THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MIC.TO - Q1 2018 Genworth MI Canada Inc Earnings Call

EVENT DATE/TIME: MAY 02, 2018 / 2:00PM GMT

CORPORATE PARTICIPANTS

Jonathan A. Pinto *Genworth MI Canada Inc. - VP, IR*

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

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

CONFERENCE CALL PARTICIPANTS

Geoffrey Kwan *RBC Capital Markets, LLC, Research Division - Analyst*

Geoffrey Murray Dunn *Dowling & Partners Securities, LLC - Partner*

Graham Ryding *TD Securities Equity Research - Research Analyst of Financial Services*

Jaeme Gloyn *National Bank Financial, Inc., Research Division - Analyst*

Paul David Holden *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Tom MacKinnon *BMO Capital Markets Equity Research - MD*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Genworth MI Canada Incorporated 2018 First Quarter Earnings Conference Call. (Operator Instructions) I would like to remind everyone that this conference call is being recorded.

I will now turn the conference call over to Jonathan Pinto, Vice President-Investor Relations. Mr. Pinto, please go ahead, sir.

Jonathan A. Pinto - *Genworth MI Canada Inc. - VP, IR*

Thank you. Good morning everyone and thank you for joining Genworth Canada's first quarter 2018 earnings call. Leading today's call are Stuart Levings, our President and Chief Executive Officer and Philip Mayers, our Chief Financial Officer. We will start with our prepared remarks followed by an open question-and-answer session.

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

As a reminder, our presentation and discussion today contain a disclaimer on forward-looking statements and non-IFRS statements on disclosure. We note that our actual results may differ from statements that we make which are forward-looking. We advise you to read the cautionary note regarding these forward-looking statements. As well, some of the financial metrics presented on this call today are non-IFRS measures and as such do not have a standardized meaning and are unlikely to be comparable to similar measures by the other companies.

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

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

Thanks John, good morning, and thanks for joining our call. We are pleased with our solid performance this quarter, especially our loss ratio of 13% driven by the positive macroeconomic environment and stable housing markets. While the impact from improvements in the quality of our insurance portfolio over the past few years is very evident in our current results, we believe these improvements will also help to reduce performance volatility over a full economic cycle.

For the quarter, we delivered net operating income of $119 million, up 11% over the prior year period and down 2% over the prior quarter. This generated an operating return on equity of 12% and diluted operating earnings per share of $1.31. These results reflect ongoing momentum from our premiums earned together with a strong combined ratio.

As expected, our loss ratio continued to normalize from the low level we experienced in the prior year. As previously noted, this will be a gradual process as housing markets adjust to government actions and rising interest rates in a supportive economic climate. For now, given the slowing housing markets, we are maintaining our full year estimated loss ratio range of 15% to 25% with a bias towards the lower half of the range.

As part of our ongoing commitment to maintaining an efficient capital structure, we repurchased $50 million worth of shares during the quarter, further emphasizing the confidence we have in our business model. Net premiums written totaled a $115 million, down $12 million or 9% over the prior year period. This result includes a $20 million or 22% increase in premiums written from transactional insurance primarily due to the 18% higher average premium rate from the March, 2017 increase.

This increase was offset by a $32 million decline in portfolio insurance premiums, driven by weaker demand in response to higher premium rates due to increased regulatory capital requirement. For the quarter, new transactional insurance commitment volumes were down approximately 9% over the prior year as buyers reacted to the introduction of the mortgage rate stress test in January this year.

Although this stress test did not impact insured mortgage applicants who are already subject to a similar test introduced in October 2016, overall market sentiment turned more cautious in response to the change, as evidenced by the reduction in sales volumes year-over-year for the majority of the Canadian market.

That said, we did see a pull forward in transactional insurance application volumes in the fourth quarter of last year in anticipation of the change with the result that the slowdown this quarter was somewhat expected. We have begun to see an increase in application volumes as the spring market gets underway and expect buyers are beginning to take advantage of a calmer, more balanced housing market.

We believe the fundamental supporting first time homebuyers remain strong and expect the full year's transactional insurance volumes to be similar to that of 2017. We ended the quarter with an MCT ratio of 170%, 13 points above our internal target and above our desired operating range of a 160% to 165%. As noted on prior calls, we continue to generate excess capital as our older, larger books mature and the business generates strong earnings.

Consequently, our MCT ratio may remain elevated until we're no longer constrained by the transitional provisions under the OSFI capital framework, at which point more capital efficiency options become available. Our current capital priorities remain focused on supporting our core business volumes and ordinary dividend along with opportunistic deployment of available excess capital, as evidenced by the recent share buyback.

Our book value at $43.77 per share continues to grow, up 8% over the prior year driven by ongoing profitability. We remain very pleased with the quality we see in our new insurance written, the strong credit scores, and stable average home prices. Stacked risk factors remain low and well within our risk tolerance.

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

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

Thanks, Stuart, and good morning. Our first quarter net operating income of $119 million reflects the continuation of favorable business trends from 2017, namely, a high quality insurance portfolio seasoning in a generally positive economic environment. While net operating income was modestly lower sequentially, it was higher by $12 million year-over-year, primarily due to higher premiums earned, higher investment income, and lower losses on claims.

Premiums earned were flat sequentially at $171 million and were up by $4 million versus the prior year. This growth trend has been primarily driven by larger books of business in recent years.

During the quarter, losses on claims were higher sequentially by $7 million at $22 million, and the resulting loss ratio was 13%. A key driver of our low loss ratio was the improved economic conditions in Quebec and Alberta and the ongoing economic strength in Ontario and British Columbia.

New delinquencies net of cures increased 5% sequentially, as the seasonal increase in Quebec was partly offset by modest decreases in Ontario, Pacific and Atlantic region. In total, the number of outstanding delinquencies declined year-over-year by 17% led by significant decreases in Quebec and Alberta.

Expenses of $32 million were markedly down from the prior quarter and the resulting expense ratio of 19% remained consistent with management's expected range of 18% to 20%.Operating investment income was approximately $50 million, including a $4 million of realized income from our fixed-for-floating interest rate swaps used to interest rate risk. In total, this was largely unchanged from the fourth quarter.

Overall, we generated a solid operating return on equity of 12% and a fully diluted operating EPS of $1.31. We are pleased with our quarterly financial result and the resulting 8% year-over-year increase in book value per share to $43.77.

Turning to underwriting performance, we continued to deliver strong underwriting income in the first quarter with a combined ratio of 32%. Consistent with the trend over the past 5 quarters, we continue to expect premiums earned to be flat to modestly up in 2018, after growing by 6% in 2017. While we are encouraged by this quarter's low loss ratio of 13%, our analysis continues to support an expected loss ratio range for 2018 of 15% to 25%, albeit with a bias to the lower half of this range, as Stuart noted. In turn, we expect this will contribute to a continued trend of strong underwriting performance for 2018.

Turning to investments, our $6.3 billion investment portfolio continues to be of a high credit quality and we expect modest growth of 2% to 3% in average invested assets in 2018. In combination with a rising rate environment, these factors should lead to a modest increase in interest and dividend income and results in a relatively flat pre-tax equivalent book yield of around 3.2%. Another benefit of rising rate should be the positive contribution to operating investment income from more interest rate hedging program.

The $3.5 billion fixed-for-floating interest rate swaps currently reduced our regulatory capital for interest rate risk by over [$150 million] and contributes a further $100 million to available capital based on their current mark-to-market. As previously noted, these swaps could add approximately $18 million of realized income in 2018, based on the positive spread approximately 50 basis points in the floating rate and the fixed contract rate of 117 basis points. Overall, we expect moderately higher operating investment income in 2018.

Our capital position continues to be strong with our Minimum Capital Test ratio at 170%, 5 points above the top end of our operating range of 160% to 165%. With respect to the capital framework, OSFI is currently evaluating certain refinance for implementation in 2019. We expect further clarity on this in the second quarter and will provide an update once OSFI releases its position.

As Stuart noted, the transitional regulatory capital relief for legacy portfolio insurance and extended amortization mortgages have contributed to the buildup in our MCT ratio. At this time, we may not be able to redeploy capital from the insurance companies to the holding company beyond the current quarterly dividend paid by the insurance company of approximately $60 million per quarter. We expect the transitional benefits to substantially run-off in 2019, at which time we should have more options to right-size our capital level.

In the meantime, we are focused on striking the right balance between capital flexibility and capital efficiency. This may involve prudently using our holding company cash and liquid investments that currently stand at $126 million while maintaining flexibility through our $200 million undrawn credit facility.

For example, we recently used holding company cash to repurchase approximately 1.2 million common shares totaling $50 million. In closing, this share buyback and our first quarter results confirm that our business model remains strong.

And I'll turn the call back to Stuart to conclude our prepared remarks, Stuart?

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

Thanks, Phil. We remain very confident about the quality of our insurance portfolio both in terms of the credit characteristics as well as the thorough underlying process by which these loans were approved. As noted earlier in my comments, we believe this will reduce loss volatility in times of economic stress as evidenced by our results in Alberta these past 3 years.

As part of our ongoing strategy to maintain capital efficiency and consistent with the prior year, we once again took steps to renew our Normal Course Issuer Bid program. This allows us the flexibility to selectively purchase shares in the open market over the next 12 months.

Looking ahead in 2018, our strategy remains focused on prudent risk management, while investing in our leading-edge technology to drive a best-in-class customer service experience.

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) We'll go first to Geoff Kwan with RBC Capital Markets.

Geoffrey Kwan - *RBC Capital Markets, LLC, Research Division - Analyst*

My first question was, I know that B20 didn't directly impact your part of the business in terms of where you play, but I was wondering if you had any thoughts on what that did to kind of overall market activity from a new business on origination standpoint? And then also if there is any sort of nuance things that you're picking up in terms of the business that you were doing in terms of changes incrementally around borrower profiles, anything on a geographic basis that sort of thing?

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

Geoff, yes, it's Stuart here. Without a doubt, the B20 impact was quite significant in the market. I think when we look at some of the stats that came out from CREA and others, I would suggest that sales were down materially with price softening that followed. The point though that I would make into your question, our definite interpretation is that the impact was certainly less in the insured space. In other words, I mentioned in my comments that we were down 9% overall year-over-year as far as commitments is concerned and that definitely is lighter than what we saw in the market stat. So there is definitely a reality around the fact that this rule change did not impact insured buyers. Some were just reacting cautiously because they saw a lot of media coverage on market slowing, house prices slowing, buyers were obviously just more cautious. But without a doubt, the impact was more pronounced in the uninsured space than it was in our insured space. Geographically, I would say we saw more of an impact in Toronto, Vancouver markets, which you would expect that really mirrors the impact we saw when we had the stress test introduced for the insured buyer back in October of 2016. Other than that, on a borrow profile basis, no real change. And I think sometimes people forget that when the media talks about a reduction in affordability, it's really only the maximum mortgage that you could qualify for. Not everybody is buying at the maximum mortgage and that's always evident in our debt service ratio, so not everybody is impacted to the same extent.

Geoffrey Kwan - *RBC Capital Markets, LLC, Research Division - Analyst*

And then just the second question I had, obviously in the past 4 years, we've seen very, very significant increases in mortgage insurance pricing. I was just wondering if you've done any kind of math, so to speak, around -- if we were to have a, let's say, 1990s-ish type housing downturn, what the loss ratio back then versus what it might look today with the pricing differential, like how much might the loss ratio come down? Have you run any numbers to give some sensitivities?

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

We haven't done that specifically, but we do know what our current loss ratio would look like under a stress scenario. And in a sort of '90s type scenario, the loss ratio is really in that sort of 60%, 70% range. I would say, if you go back to the '90s, that same scenario would probably have you much closer to a 100% loss ratio. It's a terrible increase that we'd seen, yeah.

Operator

And we'll take our next question from Geoffrey Dunn with Dowling & Partners.

Geoffrey Murray Dunn - *Dowling & Partners Securities, LLC - Partner*

First, just a number question, what was the holding company cash balance at the end of the Q?

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

Geoff, it's Phil. It was a $126 million, but having said that, we did have interest payment due in the second quarter, so that number will likely come down in the second quarter based on just the semi-annual interest payments in our debt.

Geoffrey Murray Dunn - *Dowling & Partners Securities, LLC - Partner*

And then, somewhat along the line of the last question, with all the underwriting regulatory changes that have occurred in the market and as those play out. I know the normalized loss ratio expectations come down from several years ago, but does any of your analysis suggests that maybe even a 25% type of normalized level could be too high, meaning that as we think about normalization, we don't necessarily have as much distance to travel?

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

We would say, Geoff, that the range is now 20% to 25% from a pricing loss ratio point of view. And I think it's easy to forget when times are as good as they have been, it can easily go back to that level. All you need is a normal environment as it relates to housing. Housing markets have certainly bailed out a lot of delinquent borrowers, simply because they can put their house in the market and sell. As those markets normalize, that's the reason why our guidance is around the 15% to 25% range. You start to see more normal delinquency patterns again. The higher earned or premium rate rather is of course very beneficial as far as the severity of loss and that is going to keep our loss ratio, in our view, in that 20% to 25% range.

Operator

And we'll take our next question from Paul Holden with CIBC.

Paul David Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

So, you just put up a loss ratio of 13% in Q1, which is typically a seasonally weak quarter, but are maintaining your 15% to 25% guidance for the year. So is there anything you'd say that was abnormal or unusual in the Q1 claims losses that suggest it didn't follow the typical seasonal pattern?

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

Paul, not really. We actually did see a bit of a normal seasonal uptick in delinquencies in parts of the country, as you would expect. The reality is this. We are witnessing a normalizing housing market right now. We think that sort of just begun. It takes time for that impact to show through in losses. And as I made a comment, just a moment ago, as that market continues to normalize, we do think you'll see more delinquencies actually roll to claim as opposed to just selling their home and getting out of difficulty, which is why we are still maintaining our guidance at this point. Obviously we'll continue to monitor that, but at this point, we do think that even though seasonality will still play a role, Q2 is typically a better Q than Q1. The second half of this year, you are going to start to see normal seasonal upticks in addition to the full impact of a slow or more normal housing market. So for now, our expectation is that that 15% to 25% range with the bias to the lower half is appropriate.

Paul David Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

And to get a sense of magnitude on home prices, like how much do you think they would need to come down for people to change that decision from selling to going delinquent?

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

It's really not even about house prices coming down. At this point if they are already delinquent, their decision right now is, let's sell the house and they were able to sell quickly because the markets are still operating very efficiently. If your market slows or normalizes to the point where it sits for longer on the market and the better properties or the ones that typically sell, that's when we see those individuals becoming more likely to actually become at least a full blown delinquency. We will still look, of course, to do a loss modification or a workout with that individual, but failing that, it could roll to abnormal claims. So it's really the pace of the market that influences the outcome as opposed to necessarily house price declines. Declines will of course exaggerate the severity. But really, what we're talking about here is simply that when you come off the very, very, very fanatical pace that the market has been at into a more normal pace, you will see more ordinary delinquencies roll into claim and that's really what we're anticipating as we look at our guidance.

Paul David Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

And then, maybe you can help me think about holding company capital and your appetite to repurchase share. So $126 million of hold-co capital as of Q1, going to go something lower in Q2. But is there sort of a minimum hold-co level that you think about?

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

Yes, Paul. So I mean, we simply think about a $100 million, a $100 million is sort of 2 quarters dividend, so you always want to make sure if there is any interruption in the payment of dividends from the operating company that you can sort of work through those sort of potential disruptions, but having said that, we also look to balance that against the capital flexibility that we do have with our undrawn credit facility. So for us, it's really trying to balance those 2 factors, but a $100 million is kind of typically the level that we like to hold it at as the minimum. But certainly our decisions to return capital are based after consideration of a variety of factors, one of which would be the level of holding company cash, among others.

Paul David Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

So, in that answer, Phil, are you suggesting that you'd be willing to add leverage and you are arguably under-levered today and looking to buy back stock?

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

I would say in certain circumstances that might be case. That's not our normal course, but in, I would say, certain circumstances if we believe the stock is trading at a value that was well below what we view as the intrinsic value, we would certainly consider that.

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

And Paul, just to add to that, remember that, that line allows one to tap into that leverage relatively easily as opposed to necessarily going to market for leverage.

Paul David Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

And then just last question then, mortgage rates, as you're well aware, are trending higher, continue to trend higher. Why is that not expected to have a bigger impact on your premium growth?

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

Yes, I think the reality is that the rates are rising in a currently very strong economy. So we have seen good income growth. We know that jobs are still being created and so the economy generally is supportive. I take the point and we acknowledge that the rising rates puts more pressure on affordability. At the same time buyers are adjusting their expectations, and we're seeing that a little bit in terms of where the footprint of our originations is occurring. As I mentioned earlier, further -- more and more now you see less originations in the cores of Toronto-Vancouver and more and more out in the suburbs. So we expect that that's what buyers will do, the urge and the desire to own and buy is still very strong. And the fact that it's become a lot harder to afford a mortgage means people adjust their buying expectation and we believe that will be continuing this year.

Operator

And we'll take our next question from Graham Ryding with TD Securities.

Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

Maybe I could just follow-on from that last comments too, we have seen some weakness in the GTA market year-to-date and there are some pockets in the suburbs that have been a little bit weaker. How are you thinking about health of that market and sort of your expectations, and what sort of reset this is and have you changed your approach to underwriting at all?

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

Graham, we haven't changed our approach to underwriting and the reality is that where you see softening is typically in the higher end home prices. And if you think about our profile borrower, we are still dealing with first-time buyers who are aiming at that $450,000 range in the Greater Toronto Area, $330,000-ish on a national basis. And there is still fair bit of competition in that price range. So the prices are not really softening in that market as much as they might be in the sort of 750-plus market, which is a lot of what you see in the media. So at this point, we're monitoring it, but we're not concerned as far as what we see coming in the door in terms of quality and we have an adjusted underwriting criteria around that at this time.

Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

Talking about normalization of the market and the impact that that could sort of have on the mix of your workouts. Can you give us some context of -- what does that mix look like now in terms of owner occupied sales versus some of your other workout strategies and what would you expect that mix to normalize towards?

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

What I would say to you is that, in very strong markets that we've seen in the Greater Toronto and Vancouver market, we don't actually do any work-ups because they self-cure. So what we're now referring to is that less and less people or fewer people might be able to self-cure if markets normalize. That's when we do get more actively involved. And then it really depends on the circumstances. I would say you'll see a good mix of typical -- if it's a short-term financial difficulty, capitalization of arrears. Alternatively, we move to shortfall sales. As you know, we've done a lot more of those in Alberta, where you had a stressed market, and we knew that there was limited opportunities for affording the current mortgage payment. We then move towards selling the home with the cooperation of the borrower which reduces the impact for all involved. And that is something, I think, you'll start to see a little bit more of as well in markets that normalize. But the real point is, when you have a very strong market, people self-cure; when markets normalize, we actually get more -- we tend to get more involved and there you'll see a good mix of both capitalization of payments as well as shortfall sales.

Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

And maybe if I could just one more, get greedy, Phil, I thought I interpreted a little bit of a change in tone in your guidance around your MCT ratio, but maybe I'm looking for something that wasn't there. Is your guidance still to remain above the 160% to 165% range this year or are you actually targeting to get your MCT down into that range?

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

Well, I think Graham, we expect to remain above the 165% level, we're at 170% now. We spoke to you the benefit from some transitional provisions from the new capital framework implementation. We'll also wait until we fully understand any 2019 revisions and what they could mean to us. That's why we see 2019 being more of the year where we will have a lot more flexibility and options available to us, so in my words, right-size our capital closer to our operating range of 160% to 165%. So we see that more as a 2019. I think the nuance is that we also look at resources at the holding company, and we are trying to ensure we maintain a degree of capital efficiency through the use of holding company resources.

Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

So in terms of your in NCIB that you're renewed, if you were going to utilize that, it would most likely come from either holding company cash flow or your capacity on the debt facility, is that the right way to look at it?

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

Well, I'd say that would certainly be the case in the 2018 timeframe, 2019, we may begin to free up capital from the operating company.

Operator

(Operator Instructions) And we'll go next to Jaeme Gloyn with National Bank Financial.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Analyst*

My first question is, the Bank of Canada did some studies and looked at the portfolio in terms of high loan-to-income ratio borrowers and that the level of that type of borrower declined from about 20% to 17%, sort of in that first half of 2017 as a result of the insured mortgage rules. Are you seeing that trend continue and what level is that type of borrower in the Genworth portfolio? And then I guess the follow-on would be, what type of impact are you seeing from the B20 on that basis with portfolio insured mortgages that you're underwriting?

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

Jaeme, yes, the level of the clientele is roughly 8% last year and it's sort of been consistent now at that level in our portfolio too. I think as we've said in the past, when you see a change coming to the market, it takes borrowers roughly 12 to 18 months to adjust to that change, and I think we're seeing really a full adjusted now to the insured stress test that was introduced about 18 months ago, and so we don't expect to see any condition -- any changes beyond that in our portfolio. On the B20, I would point to the fact that the [insured] stress test impacted both portfolio and high ratio insured loans, so that impact was already felt there as well. So we're not seeing any real differences or changes on the portfolio insurance side right now. B20 really only impacts uninsured loans, whether it's I guess would be only a low ratio, but it doesn't impact low ratio insured loans.

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

Yes, because the low ratio insured loans needed to pass the mortgage rate stress test effective in 2017.

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

Right, does that help?

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Analyst*

Yes, thank you. And in terms of the -- I guess the non-core regions, there was a question from someone else earlier just around the softening and you mentioned that prices haven't really softened in the lower end market. So I guess that would suggest that those markets that are normalizing, I guess you haven't seen an uptick in shortfall sales in those regions specifically or has there been any little bit of a change through the first few months?

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

Not at all at this point, no; I think ultimately that is a second half of year kind of play in our view. There has been no real impact to-date and the area that we focus on mostly. I think our expectation is that as this continues, as normalization occurs, it will have a trickle-on effect. But ultimately right now, because of affordability constraints, there is still more competition at the lower price ranges of the market and that's where we are predominantly focused.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Analyst*

And just last one, I just want to get a sense as to the level of pull forward in demand for Q1. Are you able to give us a sense as to the performance of let's say, January, February in 2018 year-over-year versus margin now. Now we have a month of -- Q2 was April. Is there -- do you notice a bit of a slowdown following Jan-Feb as that pull forward diminished?

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

Yes, the pull forward really occurred in November-December as the B20 stress test was announced. Again, because buyers were not entirely sure what it meant or how it impacted them, I think it was just a general sense of more changes coming, we need to buy now and that's what drove some of that pull forward. The result was that, it was a pretty quiet January, February. Obviously the weather and all those other things normally play a role in that, but it was compounded by the fact that you've seen a bunch of people jump in at the last minute in last year. It started to pick up already in March and by April, I think as I said, we're well on our way to seeing what a normal spring market should look like.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Analyst*

Okay. And just last on that is, we talk about picking up in March and April, that's relative to January and February of 2018, so the normal seasonality. Would you suggest that March-April are higher than 2017 levels or more towards longer term averages?

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

I would say that they were flattish to the 2017 levels, and that was sort of -- our benchmark was that we expected 2018 to be relatively flat to the prior year and so we started to see that in April and March and that is -- I think also reflective of what you're seeing in the market itself where sales are starting to recover a little bit. So that is the positive news.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Analyst*

And in terms of the premiums written or I guess premiums earned, do you feel that there was any market share gains that were driving the premiums growth or it is just a reflection of some of that pull forward?

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

I would say market share is pretty stable at the moment, so it's mostly a reflection of the somewhat pull-forward and of course as we noted, the premium rate increase from March last year.

Operator

And we'll go next to Tom MacKinnon with BMO Capital.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

Stuart, before you talked about the guidance of 2018 at 15% to 25% and now you sort of caveat it a little bit with -- suggesting there is a bias towards the lower half of the range. I'm wondering what's driving your feeling that you're going to be towards the lower half of this range now for 2018.

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

Tom, it's really a function of that affordability pressure that I was talking about, which is put more competition into our target market. So as a result, there is almost less normalization, if you will, occurring in our segment of the space than there might be in, say the higher-end segment of the space. So provided that there is still fairly good activity, still good demand in our space, that's going to help soften some of the impact on losses that we were anticipating from normalization. So to the extent that that continues, we believe that it will encourage a lower loss outcome than perhaps originally anticipated, hence the bias towards the lower half.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

And you've always suggested that the unemployment rate is a bigger driver than the change in housing prices. I know that you're expecting unemployment for 2018 to be between 6% and 6.5%. So I assume that's in your guidance. We're trending at 5.8% now and things have been improving, so is there additional tailwind here from a lower unemployment rate versus the guidance?

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

There could well be. Our expectation and what we built in was some caution around things like NAFTA and other trade protection moves that could impact unemployment in, particularly Ontario and Quebec. But obviously, if that pans out more positively, then there would probably be more upside on the unemployment side, yes.

Operator

And with no further questions, I'll turn the call back to Mr. Levings for any additional closing remarks.

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

Thank you and thanks again for joining us today. We do appreciate your time. This concludes our first quarter 2018 earnings call.

Operator

And thank you for your participation, you may now disconnect.
