Genworth Canada

# Second Quarter 2017 Results

August 1st, 2017

# Forward-looking and non-IFRS statements

Public communications, including oral or written communications such as this document, relating to Genworth MI Canada Inc. (the “Company”, “Genworth Canada” or “MIC”) often contain certain forward-looking statements. These forward-looking statements include, but are not limited to, statements with respect to the implementation of changes introduced by the Government and the potential impact on new insurance written, as well as the Company’s future operating and financial results, sales expectations regarding premiums written, capital expenditure plans, dividend policy and the ability to execute on its future operating, investing and financial strategies, the Canadian housing market, and other statements that are not historical facts. These forward-looking statements may be identified by their use of words such as “may”, “would”, “could”, “will,” “intend”, “plan”, “anticipate”, “believe”, “seek”, “propose”, “estimate”, “expect”, and similar expressions. These statements are based on the Company’s current assumptions, including assumptions regarding economic, global, political, business, competitive, market and regulatory matters. These forward-looking statements are inherently subject to significant risks, uncertainties and changes in circumstances, many of which are beyond the ability of the Company to control or predict. The Company’s actual results may differ materially from those expressed or implied by such forward-looking statements, including as a result of changes in the facts underlying the Company’s assumptions, and the other risks described in the Company’s most recently issued Annual Information Form, Short Form Base Shelf Prospectus, and Management’s Discussion and Analysis and all documents incorporated by reference in such documents. Management’s current views regarding the Company’s financial outlook are stated as of the date hereof and may not be appropriate for other purposes. Other than as required by applicable laws, the Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

To supplement its financial statements, the Company uses select non-IFRS financial measures. Such non-IFRS financial measures include net operating income, operating earnings per common share (basic), operating earnings per common share (diluted), operating return on equity, insurance in-force, new insurance written, loss ratio, expense ratio, combined ratio, investment yield, and Minimum Capital Test (“MCT”). The Company believes that these non-IFRS financial measures provide meaningful supplemental information regarding its performance and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making. Non-IFRS measures do not have standardized meanings and are unlikely to be comparable to any similar measures presented by other companies. These measures are defined in the Company’s glossary, which is posted on the Company’s website at http://investor.genworthmicanada.ca. A reconciliation from non-IFRS financial measures to the most readily comparable measures calculated in accordance with IFRS, where applicable, can be found in the Company’s most recent Management’s Discussion and Analysis, which is posted on the Company’s website and is also available at www.sedar.com.

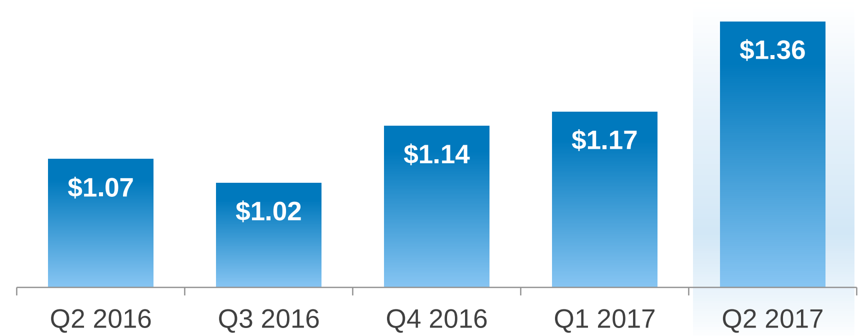
# 2Q17 financial results

| $MM except ROE, EPS & MCT | Q2 2017 | Q1 2017 | Q2 2016 | Q/Q | Y / Y |
|---|---|---|---|---|---|
| Premiums written | $170 | $127 | $249 | +33% | -32% |
| Loss ratio | 3% | 15% | 21% | -12 pts | -17 pts |
| Net Operating Income | $126 | $107 | $99 | +17% | +28% |
| Operating ROE | 14% | 12% | 12% | +2% | +2% |
| Operating EPS (dil.) | $1.36 | $1.17 | $1.07 | +17% | +27% |
| MCT ratio[1] | 167% | 162% | 233% | n.m. | n.m. |
| Internal MCT target (2017) / MCT holding target (2016) | 157% | 157% | 220% | n.m. | n.m. |

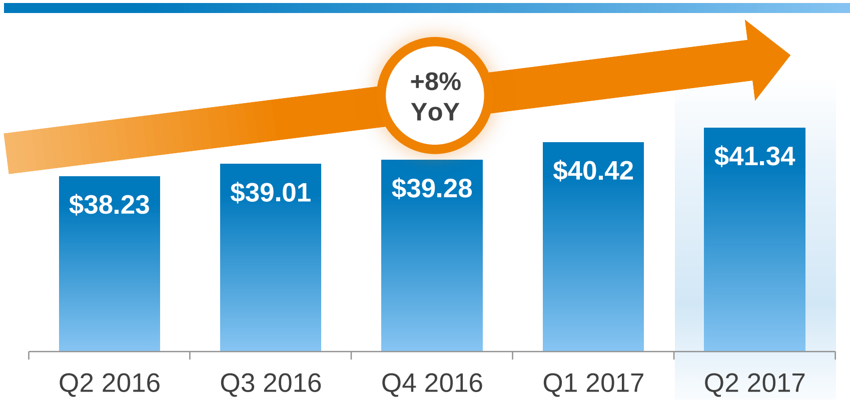
## Q2 key highlights

- Transactional premiums written of $161MM; lower by 5% Y/Y, 14% lower new insurance written, partly offset by 10% higher average premium rate
- Portfolio premiums written of $8MM; lower by 78% Q/Q after several large Q1 transactions and 2016 regulatory changes
- Loss ratio of 3% driven by lower new delinquencies net of cures across all regions and favourable loss reserve development, reflecting macroeconomic tailwinds and strong housing markets
- Operating income up 17% Q/Q, driven by lower losses on claims and higher premiums earned
- Ongoing capital strength with MCT ratio of 167%[1]

## Operating EPS (diluted)




## Book Value Per Share (diluted, incl. AOCI)

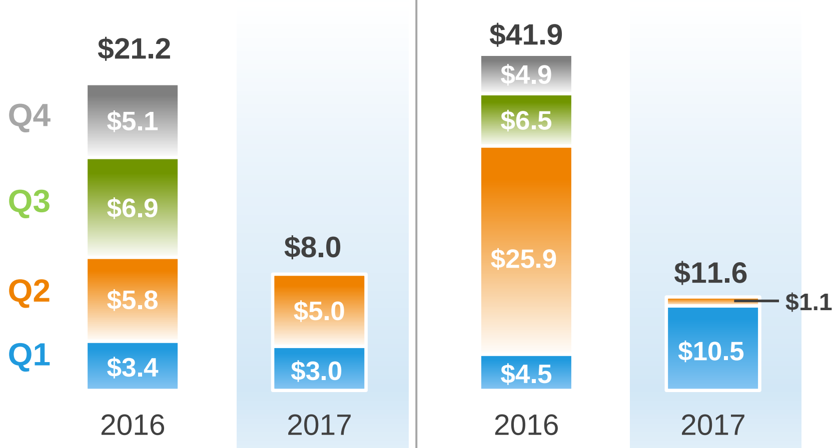



1. MCT ratio denotes the Company's estimate of the Minimum Capital Test ratio for operating insurance company. Effective Jan. 1, 2017, the holding target MCT of 220% was recalibrated to the OSFI Supervisory MCT ratio target of 150% and the minimum MCT ratio under PRMHIA was reduced to 150%.

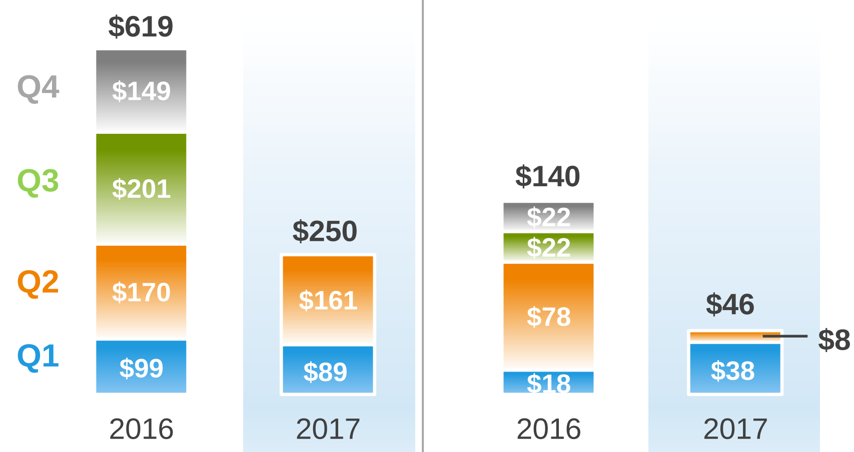
Note: Amounts may not total due to rounding.

# Top line

## New insurance written ($ billions)




## Premiums written ($ millions)




**Average premium rate** (Transactional)

| 2Q16 | 2Q17 |
|---|---|
| 2.95% | 3.23% |

**Average premium rate** (Portfolio)

| 2Q16 | 2Q17 |
|---|---|
| 0.30% | 0.76% |

## Transactional insurance highlights

- NIW decreased year-over-year, due to a smaller high LTV origination market resulting primarily from the mortgage rate stress test introduced in 4Q16
- 2017 annual volumes expected to decline 15%-25%
- Premium rate increase which took effect in March 2017 (increase averages 18% to 20% reflecting higher capital requirements), partly offsetting volume decline impact

## Portfolio insurance highlights

- NIW decreased Q/Q, driven by lower demand due to the Purpose Test rules, the elimination of refinance mortgages, and increased premium rates
- Expecting smaller portfolio insurance market for remainder of 2017 compared to 2016

Note: Company sources.
Note: Amounts may not total due to rounding.

# Our environment today

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| Risk | Assessment |
|---|---|
| Economic | |
| Housing | |
| Insurance Portfolio | |
| Regulatory | |

## Key takeaways

- Canada 2017 GDP projection revised to 2.8% (up from 2.6%)
- Oil producing regions showing modest improvement
- Overnight lending rate increased 25 bps to 0.75%

- Government changes have stabilized key housing markets in Ontario. Soft landing expected
- Housing risk in GVA continues to improve

- Portfolio quality remains strong
- Mortgage rate stress test has resulted in improved consumer debt profile in the insured segment

- OSFI proposes mortgage rate stress test in draft B20 guideline “Residential Mortgage Underwriting Practices and Procedures” related to uninsured mortgages
- New capital framework driving higher capital requirements offset by premium rate increases

**STABLE TO IMPROVING MACROECONOMIC ENVIRONMENT**

Denotes change from previous quarter

# Regional risk assessment

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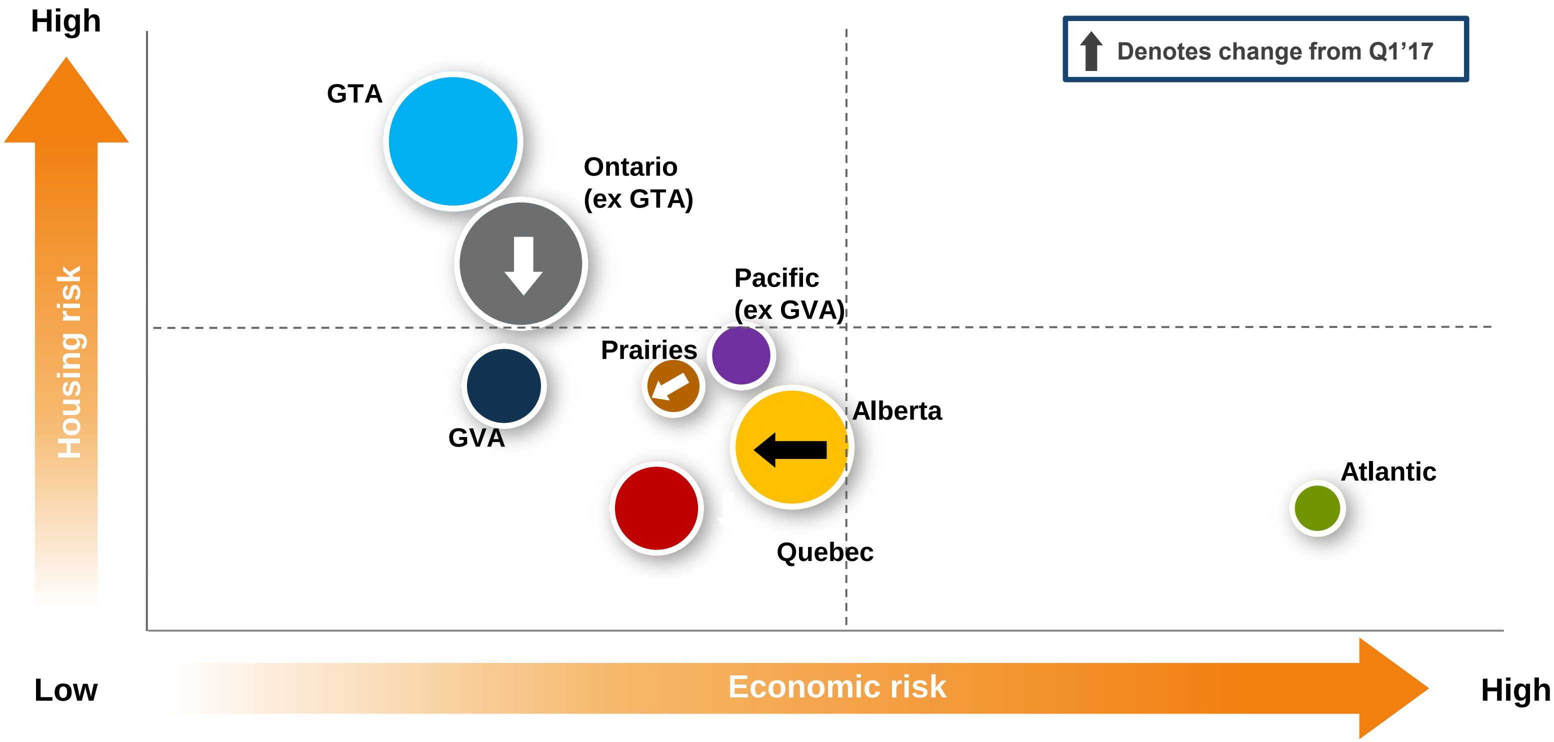



**Key Indicators**

- **Overvaluation**
- **Affordability**
- **Price-to-income**
- **Supply/ demand**

**Key Metrics**: GDP Forecast; UE Rate; Economic diversity

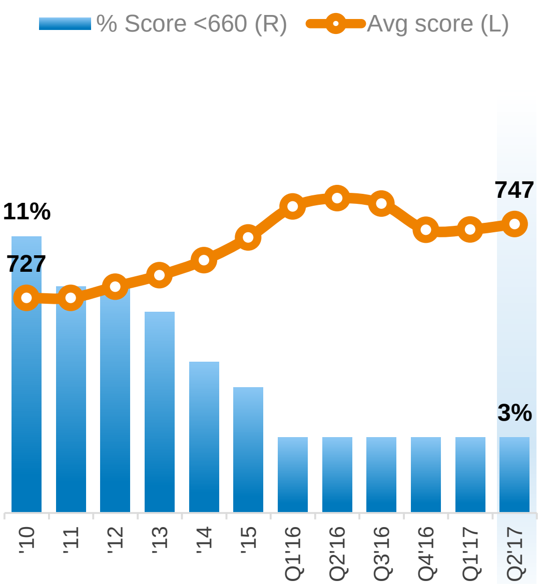
**Housing markets** in GTA & parts of Ontario starting to cool. Soft landing expected

Improving **economic forecast** for Alberta and Prairies regions

Note: Based on Company's estimates of housing and economic risk.

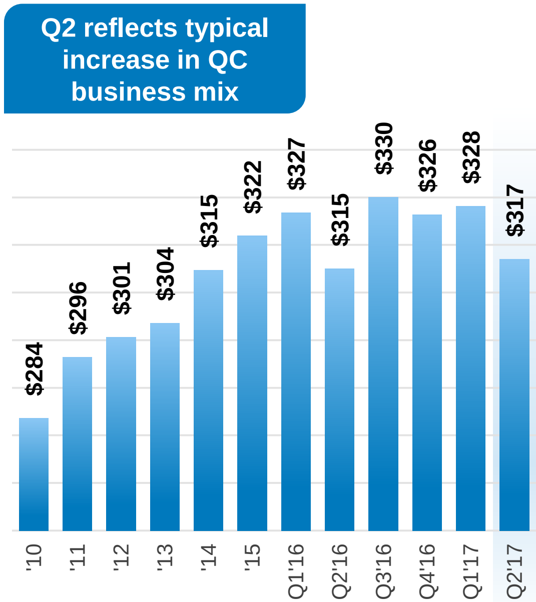
# Strong portfolio quality

## Credit score[1]

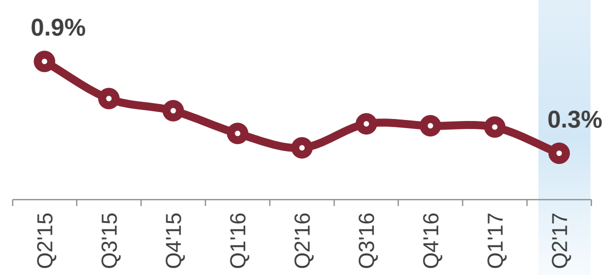



## Average home price[2]

(In '$000s)




## Stacked risk factors[3]




## Highlights

**Credit quality** remains very strong

**Relatively stable** average home prices for FTHBs given modest growth in household income

Limited exposure to loans with **stacked risk factors**

**CONTINUED PORTFOLIO QUALITY STRENGTH BODES WELL FOR FUTURE PERFORMANCE**

1 Company sources for transactional new insurance written. Average score for all borrowers.
2 Company sources for transactional new insurance written, Purchase only.
3 Stacked risk factors: Purchase only; 90%+ LTV and <= 660 credit score, and >40 TDSR.
4 FTHB represents First Time Homebuyers.

# Delinquency trends

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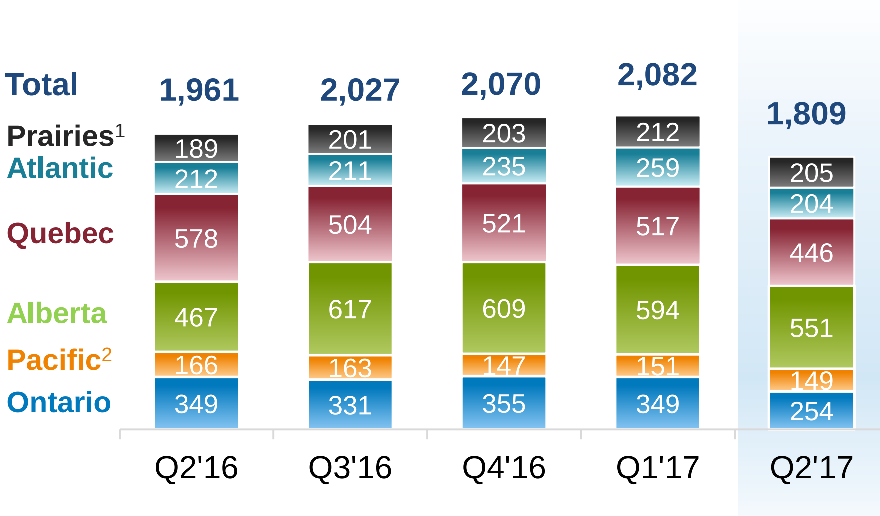
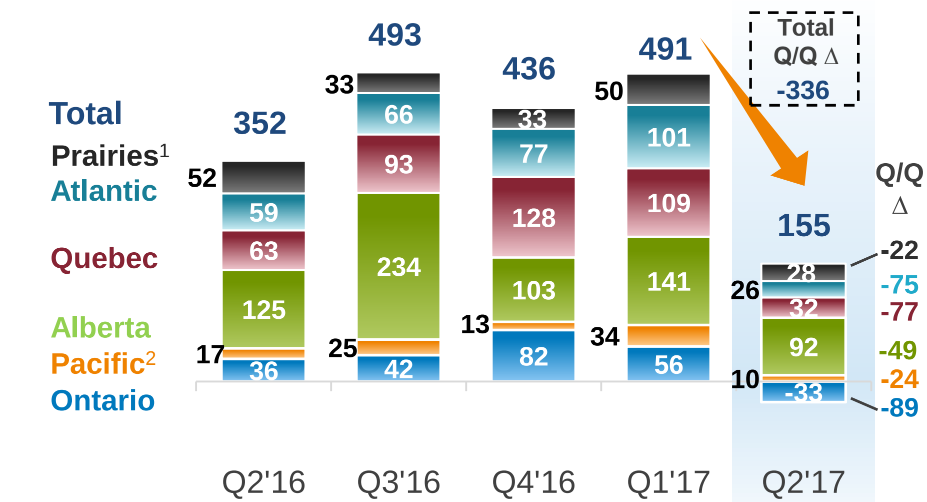
## Delinquencies outstanding




## New delinquencies, net of cures, by region




| Loss ratio | 21% | 25% | 18% | 15% | 3% |
|---|---|---|---|---|---|

**Delinquency rate based on reported outstanding balances[3]**

| | Q3'16 | Q4'16 | Q1'17 | Q2'17 |
|---|---|---|---|---|
| Transactional | 0.33% | 0.33% | 0.34% | 0.29% |
| Portfolio | 0.07% | 0.08% | 0.08% | 0.07% |
| **Total** | **0.21%** | **0.21%** | **0.21%** | **0.18%** |

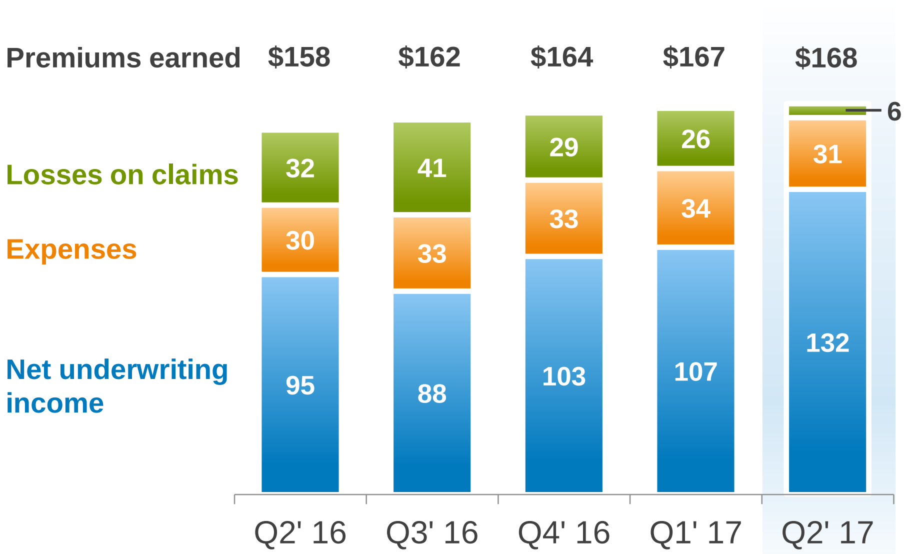
- **Lower net new delinquencies reflect decreases across all regions with most significant decreases in ON, AB, QC & Atlantic**
- **Strong loss ratio performance reflects favourable macroeconomic environment, lower unemployment, and relatively stable or higher home prices**

**GIVEN 9% LOSS RATIO FOR 1H17, REVISED 2017 FULL YEAR LOSS RATIO EXPECTED RANGE OF 15% - 25%**

Company sources. [1] Prairies include MB and SK. [2] Pacific includes B.C. and the Territories. [3] Delinquency rates are based on the Company's estimate of outstanding insured mortgage balances as at the end of the quarter and exclude delinquencies that have been incurred but not reported.

# Solid underwriting profitability

## Underwriting profitability ($ millions)




| | Q2' 16 | Q3' 16 | Q4' 16 | Q1' 17 | Q2' 17 |
|---|---|---|---|---|---|
| Loss ratio | 21% | 25% | 18% | 15% | 3% |
| Expense ratio | 19% | 20% | 20% | 20% | 18% |
| Combined ratio | 40% | 45% | 38% | 36% | 22% |
| Avg. reserve per delq. ($000s) | $75.4 | $79.5 | $79.0 | $75.6 | $73.7 |
| New delqs. net of cures | 352 | 493 | 436 | 491 | 155 |

## Highlights

- Continued trend of Q/Q growth in premiums earned driven by higher level of premiums written in last several years; modest Y/Y increase in premiums earned expected for 2017

| Quarterly Snapshot | Q2'17 Y/Y Teranet HPI | Q2'17 Q/Q Teranet HPI | Q2'17 UE Rate | Q2'16 UE Rate |
|---|---|---|---|---|
| TOR | 28.1% | 8.3% | 6.7% | 6.7% |
| VAN | 8.6% | 2.7% | 5.1% | 5.3% |
| MTL | 2.1% | 1.6% | 6.5% | 7.8% |
| CGY | 1.2% | 0.1% | 9.2% | 8.7% |

- Q2 loss ratio of 3% driven primarily by:
  - 336 lower new delinquencies, net of cures
  - 3% lower average reserve per delinquency
  - $31MM favourable 2Q17 loss reserve development primarily from Incurred But Not Reported (IBNR)
- 2017 full year loss ratio expected range revised lower to 15% to 25%

Company sources. Amounts may not total, due to rounding. Market data: Teranet and Statistics Canada.
* Based on the average of the quarters

# Strong financial performance

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| *$MM except EPS & BVPS* | Q2'17 | Q1'17 | Q2'16 |
|---|---|---|---|
| Transactional premiums written | $161 | $89 | $170 |
| Portfolio premiums written | 8 | 38 | 78 |
| **Total premiums written** | **$170** | **$127** | **$249** |
| Premiums earned | 168 | 167 | 158 |
| Losses on claims | (6) | (26) | (32) |
| Expenses | (31) | (34) | (30) |
| Underwriting income | $132 | $107 | $95 |
| Net investment income (excl. realized gains / losses) | 45 | 45 | 44 |
| **Net operating income** | **$126** | **$107** | **$99** |
| **Net income** | **$150** | **$106** | **$91** |
| **Operating EPS** (diluted) | **$1.36** | **$1.17** | **$1.07** |
| **Book value per share** (diluted, incl. AOCI) | **$41.34** | **$40.42** | **$38.23** |

## Q2 highlights

- Transactional premiums written lower by 5% Y/Y, due to lower NIW, partly offset by higher average premium rate
- Premiums earned increased Y/Y by 7% due to higher premiums written in recent years
- Loss ratio of 3%, down 12 pts Q/Q on lower new delinquencies, net of cures, and $31MM favourable IBNR reserve development
- Net investment income relatively unchanged Q/Q
- Net operating income up $18MM Q/Q primarily due to lower losses on claims and higher premiums earned
- Net income of $150MM includes unrealized gains of $30MM primarily from foreign exchange and interest rate derivatives
- Book value per share up 8% Y/Y to $41.34

Company sources. Note: Amounts may not total due to rounding.

# Investments contribute steady income

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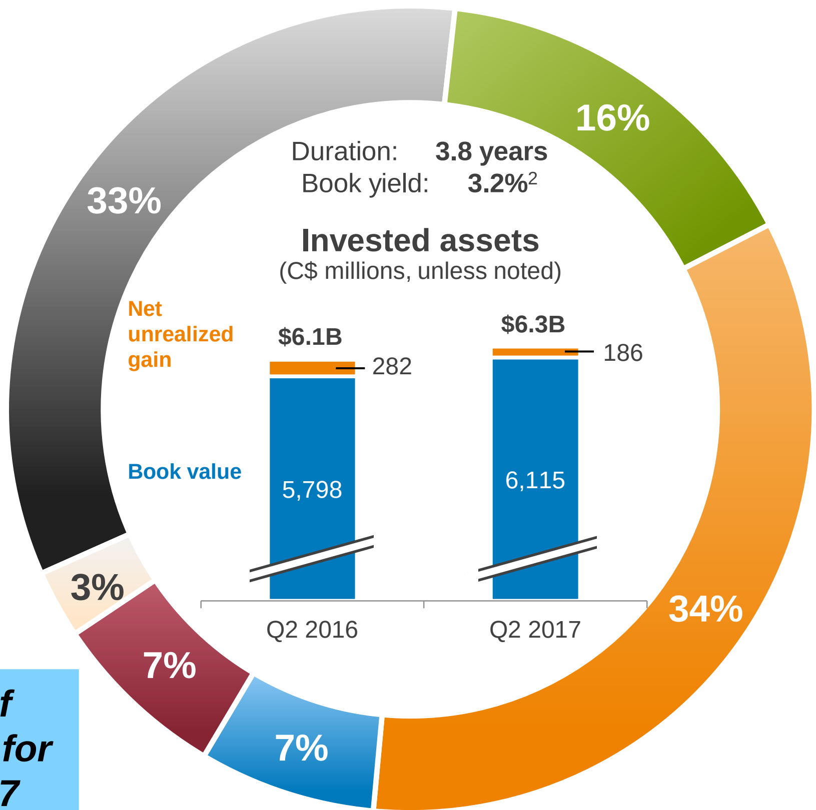
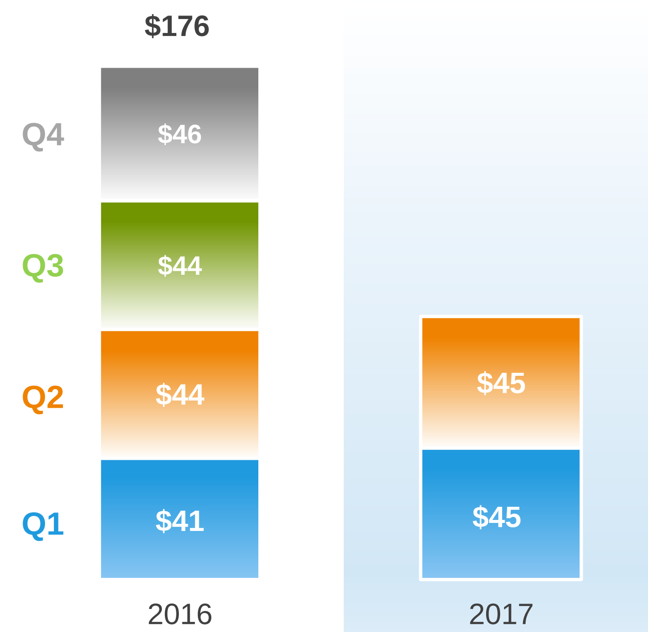
## Total Invested Assets ($6.3B portfolio[1])




***$359 million of bond maturities for the rest of 2017***

## Net Investment Income

(excluding realized/unrealized gains, $ millions)[6]



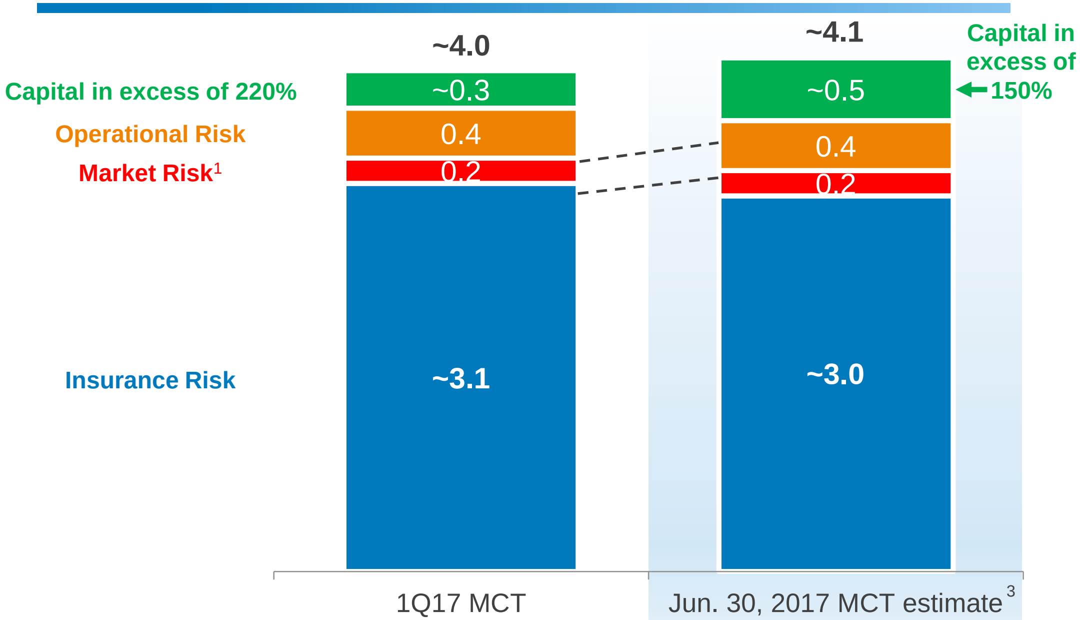

| Investment yield | |
|---|---|
| 3.2% | 3.2% |

**MAINTAINING FOCUS ON QUALITY IN LOW RATE ENVIRONMENT**

Note: Company sources.
1. Represents market value. 2. Investment yield represents pre-tax equivalent book yield after dividend gross-up of portfolio (as at Jun. 30th, 2017).
3. Market value, includes CLOs. 4. ~99% Investment grade. 5. Cash includes short-term investments. 6. Excludes realized and unrealized gains and losses.

# Capital management

## Regulatory capital as at June 30th, 2017
(by category, $ billions unless otherwise noted)




| | 1Q17 MCT | Jun. 30, 2017 MCT estimate[3] |
|---|---|---|
| MCT ratio | **162%** | **167%** |
| Internal MCT target | **157%** | **157%** |
| Holdco cash[2] | **$189 million** | **$188 million** |

## Highlights

**Strong capital position with MCT ratio of 167%**

- Reflects strong profitability and increase in interest rate swaps (fixed for floating) resulting in regulatory capital savings from hedging interest rate risk

**Normal course operating range of 160% to 165%**

**Continued focus on balancing capital strength and efficiency**

**DBRS confirmed ratings:**

- Operating company AA, stable trends
- Holding company A (High), stable trends

Note: Company sources. MCT denotes ratio for operating insurance company.
1. Market risk includes interest rate, credit, equity risk, and foreign exchange risk.
2. Represents liquid investments and cash held in addition to capital in operating insurance company
3. Jun. 30, 2017 MCT is the Company's estimate under the new capital framework that became effective January 1, 2017.

# Key takeaways

Genworth Canada

- Keen focus on **risk management**
- **Balanced approach** to writing new business
- Proactive **loss mitigation** programs
- Investing in our **customer experience strategy**

**Proven business model** has positioned MIC for **future performance**

Genworth Canada

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