



# First Quarter 2018 Results

May 1<sup>st</sup>, 2018

# Forward-looking and non-IFRS statements

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

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

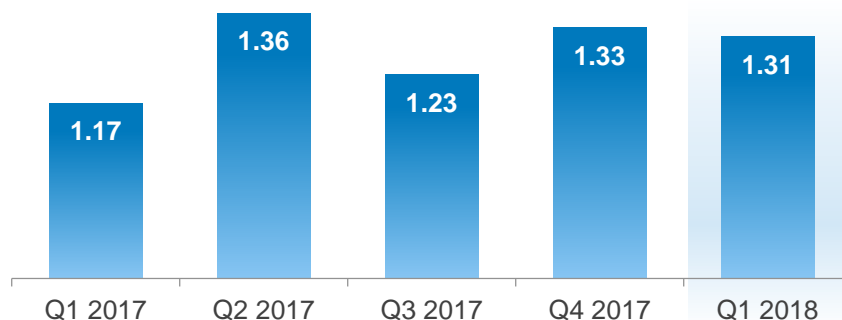
# 1Q18 financial results

\$MM except ROE, EPS & MCT	Q1 2018	Q4 2017	Q1 2017	Q / Q	Y / Y
Premiums written	\$115	\$164	\$127	-30%	-9%
Premiums earned	\$171	\$171	\$167	Flat	+2%
Loss ratio	13%	9%	15%	+4 pts	-3 pts
Net income	\$128	\$132	\$106	-3%	+20%
Net operating income	\$119	\$121	\$107	-2%	+11%
Operating ROE	12%	13%	12%	-0.4 pt	Flat
Operating EPS (dil.)	\$1.31	\$1.33	\$1.17	-2%	+12%
MCT ratio <sup>1</sup>	170%	172%	162%	-2 pts	+8 pts

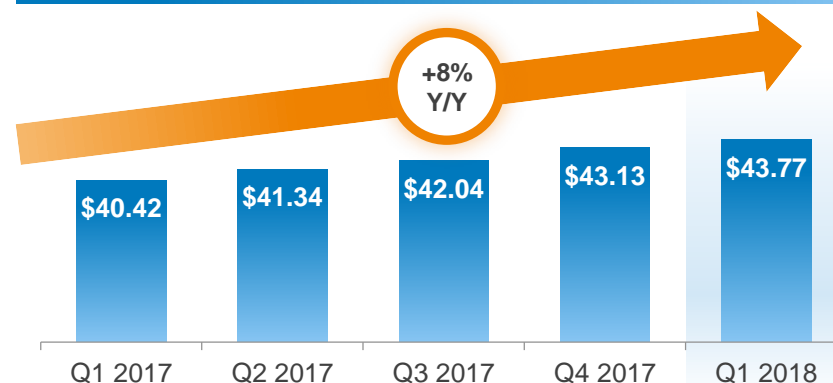
## Q1 key highlights

- Total premiums written decreased Y/Y largely due to lower portfolio insurance premiums; however transactional premiums written increased by 22% primarily due to an 18% higher avg. premium rate
- Low loss ratio of 13%; reflecting typical winter seasonality and a stable macroeconomic climate
- Operating income relatively flat Q/Q, primarily due to higher losses on claims
- Ongoing capital strength with MCT ratio of 170%<sup>1</sup>
- Executed \$50MM share buyback during the quarter

## Operating EPS (diluted)







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



1. MCT denotes ratio for operating insurance company. Company estimate as at Mar. 31<sup>st</sup>, 2018.  
Note: Amounts may not total due to rounding.

# Our environment today

Risk	Assessment
Economic	
Housing & mortgage markets	
Insurance portfolio	
Regulatory	

## Key observations

- Sound economic environment; GDP forecast growth of 2.0%<sup>1</sup> in 2018 and 2.1%<sup>1</sup> in 2019
- Unemployment rate at record low; rising wages in most provinces
- Modest increase in interest rates expected in 2H'18
- Monitoring NAFTA renegotiations

- Mortgage rate stress test on conventional mortgages reducing housing demand, especially in higher priced markets
- Ontario market trending towards more normalized state
- B.C. market demand expected to soften in response to provincial policy changes

- Portfolio quality remains strong. Average credit score for transactional new insurance written was 746 in Q1'18
- Regulatory environment supporting reduced product risk and strong underwriting practices

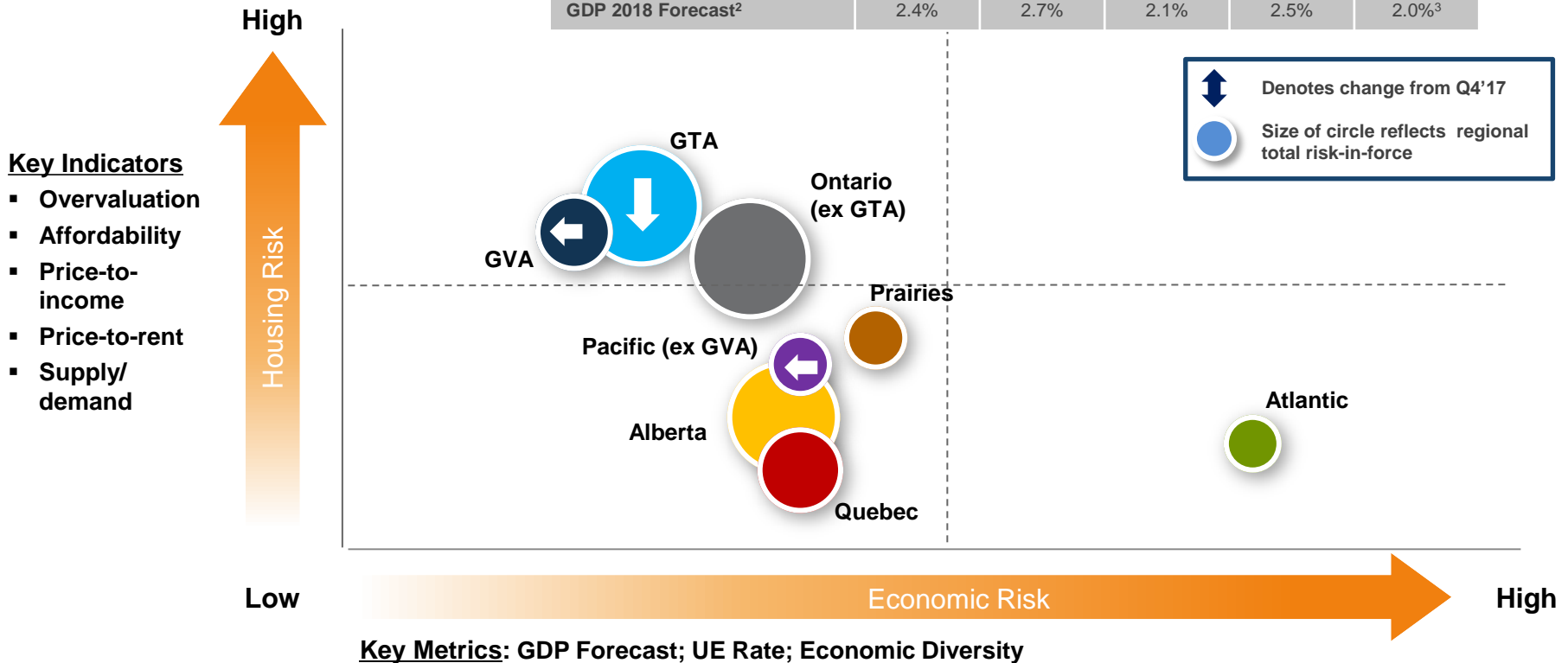
- Recent regulatory focus on uninsured mortgage space with mortgage rate stress test
- Expected refinements to OSFI capital rules effective in 2019
- Increased provincial focus with ON & B.C. housing policy initiatives

## SOUND MACROECONOMIC ENVIRONMENT

1. BoC GDP forecast, Monetary Policy Report, April 2018.

# Regional risk assessment

Quarterly Snapshot	TOR	VAN	MTL	CGY	CANADA
Q1'18 Q/Q Teranet HPI <sup>1</sup>	-0.6%	2.4%	0.3%	-1.2%	0.2%
March '18 UE Rate <sup>1</sup>	5.8%	4.0%	6.1%	8.2%	5.8%
GDP 2018 Forecast <sup>2</sup>	2.4%	2.7%	2.1%	2.5%	2.0% <sup>3</sup>



Housing markets in GTA & parts of Ontario cooling; soft landing expected



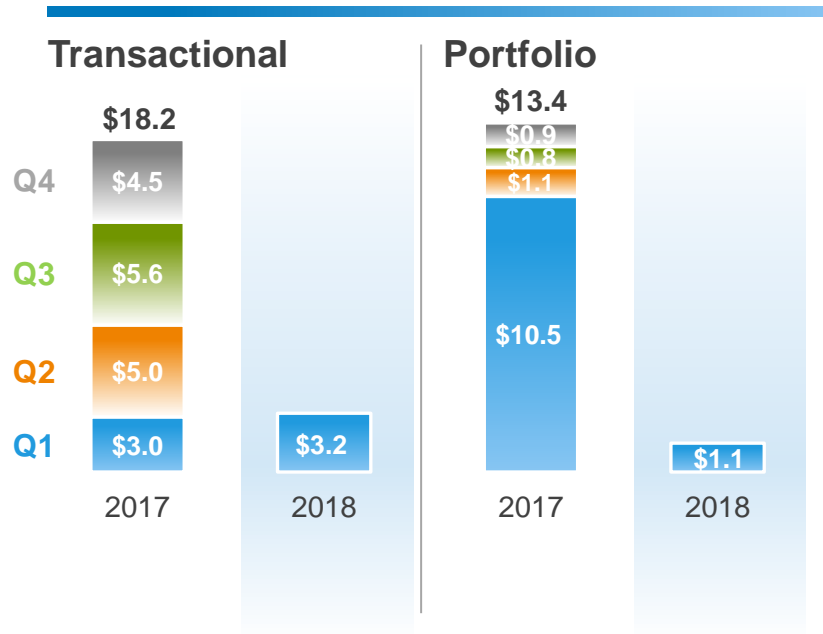
Stable economic forecast for most regions

<sup>1</sup> HPI based on Q/Q exit data; UE based on three-month rolling exit.

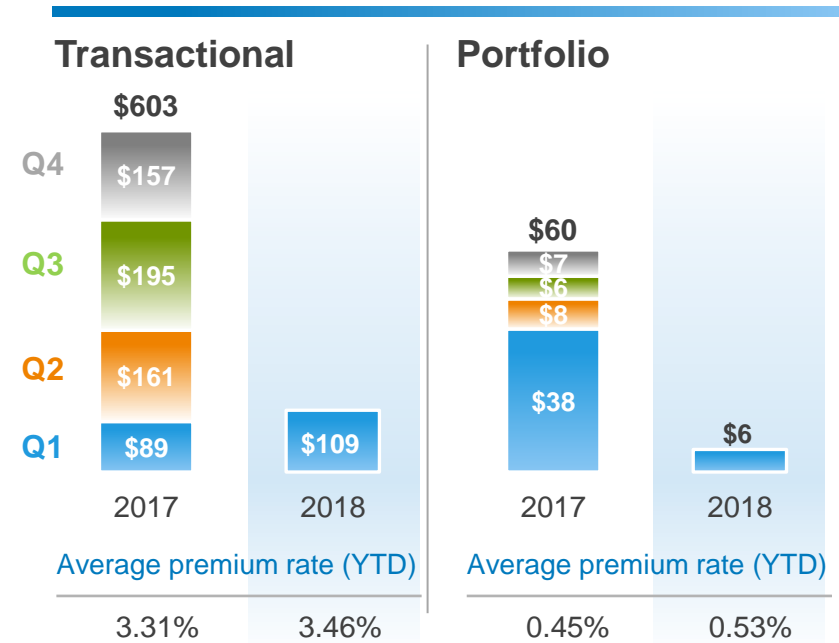
<sup>2</sup> The Conference Board of Canada, Mar'18; Calgary GDP - Calgary and Region Economic Outlook 2018 - 2023 | Spring 2018.

Graph based on Company's estimates of housing and economic risk as at Q1'18, including regional GDP forecast as per BoC Apr'18 and key housing indicators at the end of Q1'18. <sup>3</sup> Source: BoC as at Apr'18.

## New insurance written (\$ billions)



## Premiums written (\$ millions)



### Transactional insurance highlights

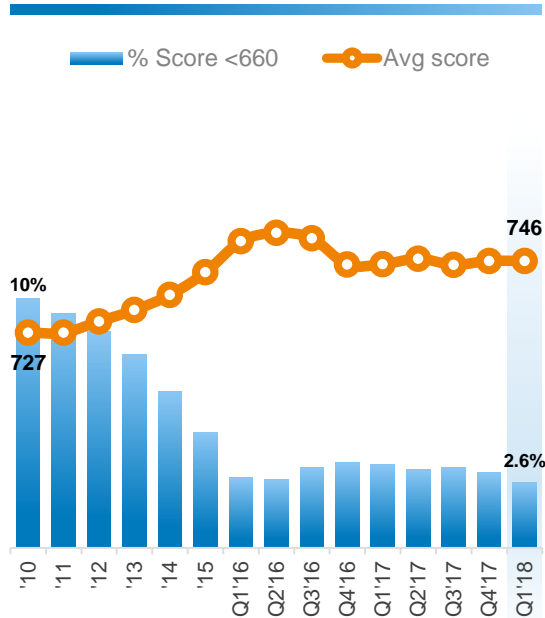
- NIW increased modestly Y/Y, but decreased Q/Q primarily due to typical seasonality
- Premiums written increased Y/Y by 22% primarily due to the 18% higher average premium rate, from the March 17, 2017 premium rate increase; premiums written decreased Q/Q primarily due to typical seasonality

### Portfolio insurance highlights

- NIW decreased significantly Y/Y, compared to 1Q18 which saw the closing of several large transactions on applications received in 4Q16, ahead of regulatory capital changes
- Lower use of portfolio insurance by lenders continues in response to significant premium rate increase following the introduction of the new capital framework in 2017

# Strong portfolio quality

## Credit score<sup>1</sup>



## Highlights



**Credit quality** remains very strong



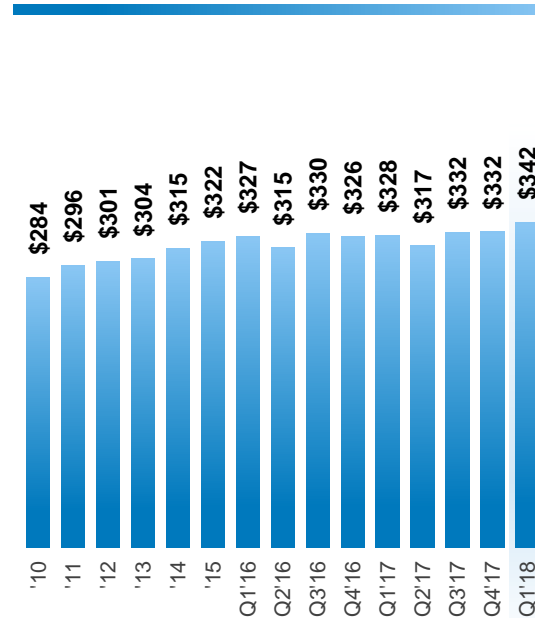
**Relatively stable** average home prices in most regions for FTHBs<sup>4</sup> given modest growth in household income



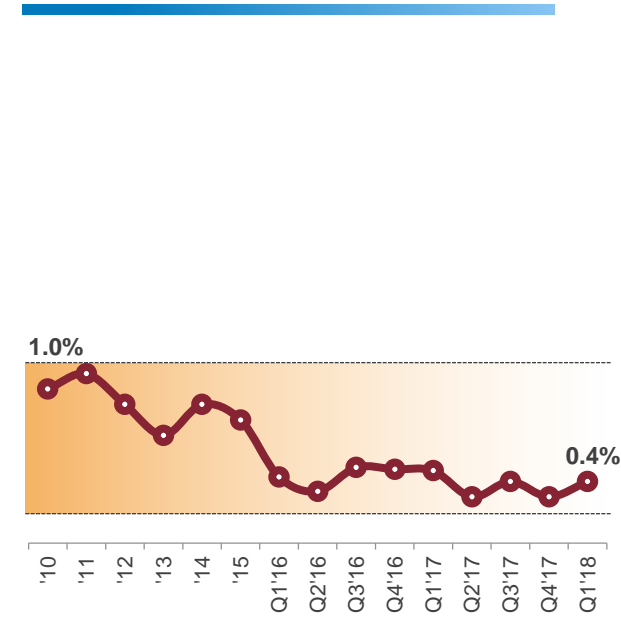
Limited exposure to loans with **stacked risk factors** (low credit scores and high debt service ratios)

## Average home price<sup>2</sup>

(In '\$000s)



## Stacked risk factors<sup>3</sup>



## CONTINUED PORTFOLIO QUALITY STRENGTH

<sup>1</sup> Company sources for transactional new insurance written. Average score for all borrowers.

<sup>2</sup> Company sources for transactional new insurance written. Purchase only.

<sup>3</sup> Stacked risk factors: Purchase only; 90%+ LTV and <= 660 credit score, and >40 TDSR.

<sup>4</sup> FTHB represents First Time Homebuyers.

# Strong financial performance

<i>\$MM except EPS &amp; BVPS</i>	Q1'18	Q4'17	Q1'17
Transactional premiums written	\$109	\$157	\$89
Portfolio premiums written	6	7	38
<b>Total premiums written</b>	<b>\$115</b>	<b>\$164</b>	<b>\$127</b>
Premiums earned	171	171	167
Losses on claims	(22)	(15)	(26)
Expenses	(32)	(34)	(34)
Underwriting income	\$117	\$121	\$107
Operating investment income <sup>1</sup>	50	50	44
<b>Net operating income</b>	<b>\$119</b>	<b>\$121</b>	<b>\$107</b>
<b>Net income</b>	<b>\$128</b>	<b>\$132</b>	<b>\$106</b>
<b>Operating EPS</b> (diluted)	<b>\$1.31</b>	<b>\$1.33</b>	<b>\$1.17</b>
<b>Book value per share</b> (diluted, incl. AOCI)	<b>\$43.77</b>	<b>\$43.13</b>	<b>\$40.42</b>

## Q1 highlights

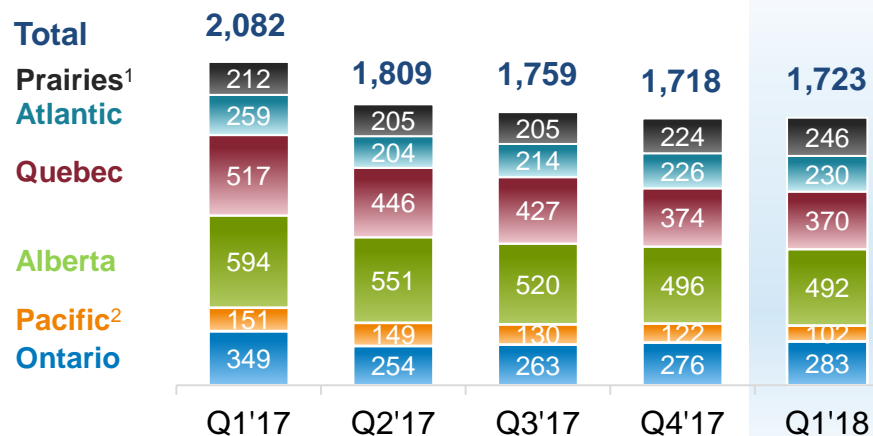
- Transactional premiums written higher by 22% Y/Y, primarily due to higher average premium rate
- Premiums earned increased Y/Y by 2%, reflecting the level of premiums written in recent years
- Loss ratio of 13%, up 4 pts Q/Q primarily due to a modest seasonal increase in new delinquencies, net of cures and lower favourable development
- Operating investment income relatively unchanged Q/Q
- Net operating income down \$2 million Q/Q primarily due to higher losses on claims, partly offset by lower expenses
- Book value per share up 8% Y/Y to \$43.77



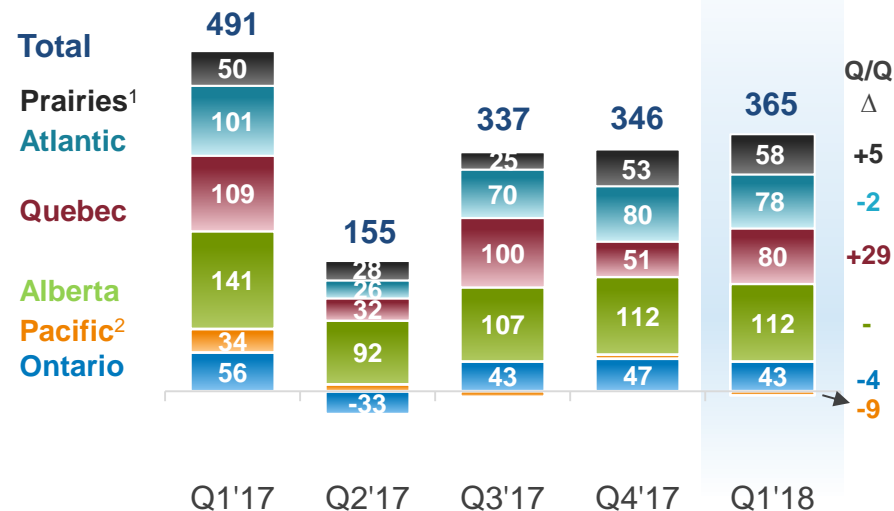


# Delinquency trends

## Delinquencies outstanding



## New delinquencies, net of cures, by region



## Delinquency rate based on reported outstanding balances<sup>3</sup>

	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18
Transactional	0.34%	0.29%	0.29%	0.28%	0.28%
Portfolio	0.08%	0.07%	0.07%	0.08%	0.08%
<b>Total</b>	<b>0.21%</b>	<b>0.18%</b>	<b>0.18%</b>	<b>0.18%</b>	<b>0.18%</b>

## Loss ratio

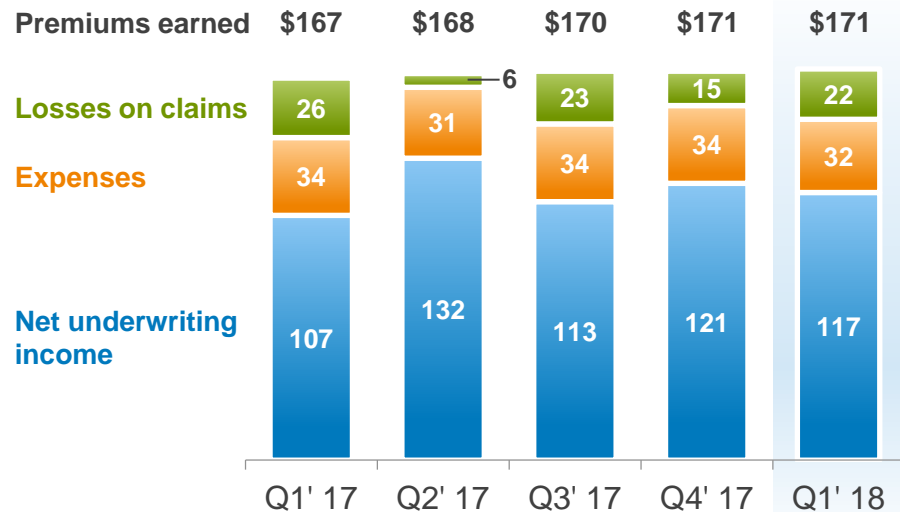
Loss ratio	15%	3%	13%	9%	13%
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- Slightly higher net new delinquencies Q/Q reflecting an increase in Quebec, partly offset by decreases in most other regions
- Strong overall loss ratio performance reflects favourable macroeconomic environment and high quality portfolio
- **Loss ratio range for 2018: 15% - 25%**

# Solid underwriting profitability

## Underwriting profitability (\$ millions)



Loss ratio	15%	3%	13%	9%	13%
Expense ratio	20%	18%	20%	20%	19%
Combined ratio	36%	22%	33%	29%	32%
Avg. reserve per delq. (\$000s)	\$75.6	\$73.7	\$74.5	\$69.2	\$68.2
New delqs. net of cures	491	155	337	346	365

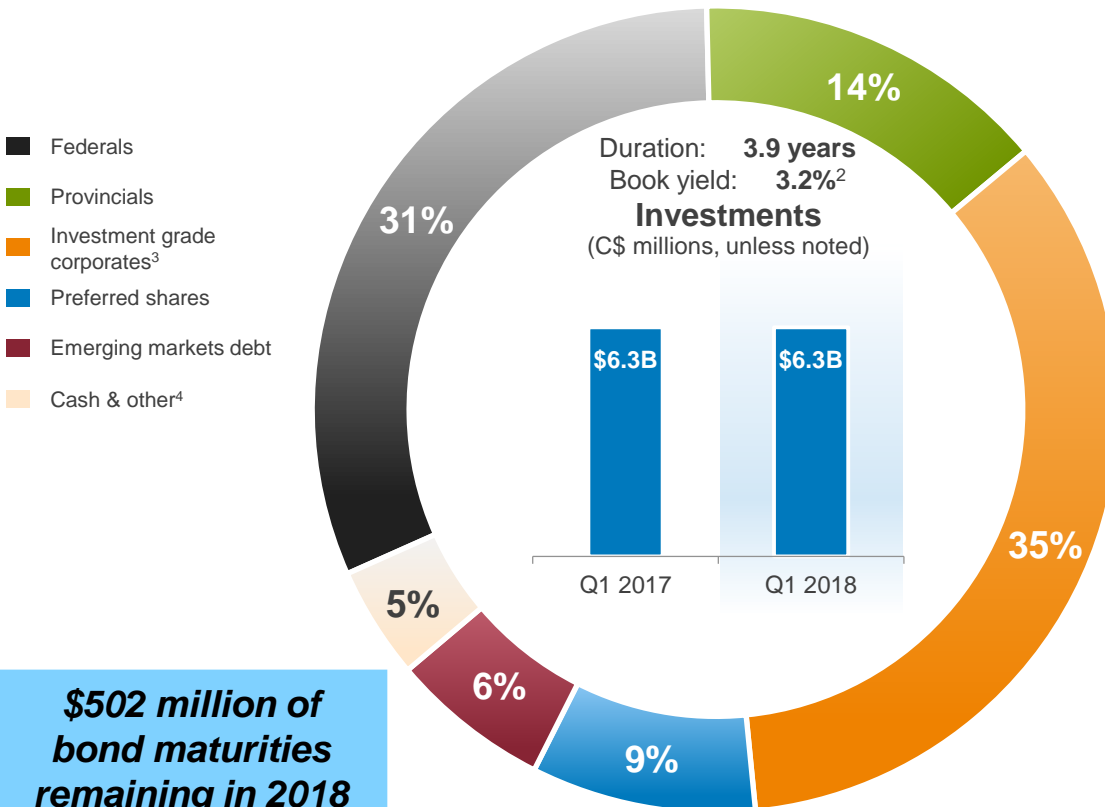
## Highlights

- Flat-to-modest Y/Y increase in premiums earned expected for 2018; after growing by 6% in 2017, on an annual basis
- Trend of low loss ratio has continued; results reflect the continued favourable business trends from 2017 (high quality insurance portfolio seasoning in a generally positive economic environment)
- 2018 full year loss ratio expected range of 15% to 25%, driven by:
  - Normalizing housing market
  - Strong macroeconomic environment
  - Lower favourable reserve development compared to 2017

# Investments contribute steady income

## Total investments and net derivative assets (\$6.5B<sup>1</sup>)

Investments: \$6.3B

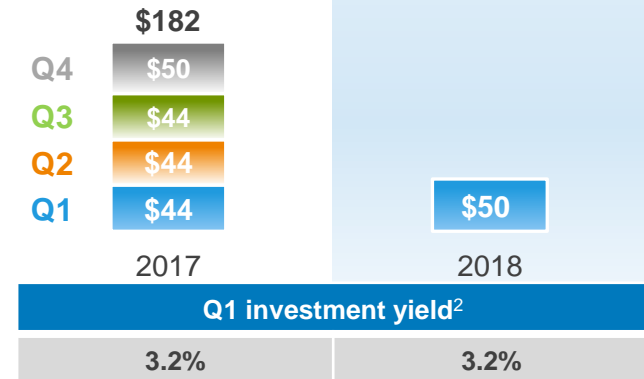


**\$502 million of bond maturities remaining in 2018**

## Interest rate hedge program

Interest rate swaps	2018 forward curve <sup>5</sup>
Notional (C\$B)	\$3.5
Floating rate <sup>5</sup>	1.67%
Fixed rate <sup>5</sup>	1.17%
Spread	0.50%
Potential Impact on operating investment income	\$18MM

## Operating Investment Income (excluding realized/unrealized gains, \$ millions)



**EXPECT MODERATELY HIGHER INVESTMENT INCOME IN 2018 INCLUSIVE OF FAVOURABLE CONTRIBUTION FROM INTEREST RATE HEDGING PROGRAM**

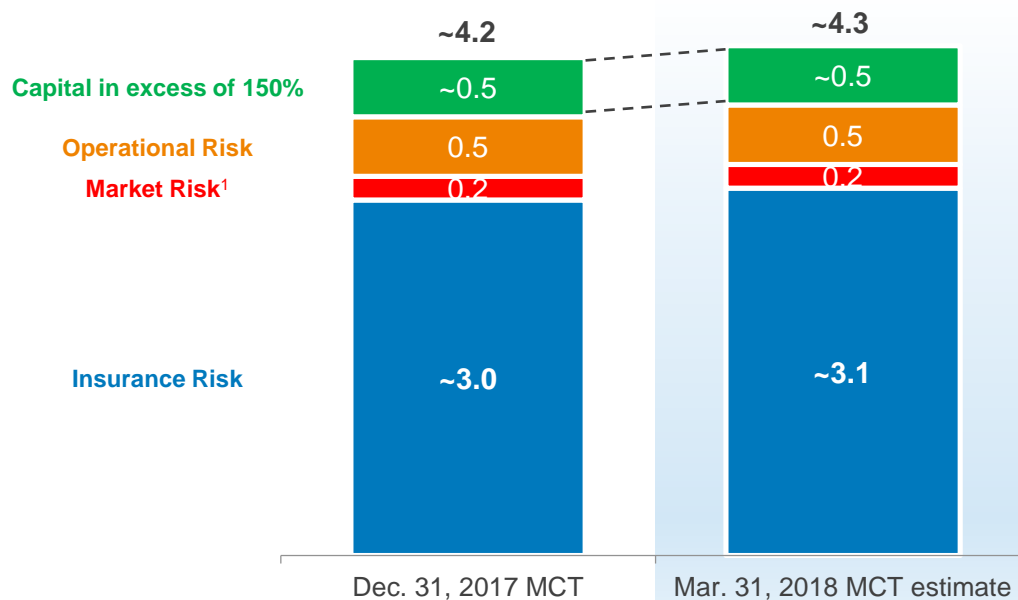
Note: Company sources.

1. Represents market value, includes accrued investment income and other receivables and net derivative financial instruments. 2. Investment yield represents pre-tax equivalent book yield after dividend gross-up of portfolio (as at Mar. 31<sup>st</sup>, 2018). 3. Includes CLOs. 4. Cash includes short-term investments. 5. Floating rate reflects the average for 2018 based on the forward curve as at Mar. 29<sup>th</sup>, 2018; fixed rate represents the contract rates for our existing portfolio of interest rate swaps as at Mar. 31<sup>st</sup>, 2018.

# Capital management

## Regulatory capital as at Mar. 31<sup>st</sup>, 2018

(by category, \$ billions unless otherwise noted)\*



## Highlights

**Strong capital position with MCT ratio of ~170%**

**Holding company cash and liquid investments of \$126 million**

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

- Executed \$50MM share buyback

**Transitional capital relief for legacy portfolio insurance and extended amortization business expected to run off in 2019**

**OSFI working on refinements to capital framework for implementation in 2019**

**MCT ratio in 2018 expected to remain above targeted operating range of 160% to 165%**

MCT ratio	172%	170%
Internal MCT target	157%	157%
Holdco cash <sup>2</sup>	~\$155 million	~\$126 million

Note: Company sources. MCT denotes ratio for operating insurance company. \*Totals may not add due to rounding.

1. Market risk includes interest rate, credit, equity risk, and foreign exchange risk.

2. Represents liquid investments and cash held in addition to capital in operating insurance company.

# Strategic priorities for 2018

1

Invest in process innovation and technology to drive **improved customer experience**



2

Continue to exercise prudent **risk management** and proactive **loss mitigation**



3

Leverage our **data and mortgage expertise** to influence our regulatory environment



4

Maintain an **efficient capital structure** to ensure capital strength while **maximizing ROE**



**BUILDING ON SOLID BUSINESS FUNDAMENTALS**



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