Genworth Canada

# 2016 INVESTOR DAY

## Smarter M.I.

December 7th, 2016

# Forward-looking and non-IFRS statements

Genworth Canada

Public communications, including oral or written communications such as this document, relating to Genworth MI Canada Inc. (the "Company", "Genworth Canada" or "MIC") often contain certain forward-looking statements. These forward-looking statements include, but are not limited to, statements with respect to the implementation of the changes introduced by the Government and the potential impact on new insurance written, as well as the Company's future operating and financial results, sales expectations regarding premiums written, capital expenditure plans, dividend policy and the ability to execute on its future operating, investing and financial strategies, the Canadian housing market, and other statements that are not historical facts. These forward-looking statements may be identified by their use of words such as "may", "would", "could", "will," "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions. These statements are based on the Company's current assumptions, including assumptions regarding economic, global, political, business, competitive, market and regulatory matters. These forward-looking statements are inherently subject to significant risks, uncertainties and changes in circumstances, many of which are beyond the ability of the Company to control or predict. The Company's actual results may differ materially from those expressed or implied by such forward-looking statements, including as a result of changes in the facts underlying the Company's assumptions, and the other risks described in the Company's Annual Information Form dated March 16, 2016, its Short Form Base Shelf Prospectus dated August 9, 2016, its most recently issued Management's Discussion and Analysis and all documents incorporated by reference in such documents. Management's current views regarding the Company's financial outlook are stated as of the date hereof and may not be appropriate for other purposes. Other than as required by applicable laws, the Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

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

# Agenda and key themes

Genworth Canada

**Smarter M.I.**

- Strategic outlook
- Dynamic risk management
- Financial strategy and insights
- Question and answer session

**Stuart Levings**

President and Chief Executive Officer

# Strategic outlook

# Genworth Canada overview

Genworth Canada

## WHO WE ARE

**LARGEST** private residential mortgage insurer in Canada

Helped **~1M+** families achieve homeownership

Supported **250+** Canadian lenders

## MARKET FACTS (Q3 2016)

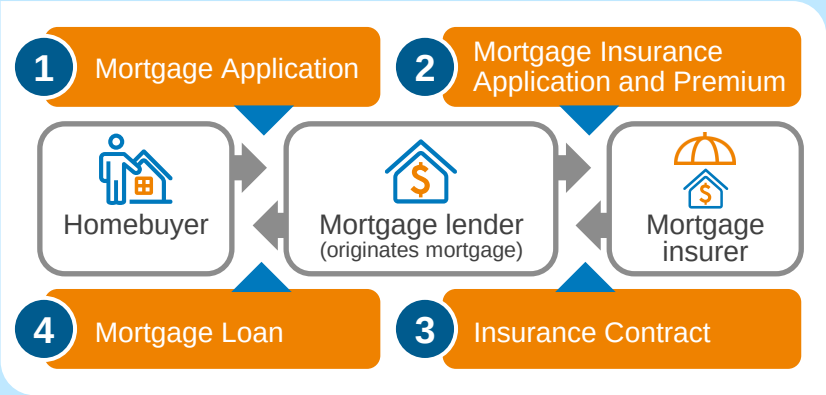
**$6.6 billion**
Total assets

**$3.6 billion**
Shareholders' equity

**$3.0 billion***
Market capitalization

**92 million**
Shares outstanding

## WHAT WE DO[1]




- Mandatory for less than 20% down payment
- Covers 100% of loan, secured by property
- Upfront non-refundable premium
- Lender receives protection against loss from mortgage default
- Capital relief for lenders

Note: Company sources
1. Denotes transactional mortgage insurance. * As at December 2nd, 2016.

# Conservative first-time homebuyer profile

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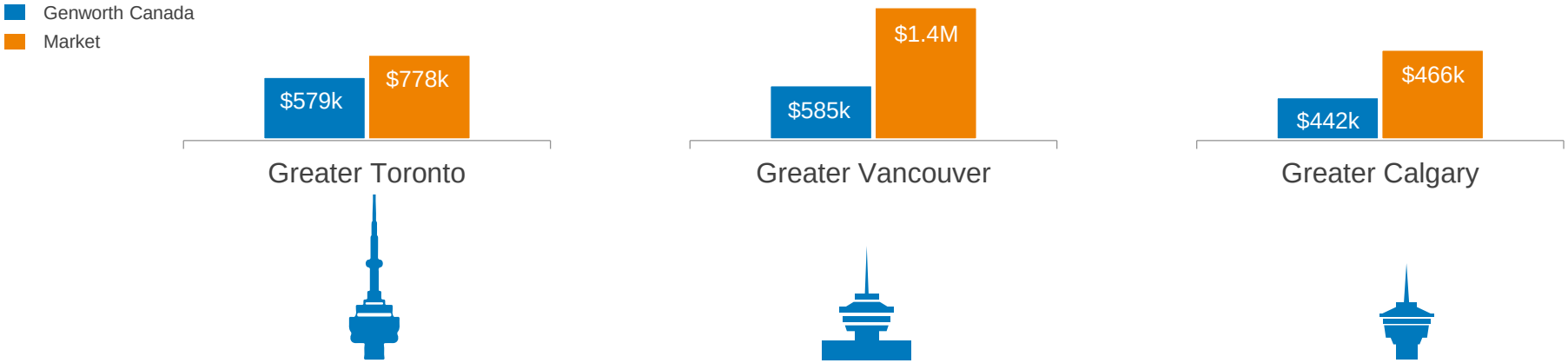
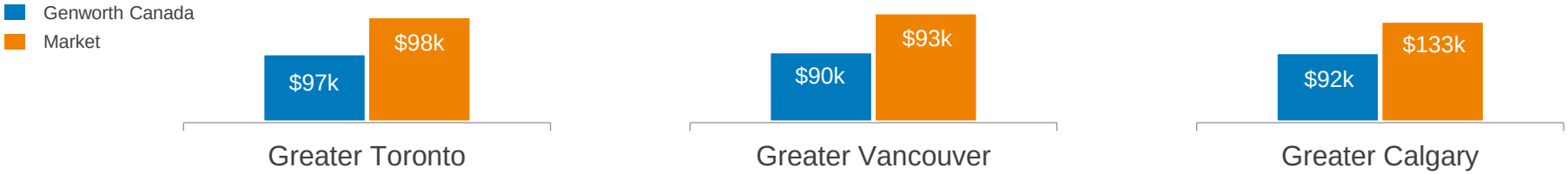
## Single-detached residential median prices well below market….




## ….with similar household median incomes




| | Greater Toronto | Greater Vancouver | Greater Calgary |
|---|---|---|---|
| % of loans with multiple borrowers | 70% | 72% | 70% |
| % of borrowers buying condos | 21% | 31% | 12% |

Source: Genworth internal data, market data median price (CREA); market income (calculated using Stats Canada national income and regional population)
Note: % of multiple borrowers and % of borrowers buying condos based on transactional NIW data as at Q3 '16 YTD.

# 2016 key accomplishments

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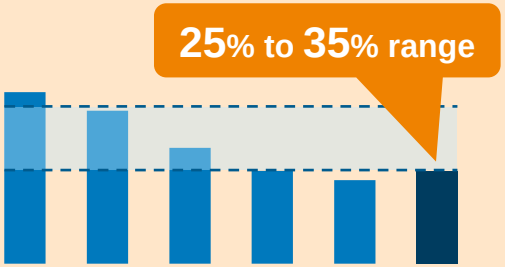
Risk **well-distributed**; portfolio **re-balancing** in response to tougher economic environment

High quality and diversified **insurance portfolio**[1]


**Portfolio insurance** market leader with approximately **50%** market share in 2016

**2016 loss ratio** trending towards lower half of range




**Proactive** engagement with regulator to **influence new capital framework**

**Strong financial performance; 5%** increase in quarterly dividend

**DRIVING VALUE THROUGH MORTGAGE INSURANCE THOUGHT LEADERSHIP**

Note: Company sources. Portfolio insurance market share based on Q215-Q216.
1. Credit score references the Q3 2016 YTD timeframe.

# Our environment today

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

## Key takeaways

- GDP growth projection supportive in 2017 (Canada 2.0%; US 2.1%)[1]
- Oil prices stabilizing

- Housing risk in Toronto and Vancouver remains elevated
- Government changes contributing to soft landing

- NIW quality & mix remains strong
- Mortgage reg. changes to have positive long-term impact on portfolio quality

- Mortgage reg. changes impacting market size, but driving safety and soundness
- New capital framework driving higher capital requirements
- Private MI PRMHIA limit increasing to $350 billion

**STABLE TO IMPROVING MACROECONOMIC ENVIRONMENT**

1. Source: GDP projections sourced from Bank of Canada Monetary Policy Report October 2016.

# Regulatory changes

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| Regulatory change | Business implications | Performance implications |
|---|---|---|
| Portfolio insurance 'Purpose Test' rules | Smaller portfolio insurance market size; opportunity for private mortgage insurance | ▪ Moderately lower net premiums written in the near term |
| Portfolio insurance product restrictions | Improved portfolio quality | |
| Mortgage rate stress test | Short-term reduction in transactional market size | ▪ Reduced loss ratio volatility due to higher premium rates |
| Risk sharing proposal | | |
| New capital framework | Premium rate increases required to address higher capital | Targeting pricing ROE of ~13% |

# Impact of rate 'stress test'

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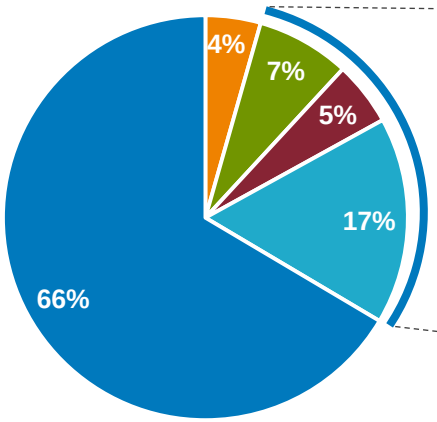
## Q3 YTD transactional NIW[1]

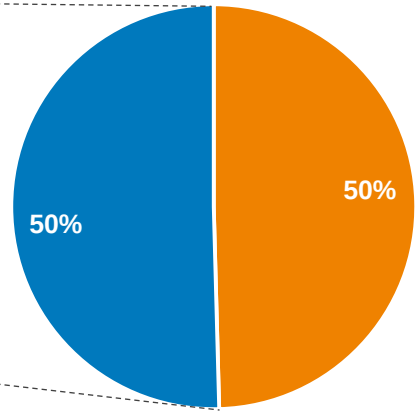
- Eligible NIW (within debt servicing limits)
- Both GDS and TDS breach
- TDS > 44% limit
- Ineligible products
- GDS > 39% limit




**Large proportion impacted by TDS breach only, which is within borrowers' control to change**

## GDS & TDS breach drill-down[2]

- Within 200 bps of limit
- >200 above limit




**Borrowers within 200 bps of GDS breach can reduce target house price by ~10% and qualify to make a purchase**

**BORROWER BEHAVIOUR EXPECTED TO EVOLVE….REDUCING THE IMPACT OF CHANGES TO 15%-25% OF 2017 TRANSACTIONAL NEW INSURANCE WRITTEN**

1. Product exclusions include: refinances, rentals, credit score <600, property value >$1MM excluded.
2. GDS/TDS re-calculated to determine eligibility under 4.64% interest rate

# Market evolution

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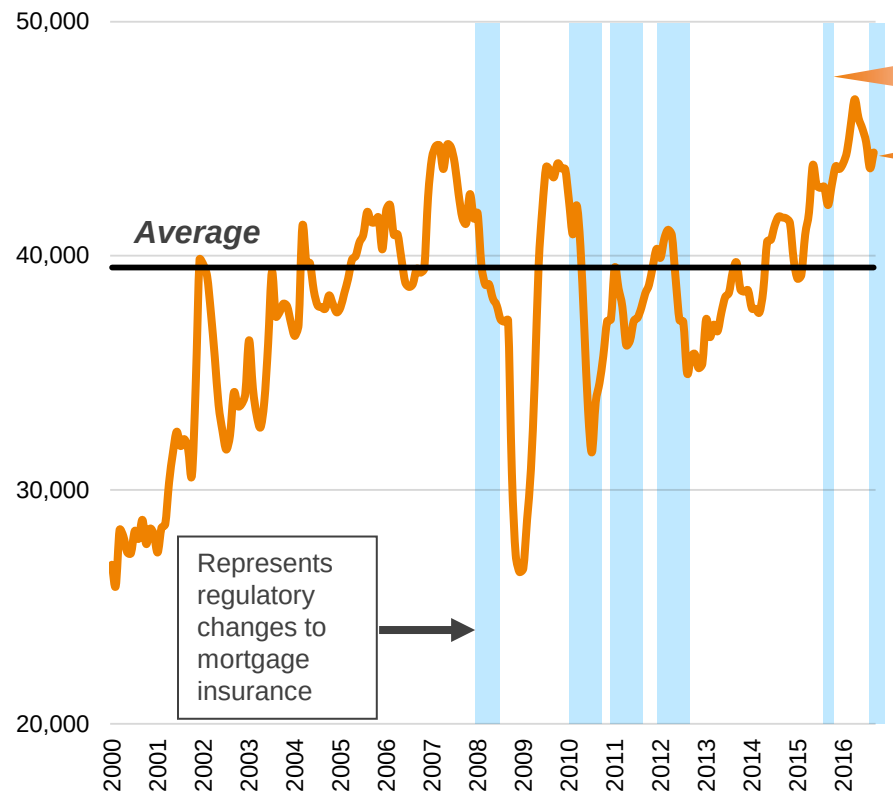
## Existing Canadian home sales

(Monthly, number of transactions)




### Recent mortgage rule changes

- **2015:** minimum down payment requirements increased for homes >$500,000
- **2016:** new qualifying rate requirements and product restrictions in portfolio insurance

- Six rounds of housing rule changes since 2008
- Housing activity typically rebounds within 6-12 months of change
- House price appreciation should return to more sustainable levels in 2017

**STRONG DESIRE FOR HOMEOWNERSHIP DRIVES MARKET RECOVERY**

Data Sources: CREA; all data is monthly and as at Q3'16.

# Strategic priorities

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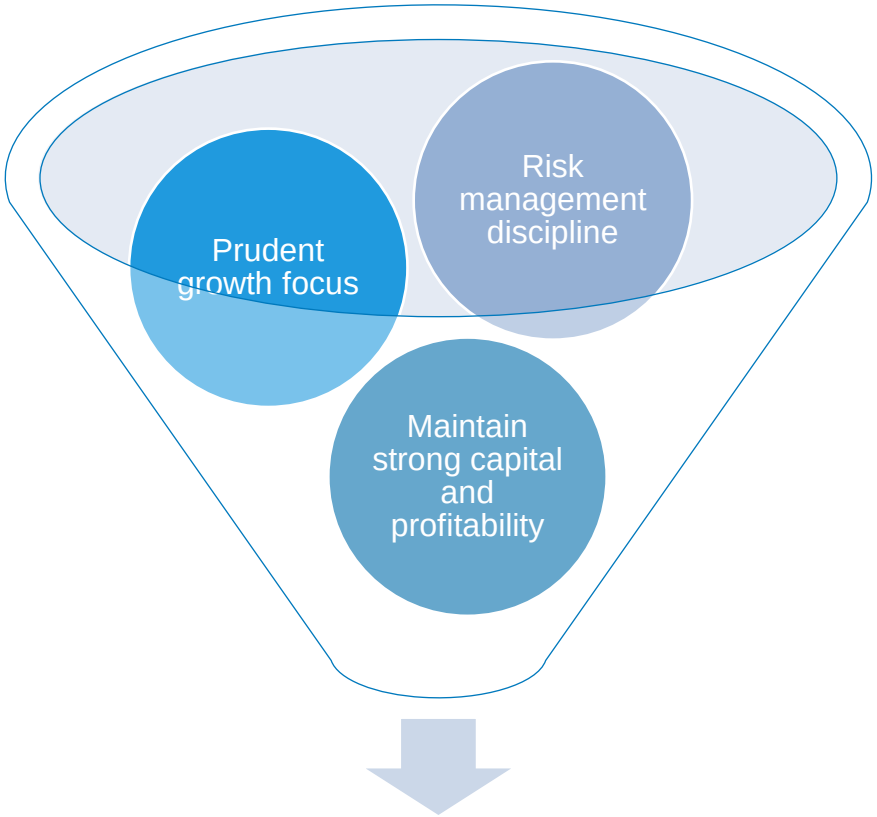
## Key risks

- Economic
- Housing
- Insurance Portfolio
- Regulatory

## Strategic priorities




## Key outcomes

- Modest market share accretion ✓
- Appropriately priced risk ✓
- High quality, diversified portfolio ✓
- Influence government policy ✓
- Capitalize on new opportunities ✓

**RESOURCES ALIGNED TO ADDRESS DYNAMIC ENVIRONMENT AND CAPITALIZE ON NEW OPPORTUNITIES**

# Strategic execution

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**1**

Invest in process innovation to drive **prudent market share expansion**

**2**

Drive pricing strategy for **appropriate premium rates** and timing of **implementation**

**3**

Maintain risk management and expense **discipline**

**4**

Leverage **government relations strategy** to influence regulatory environment

**5**

Explore **private mortgage insurance** strategy to differentiate MIC's offerings

**BUILDING ON SOLID BUSINESS FUNDAMENTALS**

# MIC investment thesis

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Potential for top-line growth through market size recovery, share growth, and premium rate increases

Seasoned risk management experience and high quality portfolio

Sound product design and strong regulatory environment

ROE improvement and emerging business opportunities

**How we measure success**

- **Market share** ✓
- **High quality, diversified portfolio** ✓
- **EPS, ROE and BVPS growth** ✓
- **Strong employee engagement** ✓

**PROVEN BUSINESS MODEL AND DEEP MORTGAGE INSURANCE EXPERTISE**

**Craig Sweeney**

Senior Vice President and Chief Risk Officer

# Dynamic risk management

# Insurance risk framework

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## RISK PILLARS

### Identify & assess key risks

- Macro-economic environment
- Housing market trends
- Regional risk factors

### Manage the quality of new business

- Underwriting fundamentals
- Risk limits and triggers
- Proprietary mortgage scoring model
- Robust quality assurance

### Portfolio risk management

- Portfolio analytics
- Identification of emerging loss trends
- Dynamic underwriting guidelines
- Proactive loss mitigation

## REGULATORY & LEGAL FRAMEWORK

### Strong regulatory framework

- Defined underwriting best practices (OSFI's B20 / B21 guidelines support safety and soundness)
- Borrower recourse
- Efficient and effective mortgage foreclosure process
- Risk-sensitive capital framework

# Drivers of losses on claims

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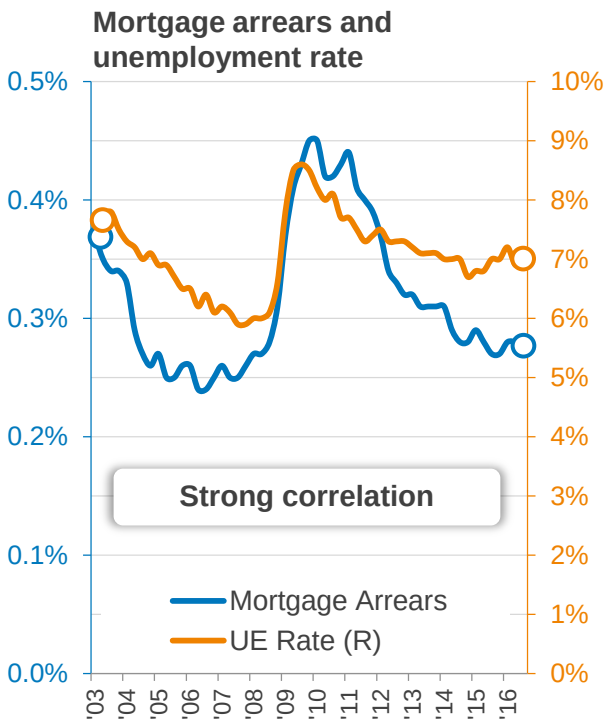
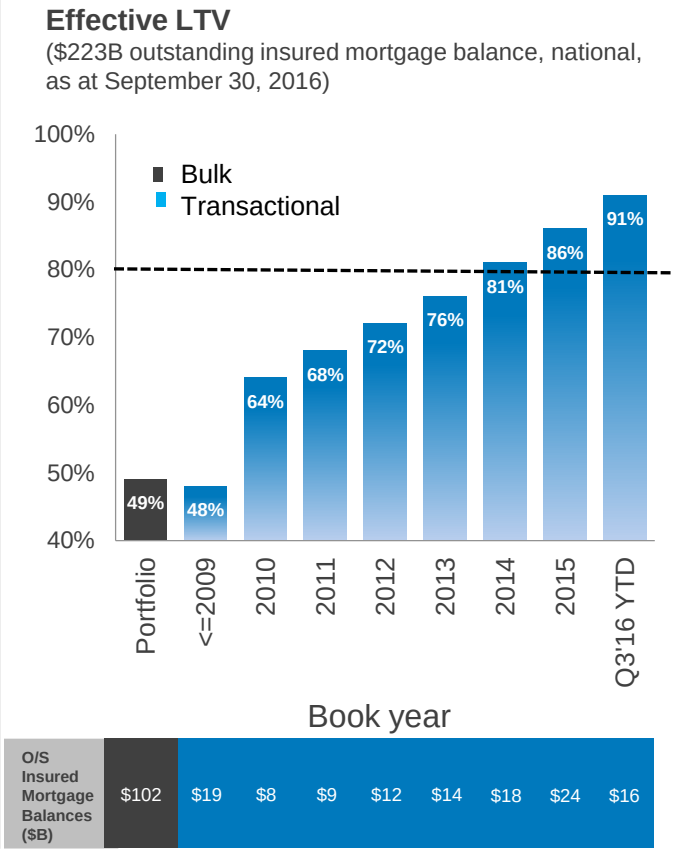
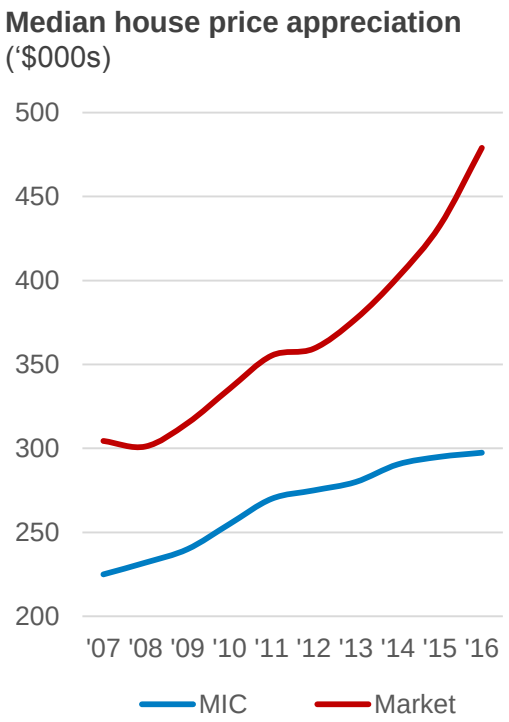
## 1. Unemployment




## 2. Portfolio quality




## 3. House prices




**UNEMPLOYMENT & PORTFOLIO QUALITY DRIVE PROBABILITY OF DEFAULT**

**PRICE APPRECIATION & EFFECTIVE LTV DRIVE LOSS GIVEN DEFAULT**

Sources: (UE Rate) Statistics Canada, (Mortgage arrears) Canadian Bankers Association, (Eff LTV) Company sources; (Median price) CREA
All data as at Q3'16 except mortgage arrears (Q2'16).

# Canadian environment

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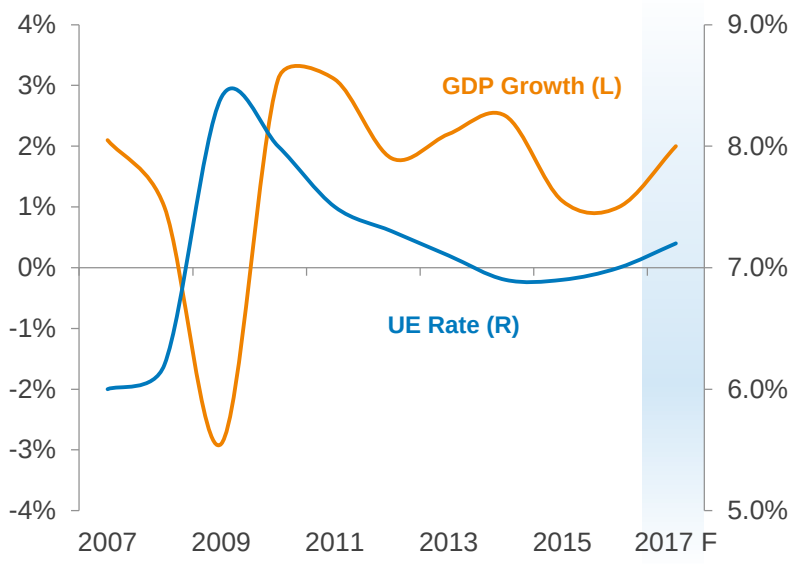
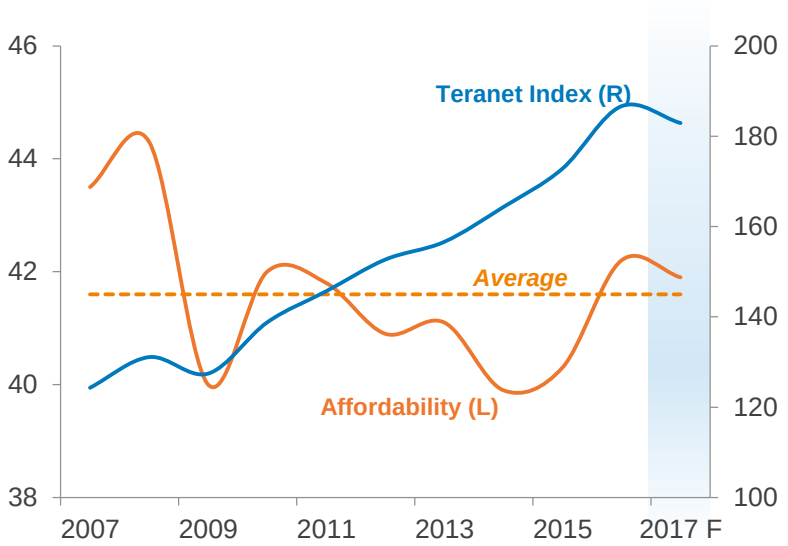
## Economic Indicators




GDP growth expected to improve in 2017. Unemployment rate expected to be relatively stable

## Housing Affordability[1] (Aggregate)




*1 . Affordability measures the proportion of median pre-tax household income needed to service mortgage payments (P+I), property taxes and utilities. Aggregate refers to all property types.*

Flat to modest house price depreciation expected in 2017

**STABLE TO IMPROVING MACROECONOMIC ENVIRONMENT**

Data sources: GDP & Unemployment Rate (Statistics Canada); Teranet Index (Teranet); Affordability (RBC Economics); 2017 forecast as per management discretion.

# Regional risk assessment

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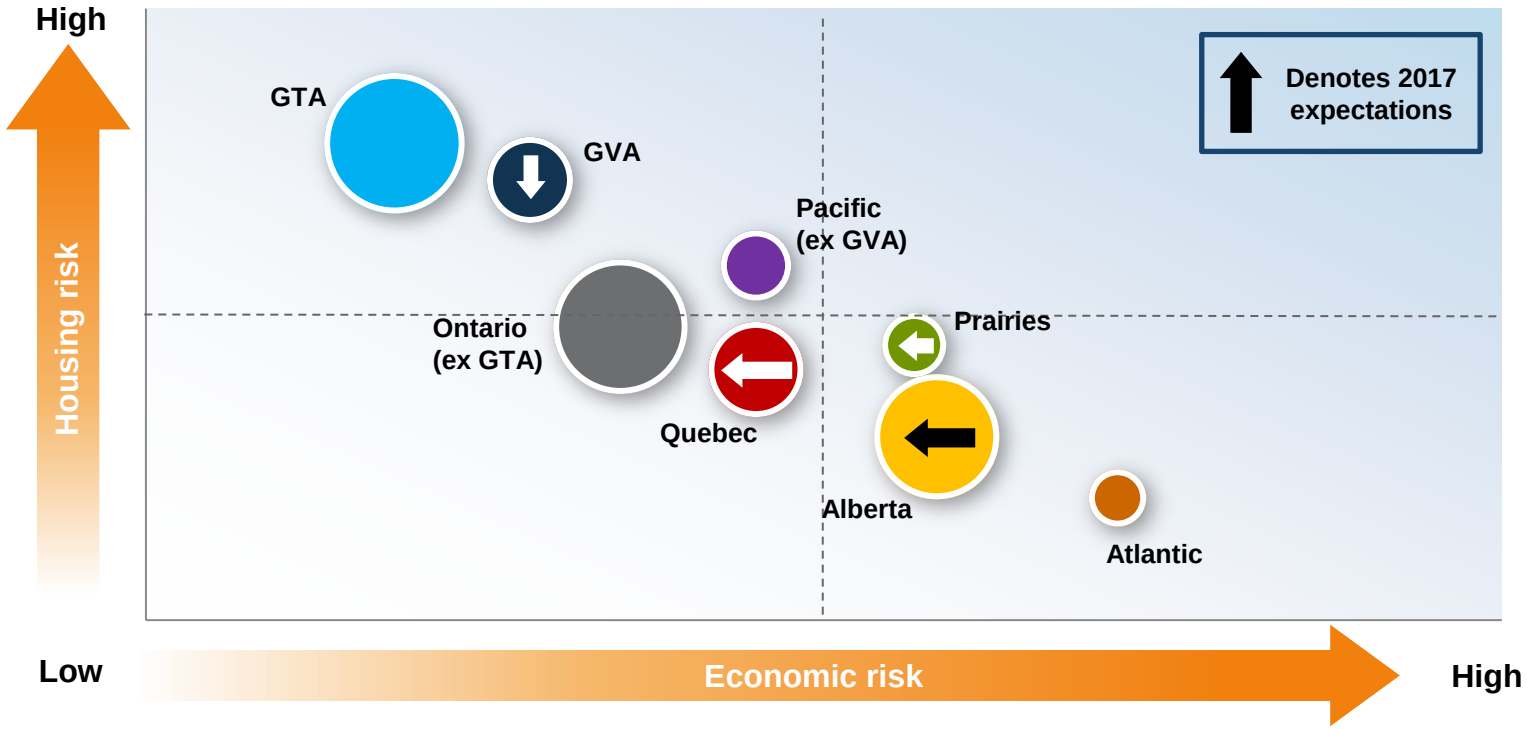
**Key Indicators**

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




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

Elevated **housing risk** in GTA

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

Balanced **risk profile** in Quebec and Ontario

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

# Outstanding insured mortgage balances

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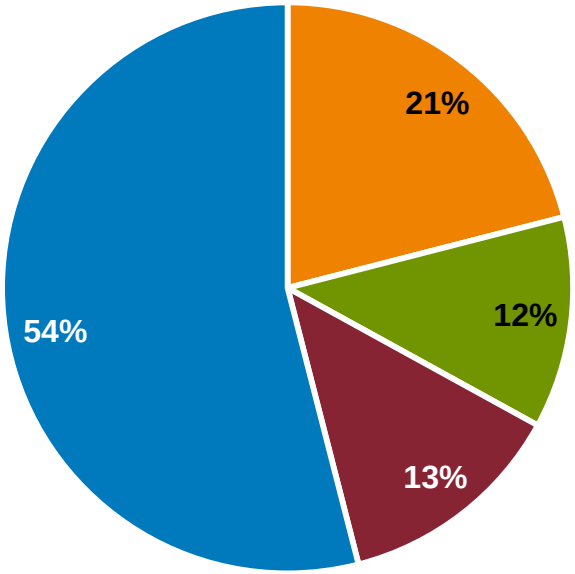
## Transactional Insurance

### Outstanding insured mortgage balance $121B

(effective LTV by loan bucket, % of transactional business)

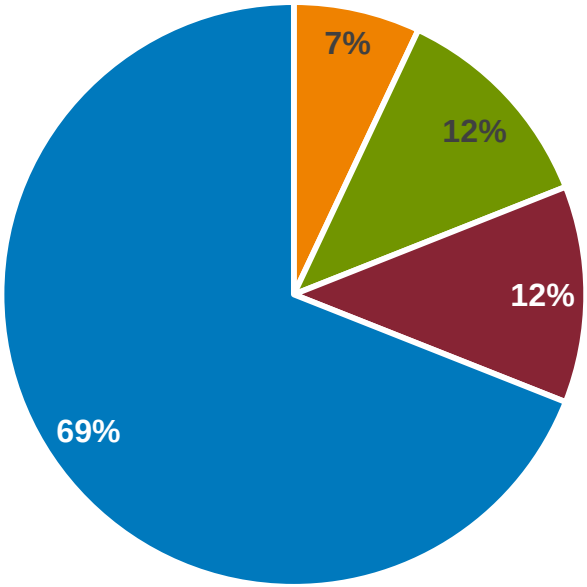



▪ > 90% ▪ 85.01-90% ▪ 80.01-85% ▪ <= 80%

## Portfolio Insurance

### Outstanding insured mortgage balance $102B

(effective LTV by loan bucket, % of portfolio business)




▪ > 75% ▪ 70.01-75% ▪ 65.01-70% ▪ <= 65%

**EMBEDDED EQUITY REDUCES OVERALL RISK IN PORTFOLIO**

Note: based on Company's estimate of outstanding balance of insured mortgages as at September 30, 2016 of $223B.

# Strong portfolio quality – credit score

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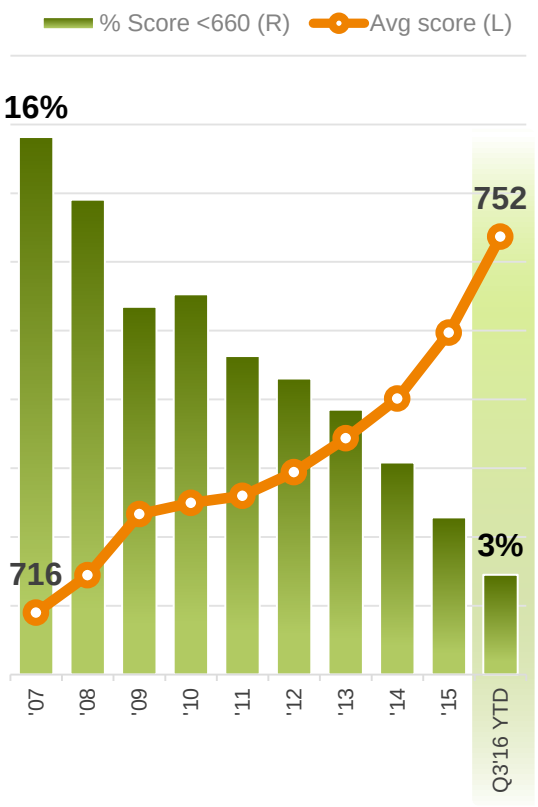
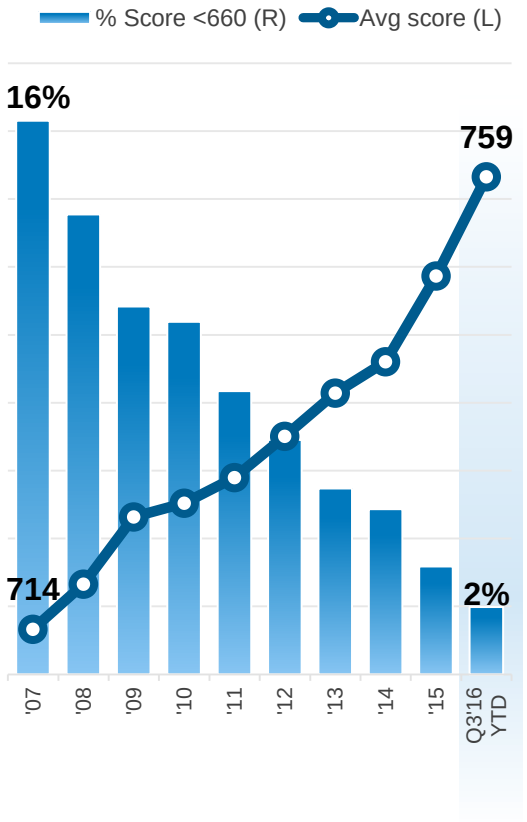
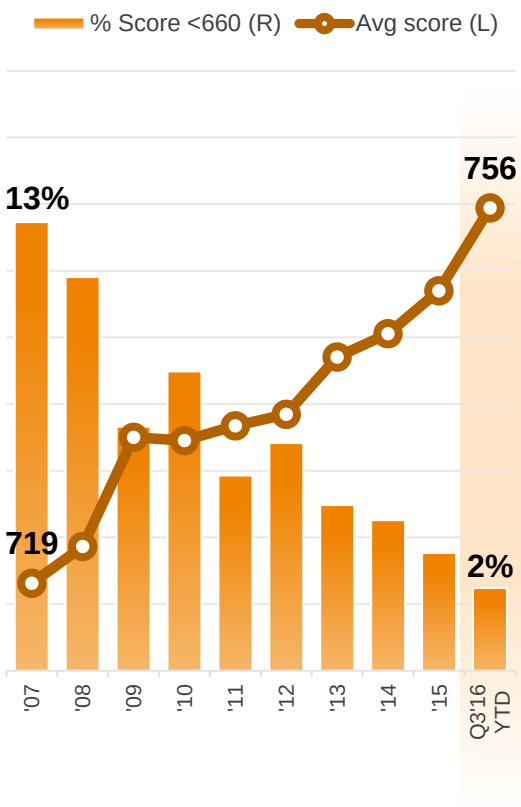
## Canada




## Greater Toronto Area




## Greater Vancouver Area




**PORTFOLIO QUALITY SIGNIFICANTLY IMPROVED COMPARED TO '07/08**

Note: Company sources for transactional new insurance written.

# Limiting stacked risk factors

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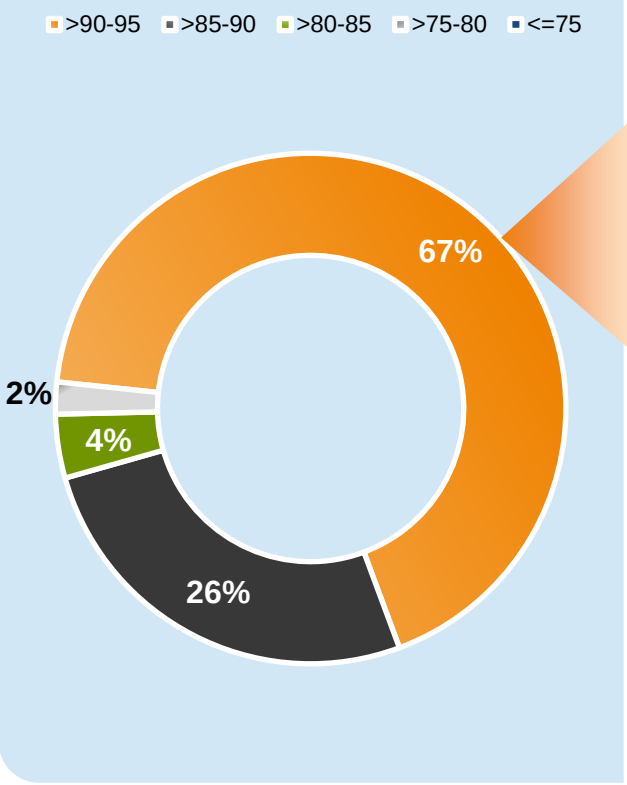
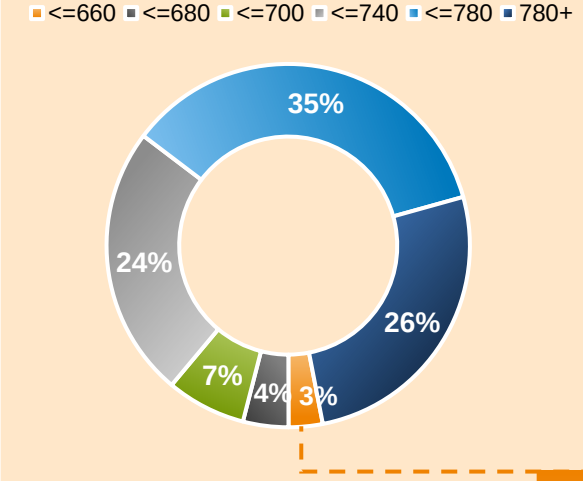
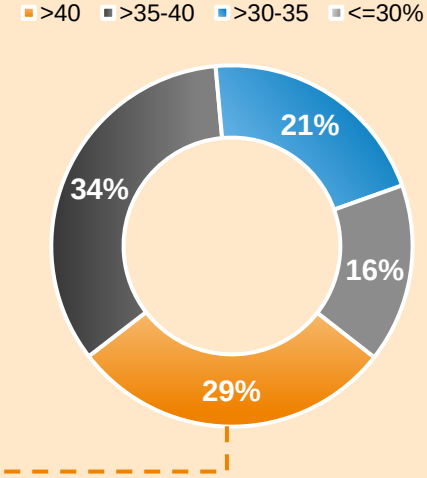
## LTV mix - transactional




## 95 LTV – credit score




## 95 LTV – TDSR




## Stacked risks (% of NIW)

| | Halifax | Montreal | Ottawa | Toronto | Calgary | Vancouver | National |
|---|---|---|---|---|---|---|---|
| **2016** | 0.6% | 0.1% | 0.4% | 0.3% | 0.5% | 0.2% | **0.4%** |
| **2015** | 0.8% | 0.8% | 1.2% | 0.7% | 0.9% | 0.8% | **1.0%** |

**DYNAMIC RESPONSE TO INCREASED ECONOMIC AND HOUSING RISK IN 2016**

Note: Company sources.
2016 stacked risks based on Oct'15 to Sep'16 New Insurance Written (NIW), purchase only, excludes Alt-A.
2015 stacked risks based on July '14 to June '15 New Insurance Written (NIW), purchase only deal, excludes Alt-A.
Stacked Risk = >90% LTV and <= 660 score and >40 total debt service ratio (TDSR).

# Early term delinquency trend

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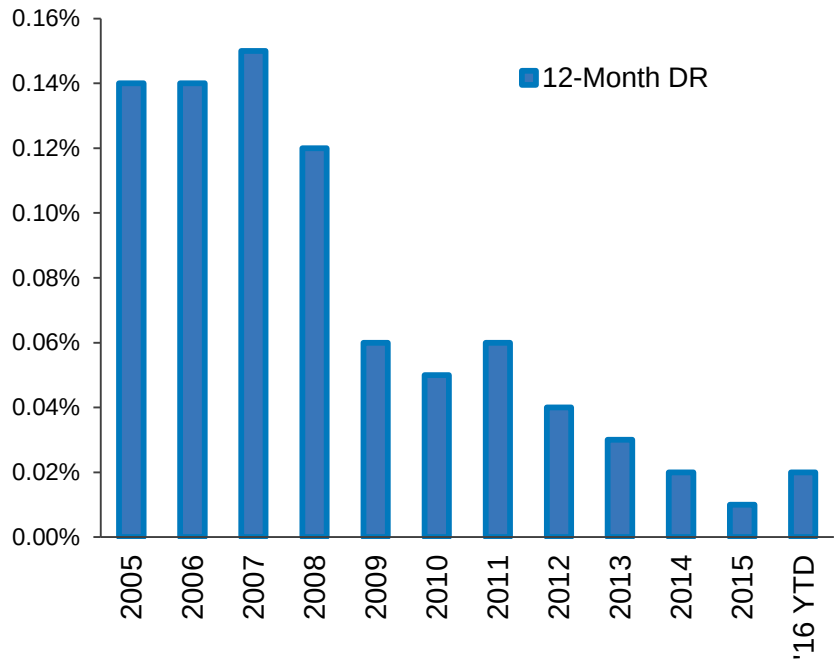
## 12-month Delinquency Rate (DR) Trend[1]




- Measure of underwriting quality and potential borrower misrepresentation
- B20/B21 guidelines support strong underwriting discipline
- Key MIC risk processes and controls;
  - Lender underwriting quality assurance
  - Industry information sharing
  - Collateral model tests for inflated values

**RISK MANAGEMENT PROCESSES DRIVE BETTER PORTFOLIO QUALITY**

Note: Company sources as at Q3'16; MI (transactional) data only.
1. *Represents loans that go into delinquency status within the first 12 months.

# Proactive risk management

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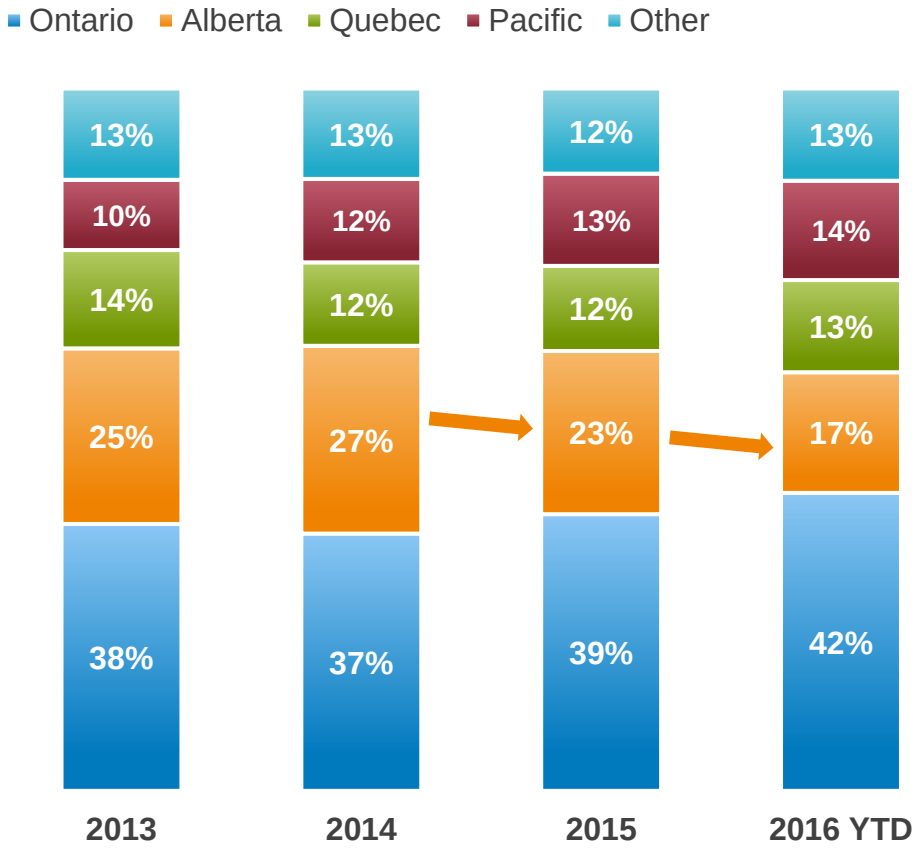
## Regional NIW[1] dispersion (Transactional)[2]




## Regional Highlights

**Underwriting actions** resulting in smaller but better quality Alberta portfolio in 2016

**Strong economic conditions** in Ontario. Key growth region in 2016 & 2017

**Increased focus on appraisals** and quality of real estate in Greater Vancouver Area

**GEOGRAPHICALLY DIVERSIFIED … ALBERTA EXPOSURE REDUCED TO 17%**

Note: Company sources.
1. NIW represents new insurance written.
2. Pacific includes BC and Territories.

# Alberta: improving portfolio quality

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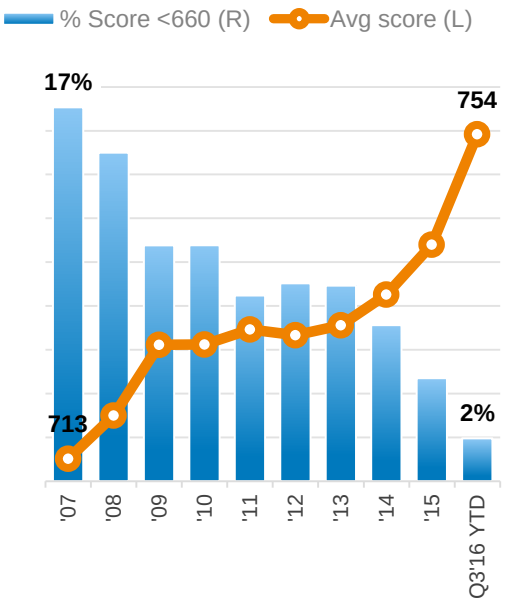
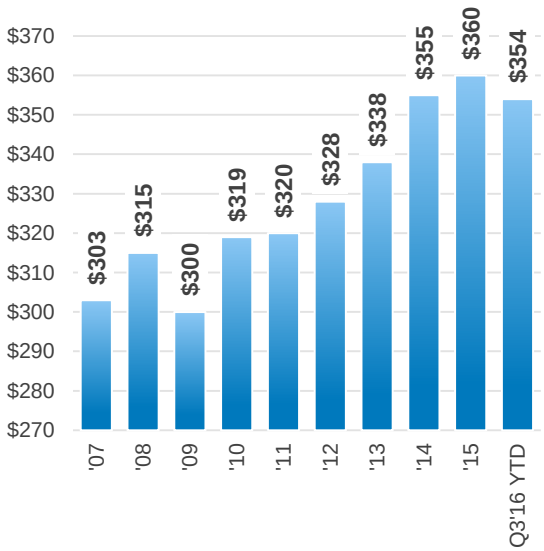
## Credit score



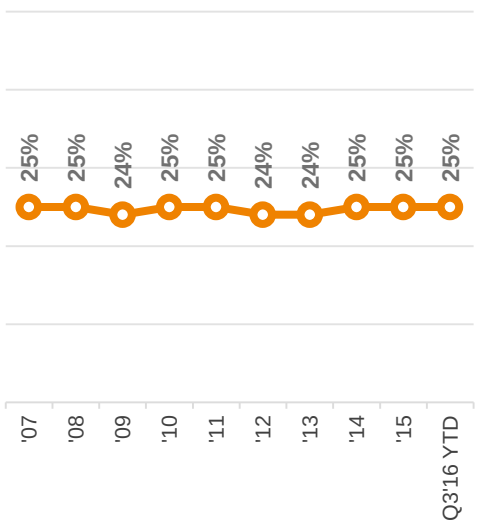

## Median home price

(In '$000s)




## Gross debt service ratio

(%)




## Highlights

**Steady** credit score improvement year-over-year

**Stable** home prices for First Time Homebuyer

Relatively **stable GDS** from Alberta borrowers

**ALBERTA PORTFOLIO QUALITY SIGNIFICANTLY IMPROVED COMPARED TO '07/08**

Note: Company sources for transactional new insurance written.

# Positive seasoning trends

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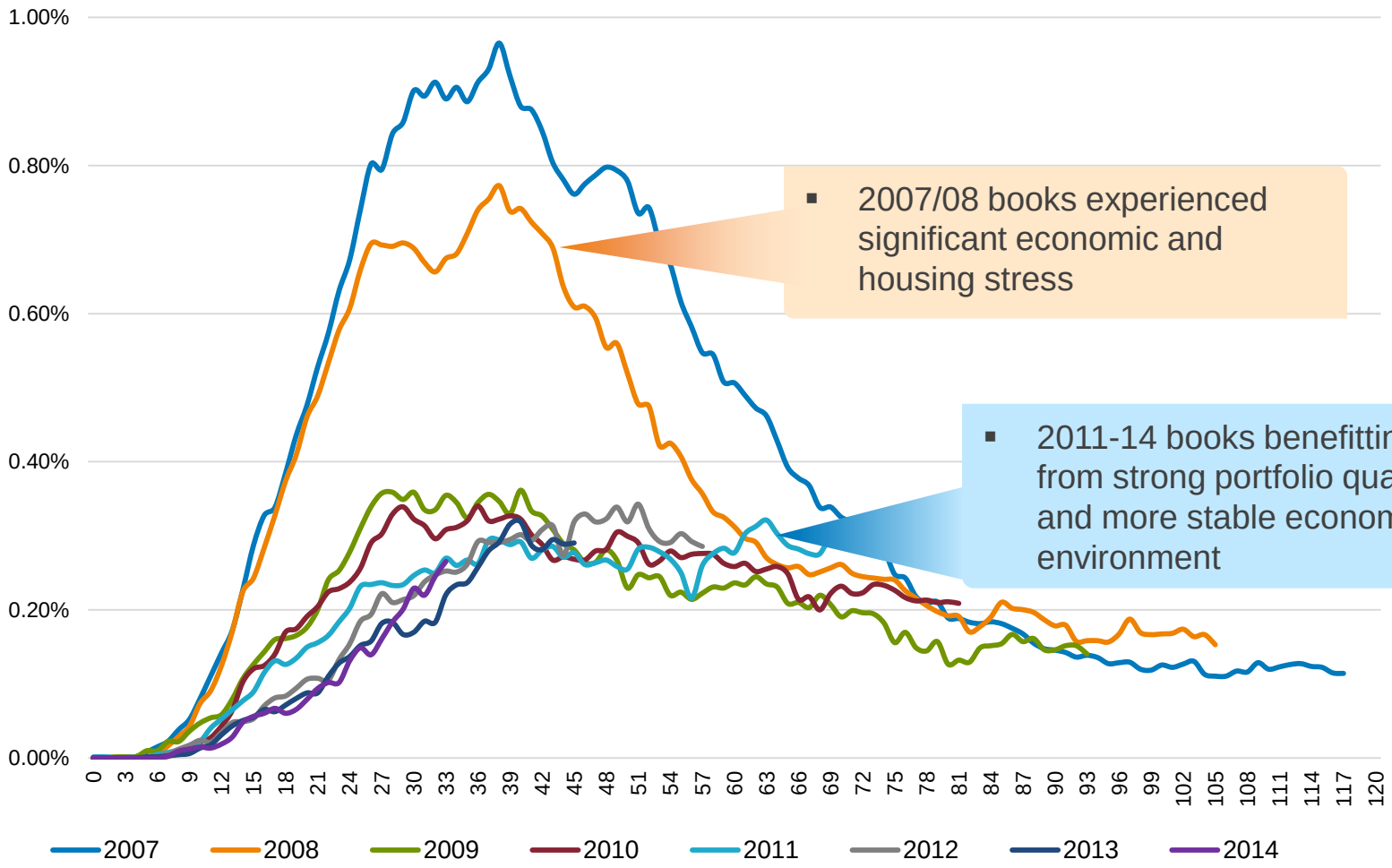
## Book year delinquency development




- 2007/08 books experienced significant economic and housing stress
- 2011-14 books benefitting from strong portfolio quality and more stable economic environment

Note: delinquency rate based on original insurance in-force.

# Delinquency performance

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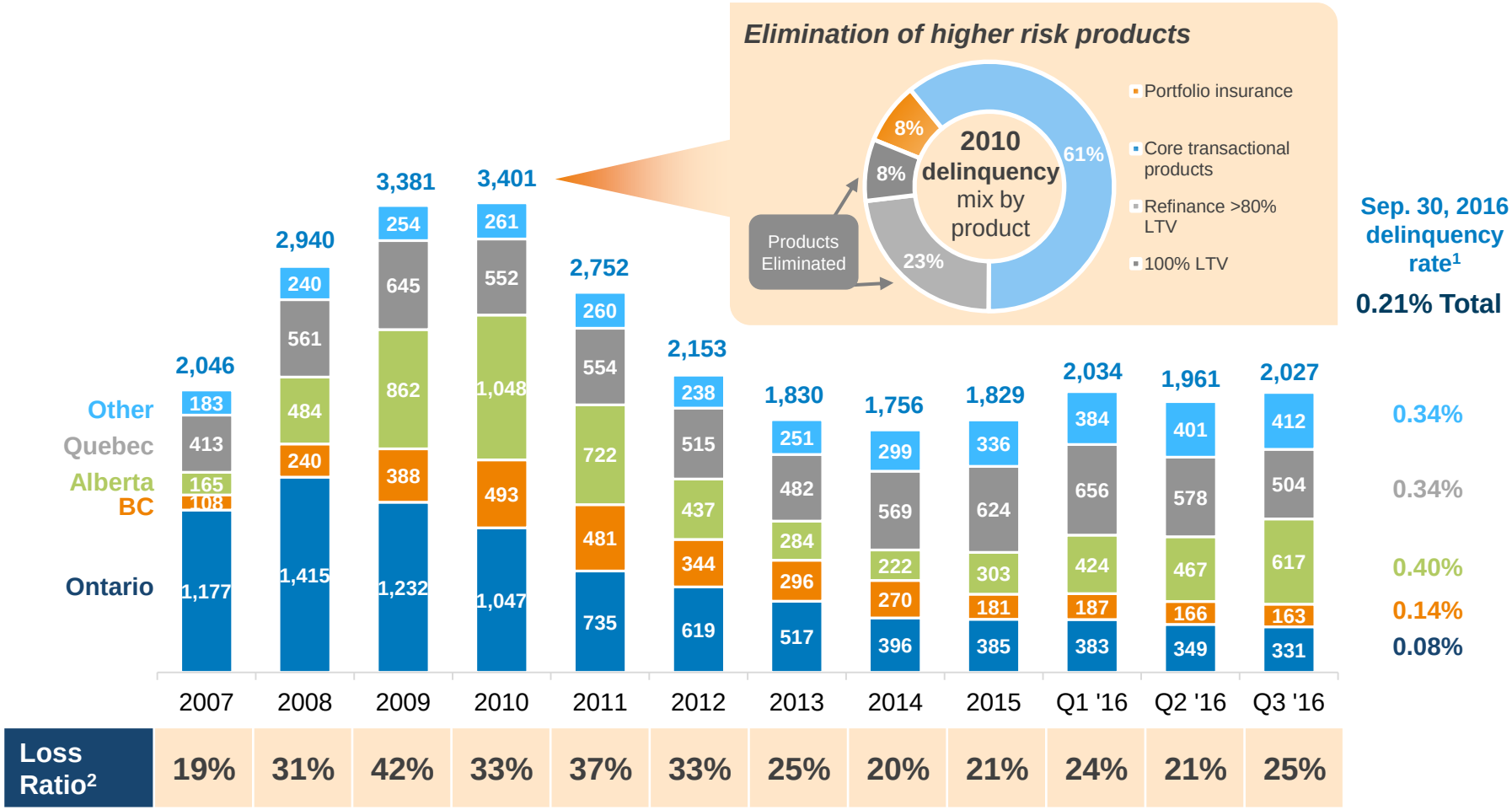
## Number of reported delinquencies




Note: Company sources.
1. Based on outstanding insured mortgages as at Sep. 30, 2016.
2. Loss ratio in 2009 excludes the impact of the change to the premium recognition curve in the first quarter of 2009.

# 2017 annual loss ratio expectations

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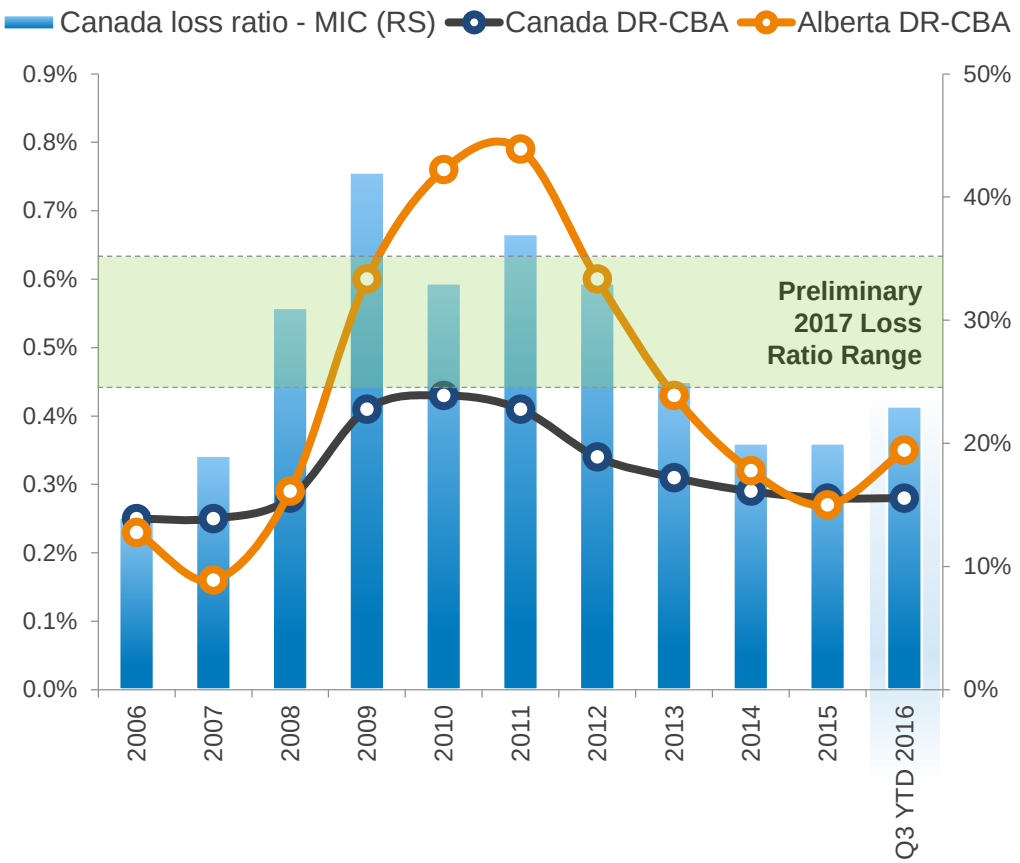
## MIC loss ratio & CBA delinquency rates




- WTI price-per-barrel in the $40-60 US range
- Canadian dollar remains stable in the 70-80 cent range
- Modest increase in mortgage interest rates

| 2017 assumptions | | |
|---|---|---|
| | UE Rate | House Prices |
| Alberta | ~8.1% | (4.0%) |
| National | ~7.2% | (2.0%) |

**PRELIMINARY 2017 ANNUAL LOSS RATIO RANGE: 25% TO 35%**

Note: 2017 assumptions based on Company estimates; denote exit rates.
Data Sources: Canadian Bankers Association, Company sources; all data as at Q3'16 except CBA delinquency rates (Q2'16)
2009 excludes the impact of the change to the premium recognition curve in Q1'09

# Key takeaways

Genworth Canada

- Strong portfolio quality
- Underwriting actions reducing risk
- Well positioned to address regional economic pressures
- 2017 annual loss ratio range: 25% to 35%

**Prudent** risk management

**Philip Mayers**

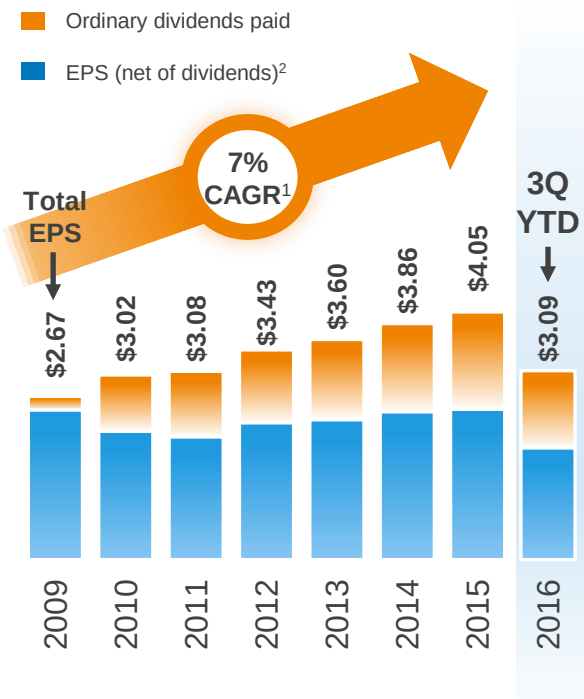
Senior Vice President and Chief Financial Officer

# Financial strategy and insights

# Creating shareholder value

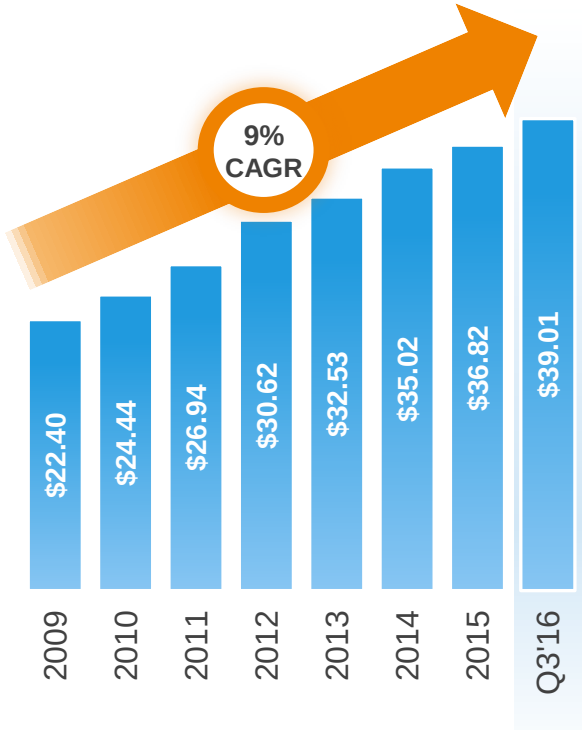
Genworth Canada

## Operating earnings per share
(C$, diluted)




***Seven consecutive years of EPS growth***

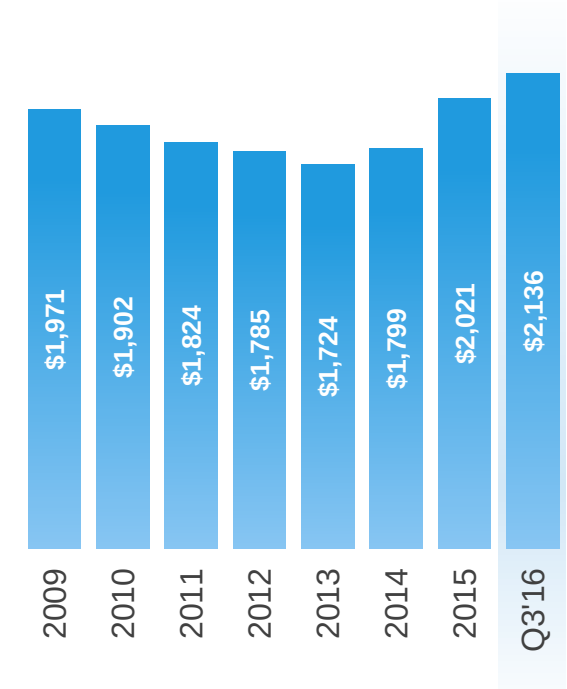
## Book value per share
(C$, including AOCI, diluted)




**Buybacks & special dividends**
(C$ millions)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 0 | 325 | 209 | 0 | 105 | 116 | 50 | 0 |

## Unearned premiums reserve
(C$ millions)




***Unearned premiums growth driven by strong recent top-line***

**EMBEDDED PROFITS IN $2.1 BILLION UNEARNED PREMIUMS RESERVE DRIVING ONGOING PROFITABILITY**

1. EPS CAGR represents compounded annual growth rate from 2009 to 2015.
2. 2013 operating EPS excludes the impact of the government guarantee exit fee reversal. Reported operating EPS (diluted) in 2012 was $4.67. 2009 operating EPS excludes the impact of the change to the premiums earned recognition curve. Reported operating EPS (diluted) in 2009 was $3.01.

# Strong balance sheet

Genworth Canada

| ($ millions) | Sept. 30, 2016 | Dec. 31, 2015 |
|---|---|---|
| **Assets** | | |
| Cash and investments | $ 6,248 | $ 5,917 |
| Other assets | 338 | 322 |
| **Total assets** | **$ 6,586** | **$ 6,239** |
| **Liabilities** | | |
| Loss reserves | 161 | 132 |
| **Unearned premiums** | **2,136** | **2,021** |
| Long-term debt | 433 | 433 |
| Other liabilities | 233 | 233 |
| **Total liabilities** | **2,963** | **2,819** |
| **Shareholders' equity (incl. AOCI)** | **3,623** | **3,420** |
| **Total liabilities and shareholders' equity** | **$ 6,586** | **$ 6,239** |

High quality investment portfolio ~95% investment grade fixed income

$2.1 billion of unearned premiums could include significant embedded profits

| | |
|---|---|
| **Unearned premiums*** | **$2.1 B** |
| Future losses & expenses | (1.2) |
| Future pre-tax income | 0.9 |
| **Future net income contribution** | **$0.7 B** |
| **Assumes future combined ratio of 55%* | |

**Translates to over $7 of unrecognized book value per share**

Strong capital position to support transition to new capital framework

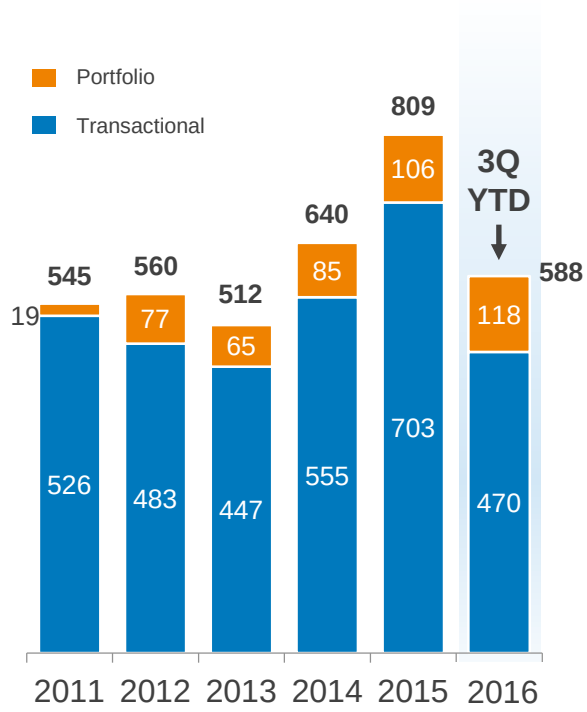
**STRONG FINANCIAL FOUNDATION….SIGNIFICANT EMBEDDED FUTURE PROFITS**

Note: Amounts may not total due to rounding.

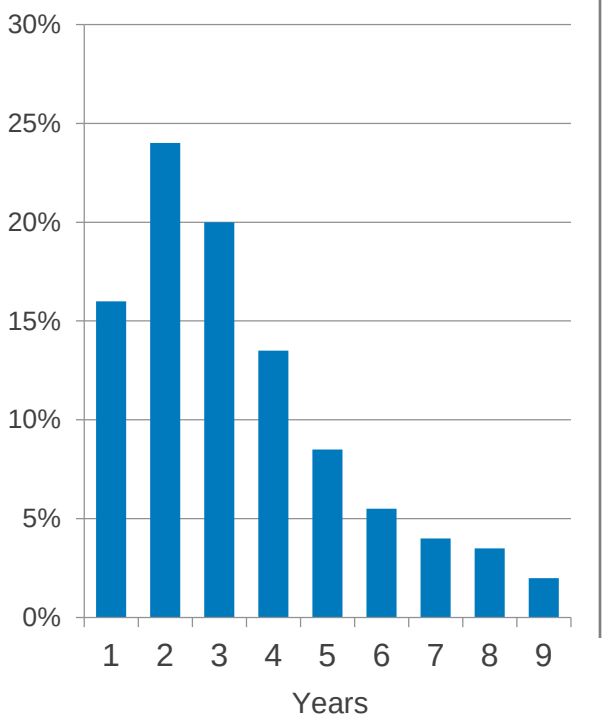
# Premiums earned growth

Genworth Canada

## Premiums written
(C$, millions, by type of business)

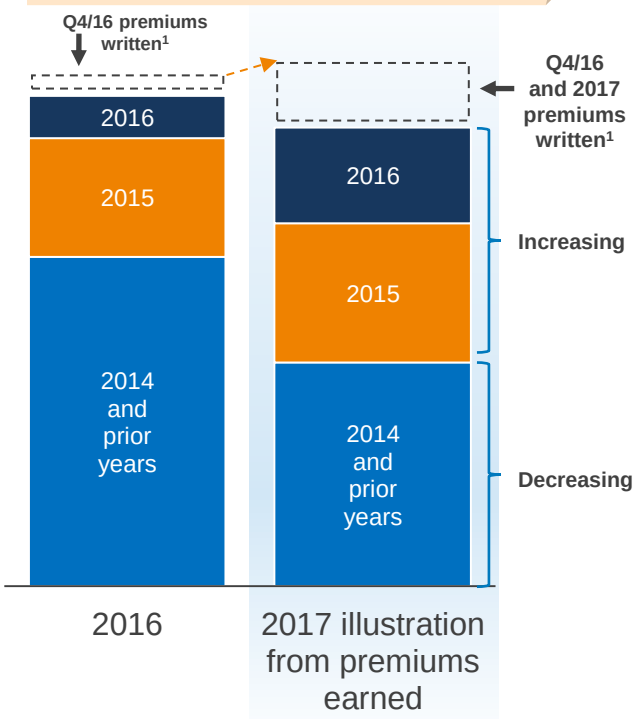



## Earnings curve




## Premiums earned
(Contribution by book year)[1]

**Run-off of unearned premiums reserve will drive 2017 premiums earned**




**PREMIUMS EARNED EXPECTED TO GROW MODESTLY IN 2017….**
**…. AFTER Q3'16 YTD INCREASE OF 9% YEAR-OVER-YEAR**

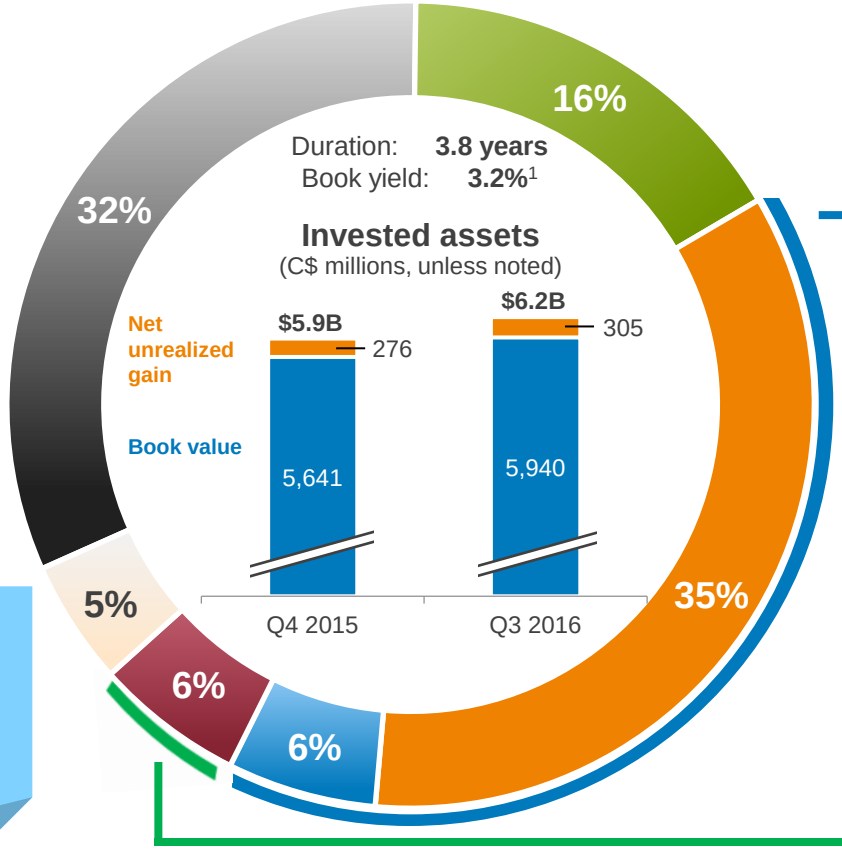
Note: Earnings curve assumes no material change in the curve with respect to above depiction.
[1] Estimates of Q4/16 and 2017 premiums written are for illustrative purposes only and are not to scale.

# High quality investments

Genworth Canada

## Total invested assets
(Market value of $6.2 billion)

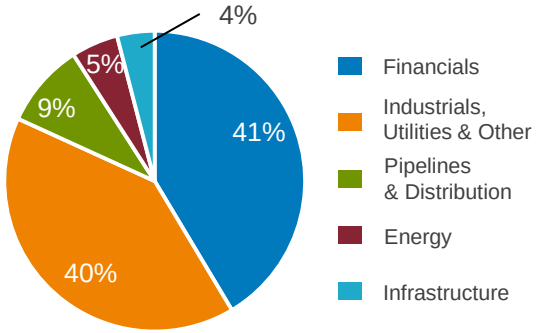
- Federals
- Provincials
- Investment grade corporates[2]
- Emerging markets debt[3]
- Preferred shares
- Cash & short term investments



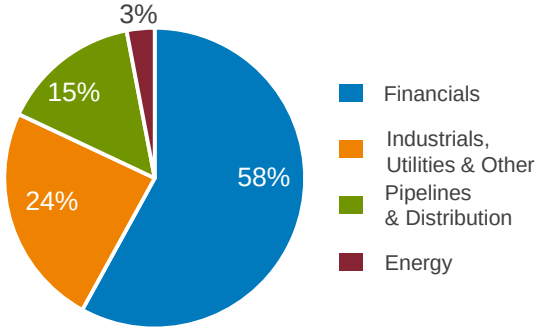

***$104 million of maturities in Q4 2016 and a further $471M in 2017***

## Industry / Sector concentration

### *Corporate bonds & emerging market debt*
(41% of portfolio)




### *Preferred shares*
(6% of portfolio)



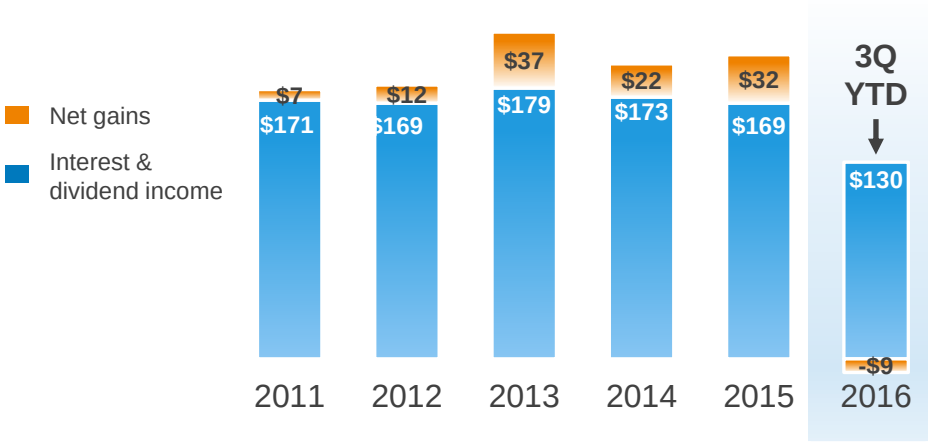

**MAINTAINING QUALITY FOCUS IN LOW RATE ENVIRONMENT**

Note: Company sources.
1. Book yield represents pre-tax equivalent book yield after dividend gross-up of portfolio (as at September 30, 2016).
2. Market value, includes CLOs

# Investments generate steady income stream

Genworth Canada

## Historical performance




| | 2011 | 2012 | 2013 | 2014 | 2015 | 3Q YTD 2016 |
|---|---|---|---|---|---|---|
| AUM (C$B) | 4.3 | 5.4 | 5.4 | 5.4 | 5.9 | 6.2 |
| Pre-tax book yield[1] | 4.3% | 4.0% | 3.7% | 3.5% | 3.3% | 3.2% |
| After-tax book yield | | | | | 2.4% | 2.4% |

## Yield and duration

(by asset class)

| Based on forward curve at Dec. 1, 2016 | Current book yield[1] | Current duration Sept. 30/16 (years) | 1-year forward rates[2] |
|---|---|---|---|
| Cash & short-term | 0.51% | 0.1 | 0.50% |
| Federal agency bonds[3] | 2.10% | 3.8 | 2.05% |
| Provincial gov't bonds | 3.50% | 4.8 | 2.00% |
| Corporate bonds (Single A) | 3.30% | 3.5 | 2.05% |
| Emerging market debt | 3.69% | 5.5 | 3.60% |
| Preferred shares | 6.70% | 4.9 | 6.70% |
| Total | 3.20% | 3.8 | |

## Investment priorities

- Targeting book yield around 3.2% with duration around 3.8 years
- Rate reset preferred shares offer higher yields and negative correlation to rising interest rates
- Hedging a portion of interest rate risk using fixed-for-floating swaps (approx. 45% currently hedged)

1. Pre-tax equivalent yield including gross-up of dividend income.
2. As at December 1, 2016. 3. Federal government bonds constitute government agency bonds and NHA MBS.

# Overview of new capital framework

Genworth Canada

**Total Assets Required =**

**Base Requirement**

More Risk Sensitive Based on:

- Outstanding Balance
- Modified LTV (outstanding balance / original property value)
- Remaining Amortization
- Credit Score

+

**Supplementary Requirement**

Triggered When Price to Income Metric Exceeds OSFI Prescribed Threshold:

- Toronto
- Vancouver
- Calgary
- Edmonton
- Victoria

-

**Premium Liabilities**

- Unearned Premiums Reserve
- Reserve for Incurred But Not Reported Losses on Claims

**= Capital Required for Insurance Risk**

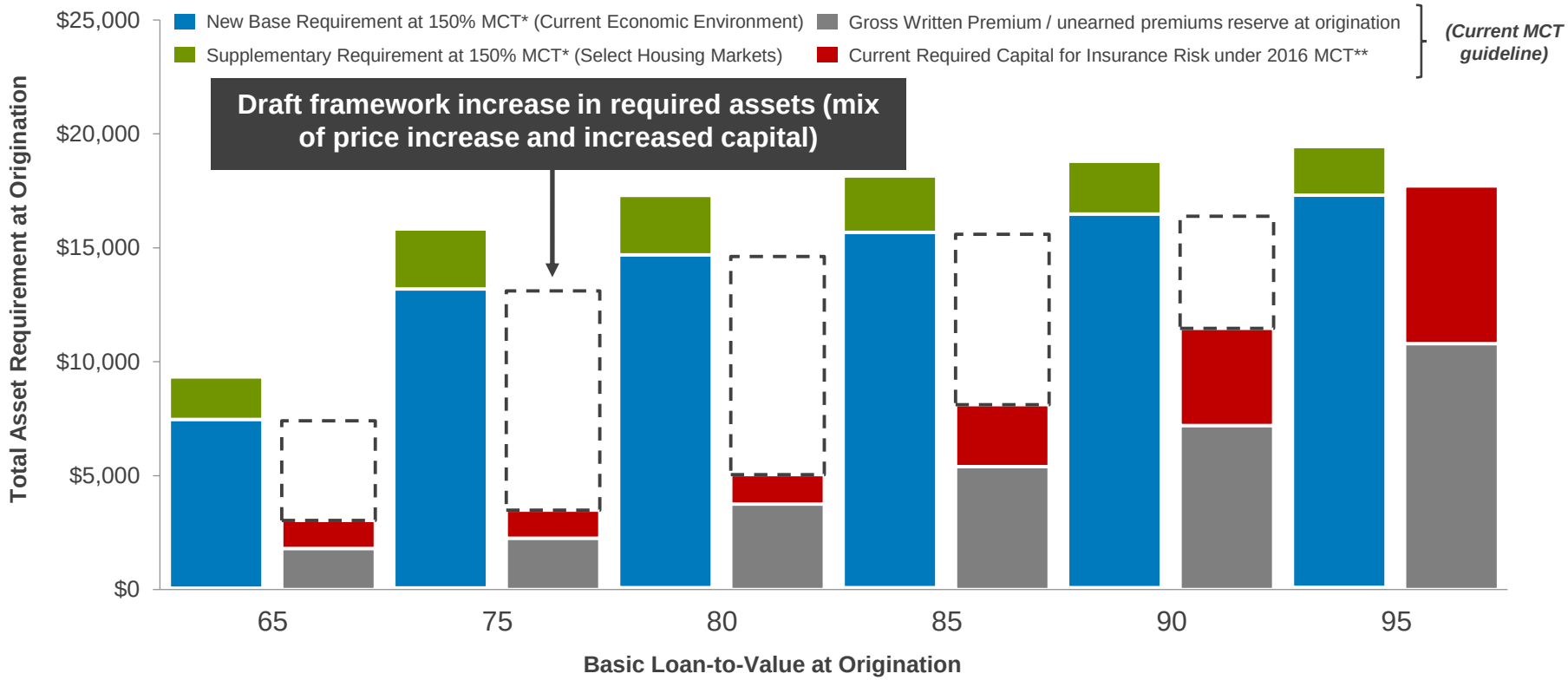
**CREATES APPROPRIATE PRICING INCENTIVE .... FOR EXAMPLE, HIGHER PREMIUM RATE REDUCES CAPITAL REQUIREMENT**

# New capital framework LTV illustration

Genworth Canada

## Total Asset Requirement by LTV (new vs. current framework, by LTV) at origination

(730 credit score at issue; $300k mortgage)




## Highlights

- Premium rate increases likely in 2017 in response to higher capital levels from proposed base and supplementary requirement

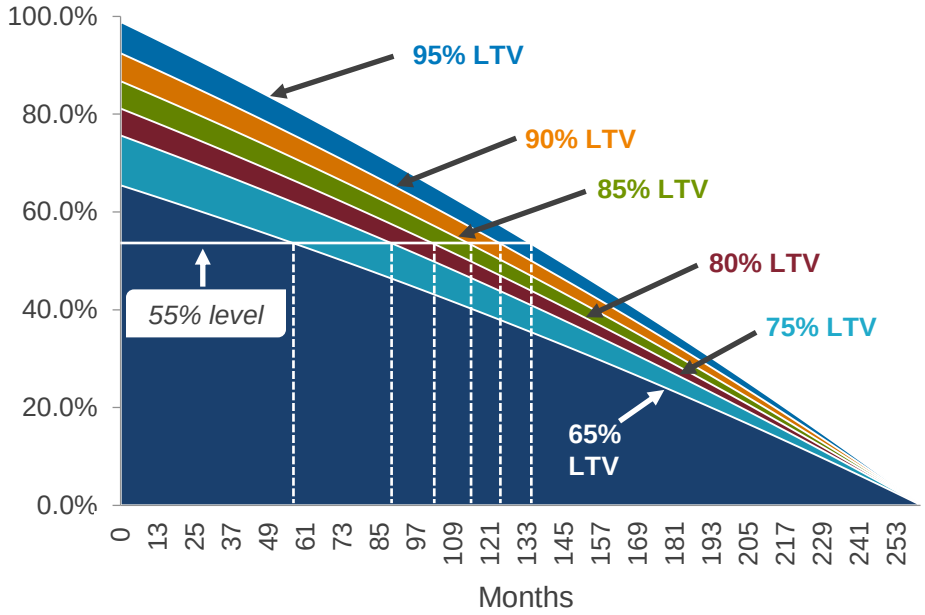
Table above based on Sept. 23rd, 2016 OSFI draft advisory entitled "*Capital Requirements for Federally Regulated Mortgage Insurers*".
* New Base Requirement and New Combined Base & Supplementary Requirement are shown at 150% MCT.
** Current Required Capital for insurance risk is calculated at 220% MCT.

# New framework – Runoff by LTV

Genworth Canada

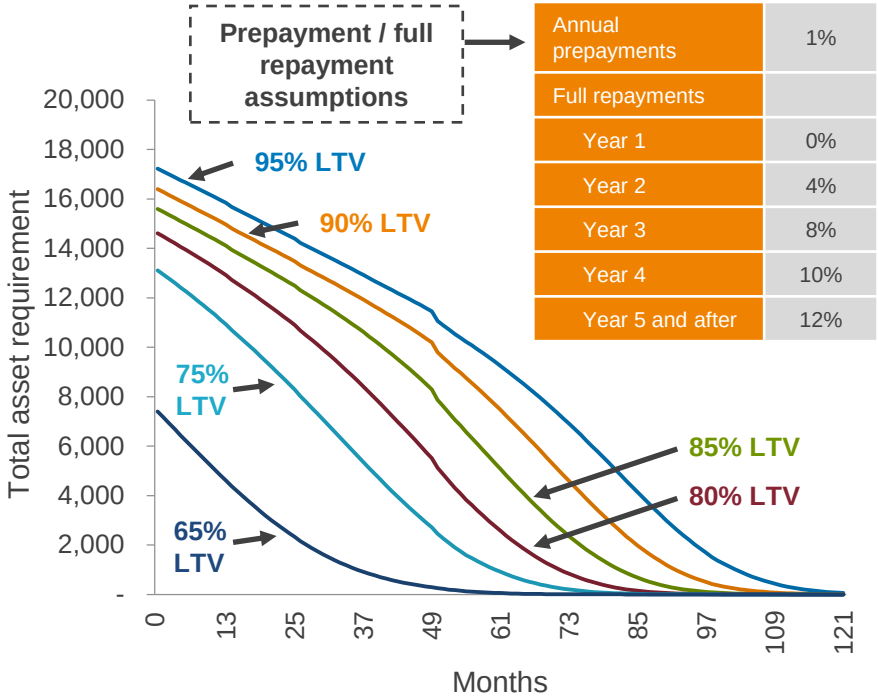
## Modified LTV as loan ages

(730 credit score at issue; $300k mortgage)




## Total asset requirement run-off[1]

(730 credit score, $300k mortgage)




## Highlights

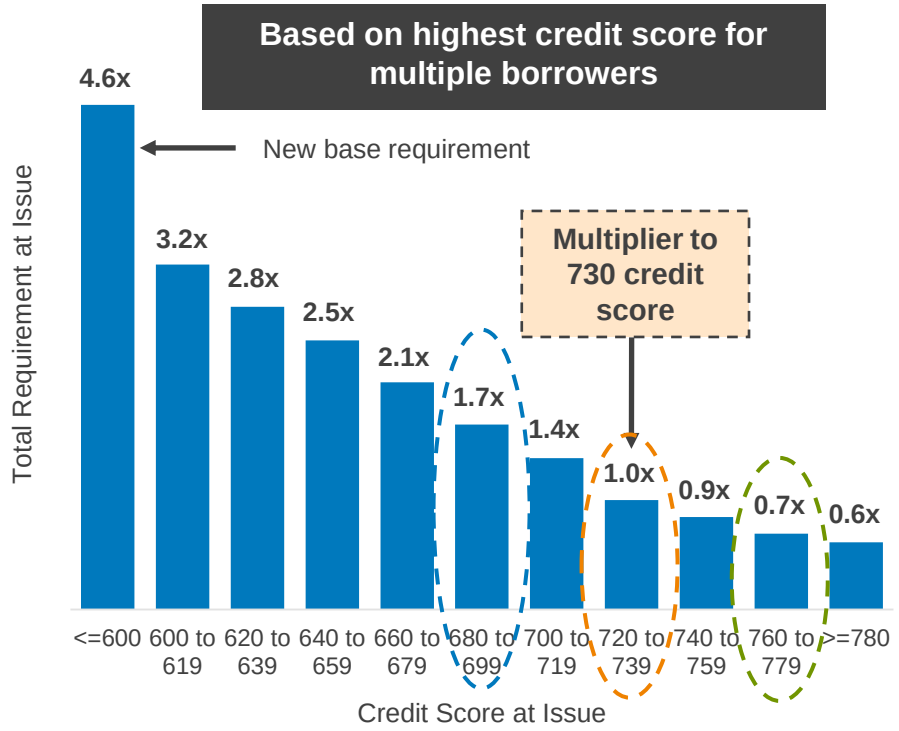
- Total asset requirement is very sensitive to modified LTV and diminishes over 5-8 years as modified LTV approaches 55% to 60%

Charts above based on Sept. 23rd, 2016 OSFI draft advisory entitled "*Capital Requirements for Federally Regulated Mortgage Insurers*".
1. New Base Requirement 150% MCT.

# New framework – credit score impact

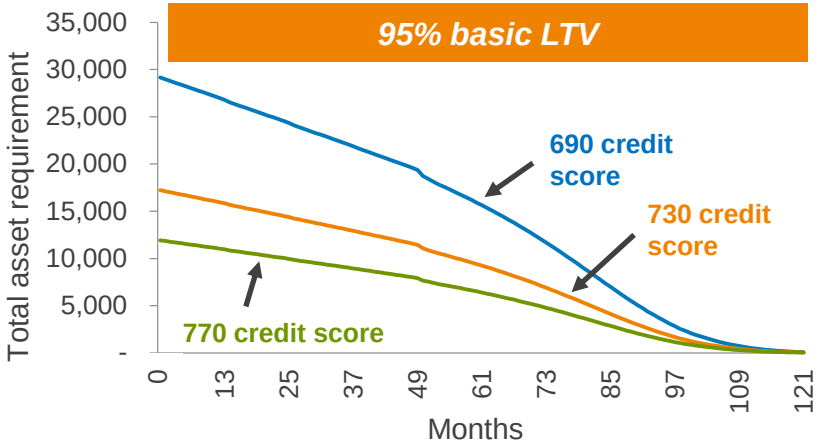
Genworth Canada

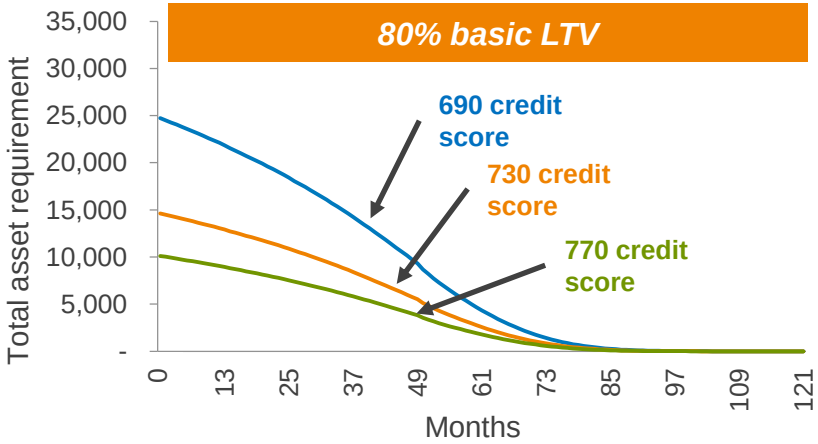
## Credit score multiplier for total asset requirement




| % of YTD '16 transactional business[2] | 1 | 0 | 1 | 1 | 2 | 3 | 4 | 6 | 9 | 13 | 59 |
|---|---|---|---|---|---|---|---|---|---|---|---|

## Total asset requirement run-off[1] by credit score ($300k mortgage)



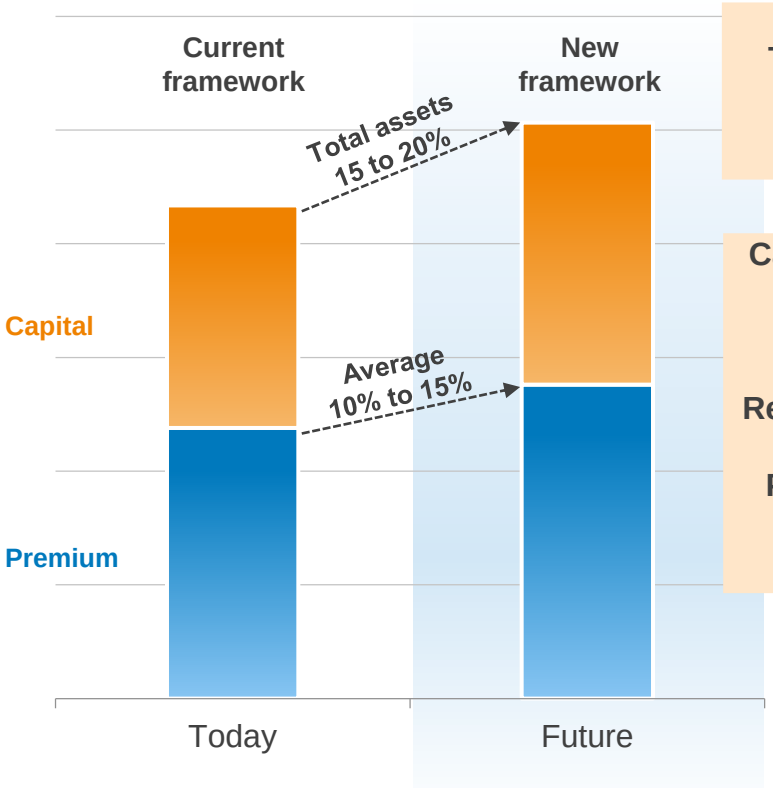

**CREDIT SCORE MULTIPLIER DRIVES MATERIALLY HIGHER CAPITAL AS SCORES DECREASE….STRONG CREDIT SCORE IS BENEFICIAL**

Charts above based on Sept. 23rd, 2016 OSFI draft advisory entitled "*Capital Requirements for Federally Regulated Mortgage Insurers*".
1. New Base Requirement 150% MCT.
2. Credit Score: As at Sept16. Credit Score bucket based on highest Trans Union Credit Score for all borrowers on the file at time of application.

# New framework – pricing implications

Genworth Canada

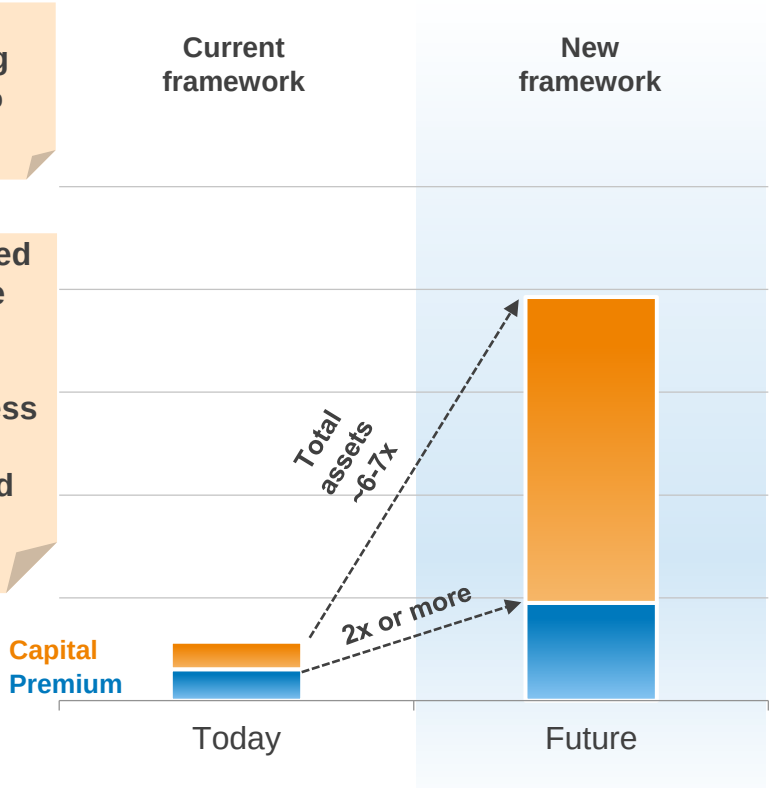
## Transactional insurance new business
(% of loan)




**Target Pricing ROE of ~13%**

**Capital Required for Insurance Risk = Total Asset Requirement less Unearned Premiums and IBNR[1]**

## Portfolio insurance new business
(% of loan)




**EXPECT 10-15%+ AVERAGE TRANSACTIONAL INSURANCE PRICE INCREASE IN 2017**

**EXPECT 2X OR HIGHER PORTFOLIO INSURANCE PRICE INCREASE IN 2017**

Charts above based on Sept. 23rd, 2016 OSFI draft advisory entitled "*Capital Requirements for Federally Regulated Mortgage Insurers*".
1. IBNR is Incurred But Not Required Reserve

# New framework ➔ MCT implications

Genworth Canada

## MCT Framework (%)

| | Current framework | New framework |
|---|---|---|
| Holding target | 220% | |
| Gov't guarantee minimum / supervisory target | 175% | 150%[1] |
| Internal target | 185% | 155% - 157% (preliminary) |
| Operating range | 225%+ | 160%+ |
| **Dollar value per point of MCT** | **~$15 million** | **~$25 million** |

Holding target recalibrated to supervisory target

## Highlights

- 220% holding target being recalibrated to 150% supervisory target
- Preliminary new internal target of 155% - 157% represents $125 - $175 million above supervisory minimum

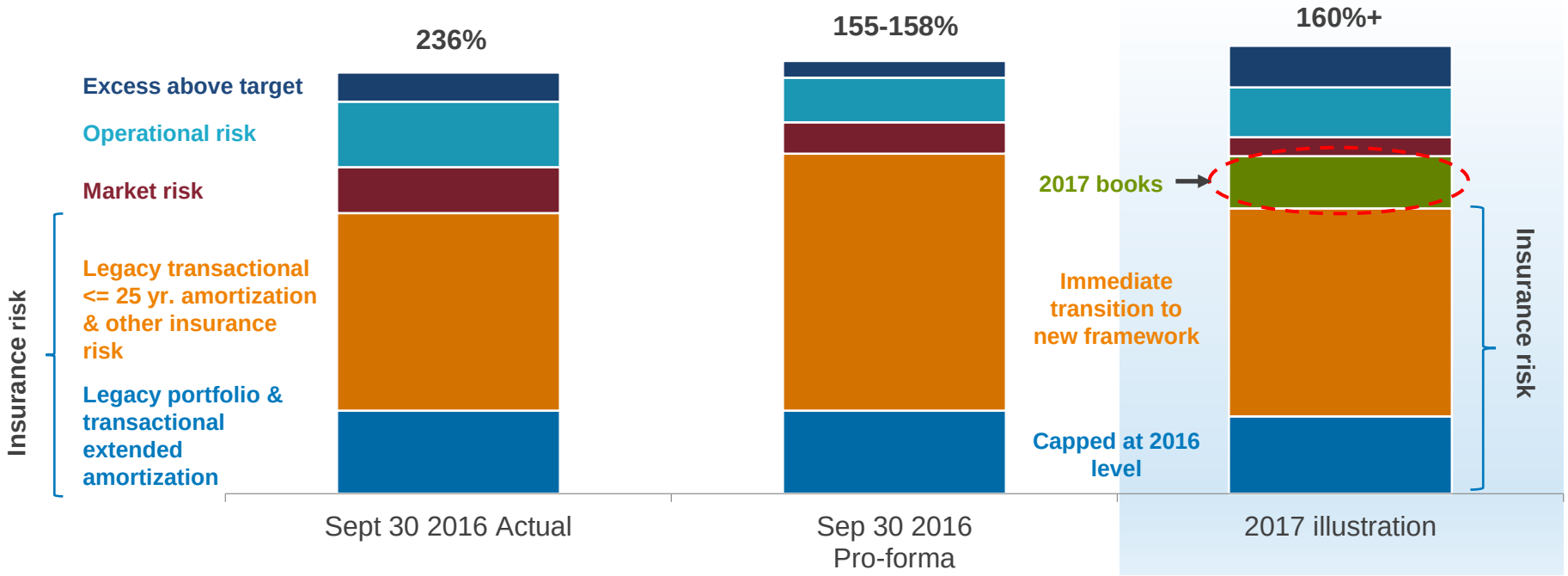
1. Company expectations for government guarantee minimum.

# New framework ➔ Pro-forma MCT

Genworth Canada

## MCT New Framework

(C$, millions)




| Holding target | Supervisory target & expected government guarantee minimum |
|---|---|
| 220% | 150% |

## Highlights

- Targeting operating with MCT above 160% in 2017
  - Transitional provisions cap capital requirements for legacy portfolio insurance & extended amortization business at Dec. 31, 2016 level (220% MCT)
  - Lower capital requirements for market and operational risk due to reduction in internal target

# Capital management strategy

Genworth Canada

## Capital priorities

**Funding organic growth with MCT > 157%**

**Maintaining modest leverage of <= 15%**

### Capital strength

**At Q3 2016:**

- Pro-forma MCT of 155%-158%
- 11% debt-to-capital

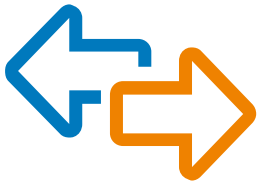
**Holding company cash and liquid investments > $100 MM**

**Credit facility of $100 MM**

### Capital flexibility

**At Q3 2016:**

- Holdco cash and liquid investments of $181 million
- $100 MM undrawn credit facility



**Sustainable ordinary dividend**

**Return of capital when excess capital available**

### Capital efficiency

**At Q3 2016:**

- Increased ordinary dividend by 5%
- Payout ratio of 41%

# ROE drivers

Genworth Canada

## ROE drivers

**2016 ROE ~11%**

| Year | New capital framework for legacy books | Impact of price increases | Interest rate outlook | Capital management initiatives |
|---|---|---|---|---|
| 2017 | - - - | + | Neutral | |
| 2018 | - - | + + | + | + |
| 2019 | - | + + + | + + | |

**TARGETING 12%+ ROE IN THE MEDIUM TERM**

# Key takeaways

Genworth Canada

- Smaller MI market size could lead to moderate decline in premiums written in 2017, despite expected higher premium rates
- Premiums earned expected to modestly increase in 2017 due to large recent books of business
- Estimated 25% to 35% loss ratio range for 2017
- Investment income expected to be relatively flat in 2017
- Managing capital to greater than 160% MCT under new framework

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

**Stuart Levings**

President and Chief Executive Officer

# Wrap up

# Key takeaways

Genworth Canada

- Solid business model
- Strong regulatory environment
- Robust profitability drivers
- Disciplined risk management
- M.I. thought leadership

MIC is well-positioned for **future success**

Genworth Canada

# Q&A

# Senior management team

Genworth Canada

**Stuart Levings,** President & CEO

15+ years of mortgage insurance experience

Mr. Levings assumed his current role as President and Chief Executive Officer in January 2015. Prior to that Mr. Levings served in such senior leadership positions as Senior Vice President, Chief Operating Officer, Senior Vice President, Chief Operations Officer and Senior Vice President, Chief Risk Officer. Mr. Levings joined the Company in July 2000 as the Financial Controller, and has also held positions in finance and product development, including five years as Chief Financial Officer. Before that, Mr. Levings spent seven years with Deloitte & Touche. Mr. Levings holds a CPA, CA professional designation with over 15 years of professional experience in a variety of industry sectors. Mr. Levings holds a Bachelor of Accounting Science degree from the University of South Africa and is a member of both the South African and Canadian Institutes of Chartered Accountants.

**Philip Mayers,** SVP & Chief Financial Officer

25+ years of mortgage insurance experience

Mr. Mayers became Chief Financial Officer of the Company in 2009. He has over 25 years of finance and general management experience in financial services businesses. Since joining the Company in 1995, Mr. Mayers has held several senior positions, including Vice President, Finance, Vice President, Operations, and Senior Vice President, Business Development. Prior to joining the Company, he held finance positions with Mortgage Insurance Company of Canada (“MICC”), Esso Petroleum Canada and Deloitte & Touche. He holds CPA, CA and CMA professional designations and has a Master of Accounting degree from the University of Waterloo.

# Senior management team

Genworth Canada

**Craig Sweeney,** SVP & Chief Risk Officer

15+ years of mortgage insurance experience

Mr. Sweeney has more than 18 years of professional experience in the mortgage and banking industry. Since joining the Company in 1998, Mr. Sweeney has held senior positions in Operations and Business Development, including Director of Risk Operations and Director of Product Development. Mr. Sweeney received an honours Bachelor of Arts degree in Economics from Carleton University in 1994.

**Winsor Macdonell,** SVP, General Counsel & Secretary

15+ years of mortgage insurance experience

Mr. Macdonell is responsible for all of the Company's legal and compliance matters, as well as government relations. Mr. Macdonell joined the Company in 1999. He was called to the Bar in Ontario in 1994. Prior to joining the Company, he spent three years in the life and property and casualty industry, and prior to that was in private practice. Mr. Macdonell received an honours Bachelor of Commerce degree from Queens University in 1988 and his LL.B. from Dalhousie University in 1992 and his ICD.D in 2014.

# Senior management team

Genworth Canada

**Debbie McPherson,** SVP, Sales and Marketing

25+ years of mortgage insurance experience

Ms. McPherson has over 25 years of experience and success in sales and quality management with the Company. Prior to her current position, Ms. McPherson was the Company's Ontario Regional Sales Director. Ms. McPherson plays an active role in many industry organizations, including the Canadian Association of Accredited Mortgage Professionals, the Canadian Homebuilders Association and the Canadian Real Estate Association. Ms. McPherson graduated from the University of Toronto with a Bachelor of Arts degree.

**Scott Gorman,** SVP, Operations

15+ years of experience

Mr. Gorman has more than 19 years of International Industry and Consulting experience within the Financial Services Industry. Prior to joining Genworth Canada, Mr. Gorman worked for TD Financial Group as VP, Head of Card Operations & Initiatives, and Royal Sun Alliance (RSA) as the Regional Chief Operating Officer for their Asia and Middle East Region as well as VP of RSA's Canadian National Operations. Mr. Gorman has a Bachelor's of Commerce from Memorial University of Newfoundland and an MBA from Schulich School of Business, York University.

# Senior management team

Genworth Canada

**Mary-Jo Hewat,** SVP, Human Resources and Facilities

20+ years experience

Ms. Hewat brings over 20 years of human resources expertise spanning numerous industries and geographies. Ms. Hewat assumed her current role of Senior Vice President, Human Resources and Facilities in May, 2016. Prior to joining Genworth Canada, she was Senior Vice President, HR Business Partnerships at Ontario Municipal Employees Retirement System (OMERS) as well as Vice President, Human Resources. Her career has also included senior HR roles with Sherritt and Hudson's Bay. Ms. Hewat has a Bachelor of Commerce from Ryerson University and a Masters in Business Administration from the Schulich School of Business, York University.

**Brian Hurley,** Executive Chairman

20+ years of mortgage insurance experience

Mr. Hurley led the establishment of Genworth into the Canadian marketplace in 1994 and later led it through its initial public offering in 2009. He stepped down as President and CEO of Genworth Canada and assumed the role of Executive Chairman in January 2015. Mr. Hurley has more than 20 years of senior management experience in the mortgage insurance industry worldwide, including leading Genworth's activities in key international markets from 2004 to 2009. Prior roles include Senior VP, International of General Electric's U.S. mortgage insurance business and Senior VP of Sales and Operations. Mr. Hurley graduated from Assumption College in Worcester, Massachusetts with a Bachelor of Science degree in Economics.

Genworth Canada

**Jonathan A. Pinto,** MBA, LL.M
Vice President, Investor Relations

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# Investor Relations

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