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

Thanks, Jon. Good morning, and thanks for joining our call. Today, I'm going to walk through some key financial highlights from our strong performance in 2016. Then I will share my perspectives on recent developments in our industry and the themes shaping our current environment and outlook for 2017. Phil will then discuss some of the highlights from our fourth-quarter results. I'll wrap up with a reminder of our key strategic priorities, as highlighted at our recent Investor Day.

Let me start by saying we are very pleased with our overall performance in 2016. For the year, we delivered net operating income of CAD388 million, up 3% over the prior year. This generated a solid return on equity of 11% and diluted operating earnings per share of CAD4.23, up 4% over 2015.

Net premiums written of CAD760 million were down 6% over the prior year. Our transactional business represented 82% of that total, or CAD619 million, down 12% over 2015. This was largely due to targeted underwriting actions in select markets, and a smaller transactional insurance market size, partially offset by a higher average premium rate from the June 2015 increase.

During the year, we saw significant growth in the portfolio insurance segment, generating CAD140 million in premiums written, up CAD37 million over the prior year. As discussed during the first half of 2016, there was strong demand for portfolio insurance ahead of the July 1, 2016 regulatory changes, or purpose test rules, as they're known. These transactions represent 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.

At 22%, our full-year loss ratio came in below our estimated range of 25% to 35%, and up one point from the prior year. This performance reflects the value of our high-quality insurance portfolio, together with the overall strength and resilience of the Canadian housing and labor markets, especially in oil-exposed regions. Phil will provide more detail when he discusses the drivers behind our fourth-quarter loss ratio.

We ended the year with an MCT ratio of 245%, up 8 points over the prior quarter. As noted on prior calls, we have been managing to a higher level of capital in light of the new OSFI capital framework, which was finalized on December 15 last year and came into effect January 1 this year. Under this new framework, the current holding target of 220% has been recalibrated to an OSFI supervisory target of 150%. The new framework is more risk-sensitive, and represents a fairly material departure from the old model, as evidenced by the recent premium rate increases announced on January 17.

Overall, we are pleased with the outcome of the pricing review, which fully reflects the new capital requirements. Phil will cover this topic in greater detail during his prepared remarks. However, I will note that based on our pro forma MCT ratio estimate as at December 31, we were fully compliant with the new framework upon its implementation on January 1, 2017. We will continue to work with OSFI to further refine a number of elements within the new framework, including capital required for low-loan-to-value mortgages.

Our capital priorities remain focused on supporting our core business volumes and the quarterly dividend. As noted on our third-quarter-of-2016 call, we increased our quarterly dividend to CAD0.44 per common share and paid a total of CAD1.70 per common share for the year, up CAD0.11 over the prior year. Our book value, at CAD39.28 per share, continues to grow, up 7% over the prior-year period, driven by ongoing profitability.

Looking back on our key accomplishments in 2016, we maintained a high quality of new insurance written, with very strong credit scores and a well-diversified portfolio. Our comprehensive risk appetite framework and rigorous underwriting approach helps to reduce performance volatility, and in favorable economic environments delivers very positive results, as evidenced by our 22% loss ratio for the year. Furthermore, our dynamic risk selection and pricing methodology made us the portfolio insurance market leader, where we capitalize on the opportunity to insure a number of high-quality, low-loan-to-value mortgages.

There are a number of key themes defining our current environment. On the economic front, we see cautious optimism as it relates to economic growth, with early signs of improvement in Alberta and positive momentum in Quebec. We recognize that the housing market remains somewhat trifurcated, with weakness in oil-producing regions, ongoing appreciation in the Greater Toronto area, and relative stability in the rest of the country. We're beginning to see signs of a much-needed slowdown in the Greater Vancouver region, where resales have slowed following the introduction of the foreign buyer tax. In our view, as affordability pressures persist, we could begin to see a moderation in price growth in the Greater Toronto region too.

Our industry has seen much change over the past year, from both the regulator and the federal government. As discussed during our third-quarter earnings call, we expect the government's mortgage rule changes to reduce the size of our transactional insurance market this year by approximately

15% to 25%, after accounting for changes in borrower behavior. This will, however, be partially offset by the recently announced premium rate increase. The increase will add approximately 40 basis points to our average premium rate for 2017 compared to the prior year.

As discussed last year, further changes are being considered by the federal government in the form of a potential risk-sharing arrangement, whereby lenders would share in a portion of mortgage default losses. We are in the process of preparing a comprehensive written response to the government's request for comment. As we have previously stated, we do not believe a risk-sharing structure would represent an improvement in the Canadian mortgage finance system, one of the most admired in the world today.

Turning to portfolio quality and performance, we continue to focus on regional risk dispersion and high-quality loans, driving down exposure to borrowers with low credit scores. This increased our average credit score to a new high of 751 in 2016. In addition, home price appreciation in our statement remains more muted compared to the overall market, reflecting the reality of a constrained first-time buyer.

While the mortgage debt service ratio is often quoted as a measure of concern, we believe one metric alone does not provide a comprehensive view of the underlying risk. We monitor the level of stacked risk factors in our portfolio, defined as loans with a 5% down payment, a credit score below 660, and total debt service ratio greater than 40%. This measure has trended downwards over the past number of years and represented less than a percent of our 2016 new insurance written.

On the outstanding delinquency front, we saw an increase of 241 over the prior year. This increase was largely driven by pressure in Alberta, which saw an increase of 306 delinquencies, slightly below our initial expectations given the economic conditions in this region. This increase was partially offset by continued strength in BC, Ontario, and improvements in Quebec.

As noted on prior calls, we believe we are well-positioned to manage through economic pressure in oil-exposed regions, largely due to product improvement and our dynamic approach to risk management, whereby we constantly adjust our risk appetite and underwriting guidelines based on prevailing economic conditions. While we continue to make prudent adjustments as required, we are comfortable with the quality of the new business we're writing, and remain committed to our customers across Canada and to supporting access to responsible home ownership in all regions.

As noted at our recent Investor Day, based on our current market assumptions, we expect a full-year loss ratio range of 25% to 35% for 2017. This range reflects our expectation of continued pressure from oil-exposed regions together with some normalization of losses in Ontario and BC in response to slowing housing markets. As usual, we will continue to refine and communicate this range as new market data emerges.

At this point I will turn the call over to Phil for a more detailed review of our fourth-quarter results before wrapping up and going to Q&A.

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

Thanks, Stuart, and good morning. We ended 2016 with strong fourth-quarter net operating income of CAD105 million. This was higher by CAD12 million quarter over quarter, primarily due to lower losses on claims and higher premiums earned.

Total premiums written declined in the quarter by CAD51 million to CAD171 million, due to seasonally lower transactional volumes. Of this total, transactional insurance contributed CAD149 million on just over CAD5 billion of new insurance written. The average transactional premium rate was flat sequentially at 292 basis points.

Premiums written from portfolio insurance were flat sequentially at CAD22 million on approximately CAD5 billion of new insurance written. Quarter over quarter, new insurance written declined by CAD1.6 billion due to the timing of lender demand, and this was offset by an increase in the average premium rate, reflecting a marginally higher average loan-to-value.

Premiums earned increased sequentially by CAD2 million to CAD164 million, and were up by CAD13 million versus the prior-year period. This growth trend, driven by higher level of premiums written in recent years, is expected to continue as the impact of the 2017 price increase will flow through to premiums earned in the coming years.

During the quarter, losses on claims were lower by CAD11 million sequentially at CAD29 million, and the resulting loss ratio was 18%. While we're encouraged by this low loss ratio, it includes some discrete favorable items, and this level may not be sustainable. While the number of reported new delinquencies net of cures increased in Quebec, Ontario and the Atlantic region, consistent with typical seasonality, the number of net new delinquencies in Alberta declined by 131. Consistent with the rebound in economic activity following the wildfires in the Fort McMurray area, we recorded 51 fewer new reported delinquencies and 80 more cures in the fourth quarter, after the third-quarter spike in the number of new reported delinquencies.

In the case of Quebec, new delinquencies net of cures increased modestly, as previously noted. However, the improved housing and economic conditions during 2016 led to favorable development from Quebec case reserves as we sold foreclosed properties for higher-than-expected values.

Expenses of CAD33 million were in line with the prior quarter and the resulting expense ratio of 20% remained consistent with management's expected range of 18% to 20%. Investment income from interest and dividends was relatively stable quarter to quarter, and was CAD46 million this quarter. The modest sequential increase primarily reflects the higher level of invested assets.

Overall, net operating income for the quarter of CAD105 million generated a solid operating return on equity of 12% and a fully diluted operating EPS of CAD1.14. We're pleased with both our full-year net operating income of CAD388 million and the resulting 7% year-over-year increase in book value per share, CAD39.28.

I now want to spend some time covering our key financial objectives for 2017. The key catalyst for our future business performance is the level and quality of our new insurance written. As Stuart noted, transactional insurance volumes may decline by 15% to 25% in 2017. However, the recently-announced premium rate increases will partially offset the impact on premiums written.

The transactional premium rate increases average approximately 18% to 20%, and will take effect on March 17. These price increases fully address the increased capital requirements under the new capital framework. As a result, we expect that the average premium rate for the calendar year 2017 should be between 330 to 335 basis points, an approximate 14% increase over the 293-basis-point average in 2016. The price increases range from 11% at the 95% loan-to-value level to 127% at the 75% loan-to-value.

It is important to note that the new pricing translates into a nominal CAD5 to CAD8 increase to the average monthly mortgage payment. Overall, these new premium rates adequately reflect the increased capital requirements and should allow us to earn our targeted return on equity of 13% or higher on new business. Furthermore, we believe that transactional pricing will evolve over time to include credit scores [and] pricing parameter, along with loan-to-value, similar to the prevailing practice in the US market. This would better align pricing to capital requirements and fundamental risk drivers.

Portfolio insurance is already being priced on the more granular risk-based approach. Overall, we expect the average premium rate for portfolio insurance to more than double for the full year 2017. That being the case, portfolio insurance volumes may decline by 25% to 35% in 2017 from the normalized annual run rate of around CAD15 billion prior to the latest round of regulatory changes.

There may be a one-time increase in portfolio insurance volumes in the first quarter of 2017, as we ended 2016 with a number of pending portfolio insurance applications which are expected to close in early 2017. If these transactions close, the average premium rate for portfolio insurance in the first quarter may be similar to that of the fourth-quarter average of 45 basis points, given that these pending transactions would attract regulatory capital similar to the 2016 MCT requirement.

Let's now look at underwriting performance. We continued to deliver a strong underwriting income in 2016 with a full-year loss ratio of 22% and a combined ratio of 41%. Quarterly underwriting income has ranged between CAD88 million and CAD103 million over the past five quarters, highlighted by quarter-over-quarter increases in premiums earned.

With over CAD2 billion of unearned premiums at the end of 2016, we have good visibility into premiums earned in 2017 and subsequent years. As a result, we expect 2017 premiums earned to increase modestly year over year after growing by 9% in 2016. At the same time, our targeted loss ratio range for 2017 is 25% to 35%, as Stuart noted. This reflects the potential for more modest home price appreciation nationally, and the continuance of an elevated level of new delinquencies in Alberta. Overall, we expect that underwriting performance will continue to be strong, underpinned by our strong insurance portfolio quality and generally stable economic conditions.

Our CAD6.2 billion investment portfolio offers a measure of stability to our income profile and contributed CAD176 million of pre-tax income in 2016. The investment portfolio continues to be of a high credit quality, and we expect modest growth of 3% to 5% in the average invested assets in 2017. This growth should lead to a modest increase in interest and dividend income, given our objective of maintaining the pre-tax equivalent book yield around the current level of 3.2%.

Our capital management plans continue to focus on balance and strength, flexibility, and efficiency. Our capital positions continue to be strong with our minimum capital test ratio improving sequentially by 8 points to 245%, compared to the 2016 MCT holding target ratio of 220%. In December, OSFI finalized the new capital framework for 2017, and the OSFI supervisory target and the revised government guaranteed minimum MCT are now both 150%. We actively participated with the regulator and others in evaluating the new framework, and the final advisory reflects several enhancements resulting from this consultation process.

Overall, this new standardized approach is more risk-sensitive and incorporates credit score, loan-to-value ratio, and the current outstanding balance. Also, it includes a requirement to hold additional capital on new business originated in certain cities when the ratio of regional house prices to national household income exceeds an OSFI-prescribed threshold. Currently, new insurance written in Vancouver, Victoria, Calgary, Edmonton and Toronto will attract this incremental capital.

Our capital levels are strong, and we have established a new internal target of 157% for 2017, after a comprehensive analysis of the new framework under a variety of scenarios. At December 31, 2016, we estimate our pro forma MCT under the new capital framework to be in the range of 158% to 162%. Going forward, we intend to operate in the normal course, modestly above the new internal target, in the range of 160% to 165%.

Another positive development is the increase in the government-guaranteed limit for the private sector participants. In December, the government increased the private-sector cap from CAD300 billion to CAD350 billion, while the public-sector cap remained flat at CAD600 billion.

In summary, the key financial objectives for 2017 are as follows. We expect a moderate decline in premiums written, driven by a smaller mortgage insurance market size for both transactional and portfolio insurance, partially offset by the favorable impact of premium rate increases. We expect premiums earned to be modestly higher due to the relatively large recent books of business. We estimate a 25% to 35% loss ratio range for the year. We anticipate that investment income should be modestly higher due to the modest growth in invested assets, and we intend to manage our capital to achieve an MCT ratio between 160% and 165% under the new framework.

In closing, our 2016 results confirm that our business model remains strong, and we started 2017 on a positive note with the announcement of the premium rate increases.

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

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

Thanks, Phil. I'd like to take a moment to revisit some of the themes and priorities we discussed during our annual Investor Day in December last year. In our view, we have a sound business model, operating in a supportive regulatory environment. Our diversified portfolio and strong risk management routines position us well to manage through variability in economic performance.

Looking ahead in 2017, our strategy remains focused on prudent risk management while continuing to meet the needs of our customers and first-time buyers, with a best-in-class customer experience. Our key strategic priorities are therefore as follows -- invest in process innovation to drive prudent market share expansion; continue to exercise dynamic risk management and proactive loss mitigation; leverage our data and wealth of mortgage experience to influence our regulatory environment; maintain an efficient capital structure to ensure capital strength while maximizing ROE; and explore our private mortgage insurance offering to address low ratio mortgage rule changes.

In summary, we believe execution on our priorities will preserve portfolio quality, drive solid underwriting results within our expected loss ratio range, producing another year of strong profitability in 2017. Thanks for listening. That concludes our prepared remarks. I will now turn the call back to the operator to commence with Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). As a reminder, the conference is being recorded for replay purposes. (Operator Instructions) Geoffrey Dunn, Dowling & Partners.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Phil, can you quantify the effect of the favorable development on the Quebec case reserves this quarter?

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

Certainly, Geoff. I mean, when we look at Quebec, we saw a couple of things there. We saw a lower average reserve for delinquency, representing the improvement in the housing values in Quebec, and specifically as it relates to the REOs, or the real estate owned, we saw about a CAD3 million benefit.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay. And then, outside of that, have you changed your incidence assumptions on any of the geographic areas to any material extent?

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

No. We've maintained our similar assumptions. We continue to review housing markets and we do make adjustments for the trend of home price depreciation, so to the extent that we see a market decline, then we do sort of adjust our reserve to reflect that. But there were no material adjustments in the fourth quarter.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay. And with respect to Alberta, it sounds like you're getting a little bit of performance on the back end from cures. How much trend do you need to see before you adjust your roll rate assumption for the later-stage delinquencies there?

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

Well, certainly, we've seen a lot of volatility in Alberta through the course of 2016. We did see a spike in new delinquencies in the third quarter followed by the increased cures in the fourth quarter. So, I think it's really premature. I think we need to see a couple more quarters of stability before we any significant change in our assumptions regarding the delq to claim roll rates.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay. Great. thank you.

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

Geoff, if -- it's Stuart here. I would just add that basically, when you roll back those two discrete items, both the Quebec favorable development and the Alberta cures, losses in the fourth quarter were probably more or less in line with the third-quarter trend. The Quebec development is a sign of the strong market, and we'll certainly be able to build that into stronger valuations on properties going forwards.

The Alberta cures is probably not a trendable item. That's something that, we're going to see some volatility. And because people are running out of remedies, we actually expect to see ongoing delinquencies rising in that market through 2017 as a driver of losses in this year, and therefore the reason for our higher loss ratio guidance, in addition to, really and truly, some normalization in Ontario and BC, where we've seen extremely low losses on account of the very strong economies and housing markets in those provinces.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay. Thanks for that color.

Operator

Geoff Kwan, RBC Capital Markets.

Geoff Kwan - *RBC Capital Markets - Analyst*

I just have one question, and it's, I guess, maybe clarifying the comment you guys are making around your 2017 loss ratio guidances. If it turns out this year that Alberta, what we've seen recently isn't going to get really materially worse; if we see BC get a little bit worse; Ontario remain largely unchanged; and Quebec, you still get these positive impacts, would that suggest that your loss ratio guidances of 25% to 35% would -- or maybe, where the loss ratio would come out -- I'm not asking for an exact amount -- would that kind of suggest as it could be at the low end, or even potentially lower than what you've got there? I'm just trying to get a sense as to a different economic scenario.

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

Geoff, it's Stuart here. I would say we're going to absolutely update you on our guidance as we see the market evolve. So, at this point, as a reminder, our delinquency rate in Alberta is about double where it was a year ago at this point. That is certainly a reflection of the economy there and the unemployment levels. We don't think this is done. We don't think this has peaked. If we're wrong on that count and there is more strength and there is actually a flattening of losses in Alberta, then we will see that, likely through our first-quarter results, and we will certainly be looking at our loss ratio guidance and updating it based on that.

Geoff Kwan - *RBC Capital Markets - Analyst*

And -- yes, but I -- yes. No. I understand where you're coming from. But let's just say that that is actually what happens. Would that be a type of scenario where your loss ratio guidance might need to be revised down, or would that still be within the realm of what you're looking at?

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

I would say so, yes. Our confidence around the current loss ratio guidance is absolute. We believe that, if anything, there is opportunity for upside here in the sense that Alberta could perform better, as you're alluding to, and that would mean a revision downwards in that loss ratio guidance.

Geoff Kwan - *RBC Capital Markets - Analyst*

Okay. Perfect. That was what I was getting at. Thank you.

Operator

Tom MacKinnon, BMO Capital.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Just a couple of questions here. One is excess capital. Is there any excess of the capital at the holdco, and if you were to operate, say, at the midpoint of your 160% to 165%, where you think -- or operate at 160%, how much excess capital do you have over 157%?

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

Tom, it's Phil. At the holding company, we have CAD180 million of holding company cash. I think our general intention is to keep at least CAD100 million to CAD150 million. So, to the extent that you consider excess capital, we would say it's a fairly small amount. At the operating company, we do intend to operate with the MCT under the new framework somewhere in that 160% to 165% range. As you looked at our pro forma numbers at the end of December, it was around 158% to 162%. So, I mean, we're right about the bottom end of where we would expect to operate.

I think the one consideration we'll have to give through the course of 2017 is, the new capital framework does include transitional provisions, and as those transitional provisions unwind, new business will be attracting higher levels of capital than historic books of business have attracted. So, that will be a consideration we'll have to take into account as we look at our capital. I think it's premature at this point in time to declare any capital at the operating company as excess, but that will be an ongoing evaluation.

Tom MacKinnon - *BMO Capital Markets - Analyst*

And what is one point worth?

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

One point of MCT under the new framework is worth about CAD24 million to CAD25 million.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay. And then, as a follow-up question, just in terms of market share, do you have any idea as to what your market share might be in the transactional now? And with the cap being increased at private -- for the private market, and remaining flat at the public market, is there an opportunity to move it higher?

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

Yes. Tom, it's Stuart. I think market share is around the 30% level. There is certainly opportunity for growth. We are cautious in this environment, as we should be, and we're not going to be aggressively pursuing growth. But as we mentioned in our Investor Day, we definitely see an opportunity to invest in some of our processes around risk selection, and certainly look to grow that market share prudently a couple of points this year and a couple of points next year. And that cap that was raised certainly gives us the room to do that, which I think is the positive news here.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Thanks very much.

Operator

Paul Holden, CIBC.

Paul Holden - *CIBC World Markets - Analyst*

A couple follow-up questions on the MCT discussion. I guess the first one is, when we start thinking about excess regulatory capital at the operating company level, should we be thinking about when MCT is over 165%? Is that how we should be benchmarking it?

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

I think that would be a fair way to assess it. I mean, to the extent that we're offering above 165%, that's well in excess of our internal target of 157% and above the level of appropriate buffer that we think to continue to manage for any potential volatility in the capital.

Paul Holden - *CIBC World Markets - Analyst*

Okay. Good. And then the MCT's been increasing at roughly 2 to 3 points per quarter under the new calc. Is that rate of change going to be somewhat slower now because certain types of business attract more capital?

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

I would say, generally speaking, that we would still expect earnings to contribute positively to the MCT growth. I think the other thing of note is that it really depends on the level of new insurance written, any particular quarter. We know from seasonality the first quarter tends to be lower levels of transactional business, and that will play a part in terms of what you see in terms of the [delta] quarter over quarter. But I think we still expect profitability to contribute positively to MCT growth.

Paul Holden - *CIBC World Markets - Analyst*

Okay. So, run rate shouldn't change all that much versus what we've seen over the last couple of quarters.

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

Maybe marginally lower, but still positive.

Paul Holden - *CIBC World Markets - Analyst*

Understand. Okay. And then, wondering if you can make any comments, slash, updated thoughts on the Vancouver market. Certainly, it's the market that's attracting the most attention now, because of the decline in volumes and very slight correction in prices; but wondering what you're seeing in your book, because I know you get pretty good visibility, I'd say two to three quarters ahead of when [delqs] actually transpire, so wondering if there's any warning signs you're seeing.

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

Paul, there's no warning signs that we're seeing at this time. I think it's fair to say, as we mentioned earlier, that there should be a generalization of an increase in delinquencies out of that market, given the market is slowing, and that's certainly what we took into account when we set our guidance. But there is definitely -- a slowdown that is necessary for that market is currently playing out, more in the high end, as you noted, than the rest of the market. But it will filter out through the rest of the market. We think that's healthy for that market overall, especially in terms of affordability for our buyers, the first-time homebuyers.

But at this time there's really no evidence of any early signs of stress or increase in delinquencies. I suspect that will take some time to develop. And again, we're not expecting a stress scenario there. We're expecting more of a normalization of losses in that area.

Paul Holden - *CIBC World Markets - Analyst*

Okay. And then, in terms of Quebec, based on the commentary you've provided, I mean, my sense would be, delinquencies there should be trending lower over the next year given an improved housing market, relatively stable economic growth, and unemployment. Is that the right view?

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

That is the right view. I mean, it will also level out at some point. We have seen a nice improvement this year. We've been expecting that improvement for some time. The economy there and the housing market there have certainly turned around, quite remarkably in fact, and that has driven delinquencies down. But that will level out some time in this year. But at least the trend is positive.

Paul Holden - *CIBC World Markets - Analyst*

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

Operator

Graham Ryding, TD Securities.

Graham Ryding - *TD Securities - Analyst*

Maybe I'll just quickly wrap up the capital discussion. Why do you provide a range of pro forma MCT and not a specific number at this point?

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

Yes. Graham, great question. I think as we move through the first quarter, when we officially report to OSFI, we will provide a point estimate. The process to determine capital under the new framework does involve collecting lender outstanding balances, and in that process there's still some continued work to firm up that process with lenders. And at the stage we're at today with that process, we felt it best to provide a range. But we certainly expect in the first quarter to provide a point estimate.

Graham Ryding - *TD Securities - Analyst*

Okay. Jumping to your premiums written on the transactional side of your business, when do you expect the fact that you're making these targeted underwriting changes -- I assume that's in your sort of Alberta energy provinces, you're deliberately doing less business -- when do you expect that not to be a factor in your year-over-year volume comparisons?

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

Graham, I would say, this year, we're not anticipating any large-scale underwriting actions. We're going to continue to tweak as we always do, and that's just part of the dynamic approach we take. But I would expect to see actually some positive premium written volume year over year, especially as it relates to Alberta, in 2017. I think there's still the issue that we talked about in terms of the overall pressure on the first-time buyer and the market size. But if you take that out, from an underwriting appetite point of view we're absolutely, I would say, optimistic -- cautiously optimistic about the Alberta market this year.

Graham Ryding - *TD Securities - Analyst*

Okay. And you did talk about market share, and how you're making some adjustments there to your processes. Can you quantify the impact on your transactional premiums written of what a couple basis points of -- or, sorry, a couple of percentage points of market share would translate to?

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

Yes. I mean, it depends on the size of the market, obviously, this year. I think if it was CAD60 billion last year, and we're talking it's going to come down anywhere from 15% to 25%. Let's say it's 50-ish. You're looking at, a point of that is, what, CAD5 million?

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

No, CAD0.5 billion.

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

Yes. Of NIW. And then premium on that.

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

Yes. One point of share would be around CAD0.5 billion of NIW. And with our average premium rate, which is just above 3%, you are talking somewhere in the range of CAD15 million of premium for every point of market share.

Graham Ryding - *TD Securities - Analyst*

Okay. So, it does move the needle.

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

It does.

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

Yes.

Graham Ryding - *TD Securities - Analyst*

And then, what would your loss ratio have been this quarter if you hadn't had the positive reserve development?

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

Like I was saying earlier, if you take out really the two sort of discrete items, it's more or less in the line of the 23%-ish, 24%-ish, similar to third quarter loss ratio.

Graham Ryding - *TD Securities - Analyst*

Got it. And then my last question -- just your expenses. They've moved higher. Your operating expenses moved higher this year, in just looking at the absolute number. Is that primarily share-based competition driving that, and what is your expectation for 2017?

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

It is primarily share-based. If you recall back in the early part of 2016, when oil hit CAD23, or CAD27, rather, our stock hit about CAD23. So, there has been a very strong upward movement in the share price over the course of 2016, which will drive share-based comp. At the same time, looking into 2017, we're not expecting as much movement on that. From an overall expense point of view, we are looking at expenses very closely, and managing to an expense ratio of 18% to 20%.

Graham Ryding - *TD Securities - Analyst*

Okay. So, there's no higher expenses due to increased workout activity or anything on the back end of your books?

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

No, not at this time.

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

Any cost related to workout activity goes through the losses on claims incurred line. So, the expenses that you're looking at are really production expenses in the overall management of the business.

Graham Ryding - *TD Securities - Analyst*

Okay. Thank you. That's good for me.

Operator

(Operator Instructions) Jamie Goin, National Bank Financial.

Jamie Goin - *National Bank Financial - Analyst*

The first question is related to portfolio insurance pricing. The forecast right now is for a 25% to 35% decline in portfolio insurance premiums written next year. Assuming that only includes or factors in the new mortgage rules that were announced on October 3, I was wondering if you could give some color as to what you're seeing from lenders' appetite for portfolio insurance, given the new pricing effective January 1, and whether the backlog that you'd noted to the end of Q4 2016 has any effect on that as well.

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

Jamie, it's really for -- our expectations are that the steady portfolio insurance, if you will, where we see from mortgage financing companies, should continue more or less, given consideration to those rule changes that would take out refinance, et cetera, unabated, because that's the business model and that's how they originate mortgages.

The big bank portfolio insurance certainly is going to be the one that will see a significant drop, barring the runover effect or spillover effect from the end of last year that Phil talked about. So, ultimately, it's still very early in this year for us to gauge any shift in demand beyond that, but that's our expectation right now, is that even though the price increase was very significant, there is still going to be a need to ensure a low ratio of business originated through mortgage finance companies, and then of course big bank portfolio insurance will drop off quite dramatically once you get past this spillover effect.

Jamie Goin - *National Bank Financial - Analyst*

Okay. And just related to the cure rates in Alberta, you mentioned that it's a little bit of a one-time item, I guess, maybe for Q4. Can you talk about, what were the tactics that were successful during Q4 in Alberta, and why they're -- they may dissipate into 2017 --

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

Yes. Well --

Jamie Goin - *National Bank Financial - Analyst*

Outside of just -- okay, go ahead.

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

No, Jamie, I think when we look at where the cures came from, 50% of the cures came from the Fort McMurray area. So, that really speaks to the economic disruption that that area experienced in the third quarter post the wildfires, and then as the economic activity rebounded. But I don't think it's specific to any new strategies or anything that has changed in terms of our loss mitigation approach, but I think is really driven by the fundamental drivers within the Fort McMurray area, and obviously the spillover to other sectors in the Alberta economy overall.

So, that's why we see it as a discrete item that's not trendable, because when you look at the locations where the cure has happened, they were concentrated in the Fort McMurray area over 50%, and then we know there's spillover economic benefit to other parts of Alberta that they would have felt the economic decline after the fires, and then therefore the rebound thereafter.

Jamie Goin - *National Bank Financial - Analyst*

Okay. Great. And just my last question, regarding the interest rate derivative transactions. I'm noticing quite a bit of a pickup on interest rate swap activity. Is this an active decision by you guys to hedge the interest rate risk, and I guess what are you thinking about that, and for your invested asset portfolio?

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

Yes. Jamie, I mean, we obviously have a large fixed income portfolio, and back at the end of 2015 we put in place a definitive strategy to hedge the interest rate risk associated with a certain portion of the book. As we looked in 2016, we saw a very attractive pricing for interest rate swaps and we layered in CAD2 billion. We believe it's a wise strategy, and we'll continue to build upon that strategy as we go into 2017. So, it's certainly a conscious effort on our part to reduce our net interest rate exposure.

Jamie Goin - *National Bank Financial - Analyst*

Great. thank you.

Operator

If there are no further questions, I'll turn the call back to Mr. Levings.

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

Thank you again, and thanks for joining us today. We do appreciate your time. This concludes our fourth-quarter 2016 earnings call. Thank you for your participation, and you may now disconnect.
