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MIC.TO - Q3 2017 Genworth MI Canada Inc Earnings Call

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## NOVEMBER 03, 2017 / 1:00PM, MIC.TO - Q3 2017 Genworth MI Canada Inc Earnings Call

### CORPORATE PARTICIPANTS

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

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

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

### CONFERENCE CALL PARTICIPANTS

**Geoff Kwan** *RBC Capital Markets - Analyst*

**Jaeme Gloyn** *National Bank Financial - Analyst*

**Graham Ryding** *TD Securities - Analyst*

**Paul Holden** *CIBC World Markets - Analyst*

### PRESENTATION

#### Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Genworth MI Canada Inc. 2017 third-quarter earnings conference call. (Operator Instructions) I would like to remind everyone that this conference is being recorded today.

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

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

Thank you. Good morning, everyone, and thank you for joining Genworth Canada's third-quarter 2017 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](http://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?

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

Thanks, Jon. Good morning, everyone, and thanks for joining our call. We are pleased with this quarter's results as we continue to experience solid operating performance, reflecting our strong portfolio quality and premiums earned momentum.



## NOVEMBER 03, 2017 / 1:00PM, MIC.TO - Q3 2017 Genworth MI Canada Inc Earnings Call

As expected, our loss ratio has begun to normalize from the unsustainably low level in the prior quarter. This normalization is likely to be a gradual process as housing markets adjust to government actions and rising interest rates in a strong macroeconomic environment.

As part of our ongoing focus on prudent capital management, we increased our ordinary dividend by 7% and repurchased shares under our Normal Course Issuer Bid, highlighting the confidence we have in our business model.

For the quarter, we delivered net operating income of \$112 million, up 20% over the prior year and down 11% over the prior quarter. This generated an operating return on equity of 12% and diluted operating earnings per share of \$1.23.

These results reflect ongoing momentum from premiums earned, sound expense management, stable investment income, and the strength of our high-quality insurance portfolio, especially in a favorable economic environment.

Net premiums written totaled \$202 million, down 9% over the prior-year period. This includes a modest 3% decline in premiums written from transactional insurance. Consistent with the prior quarter, we saw a significant decline in portfolio insurance premiums, driven by regulatory changes introduced in 2016 and weaker demand in response to higher premium rates due to increased regulatory capital requirements.

Transactional insurance volumes declined 18% over the prior year, largely due to a smaller high loan to value origination market. This is mainly as a result of ongoing affordability pressure, driven by elevated house prices and the insured mortgage rate stress test introduced in 2016.

This decline was partially offset by the 18% increase in average premium rate from the March 2017 increase. We expect this volume trend to continue for the remainder of the year before gradually recovering in 2018 and beyond.

We ended the quarter with an estimated MCT ratio of 165%, in line with our desired operating range of 160% to 165%. Our capital priorities remain focused on supporting our core business volumes and ordinary dividends while seeking capital efficiency, as demonstrated by our \$40 million share buyback completed during the quarter.

Our book value at \$42.04 per share continues to grow, up 8% over the prior year, driven by ongoing profitability.

Turning to the economy, we are encouraged by the signs of strength in many regions of the country, and believe that the collective efforts of both the federal and provincial governments are leading to more balanced housing markets, particularly in the Greater Toronto and Vancouver areas.

Since the introduction of "Ontario's Fair Housing Plan" in April this year, sales in the Greater Golden Horseshoe market have slowed and supplies increased, leading to modest price declines month over month. We believe the current housing conditions in this region may lead to further price softening over the next 6 to 12 months. This should be positive for long-term affordability, particularly in our target market, the first-time homebuyers.

That said, it's still too soon to know with certainty what the full effect of the government changes will be and how quickly they will play out. This is especially true in light of the recent increase in mortgage interest rates, together with the potential impact from recently announced regulatory changes related to qualifying requirements for uninsured mortgages.

On October 17, 2017, OSFI released its final update to Guideline B-20, which sets out OSFI's expectations for prudent residential mortgage underwriting by all federally regulated financial institutions. Amongst others, the changes include a qualifying stress test for all uninsured mortgages using a rate that is the greater of the Bank of Canada benchmark rate and 200 basis points above the contract rate.

While the B-20 Guideline does not directly impact our Company, which is governed by OSFI's B-21 Guideline, we are mindful of the significance of these changes. In our view, the stress test on uninsured mortgages will likely dampen mortgage demand in this segment, as already evident in the high loan-to-value segment.

That said, we believe the impact will be less significant than we'd observed in the insured space, given the ability of lenders to be more flexible in terms of maximum debt service ratios and amortizations on uninsured loans. Nonetheless, based on some analysis of our portfolio insured loans



## NOVEMBER 03, 2017 / 1:00PM, MIC.TO - Q3 2017 Genworth MI Canada Inc Earnings Call

over an 18-month period, demand for uninsured mortgages may be impacted by 5% to 10%, further slowing housing markets, but improving long-term affordability.

Turning to our new originations, we see ongoing strength in the quality of our first-time homebuyers, as demonstrated by their credit and loan characteristics. Average credit scores in the third quarter remained high at 745, while borrowers with stacked risk factors remained fairly stable and within an acceptable range. The average home price remained largely unchanged versus the prior-year period at \$332,000, well below the market average, reflecting the mortgage capacity of our first-time buyer segment.

As we near the end of 2017, it is clear that mortgage credit performance has been far better than many in the industry, including ourselves, expected, a function of the rapidly improving macroeconomic trends and robust housing markets. As noted in my earlier comments, our loss ratio is beginning to normalize; however, this will take some time, given the strong economic environment.

Taking that into account, along with our 11% year-to-date loss ratio, we have revised our full-year estimated loss ratio range downwards to 10% to 20%, with a bias towards the lower half of the range.

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

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

Thanks, Stuart, and good morning. In terms of our financial performance, third-quarter results were strong, with Net Operating Income of \$112 million and Net Income of \$140 million. Net operating income was down sequentially by \$13 million, primarily due to higher losses and claims on higher expenses, partly offset by higher premiums earned. In addition, our net income benefited from the unrealized gains from our hedging program for interest rate risk.

As Stuart noted, our top line is evolving as expected with transactional insurance contributing \$195 million of premiums written on almost \$6 billion of new insurance written. This represents a \$5 million year-over-year decrease in premiums written as the impact of lower new insurance written was partly offset by an 18% higher average premium rate of 346 basis points.

For portfolio insurance, premiums written decreased by \$2 million sequentially to \$6 million on over \$800 million of new insurance written. This reflects the lower demand that Stuart discussed. Overall, total premiums written increased sequentially by \$32 million to \$202 million, but were down by \$21 million year over year.

Premiums earned increased quarter over quarter by \$1 million to \$170 million and were up by \$8 million compared to the prior year's period. This growth reflects the higher level of premiums written in recent years.

For the quarter, losses on claims were higher sequentially by \$17 million at \$23 million, and the resulting loss ratio was 13% compared to 3% in the second quarter. This reflects the normalization in the number of new delinquencies, net of cures, and a lower level of favorable loss development. New delinquencies, net of cures of 337 were 182 higher quarter over quarter, primarily due to increases in Ontario, Quebec, and the Atlantic region.

Given the 11% loss ratio in the first 9 months of the year and considering the strong macroeconomic climate, as Stuart noted, we lowered our estimated loss range for 2017 to 10% to 20%, with a bias to the lower half of the ratio. This contemplates the potential for a seasonal increase in losses in the fourth quarter.

Expenses of \$34 million were modestly higher compared to the prior quarter. As a result, an expense ratio of 20% is consistent with management's expected range of 18% to 20%. Investment income from interest and dividends was \$45 million this quarter, largely unchanged from the prior quarter.



## NOVEMBER 03, 2017 / 1:00PM, MIC.TO - Q3 2017 Genworth MI Canada Inc Earnings Call

Overall, we reported fully diluted Operating EPS of \$1.23 and a solid operating return on equity of 12%. This brings our net operating income for the first 9 months of the year to \$345 million, both representing a year-over-year increase of 22%. We are pleased with these financial results and the resulting 8% year-over-year increase in the book value per share of \$42.04.

Turning to underwriting performance, we delivered strong underwriting income of \$113 million in the third quarter with a combined ratio of 33%. With over \$2 billion of unearned premiums at the end of the third quarter, we have good visibility into future premiums earned. Premiums earned have trended higher for the past three years and we expect modest growth going into the fourth quarter.

As noted earlier, we experienced favorable loss development again this quarter, driven largely by the impact of a lower number of cures on both our case reserves and the incurred but not reported reserve. The number of cures normalized from the elevated level in the second quarter, leading to favorable loss development of \$12 million this quarter as compared to \$32 million in the second quarter.

Loss reserves reflect our best estimate of the ultimate cost to settle claims based on prevailing economic condition plus a provision for adverse deviation. While our reserves include the impact of anticipated seasonality, any significant change in the pattern of delinquencies or cures can lead to loss development.

Overall, we believe that our underwriting performance has been and will continue to be underpinned by our strong insurance portfolio quality and generally stable economic conditions.

Turning to investments, the pre-tax equivalent book yield was 3.1% on our \$6.5 billion investment portfolio. The investment portfolio continues to give a high credit quality and our invested assets have grown by 3% year over year. Year to date, this growth has contributed to a modest increase in interest and dividend income of \$5 million to \$135 million.

At the end of the quarter, unrealized gains for investments and derivatives totaled \$165 million as the favorable mark-to-market on our interest rate swaps partially offset the impact of rising rates on our bond portfolio.

Starting in 2016, we implemented an economic hedging program using fixed-for-floating interest rate swaps to provide protection against interest rate risk. We currently hold \$3.5 billion of fixed-for-floating interest rate swaps, under which we pay an average fixed rate of 116 basis points and receive the 3-month floating rate, which is currently around 140 basis points.

As a result, if this favorable spread continues in the future, the swaps will contribute to operating investment income going forward. Overall, we believe that the portfolio is well positioned and we remain focused on investment quality.

Our capital position continues to be strong and we ended the second quarter with an estimated MCT ratio of 165% compared to our desired operating range of 160% to 165%. This capital level is approximately 8 points or \$200 million above our internal target of 157%.

In the quarter, we executed a share buyback of approximately \$40 million, and as well, we increased our quarterly dividend by 7% to \$0.47 per share. This puts us around the midpoint of our targeted dividend payout ratio of 35% to 45%. We feel comfortable with this level of ordinary dividends in light of our ongoing profitability, expected capital uses going forward, and existing capital flexibility.

The combination of a strong MCT ratio, holding company cash and short-term investments totaling \$158 million, and a \$200 million undrawn 5-year credit facility underscore our focus on balancing capital strength, flexibility, and efficiency.

Furthermore, we are pleased that during the quarter, Standard & Poor's affirmed our rating of A+ at the operating company level and BBB+ at the holding company with stable outlooks. These ratings recognize our strong competitive position, portfolio quality, capital and earnings profile, and financial flexibility.

In closing, our third-quarter results affirm that our business model remains solid. We are pleased with these results.



## NOVEMBER 03, 2017 / 1:00PM, MIC.TO - Q3 2017 Genworth MI Canada Inc Earnings Call

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. As noted on prior calls, the mortgage industry has experienced much change and disruption over the past 12 to 18 months and the impact continues to unfold. That said, in our view, homebuyers are adapting to these changes and markets should gradually return to more balanced conditions, with improved long-term affordability, especially in the Greater Toronto and Vancouver regions. This should bode well for a sustainable, healthy first-time homebuyer market over the long term.

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) Geoff Kwan, RBC Capital.

**Geoff Kwan** - *RBC Capital Markets - Analyst*

You talked about the impact of B-20 and what it might mean for the broader market in your MD&A. One of the things that's been tossed about is that it is going to see, at least on a short-term basis, some bringing forward of sales activity into Q4 ahead of that.

Can you talk about, even though it doesn't directly impact you, if you anecdotally have seen that type of evidence or any commentary you have around it?

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

Sure, Geoff. It's Stuart here. Good morning. Yes, we saw the same thing with the announcement of our stress test last year. Whenever you have this kind of change in the industry with an implementation date that's in the future, obviously there is a lot of rallying around that.

The industry definitely tries to get buyers to act if they were somewhat on the fence ahead of that because it will have an impact on their ability to qualify. So I think you will see some of that activity in the fourth quarter.

Clearly, as you noted, it doesn't really impact our business. But I think just anecdotally, the market will see a pickup in sales. And we already saw a pretty strong October here in the GTA area, and you might actually attribute some of that to just that very same concept.

**Geoff Kwan** - *RBC Capital Markets - Analyst*

Okay. And just my other question was you had increased your revolver from \$100 million to \$200 million. And then there was the disclosure from Genworth Financial last night about them assessing various options if the China Oceanwide deal doesn't go through.

Just wondering from your perspective what's the willingness and the consideration that you would have around potentially using some or even all of the revolver to buy back some of Genworth's shares, just to help them deal with their debt maturities. But also at the same time, recognize that in doing so, might reduce the risk of them pursuing other monetization efforts with respect to Genworth Canada that, at least in the short term, might not be necessarily positive for the share price.



## NOVEMBER 03, 2017 / 1:00PM, MIC.TO - Q3 2017 Genworth MI Canada Inc Earnings Call

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

Yes. I think, Geoff, there's certainly no reason why we couldn't use that line for something like that. I think it would obviously depend on Genworth's plans and their options around what they could do.

But to your question, there is absolutely no reason why we could not use some or all of that line to do that. Our general goal with that line was not to do that, precisely. It was set up just because we had an opportunity to take the \$100 million, extend it to \$200 million with a 5-year term, which is far more favorable for us. And for general purposes, it gives us more flexibility in terms of our capital and debt management. But should that opportunity arise, I think we would be willing and interested in doing so.

**Geoff Kwan** - RBC Capital Markets - Analyst

Okay, great. Thank you.

**Operator**

Jaeme Gloyn, National Bank Financial.

**Jaeme Gloyn** - National Bank Financial - Analyst

My first question is two parts, actually: geographic breakdown and then profitability follow-up. So in terms of the geographic breakdown, on page 15, 33% of new transactional volumes came from areas that I would call rapid home price appreciation that are breaching the SCRI thresholds.

And the markets that are breaching those thresholds make up about 70% of the dollar volume of home sales. So does this mean that most new business is underwritten in places like Ottawa, Montreal, or Atlantic Provinces, or maybe elsewhere? And then the follow-up is what is the difference in profitability between a policy underwritten in Ottawa versus Toronto, for example?

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

I think the reality is that as affordability has become more and more constrained for our sort of target market, both because of price appreciation but also because of the regulatory changes, we have seen less and less activity in the core centers of the GTA and the GVA.

And it doesn't necessarily mean you're going to see more actual buyers in the greater surrounding areas. And of course, areas like Ottawa, London, Ontario, obviously more further afield places like Atlantic Canada, the prairies, where they never had the same kind of price pressure, you are going to see more penetration of first-time buyers.

That is a natural evolution. And in some respects, it's a natural mitigant against the housing risk that we would have seen in the Toronto and Vancouver markets. It's a natural buffer for us.

The expectation as we look forward to that, as the markets are starting to slow and respond to some of these government actions, even though you've seen a bit of a tick-up in Toronto, we believe that it has to do with a) the pull forward and b) the fact that B-20's coming in will act as a different or an additional break again.

As the affordability improves, you will start to see more activity of buyers again in those markets. And that will reset some of that distribution around the country that we have seen in the past.



## NOVEMBER 03, 2017 / 1:00PM, MIC.TO - Q3 2017 Genworth MI Canada Inc Earnings Call

As to a profitability analysis, it really comes down to the severity of loss if there is in fact a claim. And we know from our experience, and you would have seen it in our numbers in the past, that when you have losses in more rural areas or smaller towns, you tend to have a higher severity.

I wouldn't consider Ottawa to be one of those examples. Between Ottawa and Toronto, you probably are going to have a fairly similar experience. But there's no doubt, if we had a claim from rural Atlantic Canada versus a claim in the downtown -- or let's not say the downtown, but in the Greater Toronto area, you are going to have a higher severity of loss in the rural area versus the Toronto area. So you would see less profitability there.

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

Jaeme, it's Phil. I think it is important to note that with a national premium, there is going to be cross-subsidization. That is just part of the business. So I think the geographic diversification that we currently have, we are very comfortable with that, that that allows us to achieve our profitability targets and our return targets, everything considered.

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**Jaeme Gloyn** - National Bank Financial - Analyst

Okay, great. And in terms of delinquencies -- so another two-parter here. New delinquencies quarter over quarter were flat, but cures were down. Can you just dive into what the drivers of lower cures were for the quarter versus prior periods?

And the second part would be in terms of long-term delinquency rates, given all the changes that we have in place from various levels of government, do you think we get a lower long-term run rate on delinquency rates relative to historical experiences?

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

I will take the first part of the question. In terms of the cure drivers, if you note, in the second quarter, we had an abnormally high level of cures. And when you break it down by the regions where we saw that cure activity, we saw substantial cure activity in places like Quebec, where you saw the improvement in the Montreal housing market, the improvement in the Quebec unemployment.

So you had, I would say, a one-time item that took place in the second quarter, where we had unusually high levels of cures in Quebec and to a certain extent in Alberta as well. I would say that as we moved into the third quarter, it was more a normalization.

So the level of cures that we saw in the third quarter are probably more representative of what you would expect on a going-forward basis. While the level of cures that we saw in the second quarter were abnormally high. And as well, you also saw as a net result of that the new delinquencies, net of cures were abnormally low in the second quarter.

So I would characterize the third quarter more as a more normal run rate, while the second quarter was abnormally high cure rate, low overall new delinquencies, net of cures.

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

And Jaeme, regarding the long-term delq rate, I would absolutely suggest that the new norm is a lower level of delinquencies. And that's really the outcome of all the changes we've seen. We have seen the product risk decrease through each and successive change that the regulatory authorities have made on this product.

And as a result, and we saw it in Alberta even in this last cycle, the volatility and the risk embedded in the portfolio of new originations has gone down. And that will translate in our view into a lower long-term delinquency rate.





## NOVEMBER 03, 2017 / 1:00PM, MIC.TO - Q3 2017 Genworth MI Canada Inc Earnings Call

**Jaeme Gloyn** - *National Bank Financial - Analyst*

Great, thanks. And just to quickly go back to the cure, was there a type of cure that was more successful in Q2 that drove that? Or is it just regional economic differences?

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

I think in the second quarter, we also saw a higher number of natural cures. So those are borrowers actually bringing the accounts current without any intervention. And I think that's just a reflection of the improvement in the overall economic conditions.

**Jaeme Gloyn** - *National Bank Financial - Analyst*

Okay, thank you.

**Operator**

Graham Ryding, TD Securities.

**Graham Ryding** - *TD Securities - Analyst*

Sticking to that theme, if I could, some people have concerns that they suggest you may be being too aggressive with your approach or your strategy around workouts. And that could be driving your low loss ratios. How do you respond to that? That position?

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

Graham, I think as Phil noted, there really is a mix of cures. There are a large number of natural cures, where given the strength of the housing markets, people literally might become delinquent because they encounter some bump in their financial path. But they literally sell their own home. And without any work or effort from us, they actually cure.

Where we do actually do a workout, we are very cognizant of the circumstances. We have been doing workouts for many years and we do a very full and thorough assessment of their financial circumstances.

And in many cases, if it's in a stressed economic environment, such as Alberta over the last little while, we actually choose more shortfall sales. Where versus trying to just put them back into their mortgage and hope that they stay current, we work with them to sell the home and reduce the impact of loss on both the borrower and ourselves.

So I think we are very confident in the way we have been doing our workouts, and our track record in that area is pretty strong. So as opposed to just throwing them at the wall and hoping that they stick and deferring something until later, we would say we are very confident in the nature and thoroughness of our workouts. And keep in mind again, the number of natural cures in the mix.

**Graham Ryding** - *TD Securities - Analyst*

That's helpful. Could you maybe give us a rough idea when you think of your cures what percentage would be natural versus owner-occupied sales versus other options that you would consider?

## NOVEMBER 03, 2017 / 1:00PM, MIC.TO - Q3 2017 Genworth MI Canada Inc Earnings Call

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

It would vary definitely by region. In the Greater Toronto market, the Greater Vancouver market, it's going to be a high proportion, probably north of 50% that are natural. In the areas like Alberta, of course, it's going to be a lot more our efforts than natural cures.

And I would say the vast majority are going to be our efforts, of which more than half again would be shortfall sales versus finding other solutions for those borrowers.

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**Graham Ryding** - *TD Securities - Analyst*

Okay, that's helpful. Then maybe one last one, if I could. Just Phil, how long do you expect these favorable loss developments to persist? It has been a theme this year and just wonder if you have any visibility or any feel for how that might play out?

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

I would say it's largely tied to the economic conditions and if we see a continuation of these stable and strong economic conditions. Because accounting standards and actuarial standards require us to provide a provision for adverse deviation, what we are finding is that our best estimate of loss is very close to what we are actually settling claims at.

So because we are providing for adverse development, adverse deviation from our central estimate, that is in itself a source of the favorable development. So to the extent the stable or improving economic conditions continue, one would expect favorable developments to persist. But certainly not at the level you saw in the second quarter, but more at a more normalized level.

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**Graham Ryding** - *TD Securities - Analyst*

And is this quarter a normalized level? Or is it still slightly elevated at \$12 million?

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

I would say this quarter is probably slightly elevated and you may see it tamp down. And the other thing to remember, in the fourth quarter, you are going to see a seasonal impact, as we typically see. So that typically might mean from your ability to sell real estate, some of the prices in areas as you move into the winter months may be a little softer. So I think you would expect development to be somewhat lower as we go into the fourth quarter.

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

I would add to that just that this sort of development is always going to be a function of the housing market cycle as well. And so as we see markets start to normalize more and you don't see the same level of house price appreciation, you can expect that level of development to taper down a little bit. We are still seeing and benefiting from good house price appreciation and particularly in the larger markets around the country.

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**Graham Ryding** - *TD Securities - Analyst*

Thank you.

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**Operator**

(Operator Instructions) Paul Holden, CIBC.



## NOVEMBER 03, 2017 / 1:00PM, MIC.TO - Q3 2017 Genworth MI Canada Inc Earnings Call

**Paul Holden** - *CIBC World Markets - Analyst*

Thank you, good morning. So just to continue that conversation on reserving, when I look at your average reserve per delinquent loan, it hasn't really changed much since the beginning of the year, despite the favorable reserve experience.

So is that just because you continue to build in that extra PFAD? Or are you just -- are you remaining overly conservative on your assumptions? Or is there a reason that delinquency per loan should -- or reserve per loan should be coming down?

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

I think, Paul, I mean, our reserving practices remain the same, where we do provide for that adverse deviation. So that part is consistent. At the same time, our reserves do reflect the update to housing values.

But the other thing that we are seeing in our mix of delinquencies is you are seeing a little bit of the shift in the mix of delinquencies as well. So if you think about Quebec representing a lower proportion, they have lower average loan amounts and therefore lower average reserves.

So as the mix moves around as well, that does play out in terms of the average reserve per delinquency. But our reserving practices do reflect the updated housing values, but it still also provides for that provision for adverse deviation.

**Paul Holden** - *CIBC World Markets - Analyst*

Okay, got it. And then second question is with respect to the share repurchases during the quarter. So I think prior conversations we've had on the conference call suggested that you wanted to be maybe overly conservative with capital allocation this year, just because of the changes in MCT calculation.

So you started repurchasing shares I think earlier than I would have expected. So maybe you can comment on that and how you view the prospect for share repurchases over the next 12 months.

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

Yes, Paul, basically the repurchase was an attempt at helping to make our capital more efficient. And really, this was holdco company capital excess that we were looking at. The actual operating company, which is where the MCT calculation is done, as you point out, there is still obviously some conservativeness on our part there.

And as we have alluded to in the past, we are still working through some revisions to the model with OSFI. And we are also still benefiting from some of their transitional arrangement that they provided when the new model was implemented in January this year.

So we kind of do feel like we need to get through some of that transitional period. We also need to get a little more clarity on how the revisions to the model, particularly around credit score updates, play out, which we expect to have in the next year. And at that point, we will be evaluating our capital position and whether or not there is excess capital which could then be used for a variety of sources.

Our core goal, as you know, is to use it for transactional insurance, to grow our core business. And we are still targeting market share improvements over the next couple of years. And that does absorb some of that capital. And then of course, we also still want to support and grow to the extent possible our ordinary dividend. But beyond that, we will continue to evaluate any excess capital and solutions or deployment options for that.

But what you saw in this quarter was really us saying we've got a little excess capital at the holding company. There was an opportunity to go into the market and buy back some of those shares, and that's what we did.



## NOVEMBER 03, 2017 / 1:00PM, MIC.TO - Q3 2017 Genworth MI Canada Inc Earnings Call

**Paul Holden** - CIBC World Markets - Analyst

Understand. When would you expect this MCT transition to be complete? You are referencing at some point next year. Any more granularity you can give us there? Like middle of the year, end of the year, beginning of the year?

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

It's more likely to be the next 12 to 18 months, actually, Paul. And it's not an insignificant aspect of the capital model as we transition out some of the older longer-term amortizations, etc. But I would say the next 12 to 18 months. It's declining over that period, so it will basically run out at some point in that 12 to 18 month period.

**Paul Holden** - CIBC World Markets - Analyst

Got it. That's helpful. 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 really do appreciate your time and questions. This concludes our third-quarter 2017 earnings call. As a reminder, we are hosting our annual Investor Day on December 6. Look forward to seeing you there. And thank you for your participation. This concludes our call.

**Operator**

Once again, this does conclude today's call. Thank you for your participation. You may now disconnect.

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