and rated. We'd need to get a couple of additional regulatory approvals in terms of being able to operate around the country. But it's something that we're evaluating and working on a business plan for right now. In the future, should risk-sharing come to play, it might be another area of opportunity in terms of helping lenders with the first loss, if that's the way the government goes, portion of such an arrangement.

Paul Holden - *CIBC World Markets - Analyst*

Okay. And any kind of ballpark figure on what percentage of total bulk insurance refinancing has accounted for historically?

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

It varies, again, by lender. I think overall, when you look at our assessment of the impact, we sort of talked about a 25% to 35% impact roughly. The majority of that would be refinances. There's very, very few investor loans, generally speaking. So, that gives you a good proxy of roughly how much it represents.

Paul Holden - *CIBC World Markets - Analyst*

Great. Thank you. That's all the questions I had.

Operator

Tom MacKinnon, BMO Capital Markets.

Tom MacKinnon - *BMO Capital Markets - Analyst*

I was looking at the pro forma MCT going up by 2 points quarter over quarter, and that translates into about CAD50 million in additional excess capital generated just in the quarter itself. Now, if we were to look forward and we assume that, say, you have increased capital requirements for new biz, but if you had a corresponding price increase to offset that, then how should we look at capital generation, especially given the fact that excess capital generation has accelerated generally when your origination volumes are slowing or declining? So, how should we look at that, given that you've kind of given this -- guided to reduction in transactional volumes for next year?

Phil Mayers - *Genworth MI Canada Inc. - SVP and CFO*

Yes. I think, Tom, that's a great point. I think you hit on many of the factors that impact on capital generation. One of the things that I would like to note is that, with the transitional provisions in place for legacy portfolio insurance as well as legacy extended amortization mortgages, the capital related to those two blocks of business that we hold as of December 31, 2016 is unlikely to decrease in 2017, and probably won't begin to decrease until the second half of 2018.

So, what that means is that you've got a segment of your business that, as your -- the book ages, the capital is remaining the same. And therefore that will change the capital generation pattern somewhat and will largely offset the benefit of writing a lower level of new business.

But having said that, we still expect earnings to be the key source of capital, and we will expect that over time you will continue to see an upward accretion in the MCT ratio. And I think with the MCT supervisory target of 150, clearly we will be setting an internal target, which we'll be doing as part of our overall own risk and solvency assessment, and thereafter we'll be operating above that. So, those are decisions that we're evaluating in light of the draft advisory and we'll be looking to finalize once the advisory itself is final.

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

Another point I would add to that, Tom, is to your question on the price increases, yes, we get those early on. But, of course, it takes a while for that to earn through into the equity which then becomes capital available. So, it's not an immediate offset to capital required.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay. And then, on your reduction in transactional, 15% to 25% for next year -- if the impact is really, someone able just to get a home, say, or get a mortgage 20% lower than what it is right now, and then they would qualify -- if every one of those third that are affected by that right now chose to do that, the math would suggest only about a 7% decline. So, in your math that gave this 15% to 25% decline, what were you assuming in terms of people who were not going to buy a home at all, then, that were qualified in 2016?

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

Yes. Tom, I mean, as we noted in our comments, there really is a degree of people that would be closer to the limit and those that would be right out at the max, if you will, and beyond. And in our assessment we didn't assume that everyone would be able to just find a cheaper property. To your point, if you were at the max before, you would now be looking for a 20% cheaper property. If you were already targeting a CAD300,000 property, that doesn't leave a lot of room for other options. So, we took a view that if you were within 2 points of beyond the max, you would probably only need to look for a property between 5% to 10% cheaper. And that we felt was more doable.

So we took perhaps a somewhat conservative view. There is definitely upside to our estimate. But we believe that those people have a greater chance of finding a cheaper property than those people who would look for as much of a 20% discount in the price.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay. And then one final point is, this isn't the first time that mortgage insurance rules have been tightened. We used to be able to get 40-year amorts. Now you can get them -- now they're down to 25. That is almost about the same kind of impact. But over those couple of years when we had that roll through, we really didn't see significant declines in terms of transactional business generated. Am I correct in that assessment? And why do you think it might be significantly different this time?

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

Well, you're correct in the sense that the market eventually recovers. And that's -- again, pretty much what we were saying here is that this impact of 15% to 25% is really our view for 2017. Beyond that, we do fully expect that borrowers will adapt and the overall market adapts, and you will see that recover again.

I think the one difference here, of course, is the 40 to 25 didn't happen overnight. It kind of stepped down five years each time a change was made. This one is an overnight change of roughly 220 basis points of additional shock, particularly on the high-ratio side now. And that will have a bit more of a prolonged effect in the market. But I fully agree with you that, long-run, we too would expect this will play out and eventually recover.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Yes. And if I could squeeze one more, this is all based on posted rates as posted by banks. So it's not a regulatory rate that comes from the government, right? The -- as a posted rate, [it's] --

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

That's correct. (Inaudible)

Tom MacKinnon - *BMO Capital Markets - Analyst*

[A survey] of all the banks. So, it's not something that the government regulates.

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

No. (Inaudible)

Tom MacKinnon - *BMO Capital Markets - Analyst*

So it's really in the banks' control here, as to what they're going to do with posted rates. Should -- would we think about that? Or is that a fair point?

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

Well, yes, I -- yes and no. I mean, I would say that right now, you're correct, it is the Bank of Canada's benchmark rate, which is the mode of the big banks' posted rate. That's the way it is today, and certainly that can be influenced by changes in the big bank rate. But it's not to say that the Bank of Canada could later decide to have their own rate which would be then disconnected, perhaps, from that rate. So, who knows where this goes in the future. I think for now that's the way it's set up and it could be influenced by changes [of] the big bank posted rate, yes.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay. Thanks.

Operator

(Operator Instructions) Graham Ryding, TD Securities.

Graham Ryding - *TD Securities - Analyst*

Just wanted to follow up on your comment about the opportunity perhaps on the private mortgage insurance side. My understanding is, portfolio insurance is used by a lot of non-bank lenders so that they can access CMHC securitization. So, is your assumption, when you say there could be opportunities to offer private portfolio insurance, that they find other financing channels outside of the CMHC?

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

Yes. Graham, obviously, what we're looking at here is a partnership, where this is something that would need to work with both those lenders and other parties that could help to facilitate a private securitization market. So, we are basically offering as an opportunity here to continue to insure those kinds of loans. It will be -- as I said earlier, part of our development of our business plan is assessing the level of demand. Is it economically feasible, even, to have a private securitization market? And that will take work from a number of parties, not just ourselves.

Graham Ryding - *TD Securities - Analyst*

Got it. That's helpful. The pro forma capital ratio that you've provided the last couple of months -- is it correct that that does not include any supplementary capital component?

Phil Mayers - *Genworth MI Canada Inc. - SVP and CFO*

That is correct. And the supplementary capital is applied prospectively, commencing on January 1, 2017. So, on our existing book of insured mortgages, there is no supplementary capital that will be required.

Graham Ryding - *TD Securities - Analyst*

And then, it starts in 2017. How many years is it realistic to think that it -- if it's on new insurance written that it applies, before really it gets fully embedded into your overall capital requirements? Is it sort of a three-, four-year process until it gets fully baked in?

Phil Mayers - *Genworth MI Canada Inc. - SVP and CFO*

Yes, I think it's three to four years before you get to a mature book that has the supplementary capital side to it. The other thing of note is that supplementary capital is dynamic in terms of the calculation of our specific markets above the OSFI-prescribed threshold. So it is potential that you could see markets being added to the supplementary capital, and you could see markets that no longer require it. Right now we estimate approximately 35% of our transactional business will be subject to supplementary, but that percentage could change, and that could then impact the timeframe over which you get to a mature state.

Graham Ryding - *TD Securities - Analyst*

Okay. And then your comment about roughly capital going up by 15%, that's -- am I interpreting that correctly that that's a fully-baked-in capital requirement in three to four years?

Phil Mayers - *Genworth MI Canada Inc. - SVP and CFO*

Well, that is really as it relates to new business. So, yes, on the overall book of business it will take some time before you see that full impact. But clearly, on new business, that's the common and new business relative to the existing standards.

Graham Ryding - *TD Securities - Analyst*

Okay. That's helpful. And then just one last one. The expense ratio ticked up slightly in the quarter. Is there any color behind what drove that?

Phil Mayers - *Genworth MI Canada Inc. - SVP and CFO*

Yes. I mean, we reassessed some of our assumptions around the accounted-for share-based compensation and we made a one-time adjustment to the remaining life assumption within that, and that drove a CAD2 million one-time item. So, that is really the color. I think outside of that our expenses continue to be relatively consistent.

Graham Ryding - *TD Securities - Analyst*

Thank you.

Operator

Since there are no further questions, I will turn the call back to Mr. Levings.

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

Thank you, and thanks again for joining us today. We do appreciate your time. As a reminder, we'll be hosting our 2016 Investor Day on December 7, where we will cover these topics along with a few others in greater detail. This concludes our third-quarter 2016 earnings call. Thank you for your participation, and you may now disconnect.