

# Genworth MI Canada Inc.

## Investor Day 2011

*Leading the path to homeownership*

# Forward-looking and non-IFRS statements

This presentation includes certain forward-looking statements. These forward-looking statements include, but are not limited to, statements with respect to the Company's future operating and financial results, expectations regarding premiums written, capital expenditure plans, dividend policy and the ability to execute on its future operating, investing and financial strategies, 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," "expects," "anticipates," "contemplates," "intends," "plans," "believes," "seeks," "estimates," or words of similar meaning. 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 control of the Company. 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 Annual Information Form dated March 18, 2011, its Short Form Base Shelf Prospectus dated May 7, 2010, the Prospectus Supplements thereto and all documents incorporated by reference in such documents. 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. Non-IFRS measures used by the Company to analyze performance include underwriting ratios such as loss ratio, expense ratio and combined ratio, as well as other performance measures such as net operating income and return on net operating income. 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>. To access the glossary, click on the "Glossary of Terms" link under "Investor Resources" subsection on the left navigation bar. A reconciliation from non-IFRS financial measures to the most readily comparable measures calculated in accordance with IFRS can be found in the Company's most recent financial statements, which are posted on the Company's website and are also available at [www.sedar.com](http://www.sedar.com).

A photograph of a family of four standing in front of a house. The father is on the left, smiling, wearing a light blue shirt and dark pants. The mother is on the right, smiling, wearing a light blue jacket and jeans, holding a young child. Another young child is standing in front of them. The house has white siding and dark shutters. The entire image is covered with a semi-transparent blue overlay.








# Welcome

**SAMANTHA CHEUNG**  
VP INVESTOR RELATIONS

# Agenda

Topic	Speaker	Time
Welcome	<b>Samantha Cheung</b> , VP Investor Relations	11:00 am
Strategic review	<b>Brian Hurley</b> , Chairman and CEO	
Insurance portfolio deep dive	<b>Stuart Levings</b> , Chief Risk Officer	
Competitive positioning	<b>Debbie McPherson</b> , SVP Sales and Marketing	
Consistent profitability	<b>Phil Mayers</b> , CFO	
Wrap-up	<b>Brian Hurley</b> , Chairman and CEO	
Q and A panel	<b>All</b>	
Lunch		12:45 pm

# Key terms

When we say ...		It represents ...
New Insurance Written (NIW)		Original principal balance of mortgages insured in a given period (e.g. one year)
Net Premiums Written (NPW)		Premiums collected on insured loans in a given period
Loan-To-Value (LTV)		Loan amount divided by property value at origination
Insurance In Force (IIF)		Original principal balance of all mortgage loans currently insured
Effective Risk In Force (RIF)		IIF x expected maximum severity of a single book (35%) based on historical loss experience
Unearned Premium Reserve (UPR)		Premiums received but not yet amortized into earnings
Loss Ratio		Incurred losses divided by net earned premiums





# Overview

**BRIAN HURLEY**  
CHAIRMAN AND CEO

# Key 2011 accomplishments

- Increased market position
- Loss ratio within pricing expectations
- Return on equity of 13%
- 12% increase in common dividend
- Book value per share up 10%+

**Building value for shareholders**

# Business perspectives

**Strong position in mortgage insurance marketplace**

**Prudent risk management**

**Proven business execution**

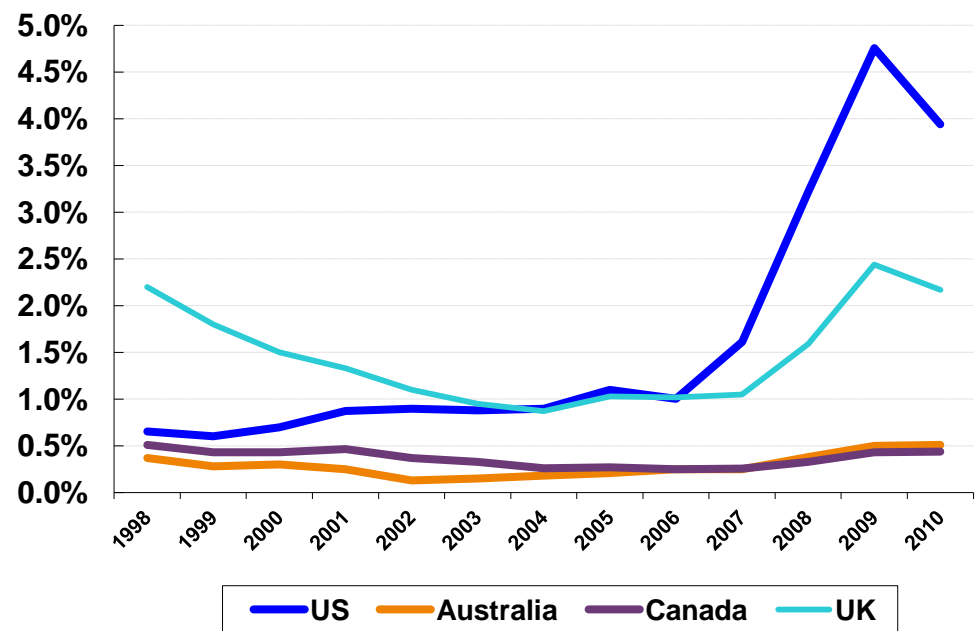
**Solid financial foundation**



# Canada: solid housing market

- Bank originated mortgages
- Strong credit culture
- Borrower recourse
- Interest not tax deductible
- Active regulatory oversight

## 90 Day Delinquencies



Source: MBA, CML, CBA, APRA

# Regulation provides strong support

- Mortgage insurance required for loans > 80% loan-to-value
- Government influences product spectrum
- Insurance operations regulated by OSFI
- 90% government guarantee
- Rated “AA” by S&P and DBRS

**MI is an integral part of the housing finance system**

# Levers for improved earnings and returns

**Profitability of new business**

**Risk management and loss mitigation**

**Investment portfolio performance optimization**

**Effective capital management and deployment**

# Levers for improved earnings and returns

## New business profitability

- Quality borrower profile
- Improved debt service levels
- Standardized products

## Risk management and loss mitigation

- Prudent underwriting standards
- Seasoned book of business
- Successful loss management

# Levers for improved earnings and returns

## Investment portfolio optimization

- Government Guarantee changes
  - Elimination of exit fee
  - Full discretion of investments currently in fund

## Effective capital management

- Strong capital generation
- Ongoing capital flexibility





# High quality insurance portfolio

**STUART LEVINGS**  
CHIEF RISK OFFICER

# Total risk management approach

## Key Focus Areas

**High quality business**  
**Avoid risk concentrations**

**Monitor performance**  
**Take remedial actions**

**Actively mitigate risk**  
**Control the process**

**New business origination**

**In-force management**

**Loss mitigation**

## Enablers

Guidelines and pricing  
Risk appetite and limits  
Mortgage scoring  
Fraud detection  
QA audits

Portfolio monitoring  
Assess emerging risks  
Portfolio stress testing  
Dynamic underwriting policies

Drive workouts  
Asset management  
Monitor loss development

# Second set of eyes on loan quality

## Stacked risk factors

High loan-to-value  
and low credit scores

Limited job tenure  
and thin credit profile

High debt ratio and economically  
sensitive area

## Unique risk factors

Age and income mismatch

Short closing date

Lender requests  
file review

**Loan-by-loan underwriting independent of lender**

# Job loss has the most impact on claims

## Frequency

**Key driver: Unemployment**

**Secondary drivers:**

- Reduction of income
- Overextension
- Interest rates

## Severity

**Key driver: House prices**

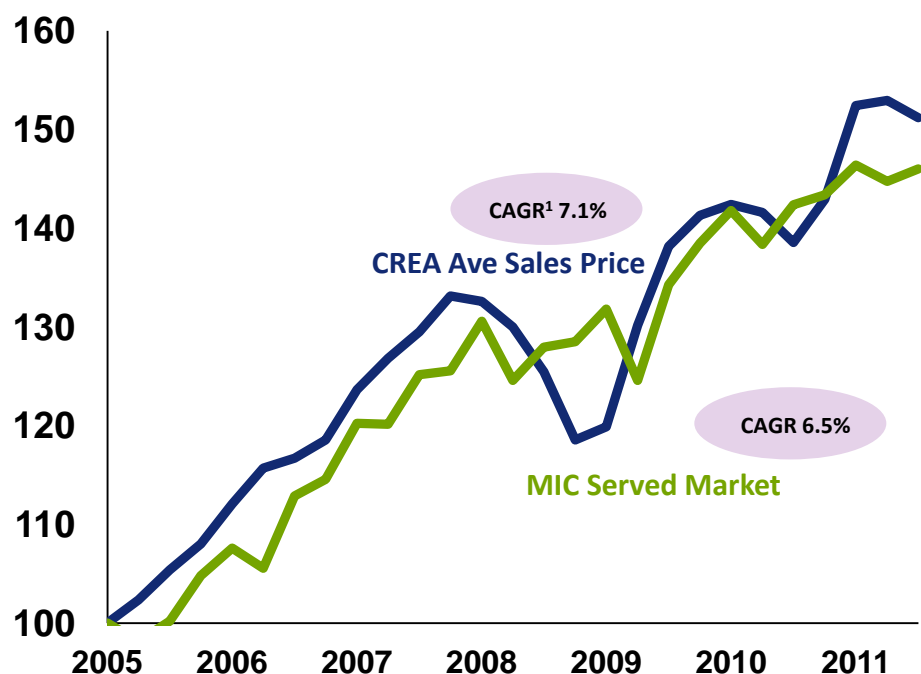
**Secondary drivers:**

- Property condition
- Extended foreclosure process
- Interest rates

**Portfolio quality and borrower recourse help to mitigate macro economic impact**

# Moderating home prices

## Home Price Index



<sup>1</sup>Compound Annual Growth Rate (CAGR) 2005 – 3Q2011

Source: CREA and MIC Portfolio Data

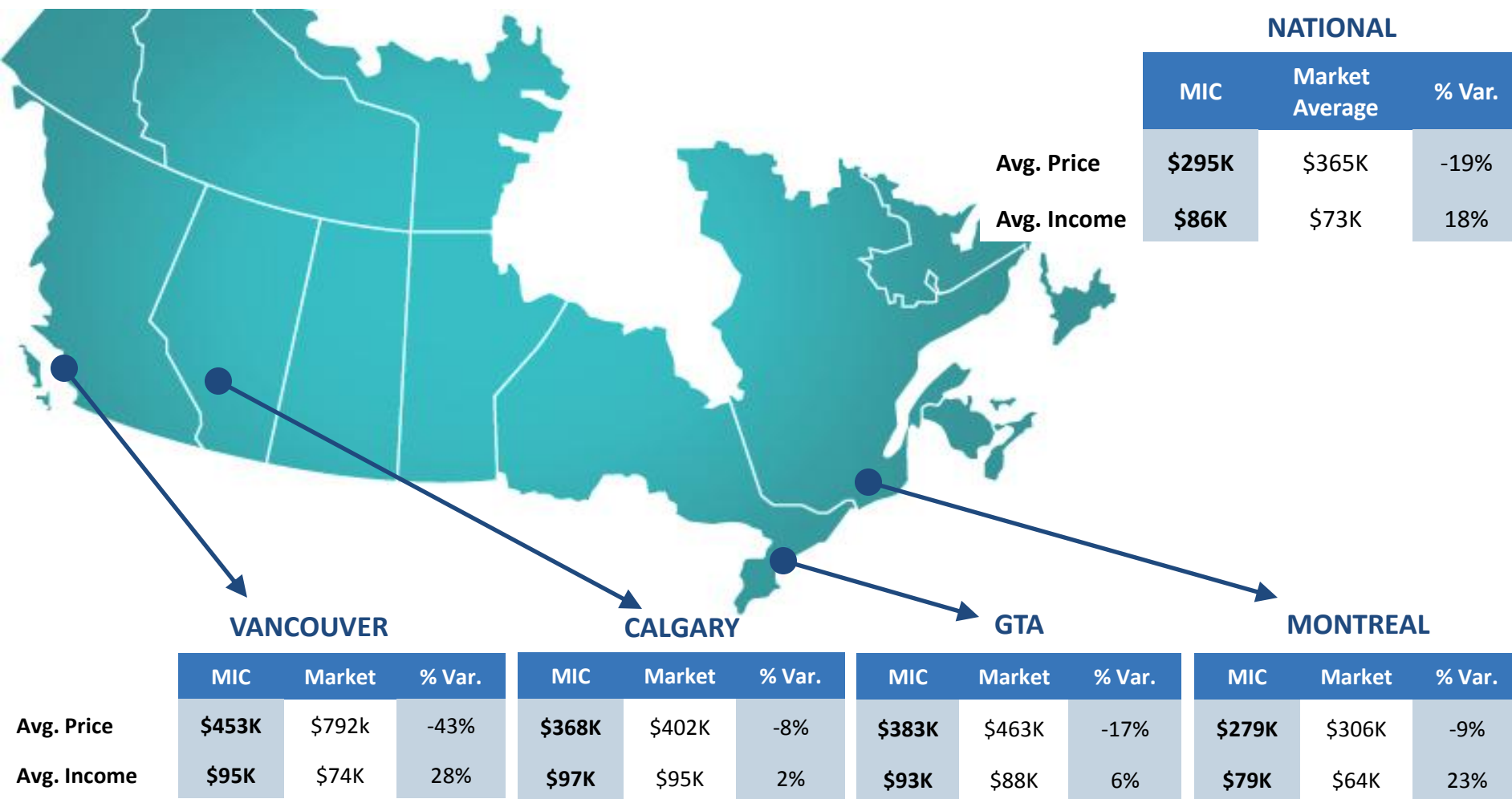
## Market Indicators (3Q11)

	National	MIC
Home price appreciation	7.4%	4.3%
Price to income	6.0	3.9
Price to rent	1.7	1.6
Affordability	34.1%	21.6%
Ave price	\$362K	\$298K

Source: Stats Canada, CREA and MIC Portfolio Data



# Insured borrowers better than market



Note: Genworth averages based on 2011 data; Income is Household Income; Market averages for property price from CREA; Income from Statistics Canada **Table 202-0403** forecasted.

# Strong first time homebuyer trends

## 95% LTV Borrower Attributes

	2007	3Q 2010	3Q 2011
Family Income	\$82K	\$83K	\$86K
Credit Score	713	730	730
Debt Service Ratio	34%	34%	35%
Property Value	\$235K	\$268K	\$281K
Purchase / Refinance	87% / 13%	98% / 2%	100% / 0%
Amortization	32	33	30

## Observations

- ~5% growth in family income
- 17 point increase in credit score
- Stable debt ratios
- Lower property values than market
- High ratio refinance eliminated
- 30 year amortization the norm

**Borrower quality improved since 2007**

# Stable delinquency performance

MIC Portfolio Delinquency Rate

	Sept 30 2011	June 30 2011	Sept 30 2010	Sept 30 2011
Ontario	<b>0.13%</b>	0.17%	0.17%	<b>46%</b>
BC	<b>0.27%</b>	0.31%	0.27%	<b>16%</b>
Alberta	<b>0.46%</b>	0.53%	0.58%	<b>16%</b>
Quebec	<b>0.22%</b>	0.23%	0.21%	<b>15%</b>
Other	<b>0.18%</b>	0.19%	0.19%	<b>7%</b>
<b>Canada</b>	<b>0.21%</b>	<b>0.25%</b>	<b>0.25%</b>	<b>11F%</b>

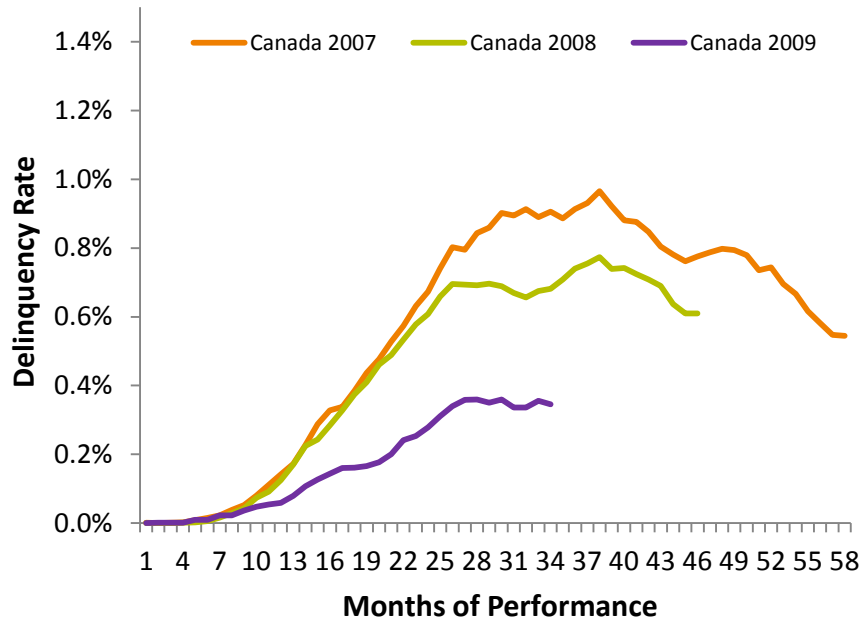
- Economic conditions stable in Canada
- Delinquency rates down due to paid claims



- New delinquencies increasing marginally
- Regional portfolio dispersion mitigating impact

# Positive seasoning trends

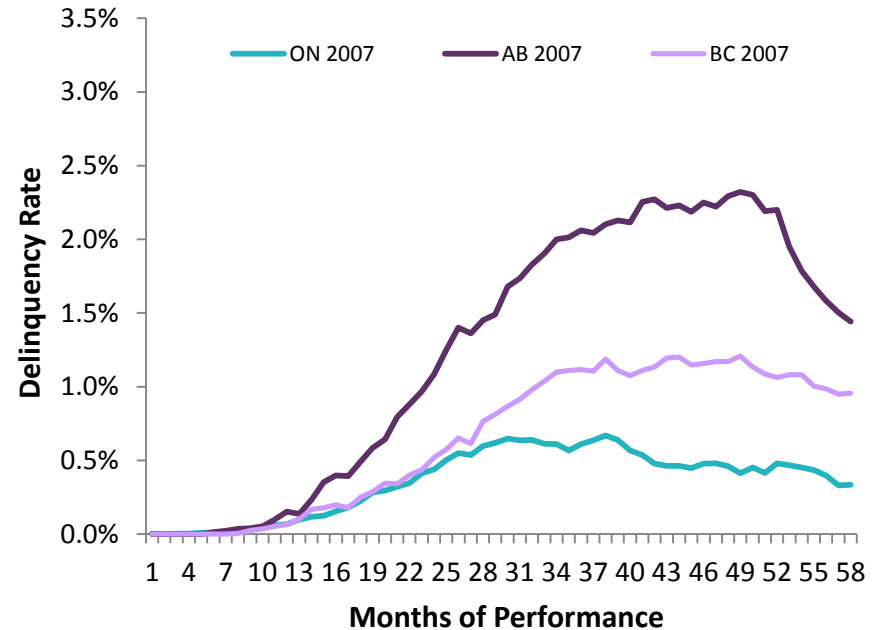
## Book year delinquency development



### Seasoning as expected for 2009 book

- Tighter underwriting guidelines
- Improved job and housing market

## Regional delinquency development



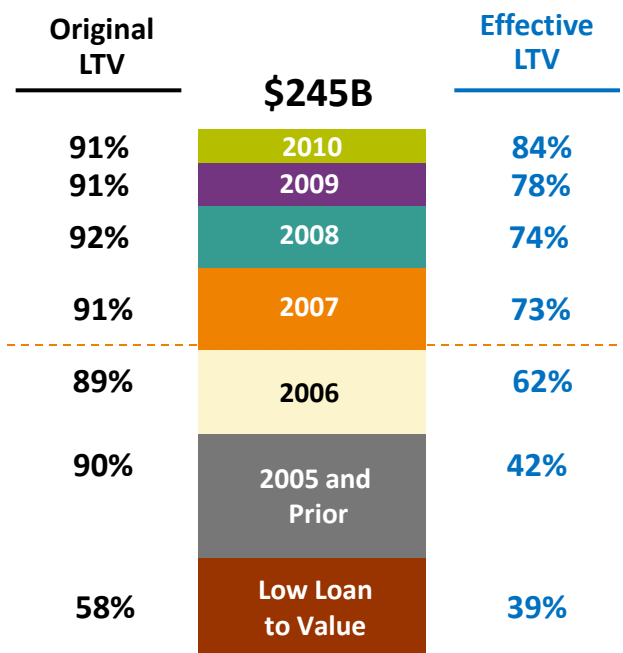
### Alberta above expectation in 2007 book

- Written at housing market peak
- Impacted by higher unemployment

As of 9/30/11

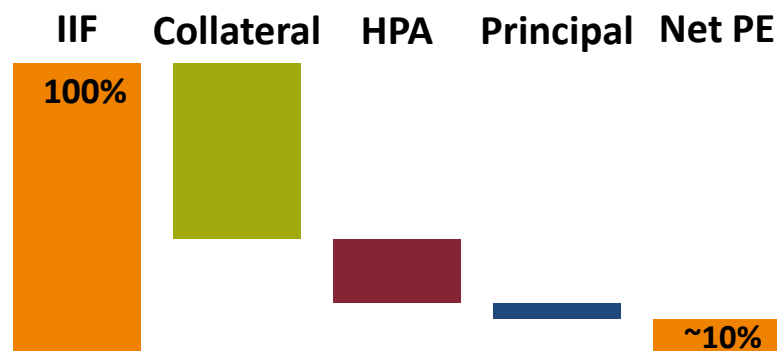
# Collateral and seasoning lowers exposure

## Insurance in-force (IIF)



As at June 30, 2011

## Potential exposure (PE)



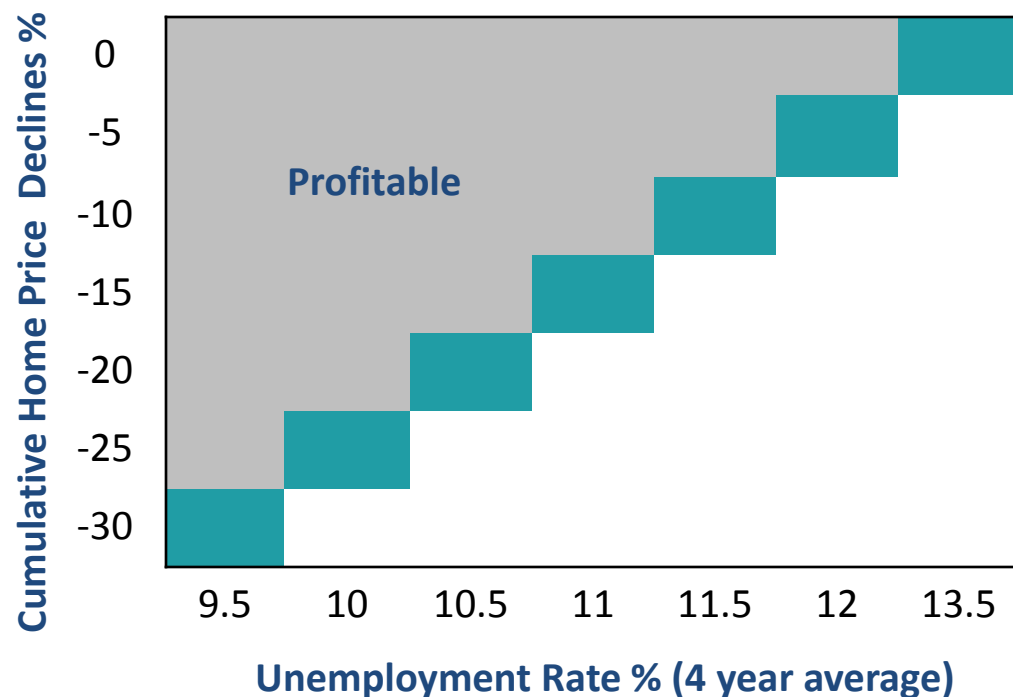
- Effective exposure assumes 100% frequency
- Normal frequency typically ranges ~2-4%
- 100% loss ratio at ~8% frequency

**Potential loss exposure significantly lower than insurance in-force**



# Profitable under a variety of stress scenarios

## 4 Year Economic Stress Scenario

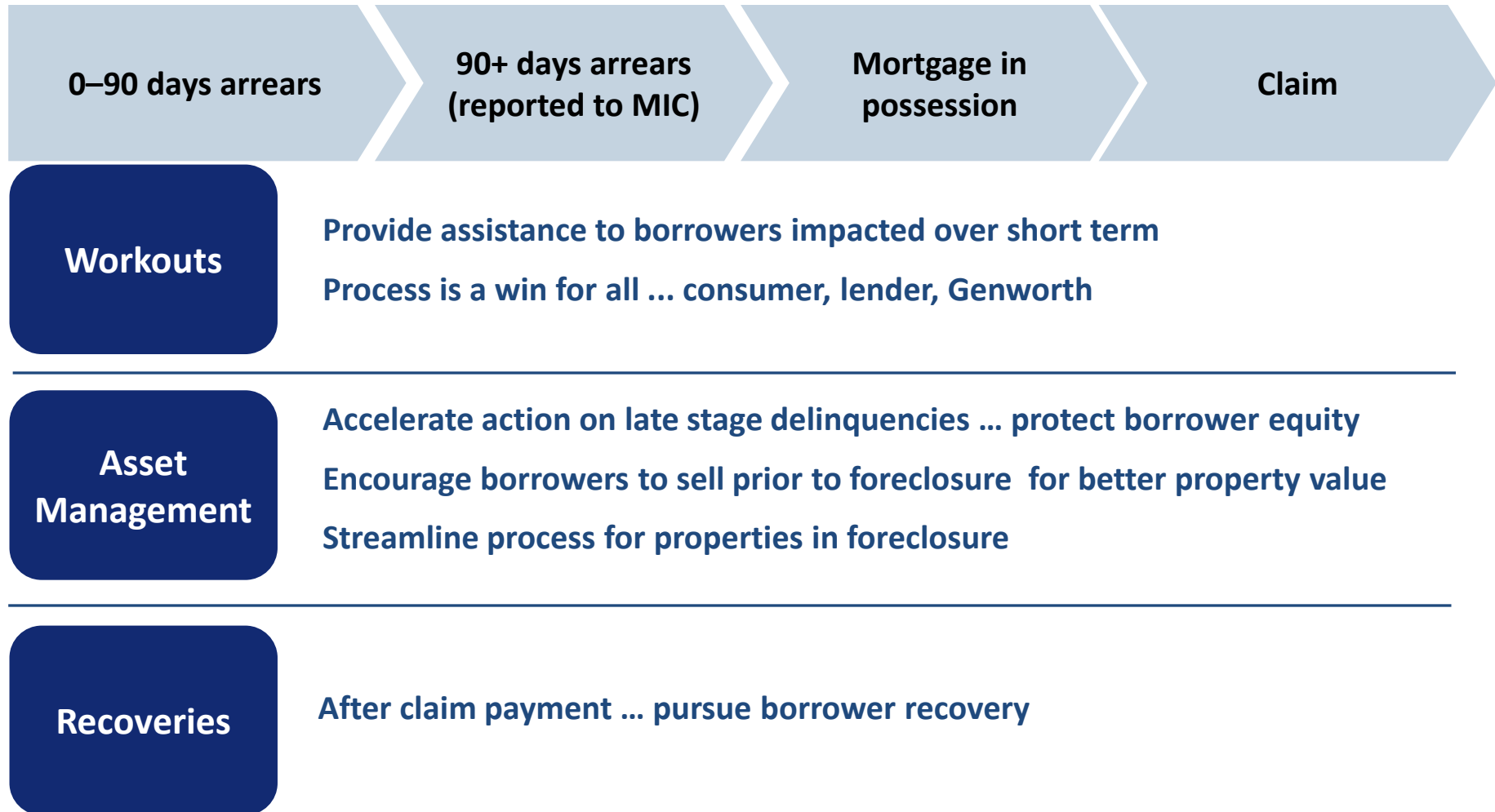


80 – 120% loss ratio (Management estimate Dec. 2011)

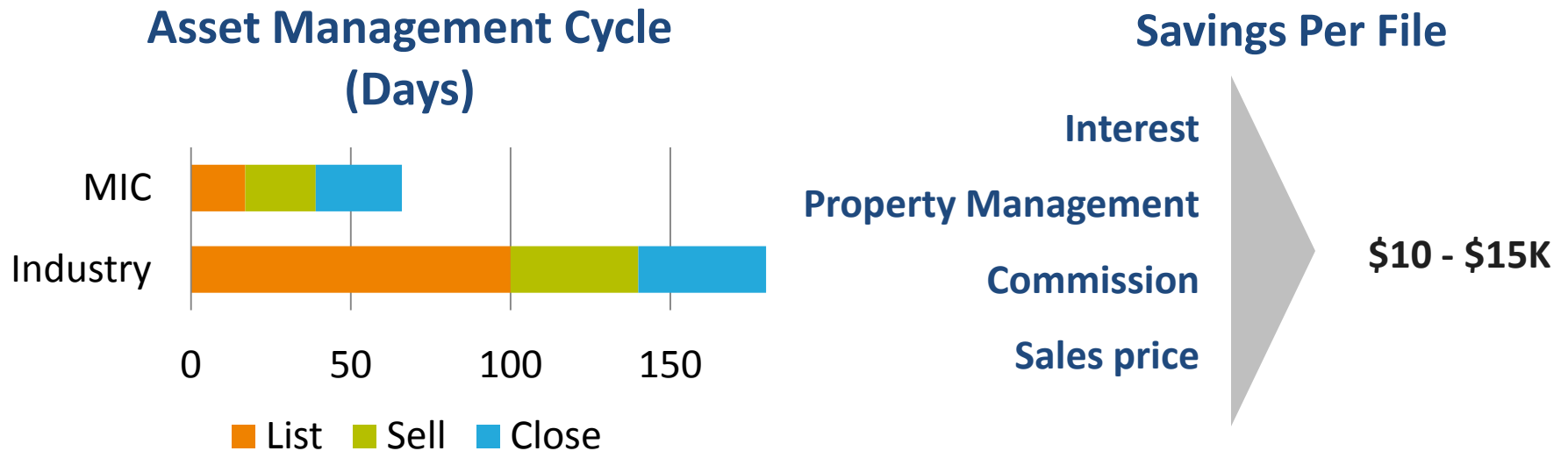
## Observations

- High quality, diversified portfolio performs well under economic stress
- Low effective loan-to-values buffer against loss
- Loss mitigation a key element in reducing loss severity

# We mitigate from delinquency to claim



# Asset management drives savings



## Overview

**Pay out lender and assume mortgage at vacant possession**

**Take control of asset sale to reduce processing timelines and costs**

- MIC preferred lawyers, realtors and property managers
- Active management achieves shorter timelines and improved sales results

# Encouraging market outlook

## **Government regulations having a positive impact**

- Refinance business mix down to 16% from a high of 35% in 2009
- 80% of buyers choosing 30 year amortization for flexibility
- Increased interest rate buffer on variable rate applicants
- Average credit score 729, up from 716 in 2007

## **Balanced housing market driven by steady demand**

- Average prices up 5% in 2011, expect flat in 2012
- Some overvaluation in regional markets, expect modest softening
- Supply and demand balanced across Canada except Alberta
- Immigration and demographics still major drivers of household formation



# Strong competitive Positioning

**DEBBIE MCPHERSON**

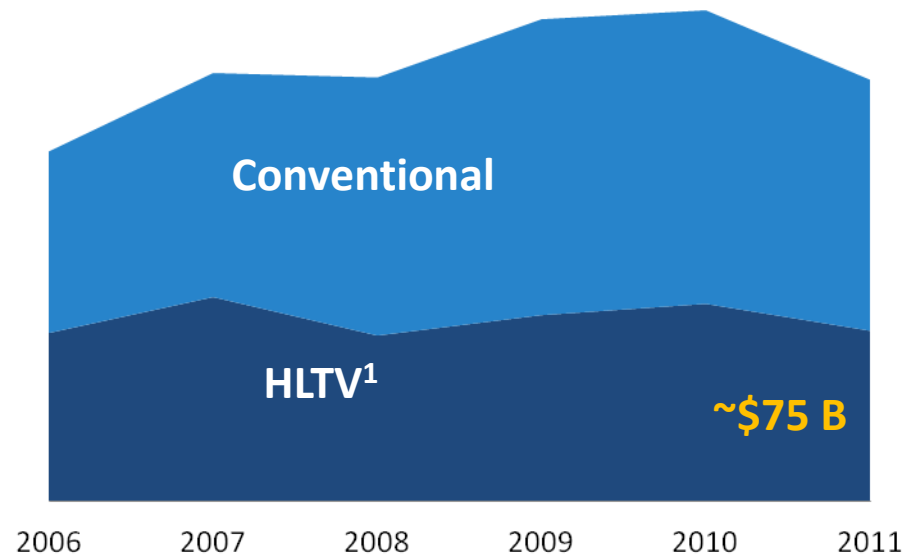
SVP SALES AND MARKETING



# MI benefits lenders

- Capital relief for lenders
- Credit enhancement and funding
- Risk management – transfer of risk
- Improves loan quality
- Market intelligence
- Service innovation

## Mortgage Originations

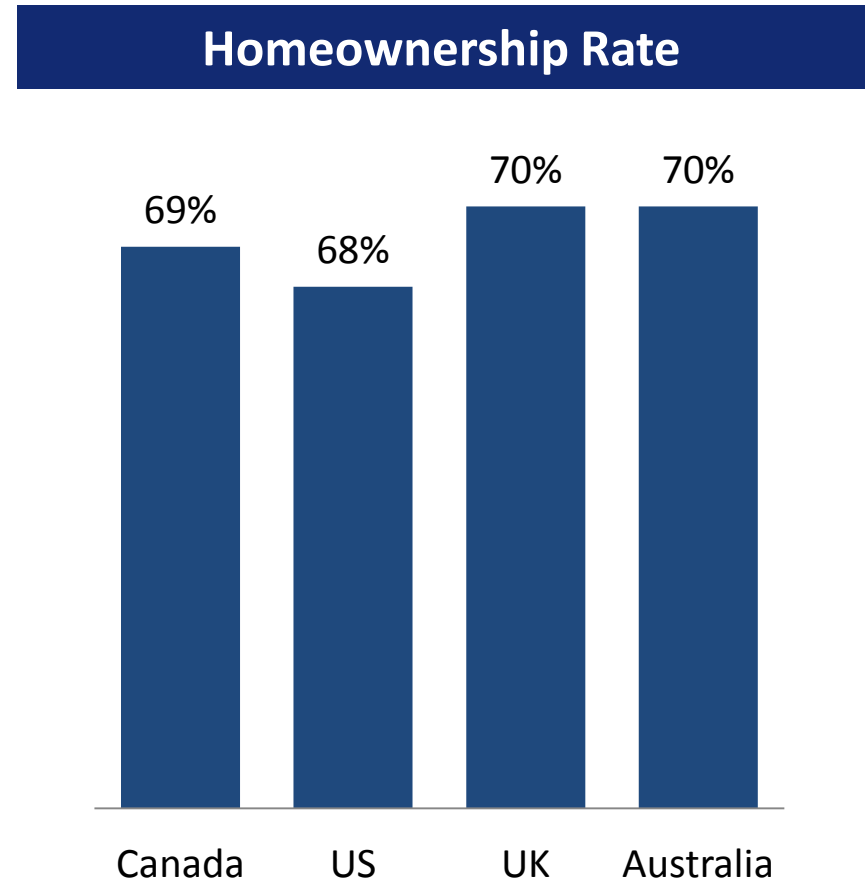


1. High loan-to-value

**MI market is large and sustainable**

# MI benefits homebuyers

- Makes homeownership accessible sooner
- Provides competitive environment
- Access to educational home-buying tools
- Homeowner assistance program



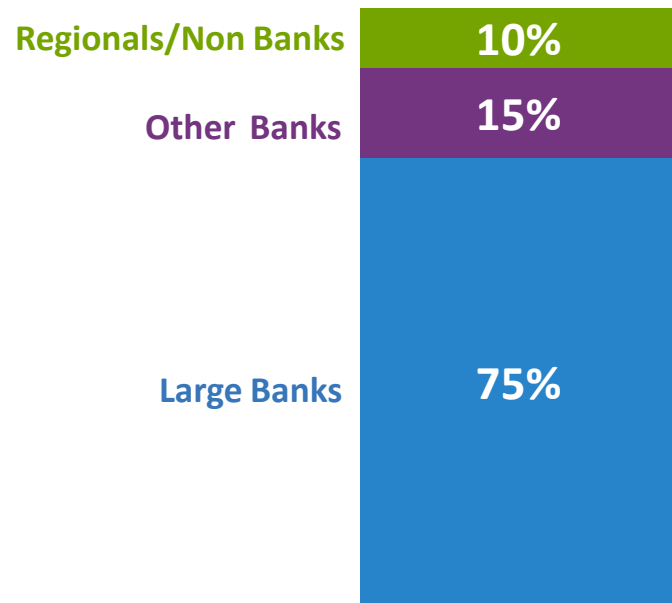
Source: ABS, CHMC, Delft University, EMF, Bureau of the Census

# We are focused on customer needs

## Distribution Segments<sup>1</sup>

## Service is key differentiation

### HLTV<sup>2</sup> Originations

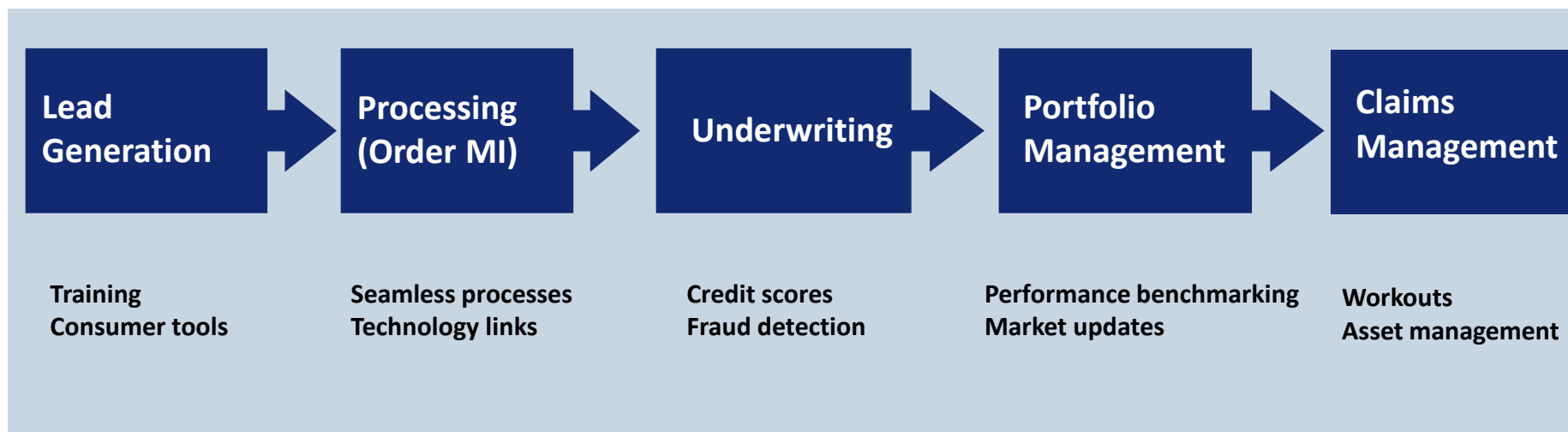


- Integrated sales and service
- Customized training
- Thought leadership
- Best-in-class technology
- Experienced team

<sup>1</sup> Company estimate <sup>2</sup> High loan-to-value

**Tailored lender strategies drive growth**

# We are a critical part of the mortgage process



- Significant progress in value chain penetration
- Focused on demonstrating strength in claims paying ability
- Positive customer experience drives partnership relationship
- Focused on innovation

# Next generation mortgage calculators

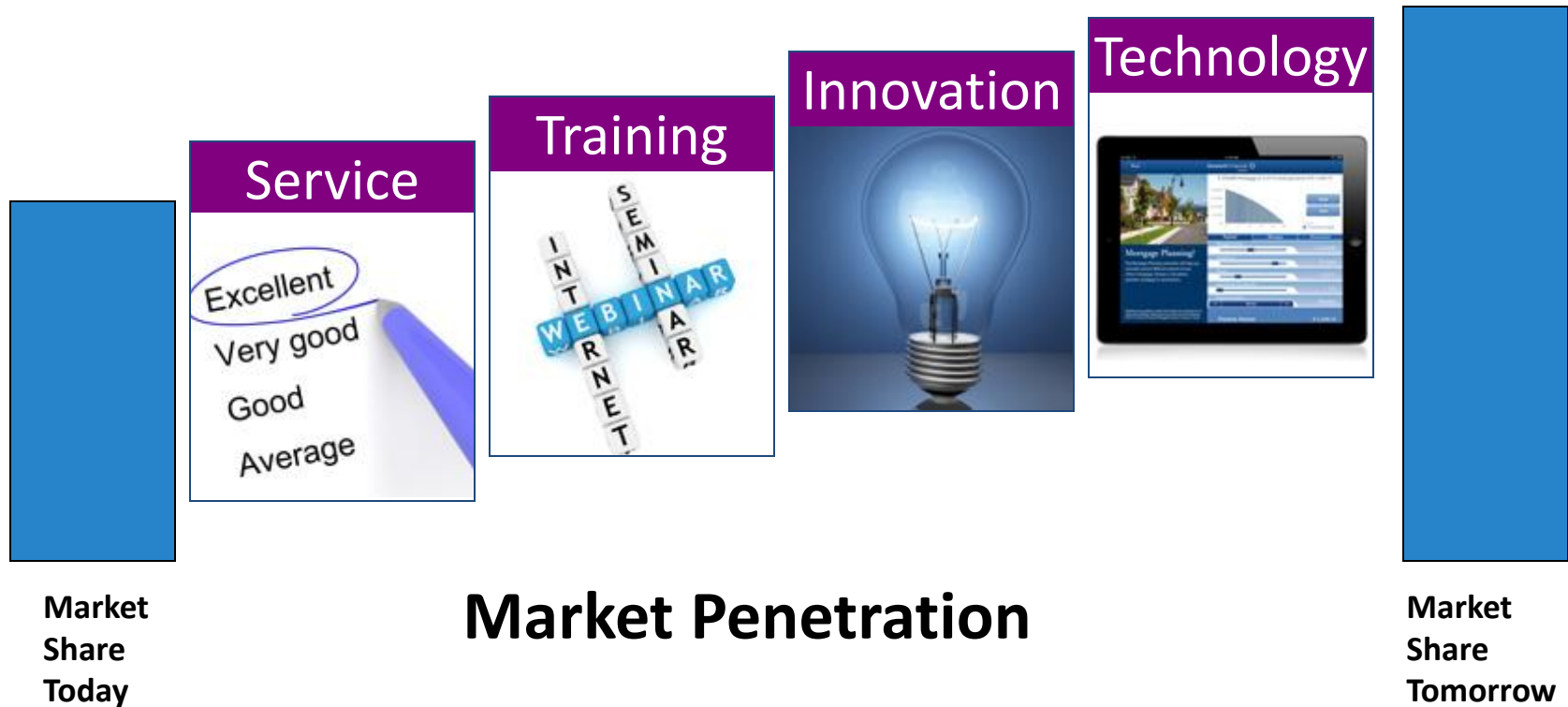


Calculators for iPhone and iPad  
**THE NEXT GENERATION IS HERE!**

These easy to use calculators are accessible whenever you need to help plan for your client's next home purchase.



# Driving market share



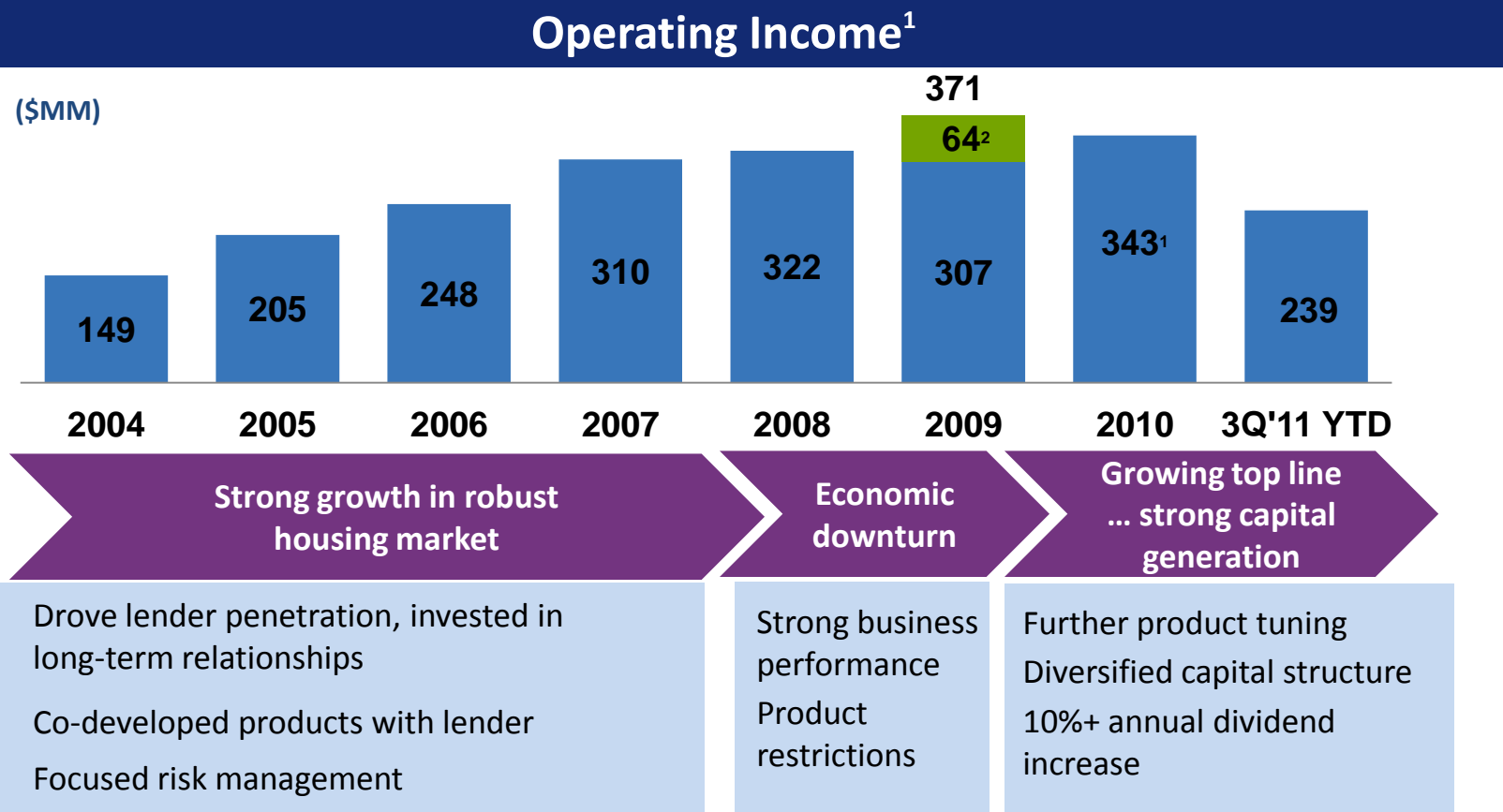
**Genworth differentiation drives top line growth**



# Delivering consistent profitability

**PHIL MAYERS**  
CHIEF FINANCIAL OFFICER

# Solid financial track record



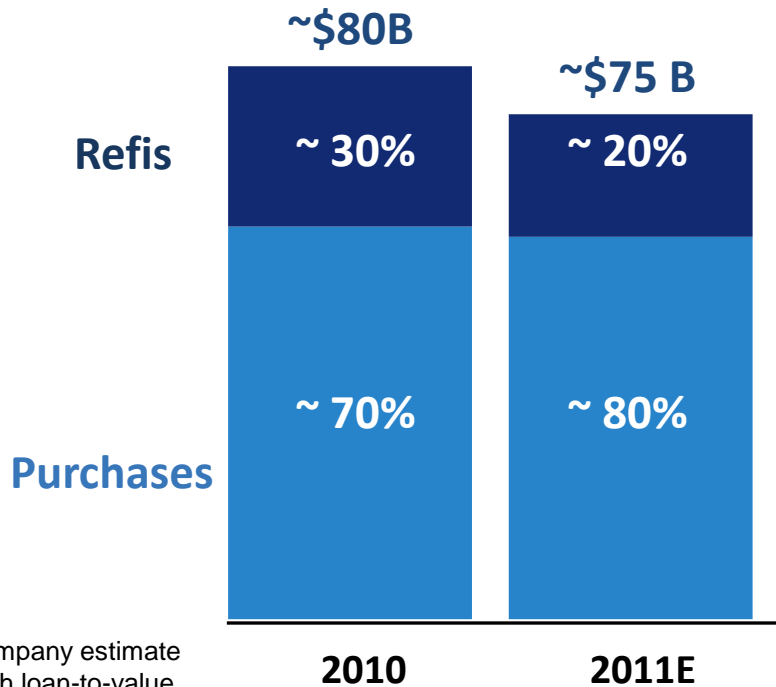
1. 2004 to 2009 Reflect CGAAP; 2010 – 11 Reflect IFRS

2. Impact of change to the premium recognition curve in 2009



# Sizable market > \$1.8 B premiums available

## Market Size<sup>1</sup> - HLTV<sup>2</sup>



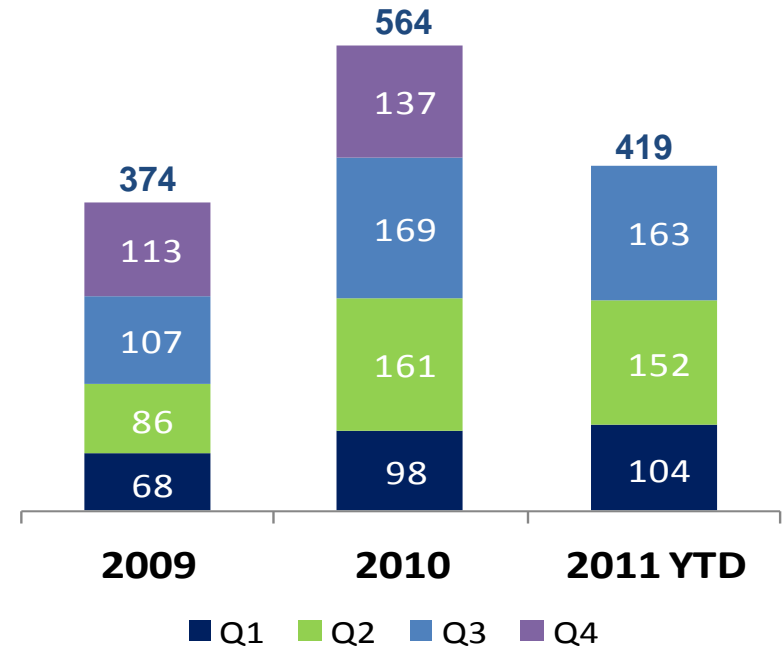
Average HLTV<sup>2</sup>  
Premium Rate

2.31%

2.35%

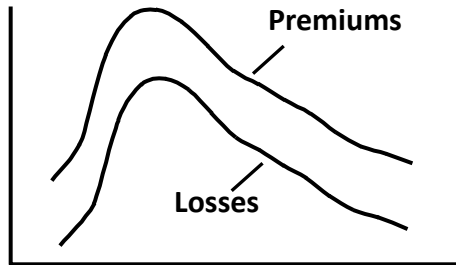
## Premiums Written

\$ MM

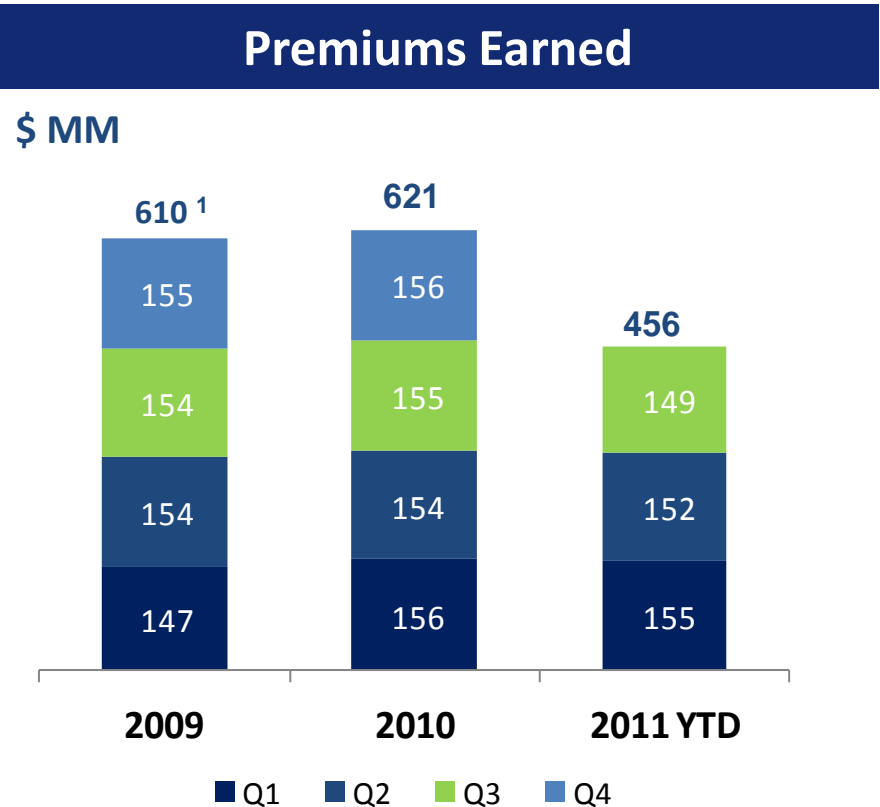


**Focused on growing market penetration**

# Single premium provides visibility of profits



- Premiums are recognized into earnings as premiums earned primarily during first 5 years
- Actuarially developed earnings curve matches historical loss development patterns



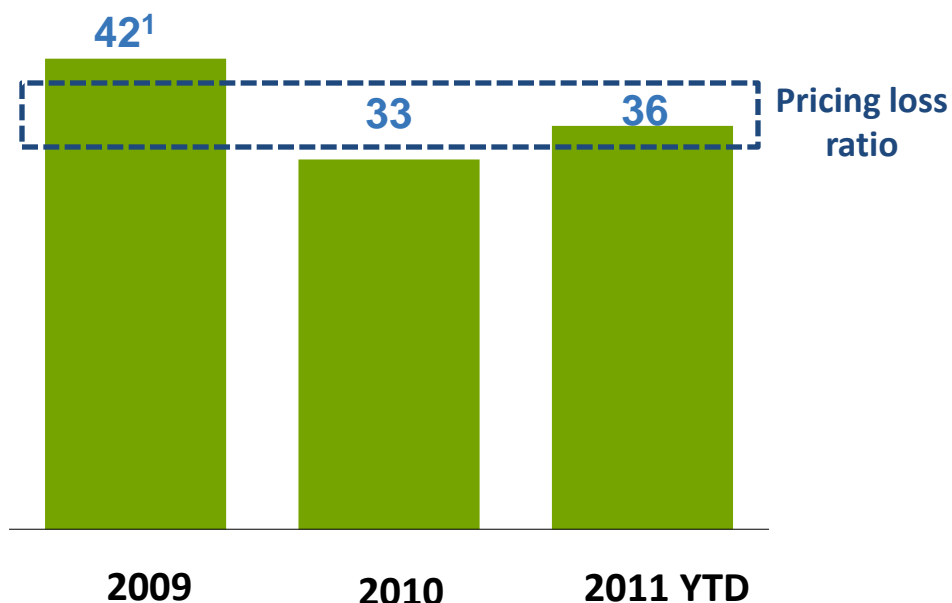
1. Excludes \$100 MM impact of change to the premium recognition curve in 2009

**\$1.8 billion of unearned premiums represents significant future revenue**

# Good loss performance in challenging times

## Loss Ratio

(%)

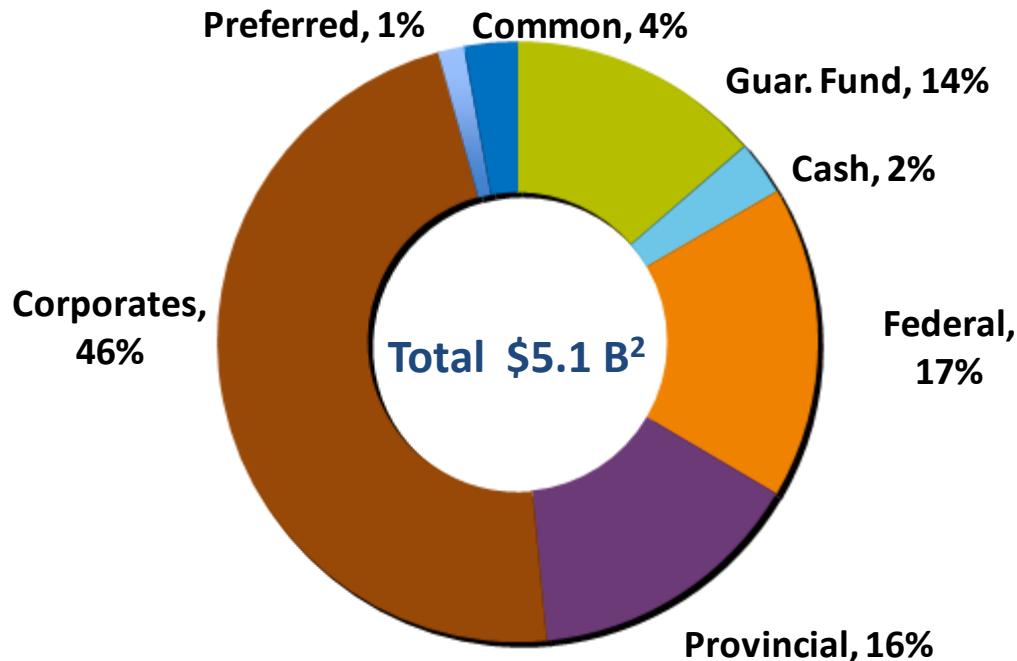


- 2007/08 Alberta books impacting 2011
- Improved risk profile on 2009-11 books
- Loss mitigation programs ongoing

<sup>1</sup> Excluding earnings curve adjustments in Q1 2009

**Expect loss ratio to remain around pricing loss ratio range of 35 – 40%**

# \$5 billion high quality investment portfolio



- Consistent book yield of ~4.3%<sup>1</sup>
- Primarily fixed income portfolio
  - 3.9 years duration
  - 97% rated A or better
- Small allocation to dividend paying equities
  - 5% allocation
  - Diversified holdings

1. Pre-tax equivalent book yield after dividend gross-up of General Portfolio
2. Percentages are calculated based on market values of total portfolio

**Investments generate one third of operating profits**

# Government Guarantee framework positive

## New Framework

- Same level of guarantee
- Guarantee fund and related exit fees to be eliminated
- Higher capital requirement to be set by Minister of Finance

### Higher regulatory capital available to offset higher capital requirements

\$MM	Q3 2011
<b>Guarantee Fund</b>	<b>713</b>
Deferred taxes re: Guarantee Fund	(185)
<b>Guarantee Fund net of tax effect</b>	<b>\$ 528</b>

Note: Numbers may not total due to rounding

### Exit fees to be eliminated

\$MM	Q3 2011 YTD
Investment income	\$ 21
<b>Exit fees</b>	<b>(18)</b>
<b>Equity in earnings of Guarantee Fund</b>	<b>\$ 2</b>

**Stronger claim paying ability ... Net Income positive**

# Ongoing capital generation from profits

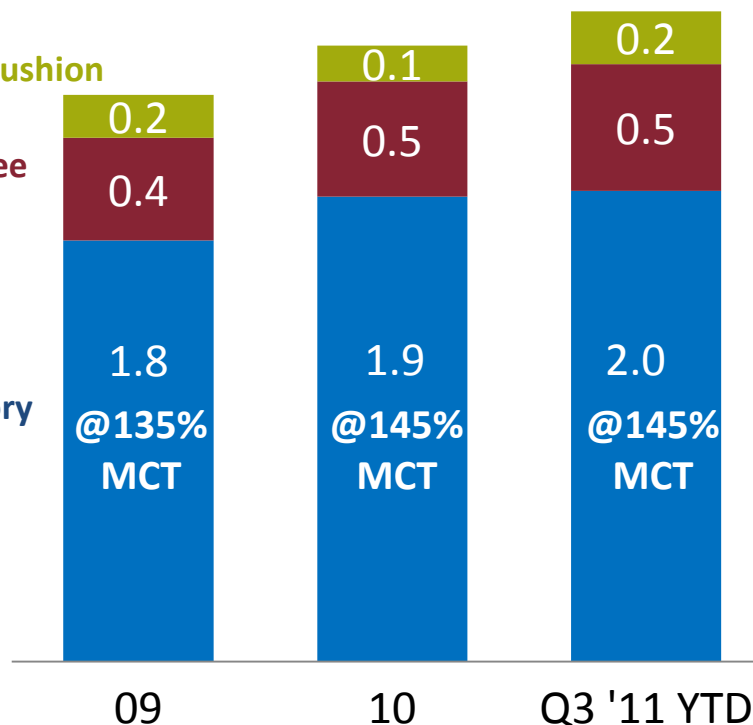
## Capital Base

\$ Billions

Capital Cushion

Guarantee Fund

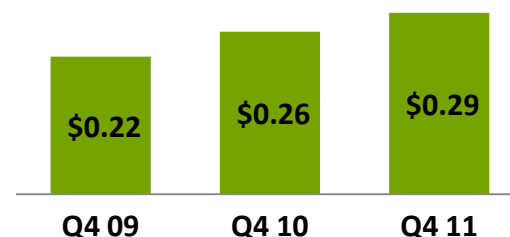
Regulatory Capital



## Capital Management Priorities

- Fund core growth
- Maintain strong ratings
- Preserve financial flexibility and efficient capital structure
  - Modest leverage
  - Holdco liquid securities ~ \$70 MM
- Maintain competitive payout ratio

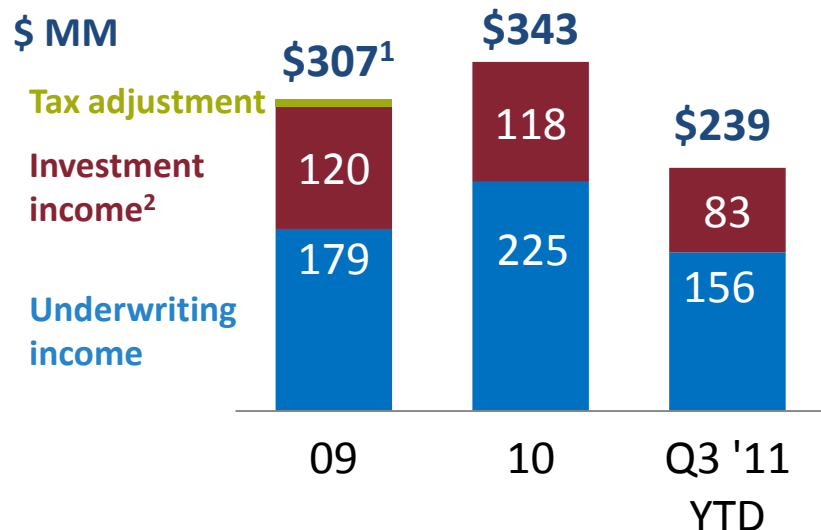
### Quarterly Dividend



**Strong stand alone balance sheet provides flexibility**

# Business generates consistent profits

## Net Operating Income



- Continued market penetration
- Solid underwriting results
  - Strong risk management
  - Disciplined underwriting
- High quality investment portfolio
- Proactive capital management
- Common dividend increases

	2009	2010	Q3 2011 YTD
Combined Ratio	57% <sup>1</sup>	50%	52%
Operating ROE	13% <sup>1</sup>	14%	13%
BVPS (incl AOCI)	\$22.40	\$24.45	\$26.82

Note: Numbers may not total due to rounding

1. Excluding earnings curve adjustment in Q1'2009

2. Investment income is presented net of interest expense



# Closing thoughts

**BRIAN HURLEY**  
CHAIRMAN AND CEO



# Strategic priorities in 2012

- Strengthen and grow market share
- Continued risk management focus
- Deliver profitability through execution of core competencies
- Drive efficient capital structure

# The case for MIC

- Well positioned for sound growth and market recovery
- Market penetration continues to improve
- High quality and seasoned insurance portfolio
- Strong capital and liquidity position with financial flexibility

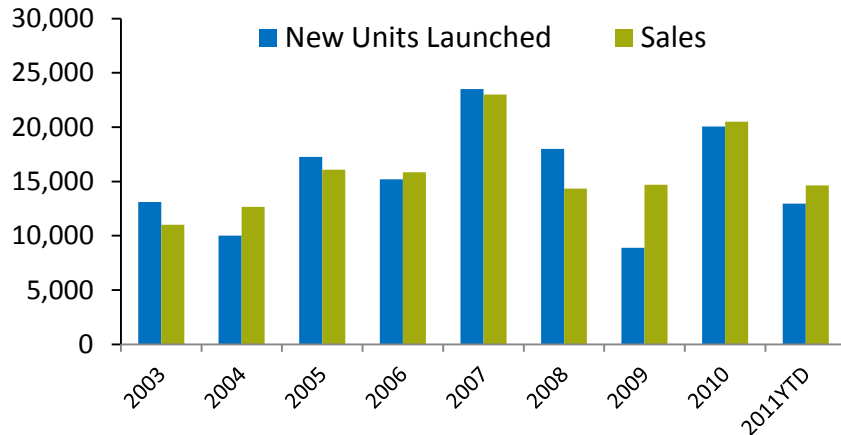
**Positioned for earnings expansion and ROE growth**



# Questions?

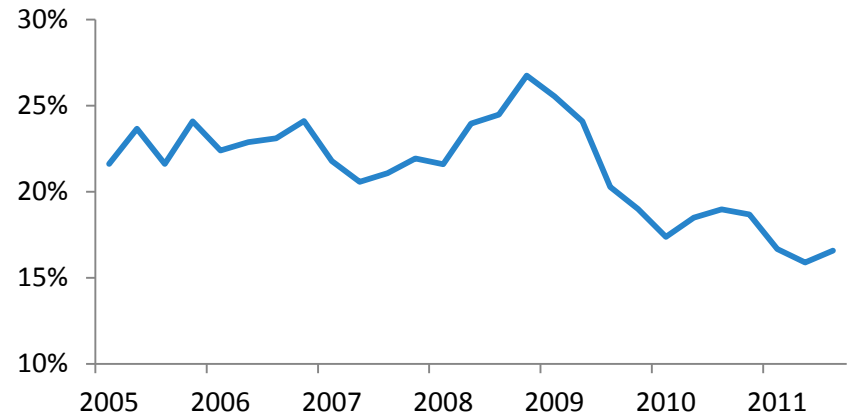
# Strong demand for Toronto condominiums

## Market Balance



Source: Urbanation Inc.

## Unsold Inventory in Development



Source: Urbanation Inc.

## Observations

### **Rising land costs reducing available land for single family detached development**

90% of new rental stock provided by condos ...vacancy rates low ~1%

### **Strong demand from immigration – affordable entry point**

Sales closely correlated to new units launched over last 10-yrs

### **Our portfolio 99% owner occupied**

A photograph of three business professionals in a meeting, overlaid with a blue semi-transparent filter. A woman on the left is smiling and looking towards the center. A man in the center is smiling broadly, resting his chin on his hand. A man on the right is seen in profile, looking towards the center. The word "Appendix" is written in large white letters across the middle of the image.

# Appendix

# Speaker biographies

## **Brian Hurley** Chairman and CEO

Brian Hurley has held senior roles in the mortgage insurance industry for more than 20 years, with international leadership experience. He led the establishment of Genworth into the Canadian marketplace in 1994 and later led it through its initial public offering in 2009.

## **Phil Mayers** CFO

Phil Mayers has over 20 years of financial management experience in the mortgage insurance industry. Prior to his current role, he held senior roles in operations and business development. Phil holds a CA and CMA professional designations.

# Speaker biographies

## **Stuart Levings** Chief Risk Officer

Stuart Levings has over 18 years of professional business management experience and originally joined the company in 2000 as financial controller. Prior to his current role, he was the CFO. Stuart is a member of both the South African and Canadian Institutes of Chartered Accountants.

## **Debbie McPherson** SVP Sales and Marketing

Debbie has more than 20 years of successful experience in sales and quality management. Prior to her current leadership role, Debbie led the Ontario regional sales team. Debbie plays an active role in many industry organizations including CAAMP, Canadian Homebuilders, and CREA.



# Genworth MI Canada Inc.

## Investor Day 2011

*Leading the path to homeownership*