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# 2017 Investor Day

December 6th, 2017

Genworth Canada

# 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 any regulatory or legal 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 the size of the transactional insurance market, proposed or potential transactions involving the Company or its shareholders 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, and 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, delinquency rates, effective loan-to-value, 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.

# Genworth Canada 2017 Investor Day

## December 6th, 2017 – Agenda

Genworth Canada

**Lunch and registration: 12 noon to 12:40 PM**

| | Discussion topic | Duration |
|---|---|---|
|  **Jonathan Pinto**<br>VP, Investor Relations | **Opening remarks and introduction** | 5 minutes |
|  **Stuart Levings**<br>President & CEO | **Strategic outlook** | 30 minutes |
|  **Craig Sweeney**<br>SVP & Chief Risk Officer | **Disciplined risk management** | 30 minutes |
|  **Philip Mayers**<br>SVP & Chief Financial Officer | **Financial strategy and insights** | 30 minutes |
| **Wrap up by CEO, followed by Q & A period with all executive presenters** | | 30 minutes |

# Agenda and key themes

Genworth Canada

**Smarter M.I.**



Strategic outlook



Disciplined 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

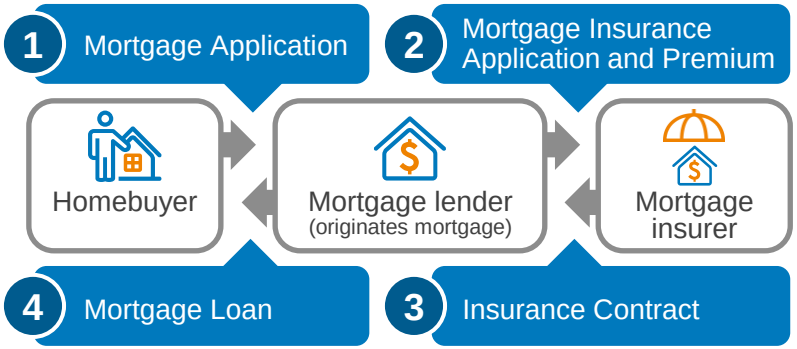
- Helped **1.5M+** families achieve homeownership[1]
- Supported **250+** Canadian lenders[1]



## MARKET FACTS (Q3'17)

| | |
|---|---|
| **$6.8 billion** Total assets | **$3.9 billion** Shareholders' equity |
| **$4.0 billion** Market capitalization* | **91 million** Shares outstanding** |

## WHAT WE DO[2]




## MORTGAGE INSURANCE PRODUCT

- Mandatory for less than 20% down payment
- 100% coverage protects lender against default risk
- Upfront non-refundable premium
- Capital relief for lenders

## SERVED MARKET

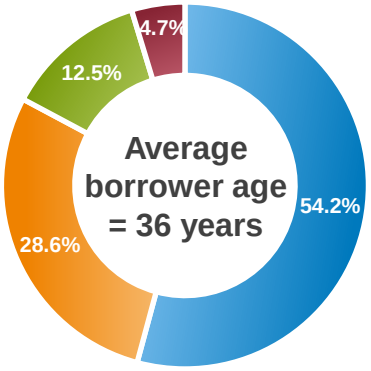
- Primarily first time homebuyers with:
  - 25-45 age demographic
  - $102K average household income….70% multiple borrowers[3]

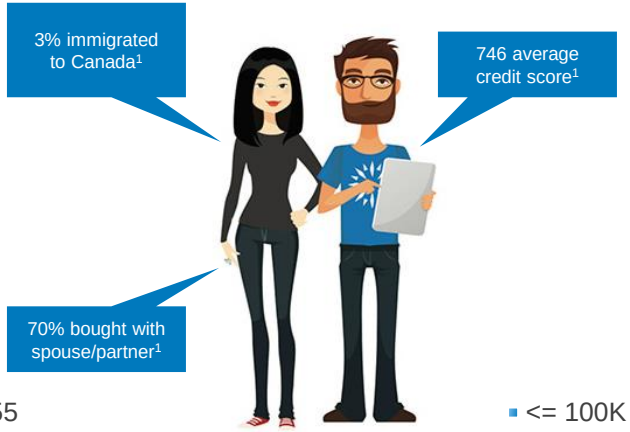
Note: Company sources. Market facts in Canadian dollars. 1. Cumulative transactional funded deals.
2. Denotes transactional mortgage insurance. 3. YTD 2017 – as at Q3'17; transactional purchase only.
*As at November 20th, 2017, Source: Ipreo. ** Basic shares outstanding as at Sept. 30, 2017.

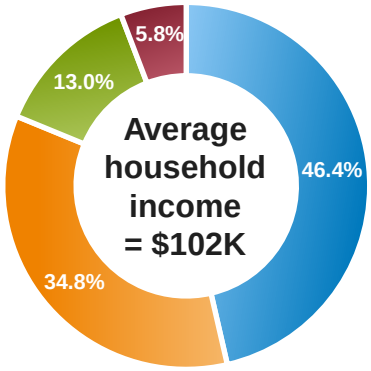
# **Served market:** first time homebuyers

Genworth Canada

## What our prudent home buyer profile looks like…



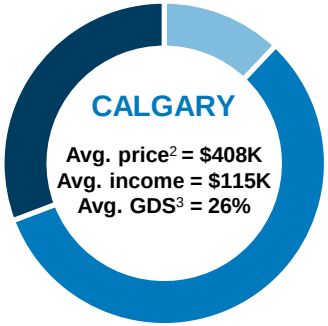

■ <= 35 ■ >35 - <= 45 ■ >45 - <= 55 ■ > 55

■ <= 100K ■ >100K - 150K ■ >150K - 200K ■ > 200K

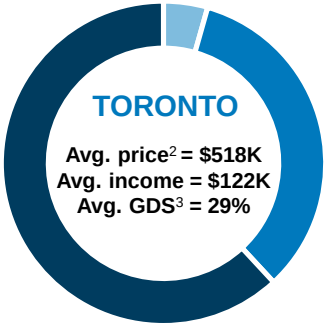
## …and what they purchase

**Purchase price** ● <300K ● >300K - <=500K ● >500K

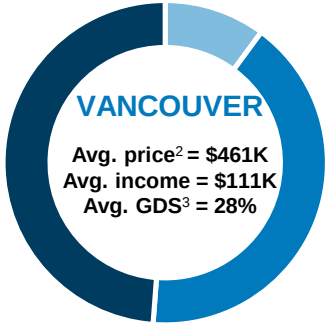
Detached Condo Row/Semi



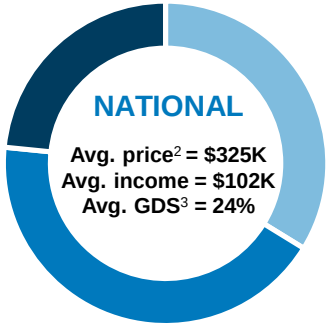

68% 9% 13%




30% 30% 23%




29% 40% 31%




68% 11% 12%

Note: Company sources, in Canadian dollars.
1. Jan17-Sep17 timeframe; Purchase Business only.
2. Average price represents Greater Calgary Area, Greater Toronto Area and Greater Vancouver Area YTD Sep17; Purchase Business only.
3. Denotes Gross Debt Service Ratio.

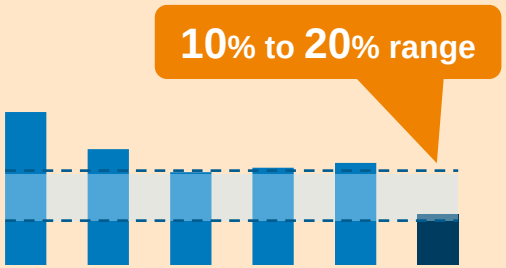
# 2017 key accomplishments

Genworth Canada

**Strong financial performance; 7%** increase in quarterly dividend[1]; transactional **premium rate increase** of 18%[2] in 2017



**2017 loss ratio** trending towards lower half of range




Loss mitigation efforts ongoing; **54% workout penetration**; **success rate of 96%**, 12 months after workout on average[3]



Enhancements to **risk selection, technology and processes** (Smarter MI)



**Well-distributed**; high quality **portfolio**; average credit score 746[4], improved debt service ratios



**Proactive** engagement with regulators to **influence mortgage finance sector**

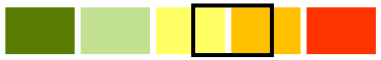


**DRIVING SHAREHOLDER VALUE THROUGH SOUND RISK MANAGEMENT AND INDUSTRY THOUGHT LEADERSHIP**

Note: Company sources.
1. Increase is effective Q4'17.
2. Q3 2017 vs. Q3 2016.
3. Oct. 2016 to Sept. 2017 period.
4. YTD Sept. 2017, purchase business only.

# Our environment today

Genworth Canada

| Risk | Assessment |
|---|---|
| Economic |  |
| Housing & mortgage markets |  |
| Insurance portfolio |  |
| Regulatory |  |

## Key takeaways

- Strong economic growth environment, 3.1%[1] expected in 2017
- Positive momentum in oil producing regions
- Interest rates on the rise
- Monitoring NAFTA renegotiations

- Housing markets trending towards more normalized state
- First time homebuyer affordability still impacting HLTV market size
- Strong supporting fundamentals; 1MM immigration in next 3 years[2]

- Portfolio quality remains strong
- Mortgage rate stress test driving improved consumer debt profile in the insured segment
- Extremely strong mortgage loan performance

- Government shifting focus to uninsured mortgage space (B-20)
- OSFI capital rules impacting lender profitability and competitor dynamics
- Increasing provincial focus on housing policy initiatives

**STRONG MACROECONOMIC ENVIRONMENT**

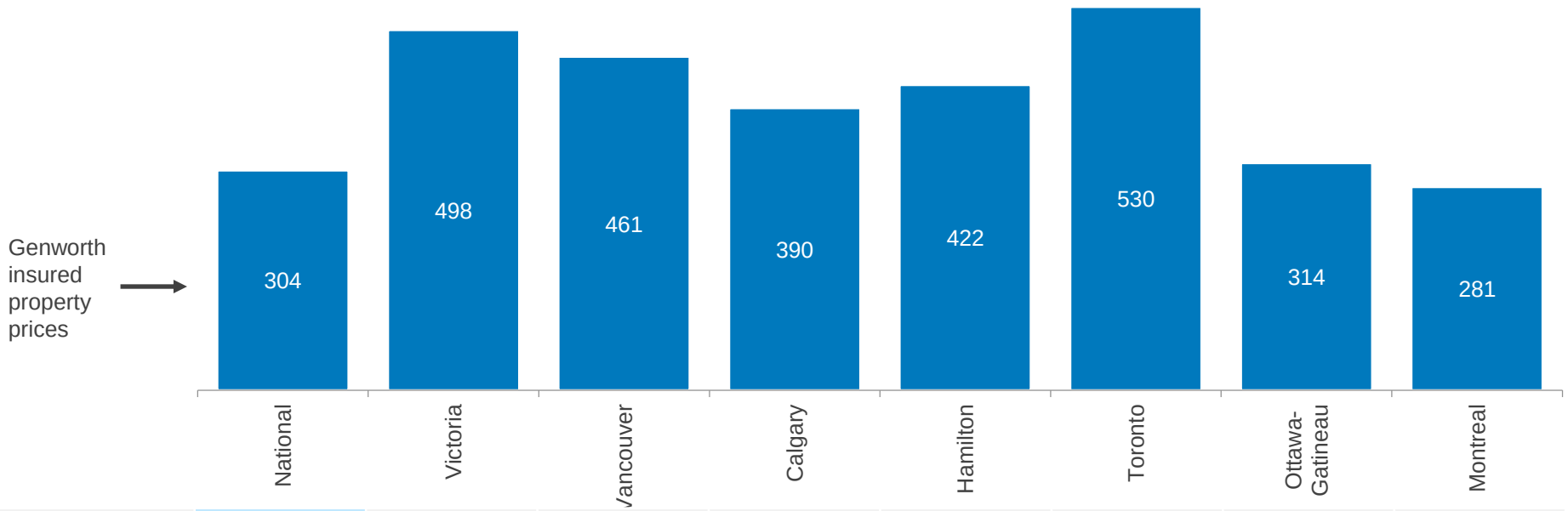
1. BoC GDP forecast, Monetary Policy Report, Oct. 2017. 2. Multi-year strategy tabled by the Liberal government, Nov. 2017.

# Impact from 2016 stress test

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## Meaningful difference in impact across markets

(C$, 000s)




| | National | Victoria | Vancouver | Calgary | Hamilton | Toronto | Ottawa-Gatineau | Montreal |
|---|---|---|---|---|---|---|---|---|
| **Application volumes*** | **-22%** | -50% | -53% | -32% | -44% | -53% | -26% | -17% |
| **New insurance written**** | **-15%** | | | | | | | |

**CHANGE IN APPLICATIONS DOWN APPROXIMATELY 20% AS EXPECTED; NIW & PREMIUMS WRITTEN LESS IMPACTED DUE TO RATE INCREASE AND HIGHER APPROVAL RATE**

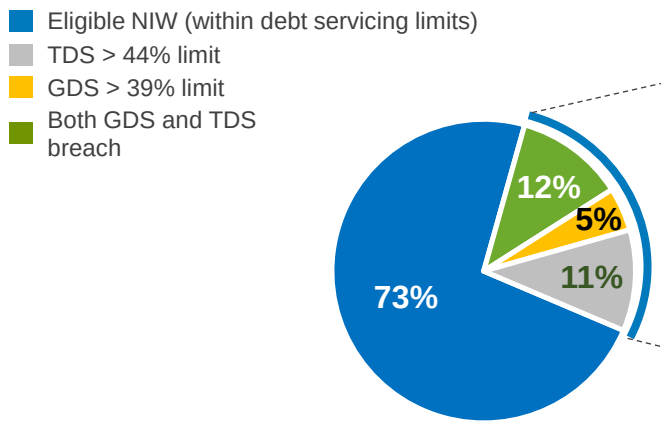
Source: Company data.
* Change in Activity based on transactional application volumes received YTD Q317 (v. YTD Q316). **Transactional new insurance written (NIW) 3Q YTD 2017 v. 3Q YTD 2016.

# B-20 qualifying rate impact

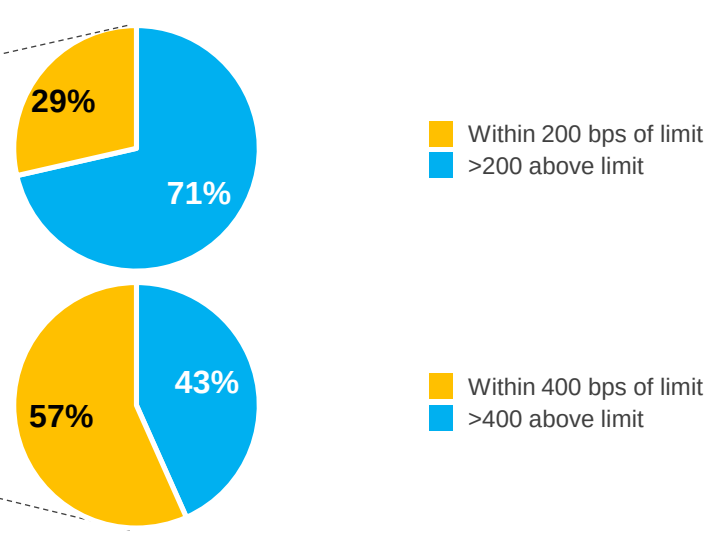
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**Creates more level playing field in terms of qualifying criteria between uninsured mortgages (B-20) and insured mortgages (B-21)**

## 2016 – YTD 2017 Low Ratio Applications (up to 25 year amortization)




## GDS & TDS breach drill-down[1]




**POTENTIAL IMPACT TO HOUSING DEMAND IN THE 5%-10%[2] RANGE; IMPROVES LONG-TERM AFFORDABILITY**

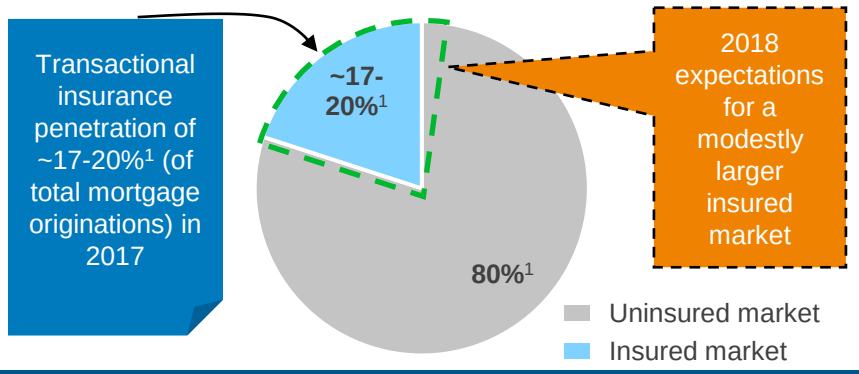
Note: Company sources. NIW represents new insurance written.
1. Based on Total GDS and/or TDS breach ($)
2. Management estimate.

# Growth opportunities

Genworth Canada

| | | Impact |
|---|---|---|
| 1 | **Market size** → • Modest improvement in first time homebuyer penetration rate | +2-3% |
| 2 | **Market share** → • Diversified across lenders | +1-2 points |
| 3 | **Premium rate** → • Full year impact of 2017 rate increase (~3.50% v. 3.26%)[2] | +24 bps |

## Transactional market penetration




## Key drivers of market size growth:

- B-20 & provincial changes slowing home price appreciation; improved affordability for first time homebuyer
- Lower mortgage rates for borrower-paid insured mortgages vs. uninsured mortgages
- B-20 mortgage rate stress test reduces incentive to avoid high ratio mortgage rules

**TRANSACTIONAL PREMIUMS WRITTEN EXPECTED TO BE MODESTLY HIGHER IN 2018**

1. Management estimate.
2. Management estimate, vs. Q3 YTD 2017.

# Our core business franchise is solid

Genworth Canada

## Status

- Fundamentals are sound: strong regulatory structure; prime, de-risked mandatory product; disciplined underwriting and covenant recourse
- Risk profile of recent, more exposed books materially improved over older books
- Housing in larger markets moving towards a “soft landing”
- New capital framework and improved pricing should drive ROE progression
- Business generating excess capital as older books season

## Strategies to improve core MI business

A. Prudently grow key accounts

B. Proactively manage risk

C. Drive capital efficiency

D. Leverage GR strategy to influence government

# Lender MI allocation dynamics

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**Allocation at branch level (50%[1] of industry volume)**

## Field Sales

**Regional sales resources across all provinces**

- Focused on driving superior customer experience
- Relationships/"feet on the street"
- Local market expertise
- Underwriting consultation
- Training

**Allocation at HQ ("toggle lenders") (50%[1] of industry volume)**

## National Accounts

**Key head office relationships supported by field sales**

- Key senior decision makers and relationships
- Thought leadership/data
- Service standard scorecards
- Counterparty assessments
- Portfolio insurance

**CREATING VALUE THROUGH: RELATIONSHIPS, SERVICE EXPERIENCE, CLAIMS CREDIBILITY, AND INDUSTRY THOUGHT LEADERSHIP**

1. Management estimate.

# Prudent growth and enhanced customer experience

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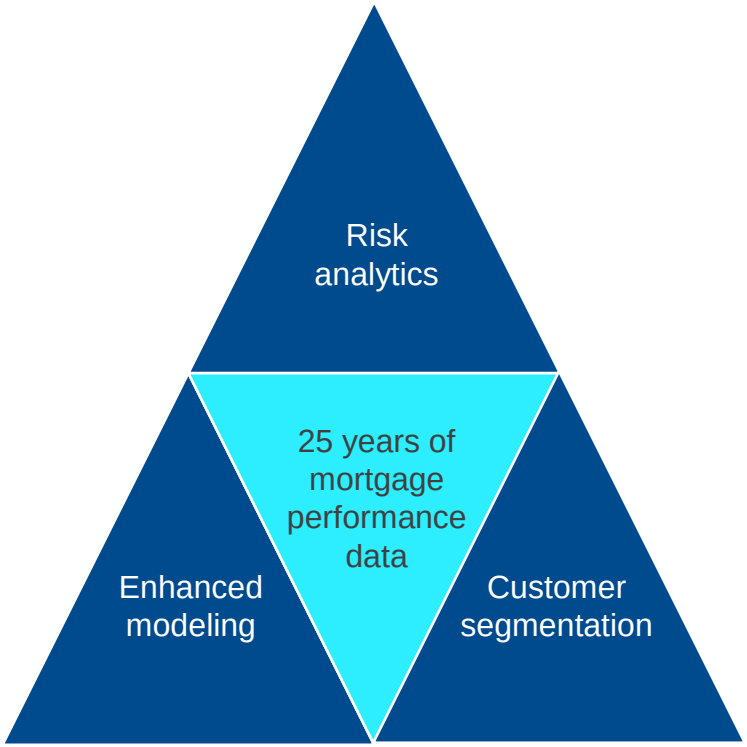
## Growth strategy

(1) Drive enhanced customer experience and profitability through our “Smarter MI” strategy

(2) Maintain transparency on credit ratings and counterparty strength

(3) Build on our reputation as the preferred MI partner through ongoing industry “thought leadership”

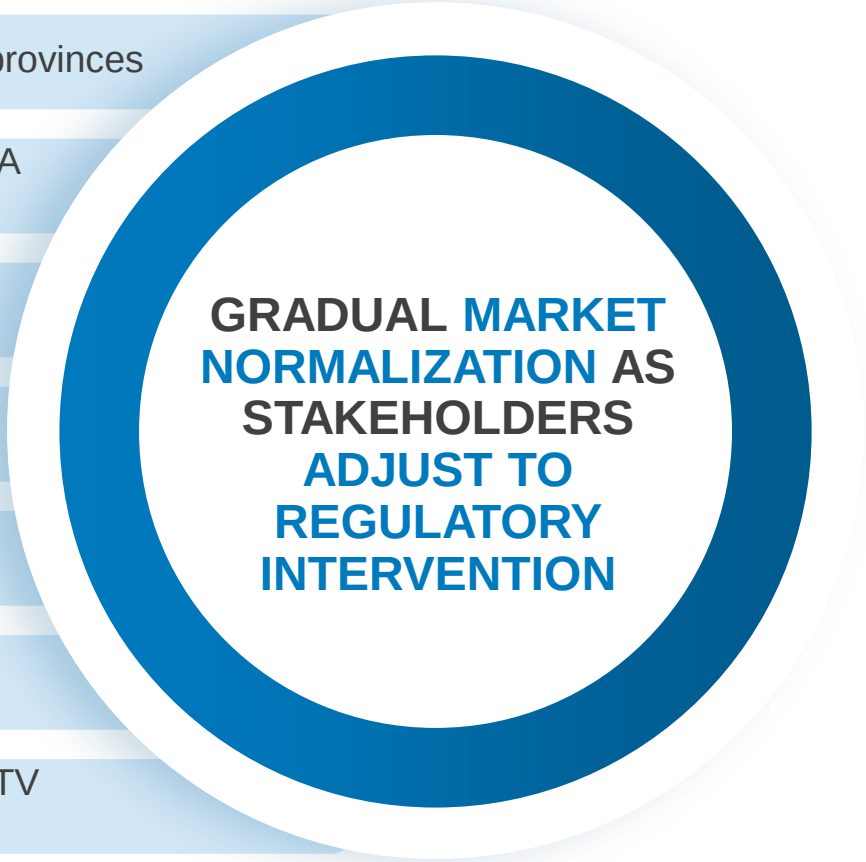
## Leveraging key capabilities




**ENHANCE LENDER ‘POINT OF SALE’ EXPERIENCE TO DRIVE MARKET SHARE GROWTH**

# 2018 outlook

- Ongoing economic strength, greater parity between provinces
- “Normalized” housing markets, particularly in the GTA & GVA
- B-20 stress test - pressure on conventional mortgages and higher end price segment
- Modest improvement in FTHB fundamentals
- Transactional premiums written expected to be modestly higher in 2018
- Ongoing normalization of losses
- Emergence of risk based pricing methodology for HLTV mortgage insurance



# Strategic priorities for 2018

Genworth Canada

**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 strong **government relations strategy** to influence our regulatory environment



**4**

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



**CONTINUE TO PROVIDE THOUGHT LEADERSHIP IN THE MORTGAGE INDUSTRY**



**Craig Sweeney**

Senior Vice President and Chief Risk Officer

# Disciplined risk management

# Risk governance framework

Genworth Canada

## GOVERNANCE

**Robust risk oversight**

- **Board**: Risk, capital and investment committee
- **Management:** Insurance risk committee; Model risk committee

## INSURANCE RISK PILLARS

### Identify & assess key risks

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

### Manage the quality of new business

- Clearly defined risk appetite
- Underwriting fundamentals
- Proprietary mortgage scoring model
- Robust quality assurance

### Portfolio risk management

- Portfolio analytics
- Identification of loss trends
- Drives underwriting changes
- Proactive loss mitigation

## REGULATORY & LEGAL FRAMEWORK

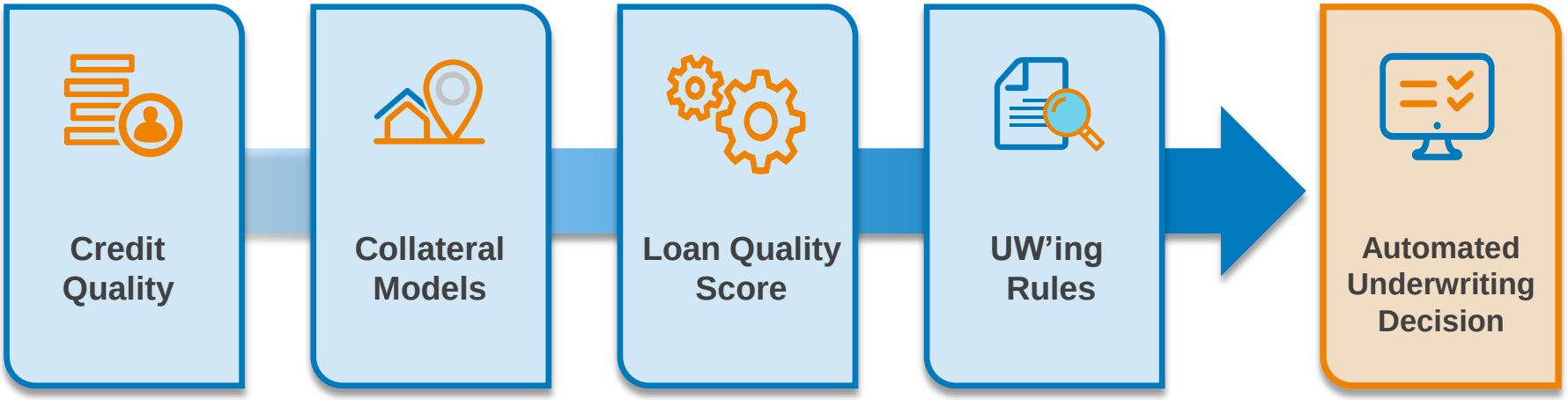
**Strong regulatory framework**

- Defined underwriting best practices (OSFI's B-20 / B-21 guidelines)
- Borrower recourse
- Efficient and effective mortgage foreclosure process
- Risk-sensitive capital framework

# Underwriting fundamentals - Smarter MI

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## APPLICATION SCREENING PROCESS




- "Prime" borrower(s)
- Payment history
- Debt serviceability

- Property characteristics
- Locational influences
- Value / marketability

- Comprehensive loan quality assessment

- Regulatory requirements
- Emerging risks
- Model 'blind spots'

- All models must pass for a loan to auto approve
- Enhanced due diligence on referred files

# Environment

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## KEY STRENGTHS

| | Commentary |
|---|---|
| **Portfolio quality** | › Significant embedded equity and strong average credit scores |
| **Canadian economy** | › Strong economic momentum across most regions going into 2018 |
| **Stabilizing oil prices** | › Reinvestment in the oil and gas sector in initial stages |
| **U.S. economy** | › Robust labour market and consumer confidence |

## KEY RISKS

| | Commentary |
|---|---|
| **NAFTA / Recession** | › NAFTA negotiations expected to continue into late 2018 |
| **Housing risk: GTA / GVA** | › B-20 Guideline: Stress test to further reduce over heating in key regions |
| **Rising interest rates** | › Insurance portfolio heavily weighted to 5-yr fixed rate mortgages |
| **Household debt levels** | › MIC: improving borrower debt profile |

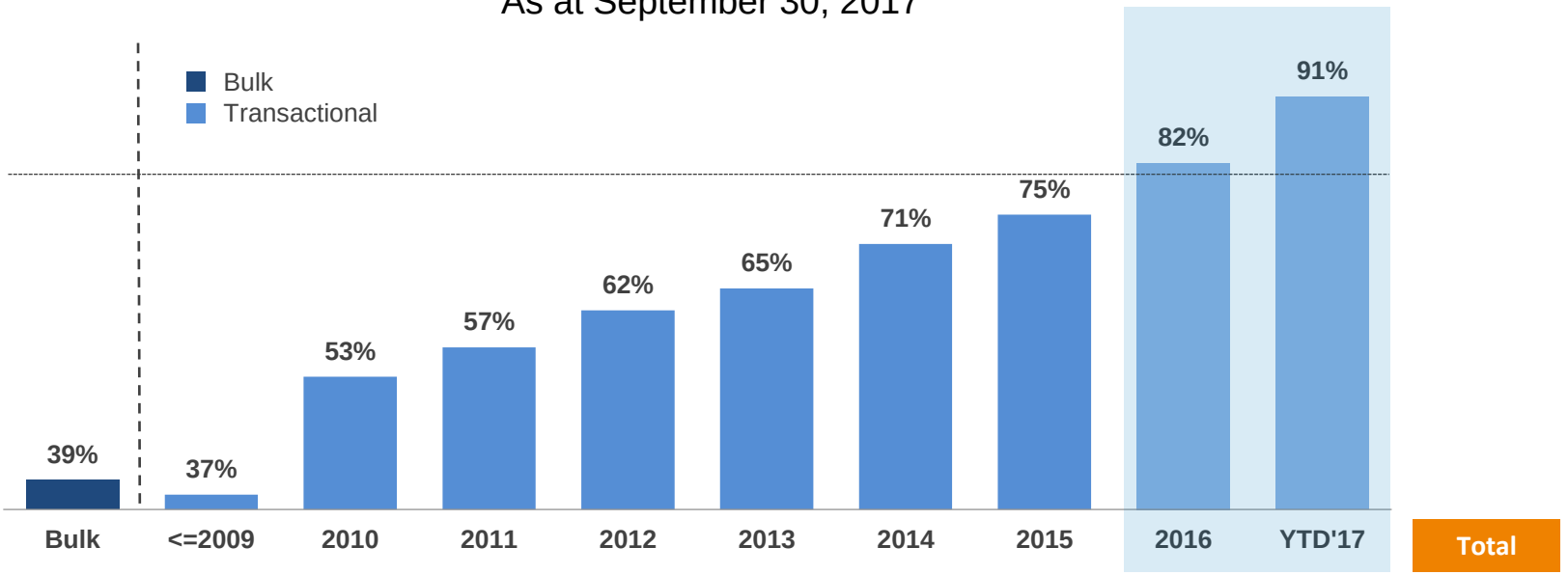
Source: Company sources, Bank of Canada, RBC economics, US EIA, bls.gov, fred.stlouisfed.org/series/UMCSENT

# National risk in force (RIF)

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## Average Effective Loan-to-Value (ELTV) by Book Year[3]

As at September 30, 2017




| Insurance in Force (C$B)[1] | $161 | $165 | $21 | $21 | $20 | $19 | $21 | $25 | $21 | $14 | $487 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| O/S Insured Mtg Balances[2] (C$B) | $103 | $17 | $7 | $7 | $9 | $11 | $16 | $20 | $20 | $12 | $222 |
| % – ELTV[3] >80% | 0.1% | 1% | 0% | 1% | 11% | 26% | 47% | 48% | 66% | 94% | 21% |

**>25% EQUITY ON AVERAGE FOR 2015 AND PRIOR BOOK YEARS**

1. Total Insurance in Force as at September 30, 2017 based on original insured amount
2. Based on outstanding balance of insured mortgages as reported by the Company as at September 30, 2017 of $222B
3. Effective LTV calculated using Teranet comprehensive data; Based on lender reported outstanding balance of insured mortgages as at September 30, 2017

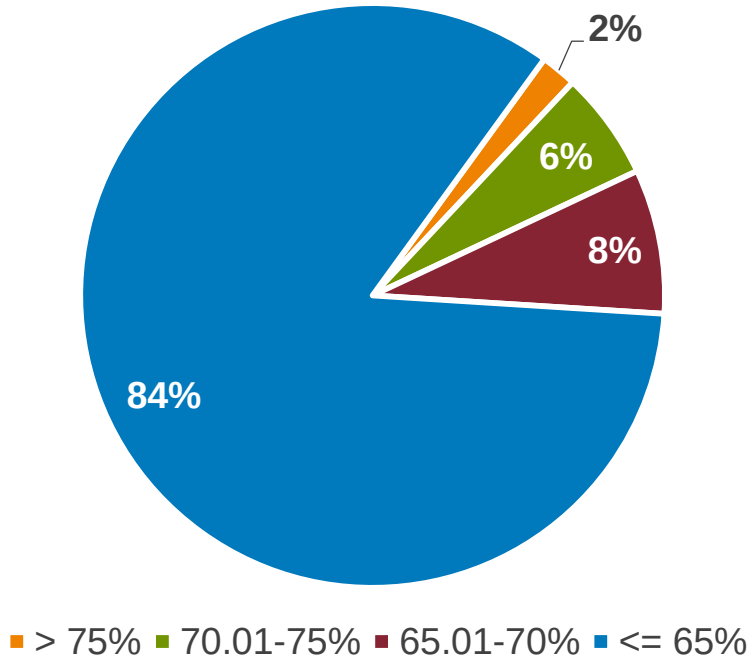
# Portfolio insurance

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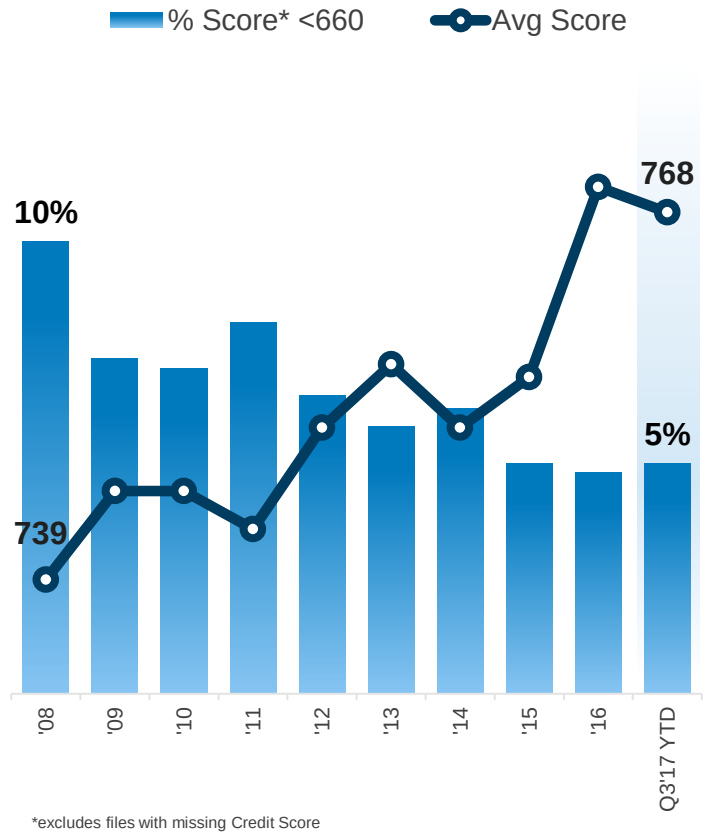
## Outstanding insured mortgage balance

**C$103B**

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




## Credit profile




*excludes files with missing Credit Score

**84% OF PORTFOLIO INSURANCE HAS EMBEDDED EQUITY OF AT LEAST 35%**

Note: Effective LTV calculated using Teranet comprehensive data; Based on lender reported outstanding balance of insured mortgages as at September 30, 2017

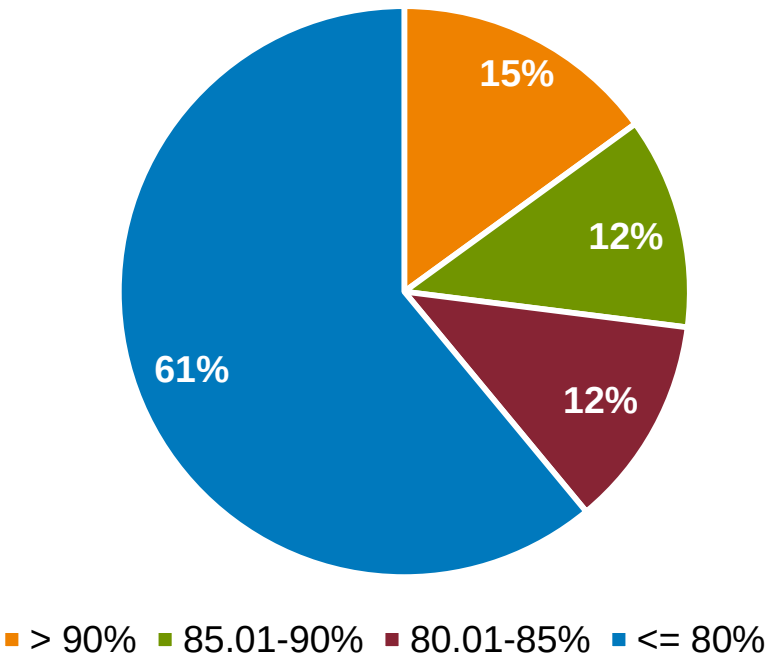
# Transactional insurance

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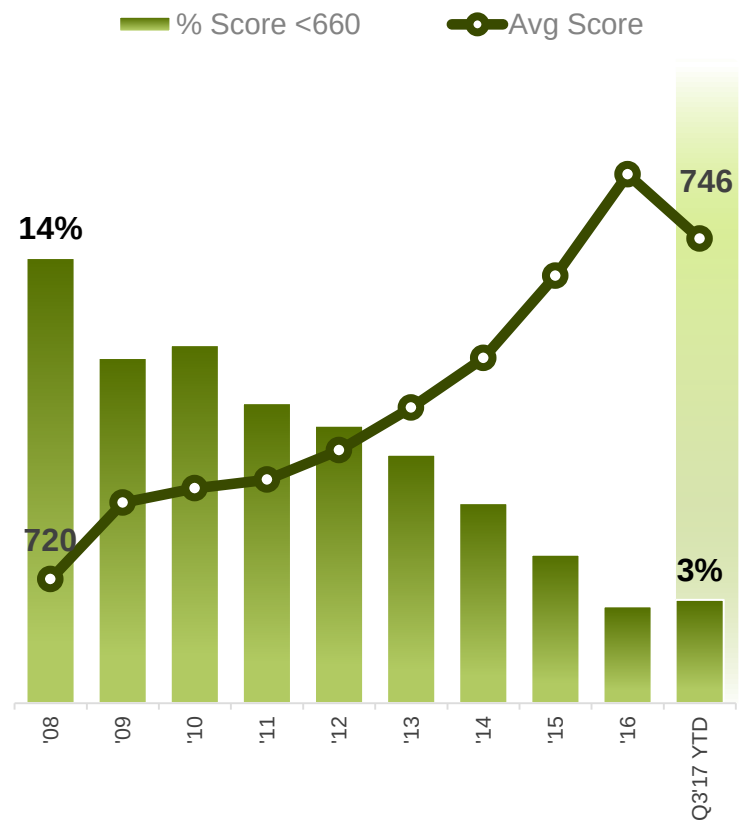
## Outstanding insured mortgage balance

**C$119B**

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




## Credit profile




**EMBEDDED EQUITY & STRONG CREDIT SCORES REDUCE OVERALL RISK IN PORTFOLIO**

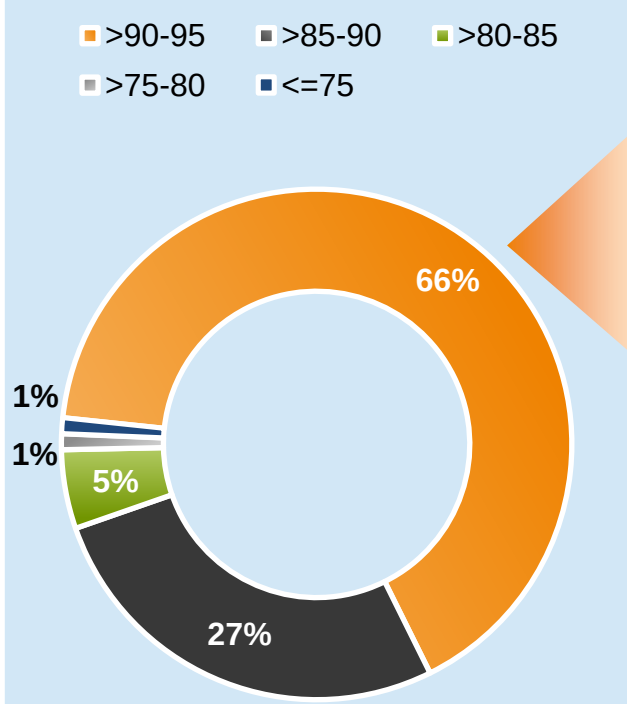
Note: Effective LTV calculated using Teranet comprehensive data; Based on lender reported outstanding balance of insured mortgages as at September 30, 2017

# Limiting stacked risk factors

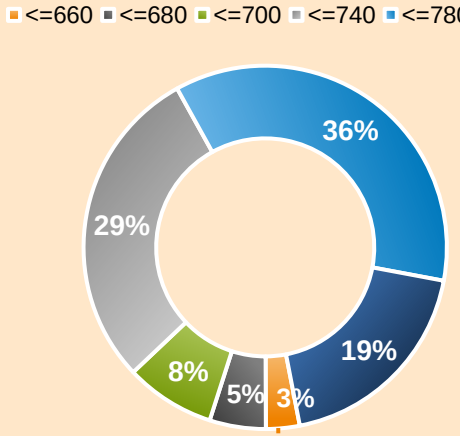
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## 2017 TRANSACTIONAL BUSINESS

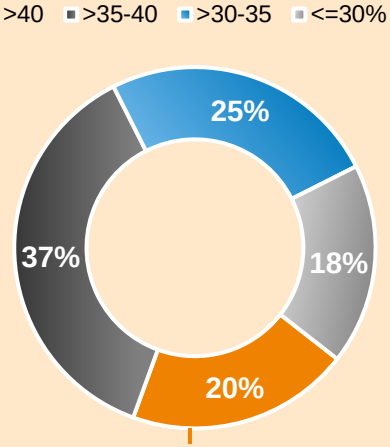
### Loan-to-value (LTV) Mix




### 95 LTV – credit score




### 95 LTV – TDSR




**Stacked risks (% of NIW):** >90%+ LTV + <=660 credit score + >40 TDSR

| | Halifax | Montreal | Ottawa | Toronto | Calgary | Vancouver | National |
|---|---|---|---|---|---|---|---|
| **2017** | 0.2% | 0.1% | 0.2% | 0.1% | 0.4% | 0.5% | **0.4%** |
| **2016** | 0.7% | 0.1% | 0.4% | 0.3% | 0.4% | 0.3% | **0.5%** |
| **2015** | 0.7% | 0.5% | 0.9% | 0.4% | 0.6% | 0.5% | **0.8%** |

**EXPOSURE TO STACKED RISK LOANS TRENDING DOWNWARD**

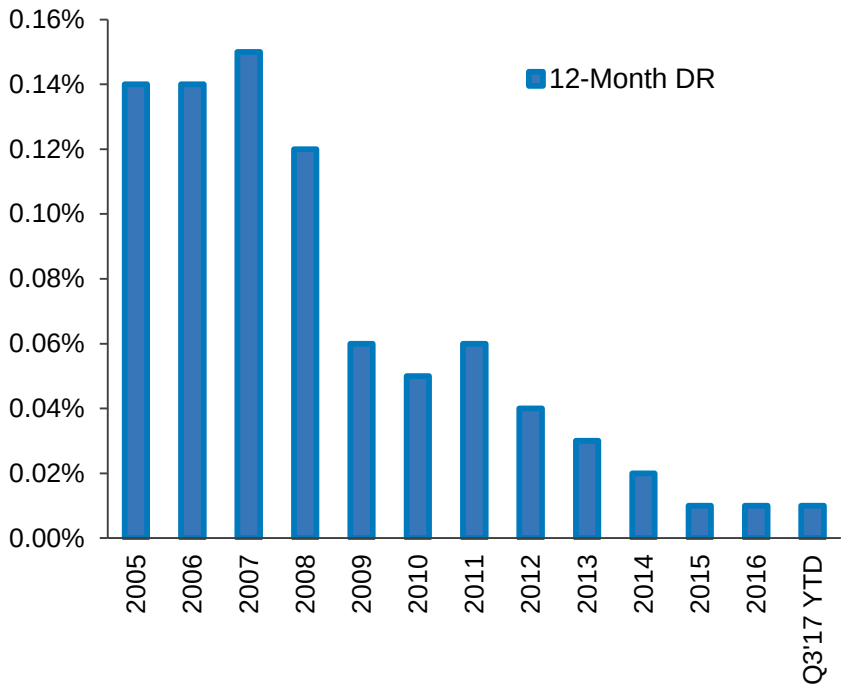
Note: Company sources; Stacked Risk = >90% LTV and <= 660 score and >40 total debt service ratio (TDSR). NIW represents new insurance written.

- LTV mix, 95LTV by Credit Score, 95LV by TDSR and 2017 Stacked risks based on New Insurance Written (NIW) YTD Sep'17; Purchase only. Excludes Alt A.
- 2015 and 2016 Stacked risks based on Total NIW for the year; Purchase only, excludes Alt A

# Early term delinquency trend

Genworth Canada

## 12-month delinquency rate (DR) trend[1]




- Measure of underwriting quality and potential borrower misrepresentation
- B-20/B-21 guidelines support strong underwriting discipline
- Key MIC risk processes and controls:
  - Lender underwriting quality assurance
  - Industry information sharing
  - Collateral model tests for inflated values

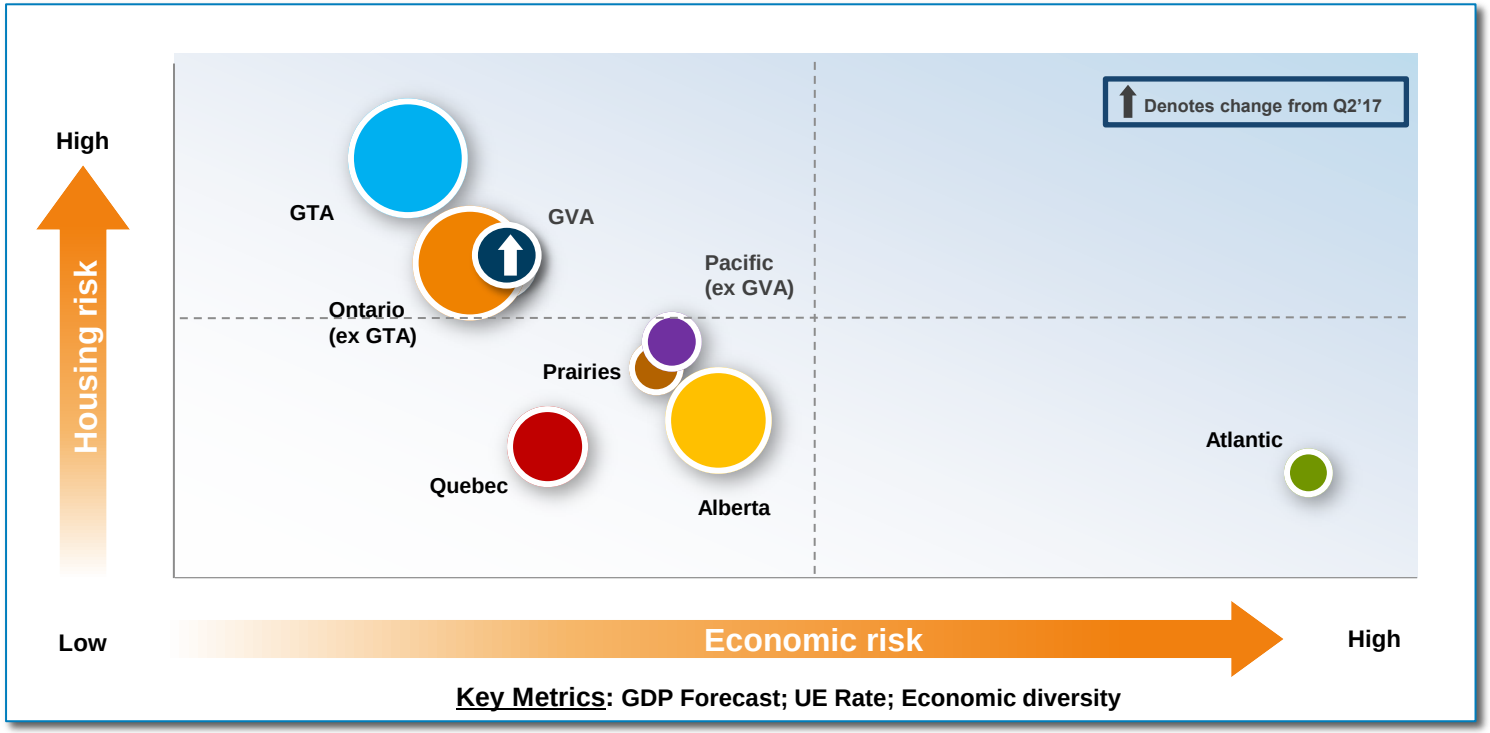
**RISK MANAGEMENT PROCESSES DRIVE BETTER PORTFOLIO QUALITY**

Note: Company sources as at Q3'17; MI (transactional) data only.
1. Represents loans that go into delinquency status within the first 12 months.

# Regional risk assessment

Genworth Canada

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




Elevated **housing risk** in GTA. Regulatory actions reducing risk

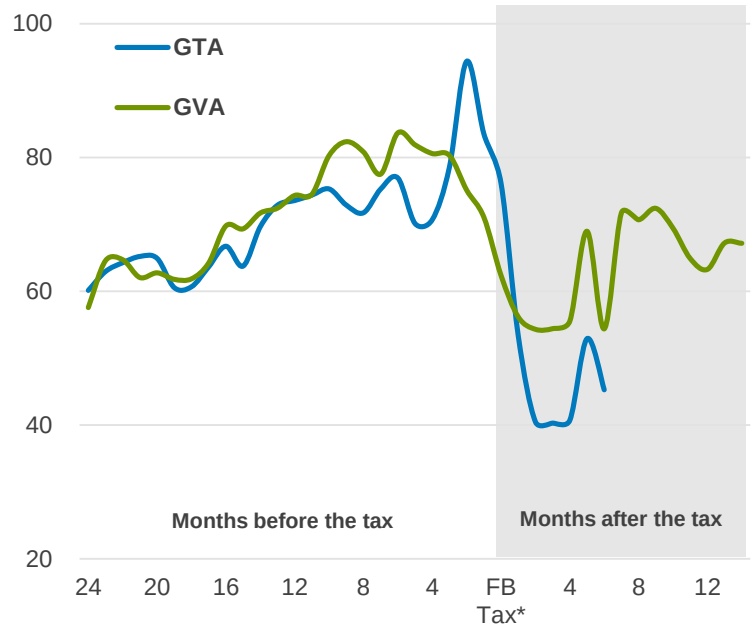
Improved **economic forecast** for Alberta and Prairies regions

Sources: Company estimates, Market average/consensus, Northern Economic Diversification Index

# GTA & GVA: housing market trends

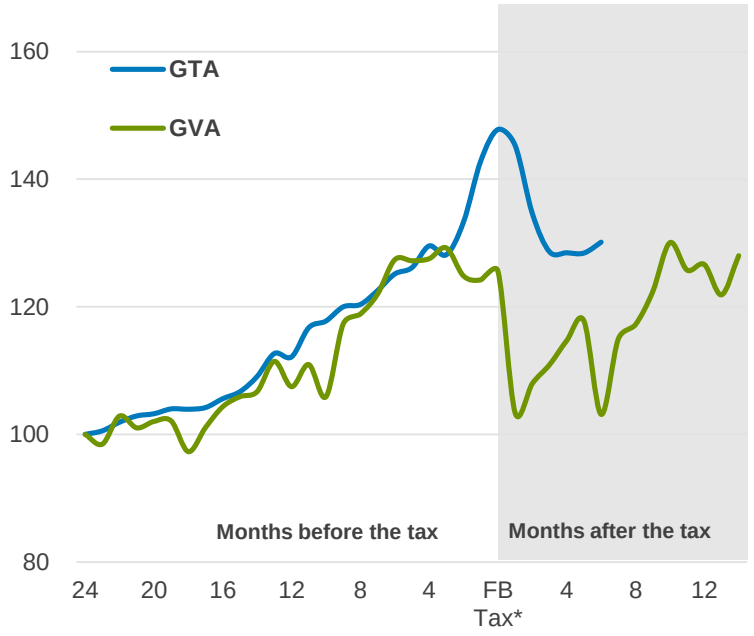
Genworth Canada

## Sales-to-listings ratio (%)




Both cities have returned to a more **balanced market**

## Resale price (month 24 = 100)

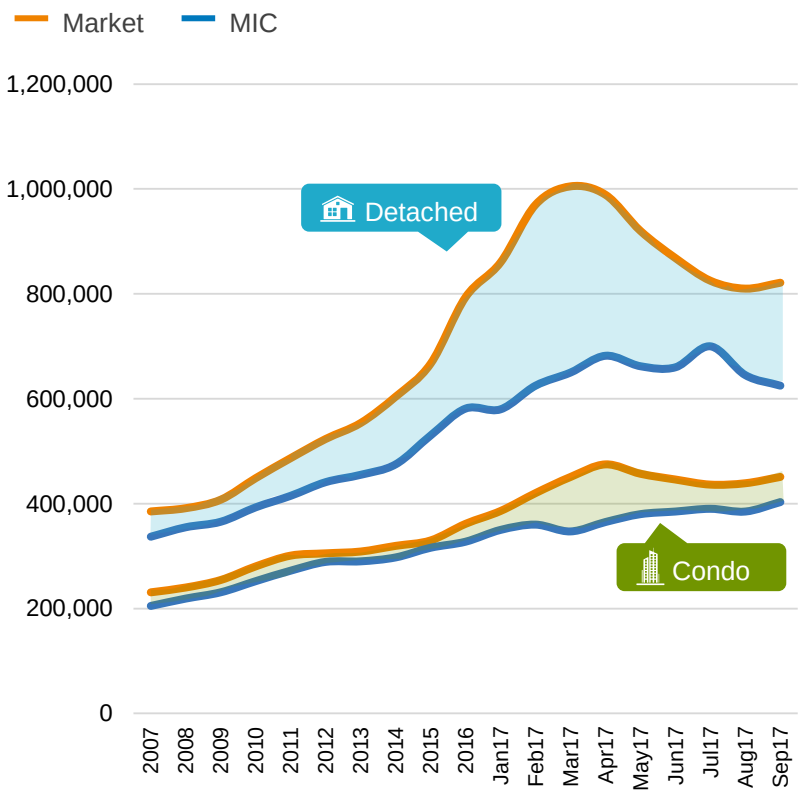



**House prices** have returned to 2016 levels

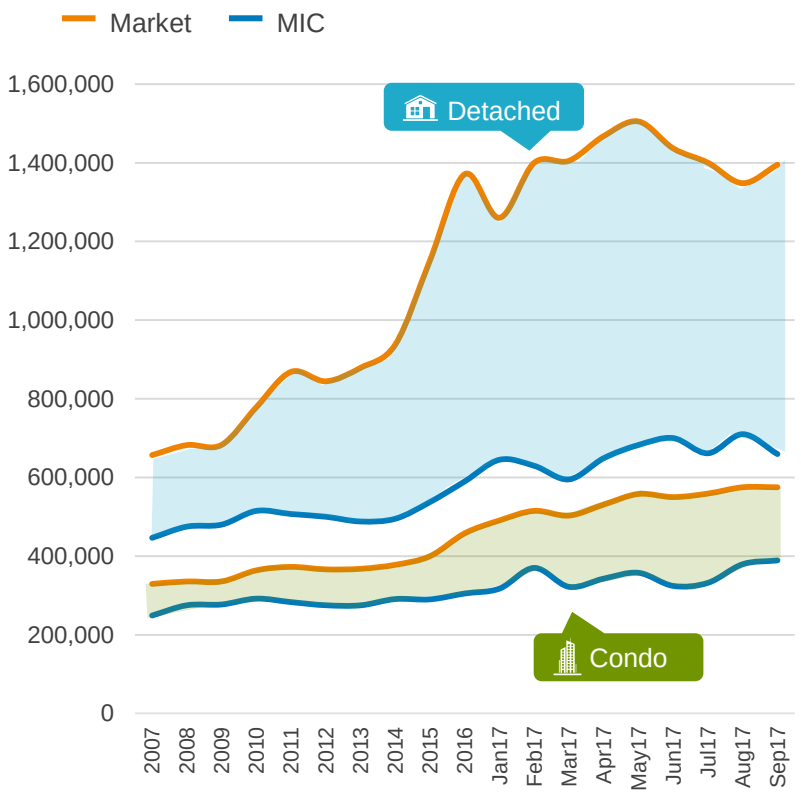
Source: CREA, data as at Sep'17.
Note: GTA represents the Greater Toronto Area and GVA represents the Greater Vancouver Area.

# GTA & GVA: housing market trends

## GTA[1] median price




## GVA[1] median price



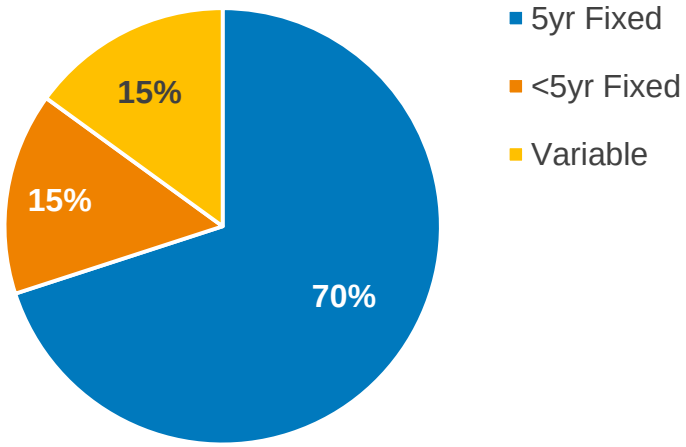

Note: Company sources, except for market data based on information from CREA.
Median price on transactional new insurance written for purchase transactions (excludes re-financings).
1. GTA represents the Greater Toronto Area and GVA represents the Greater Vancouver Area.

# Buffers against rising interest rates

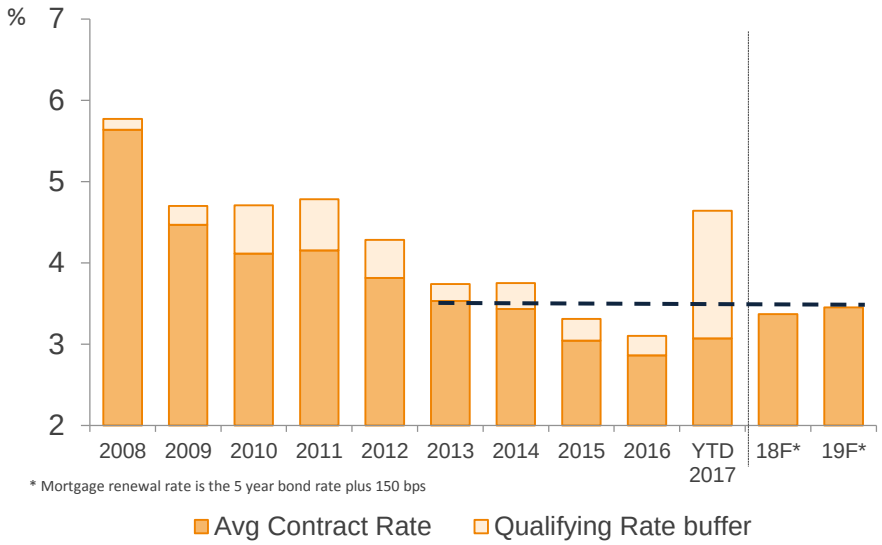
Genworth Canada

## 70% of portfolio* is 5-yr fixed rate

***MIC originations between 2007-2017**




## MIC: Qualifying rate



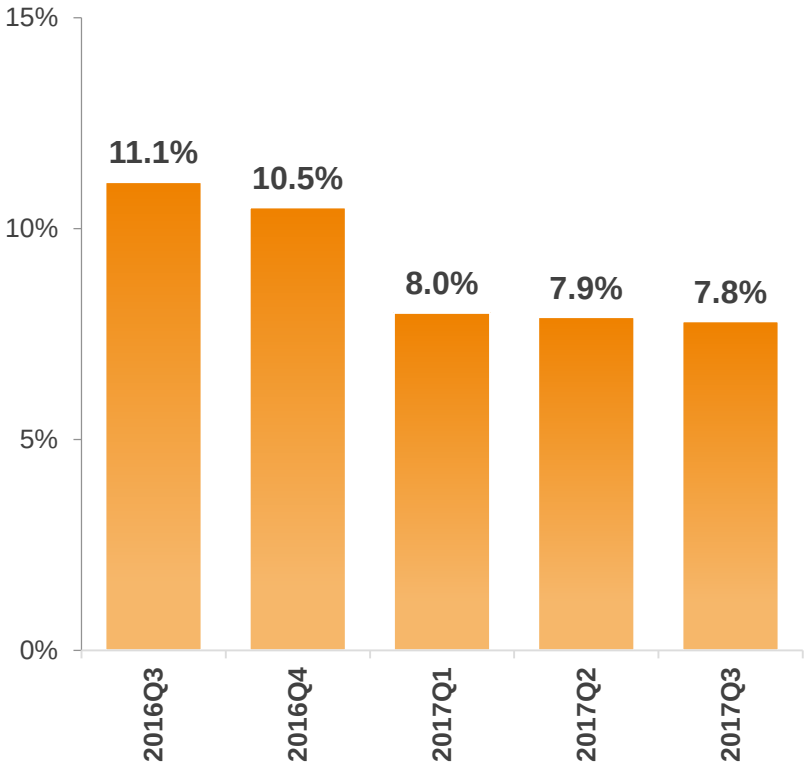

## MIC: Interest rate trend

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | YTD 2017 |
|---|---|---|---|---|---|---|---|---|---|
| % 5-yr Fixed | 54% | 57% | 58% | 78% | 84% | 75% | 78% | 82% | 71% |

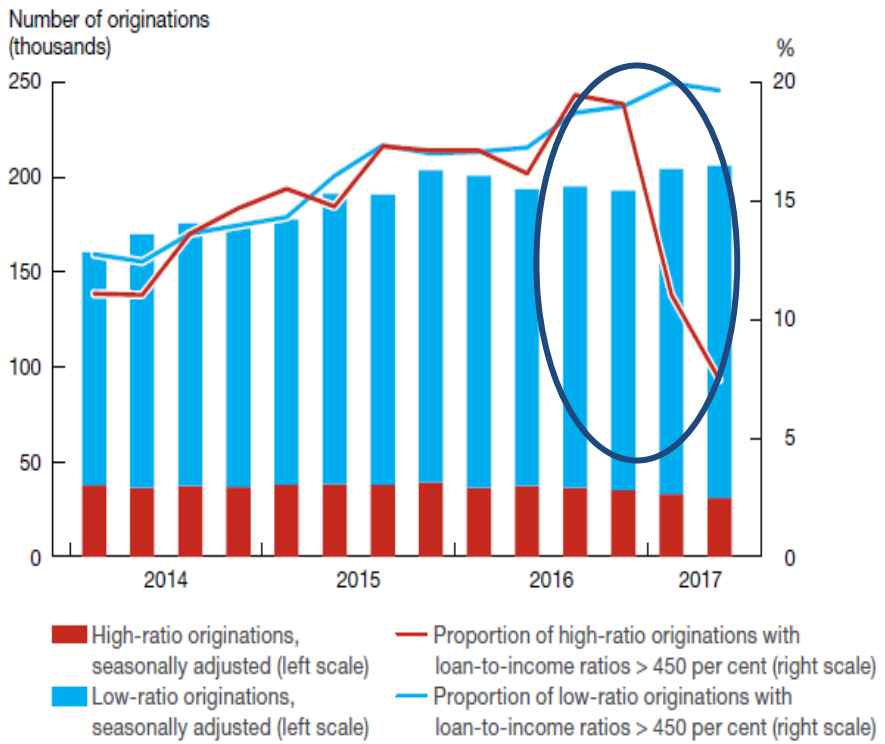
**MAJORITY OF 2013 / 14 BORROWERS WILL RENEW AT RATES EQUAL TO OR LOWER THAN THEIR ORIGINAL MORTGAGE RATE**

# Improving gross debt service ratio

## MIC: Gross debt service ratio >35%




## Highly indebted borrowers




Note: Data include purchases and refinances originated by federally regulated financial institutions

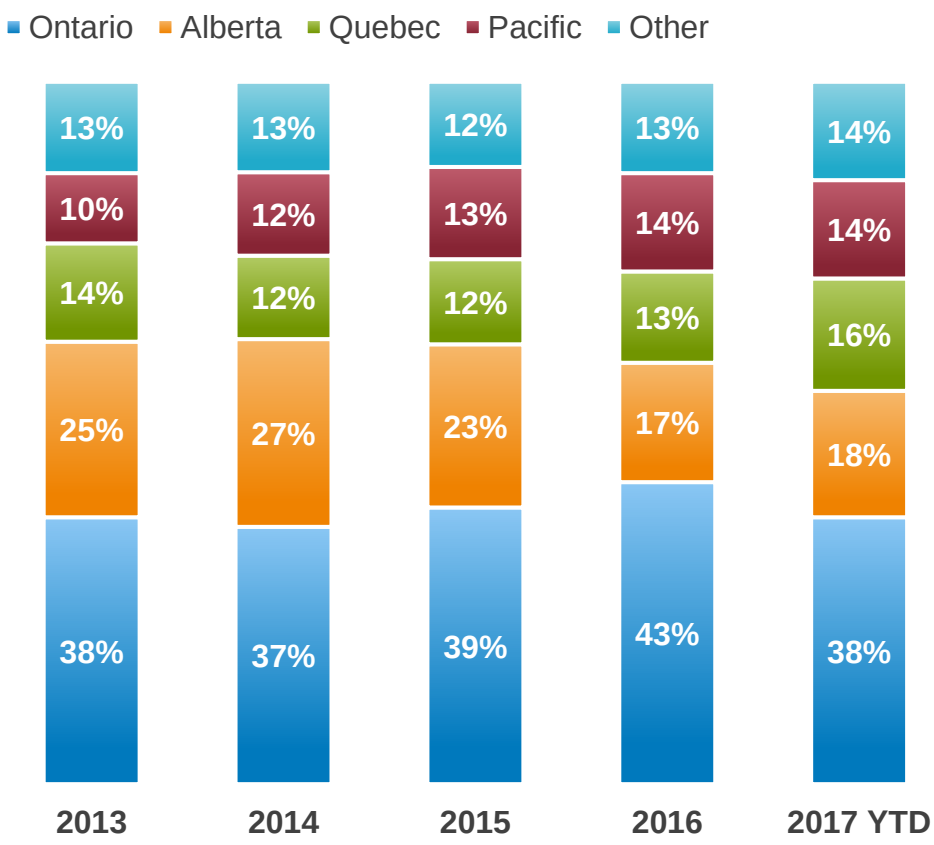
**REGULATORY CHANGE SUPPORTING IMPROVED PORTFOLIO QUALITY**

Note: Company sources for transactional new insurance written
Indebted Borrowers Source: Bank of Canada, Financial System Review Nov. 2017.

# Regional diversification

Genworth Canada

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




## Regional highlights

**Underwriting actions** resulting in smaller but better quality Alberta portfolio since 2014

**Strong economic conditions** in Quebec. Key growth region in 2018

**Regulatory changes** and affordability constraints reducing Ontario NIW

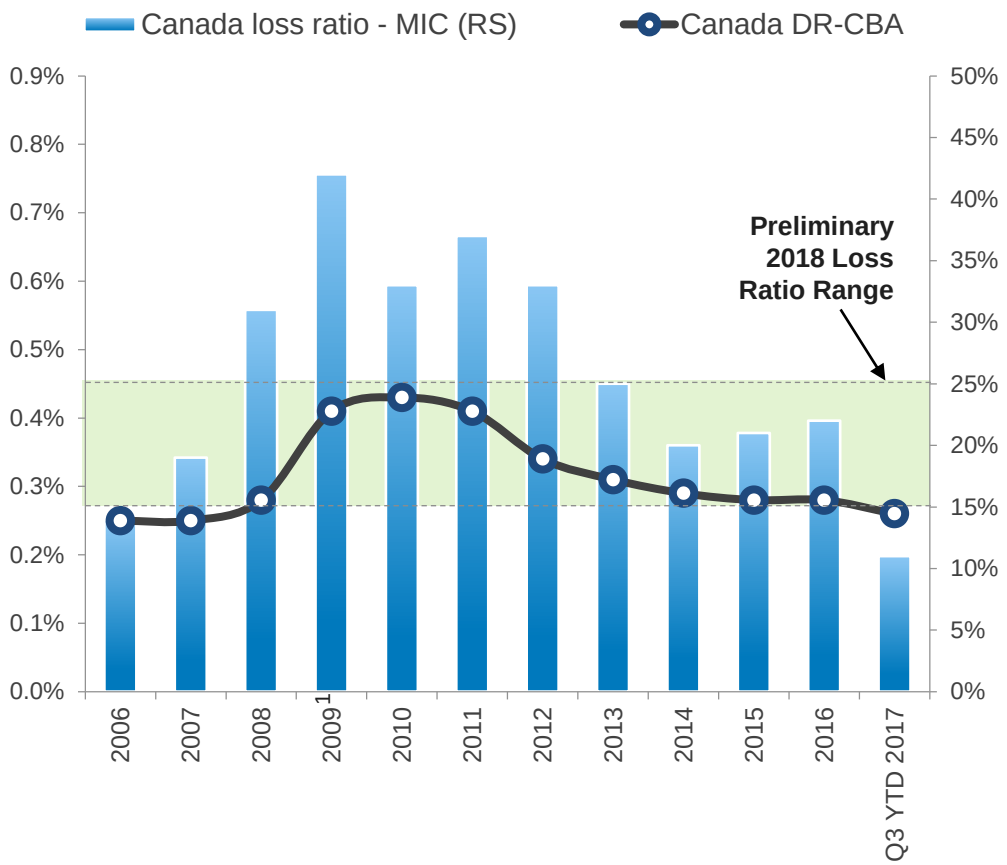
**GEOGRAPHICALLY DIVERSIFIED … ALBERTA EXPOSURE REDUCED TO 18%**

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

# 2018 annual loss ratio expectations

Genworth Canada

## MIC loss ratio & CBA delinquency rates




- WTI price-per-barrel in the $50-60 US range
- Canadian dollar remains stable in the 70-80 cent range
- Modest increase in mortgage interest rates

| 2018 assumptions | | |
|---|---|---|
| | UE Rate | House Prices |
| National | ~6.5% | (0.5%) |

**PRELIMINARY 2018 ANNUAL LOSS RATIO RANGE 15% TO 25%**

Note: 2018 assumptions based on Company estimates; denote exit rates.
Data Sources: Canadian Bankers Association, Company sources; all data as at Q3'17 except CBA delinquency rates (as at Aug'17)
1. 2009 excludes the impact of the change to the premium recognition curve in Q1'09

# Key takeaways

Genworth Canada

- Strong portfolio quality
- Underwriting fundamentals reducing risk
- Well positioned to address economic pressures
- 2018 annual loss ratio range: 15% to 25%





**Philip Mayers**

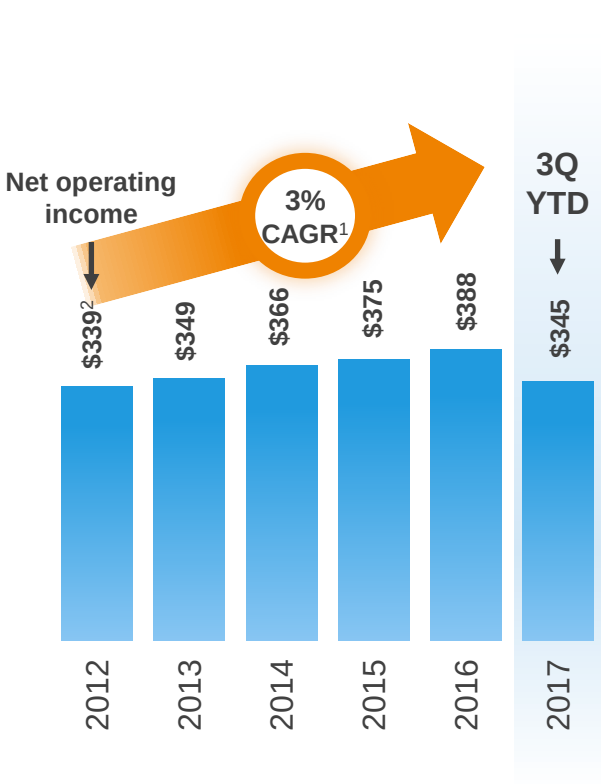
Senior Vice President and Chief Financial Officer

# Financial strategy and insights

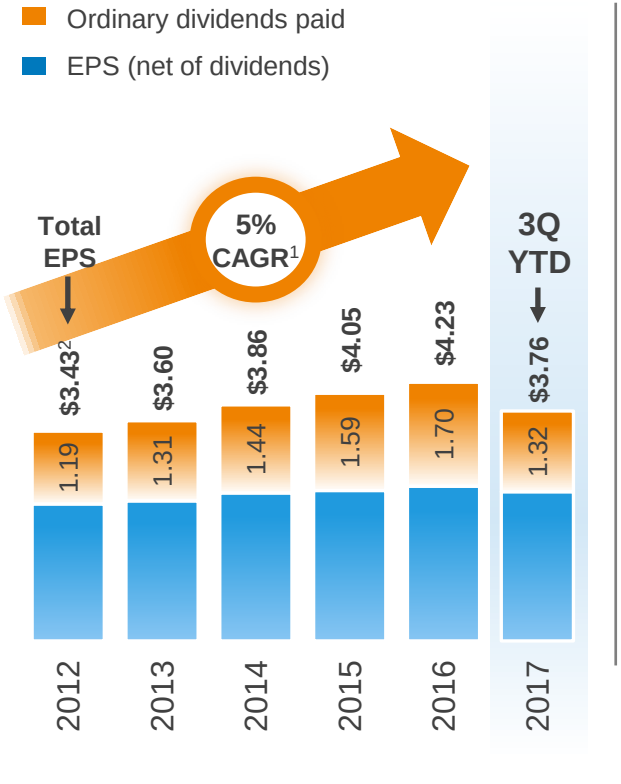
# Consistently creating shareholder value

Genworth Canada

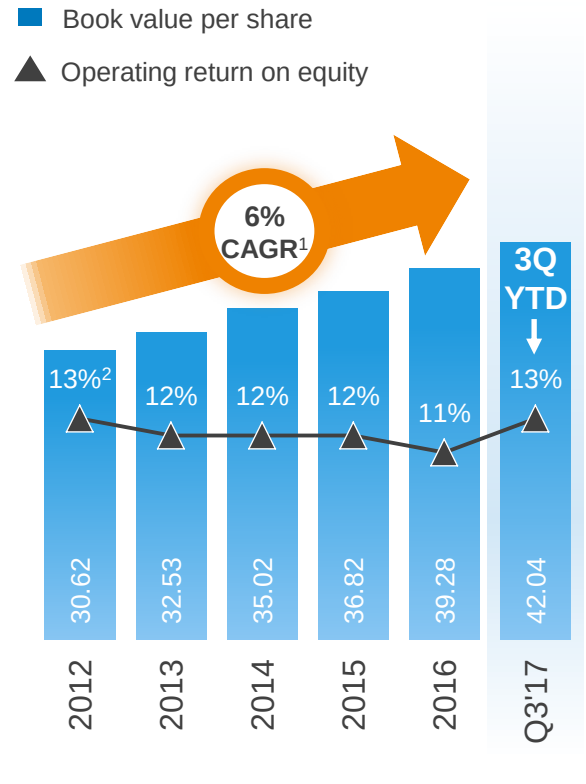
## Operating Income history
(C$, millions)




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




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




***On track for continued growth in operating income***

***Track record of year over year EPS growth***

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

| | | | | | |
|---|---|---|---|---|---|
| 0 | 105 | 116 | 50 | 0 | 40 |

1. Net operating income, EPS, and book value per share CAGR (compounded annual growth rate) reflects the 2012-2016 period. 2. 2012 net operating income, EPS & ROE excludes impact of the reversal of the government guarantee fund exit fee.

# Strong balance sheet

Genworth Canada

| (C$, millions) | Sept. 30, 2017 | Dec. 31, 2016 |
|---|---|---|
| **Assets** | | |
| Cash and investments | $ 6,472 | $ 6,265 |
| Other assets | 355 | 347 |
| **Total assets** | **$ 6,826** | **$ 6,612** |
| **Liabilities** | | |
| Loss reserves | 131 | 163 |
| **Unearned premiums** | **2,136** | **2,143** |
| Long-term debt | 433 | 433 |
| Other liabilities | 265 | 224 |
| **Total liabilities** | **2,965** | **2,963** |
| **Shareholders' equity (incl. AOCI)** | **3,861** | **3,649** |
| **Total liabilities and shareholders' equity** | **$ 6,826** | **$ 6,612** |



High quality investment portfolio with ~92%[1] investment grade fixed income



Unearned premiums provide good visibility of future revenues with significant embedded value



Modest leverage with debt to total capital of 10%



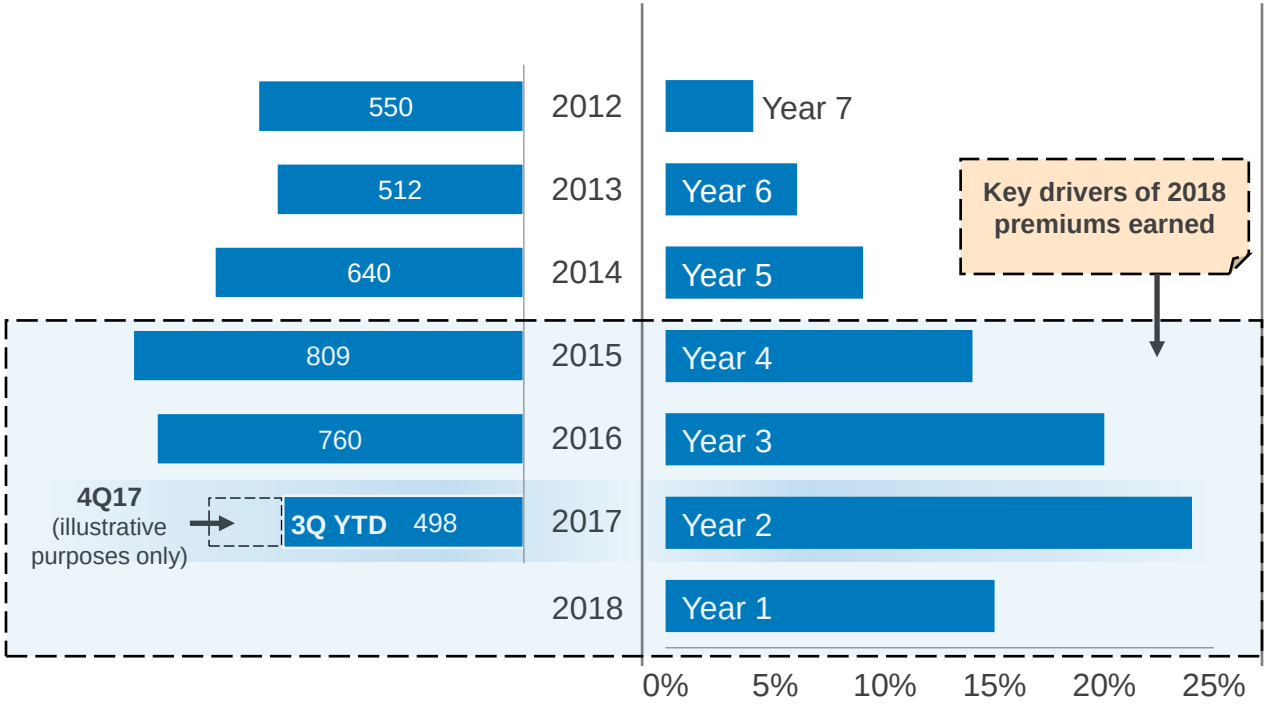
Strong capital position with track record of annual dividend increases and share buybacks

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

Note: Amounts may not total due to rounding. 1. Includes cash and cash equivalents of 5%.

# Premiums earned

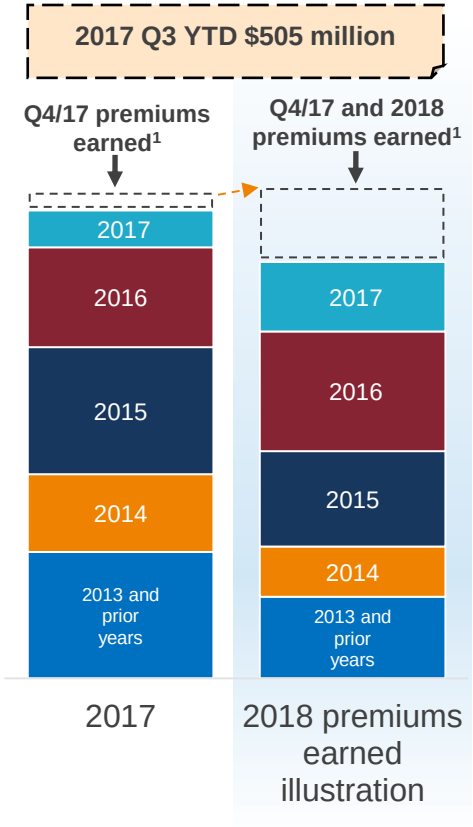
## Net premiums written
(C$, millions)




## Earnings curve
(by age of book for a calendar year)




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



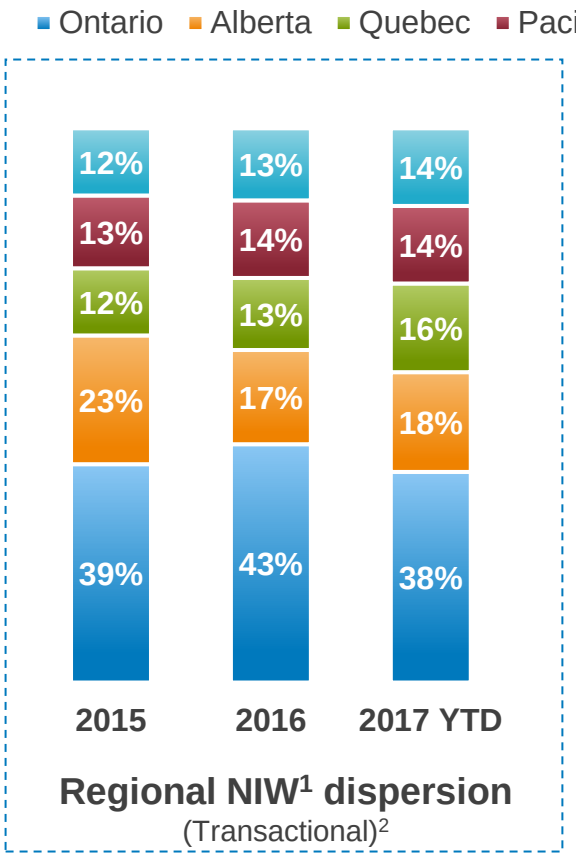

**Transactional premium rate should grow by ~7% to ~3.50% in 2018 reflecting full impact of Q2 2017 price increase**

**Premiums earned expected to be relatively flat in 2018**

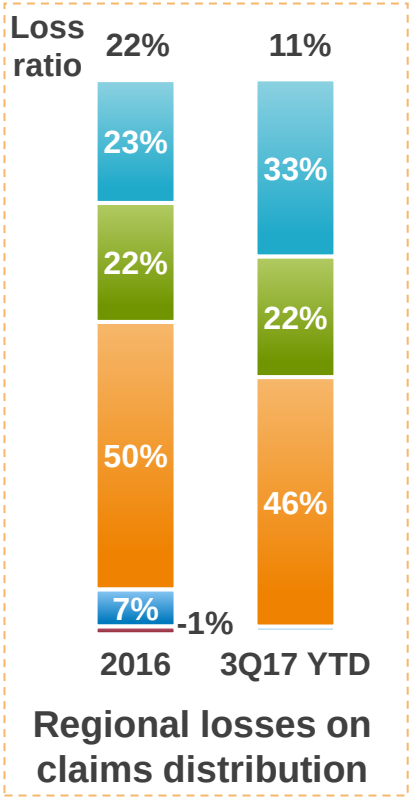
Note: Earnings curve assumes no material change in the curve with respect to above depiction.
[1] Estimates as of Q4/17 and 2018 premiums earned are for illustrative purposes only and are not to scale.

# Loss ratio

## Regional NIW[1] vs. losses on claims




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




**Regional losses on claims distribution**

## Observations

**Alberta, Quebec and Atlantic regions** driving 2016 and 2017 losses on claims

**Strong economic conditions in Ontario and Pacific regions** resulting in almost no losses on claims in these regions

**Loss ratio expected to trend higher in 2018** as losses on claims begin to normalize in Ontario and Pacific regions

**2018 FULL YEAR TARGET LOSS RATIO OF 15 TO 25%**

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

# Loss reserving primer

Genworth Canada

**Loss reserves represent our best estimate of the net costs of settling claims plus a provision for adverse deviation for delinquent loans**

**Best estimate of losses on claims**

**Unpaid principal & accrued interest**

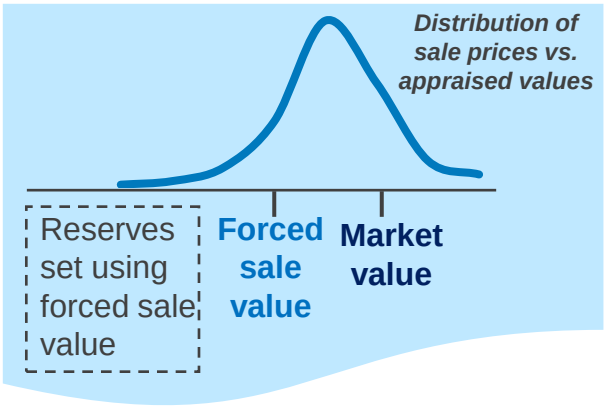
**Estimated property value**

**Settlement costs:**
- Legal
- Appraisal
- Repairs
- Property management
- Property taxes

**Expected cures and recoveries**

**Incurred but not reported delinquencies**

**Provision for adverse deviation**




**Reflects potential for home price declines, higher settlement costs, lower cure or recovery rates, etc.**

**LOSS DEVELOPMENT MOST PRONOUNCED WHEN THERE ARE UNANTICIPATED ECONOMIC DEVELOPMENTS**

Note: Company sources.

# Embedded value illustration

Genworth Canada

| In-force portfolio | Expected over economic cycle | Stress scenario |
|---|---|---|
| Unemployment rate change over 5 years | 1% to 2% increase | 2% to 4% increase |
| Cumulative HPA / (HPD) over 5 years | -5% to -7% | -15% to -20% |
| **Loss ratio (national) over 5 years** | **25% to 30%** | **60% to 70%** |
| **Unearned premiums** | **$2.1 billion** | |
| Future losses | ($578M) | ($1,365M) |
| Future expenses (20% expense ratio) | ($420M) | ($420M) |
| **Embedded value after taxes** | **~$813M** | **~$233M** |
| **Additional intrinsic value per share** | **~$9.00** | **~$2.60** |

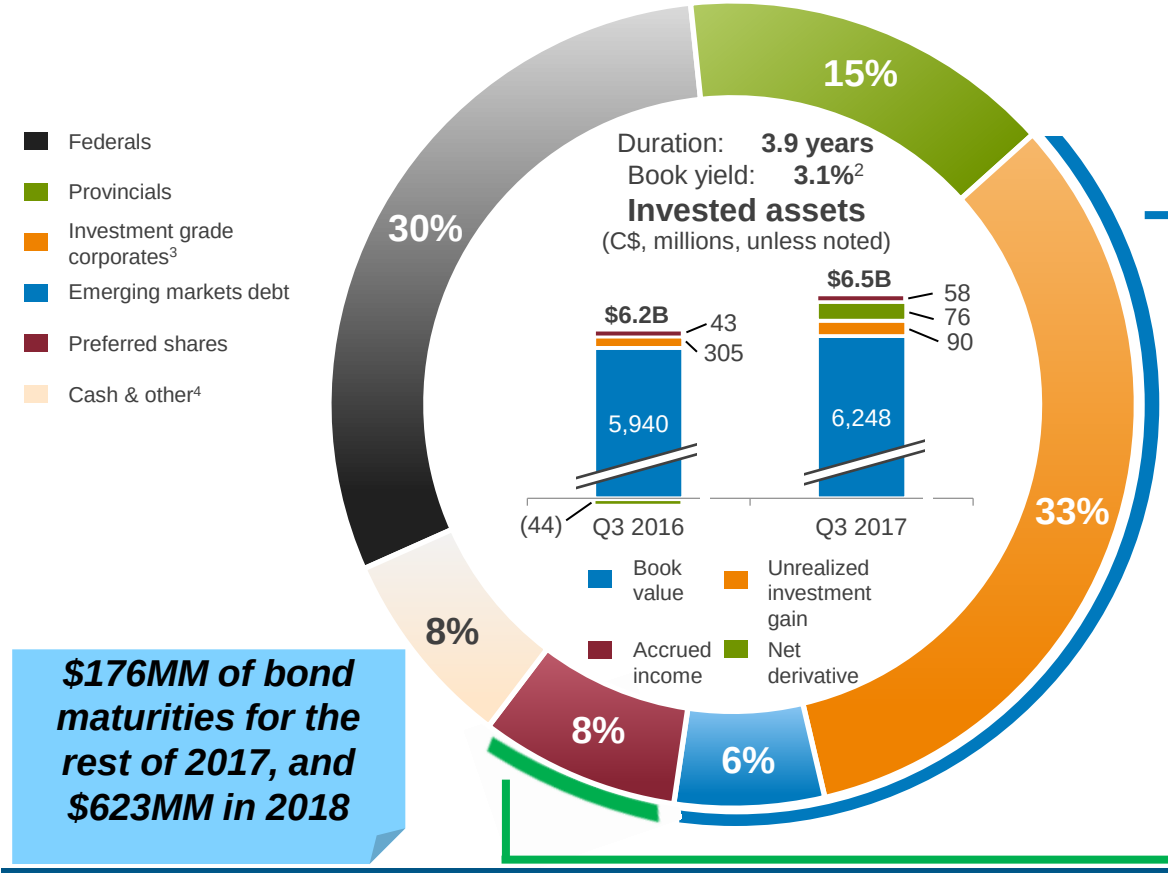
**MEANINGFUL EMBEDDED FUTURE PROFITS AND ADDITIONAL INTRINSIC VALUE**

Note: Company estimates.

# High quality investments

Genworth Canada

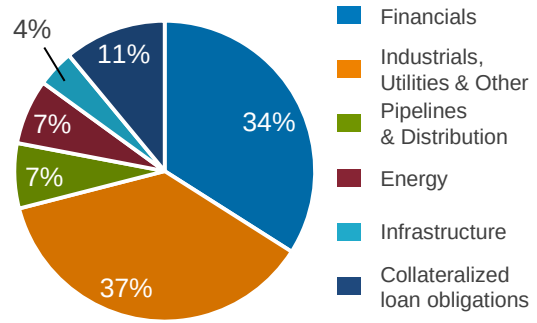
## Total invested assets
(Market value of $6.5 billion[1])



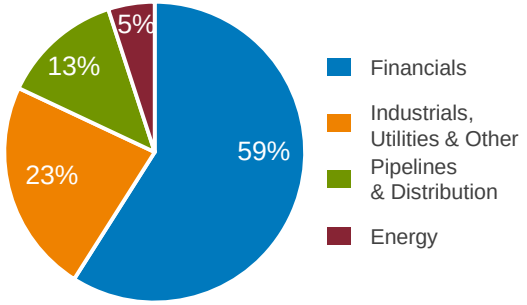

***$176MM of bond maturities for the rest of 2017, and $623MM in 2018***

## Industry / sector & subsectors

### *Corporate bonds & emerging market debt*
(~40% of portfolio)




### *Preferred shares*
(8% of portfolio)




**POSITIONED WELL FOR RISING RATE ENVIRONMENT**

Note: Company sources.

1. Represents market value of investments, includes accrued investment income and other receivables and net derivative financial instruments related to foreign exchange and interest rate hedging programs. 2. Investment yield represents pre-tax equivalent book yield after dividend gross-up of portfolio (as at Sept. 30th, 2017). 3. Market value, includes CLOs. 4. Cash & other includes short-term investments, accrued investment income and other receivables, and net derivative financial instruments.

# Investments generate steady income stream

Genworth Canada

## Investment portfolio
(by asset class)

| | Current book yield[1] (Sept. 30/17) | Current duration Sept. 30/17 (years) | 1-year forward rates[2] |
|---|---|---|---|
| Cash & short-term | 0.87% | 0.2 | 1.40% |
| Federal agency bonds[3] | 2.14% | 4.2 | 2.23% |
| Provincial gov't bonds | 3.21% | 5.4 | 2.32% |
| Corporate bonds (Single A, average quality) | 3.28% | 3.3 | 2.42% |
| Emerging market debt | 3.72% | 5.2 | 3.29% |
| Preferred shares | 6.67% | 4.3 | 6.67% |
| Total | 3.10% | 3.9 | |

## Interest rate hedge program

| Interest rate swaps | 2018 forward curve[4] |
|---|---|
| Notional (C$B) | $3.5 |
| Floating[4] | 1.60 - 1.70% |
| Fixed[4] | 1.17% |
| Spread | 0.43 - 0.53% |
| Potential Impact on operating investment income | $15 – 18 MM |

## Investment highlights



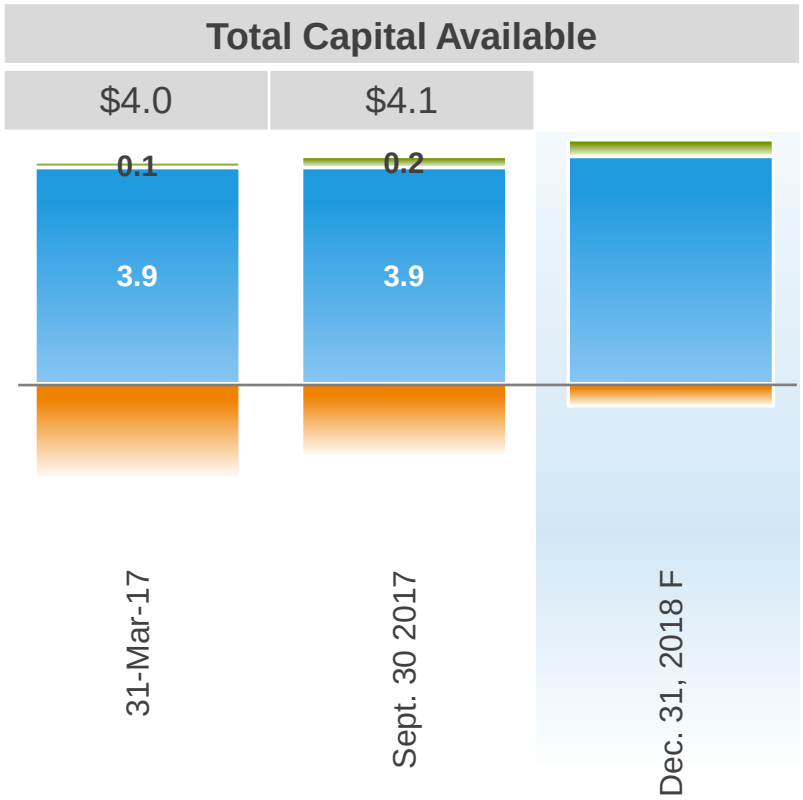
- Targeting to maintain book yield around 3.1 to 3.2% with duration around 3.8 years
- Substantially hedged interest rate risk on attractive terms … potential to earn $15MM to $18MM in pre-tax operating income in 2018
- 2018 focus on adding US bonds to further diversify away from Canadian financials

1. Pre-tax equivalent yield including gross-up of dividend income.
2. As at Nov. 22nd, 2017. 3. Federal government bonds constitute government agency bonds and NHA MBS. 4. Floating rate reflects the average for 2018 based on the forward curve as at Dec 4, 2017; fixed rate represents the contract rates for our existing portfolio of interest rate swaps as at September 30th, 2017.

# Regulatory capital

Genworth Canada

## MCT
(C$, billions)




Capital build expected to continue from strong profitability

Transitional capital relief for legacy portfolio insurance & extended amortization business expected to run-off in 1H 2019

Continued dialogue on refinements to regulatory capital framework for 2019

- Updating credit scores
- Low LTV capital requirements

**MCT EXPECTED TO BUILD IN 2018 ... ACCESS TO INSURANCE COMPANY CAPITAL ABOVE OPERATING RANGE OF 160% TO 165% MAY BE LIMITED UNTIL TRANSITIONAL RELIEF RUNS OFF**

# 2018 capital priorities

Genworth Canada

## Capital priorities

- **Funding organic growth with MCT > 160%**
- **Maintaining modest leverage of <= 15%**
- **Holding company cash and liquid investments > $100 MM**
- **Credit facility of $200 MM**
- **Sustainable ordinary dividend**
- **Return of capital when excess capital available**

## Observations

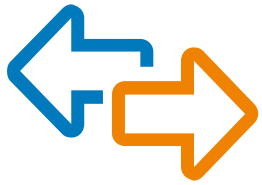
### Capital strength

- MCT expected to increase moderately in 2018



### Capital flexibility

- Strong flexibility with unutilized debt capacity and strong holdco cash position



### Capital efficiency

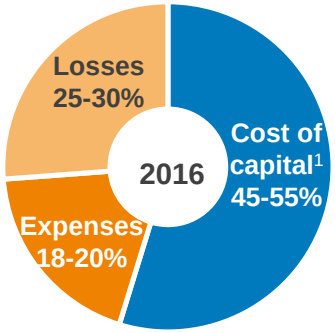
- Continued focus on optimizing capital utilization



# Mortgage insurance pricing

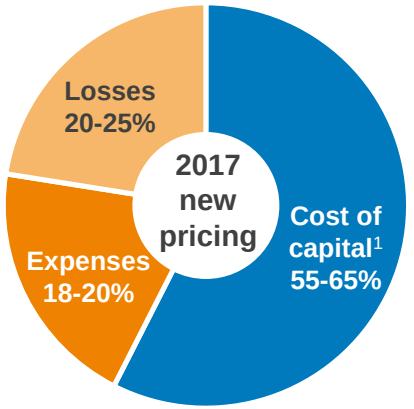
Genworth Canada

## Transactional pricing



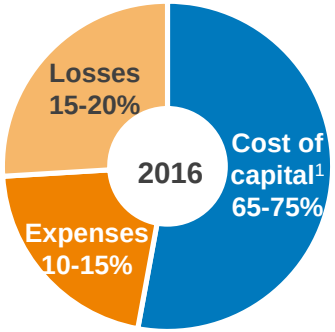

Average premium rate
2.93%

~18% premium rate increase to achieve >13% ROE



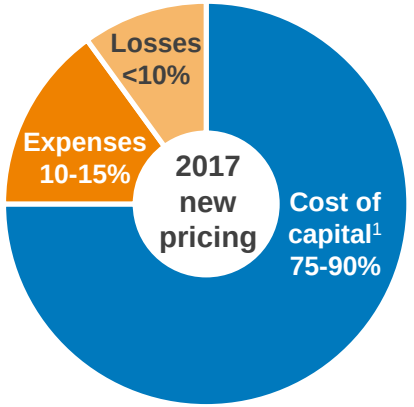

Average premium rate
~3.50%

## Portfolio pricing




Average premium rate
0.34%

~123% premium rate increase to achieve >13% ROE




Average premium rate
~0.76%

**COST OF CAPITAL ACCOUNTS FOR OVER 50% OF PREMIUM RATES UNDER THE NEW REGULATORY CAPITAL FRAMEWORK**

1. Net of investment income.

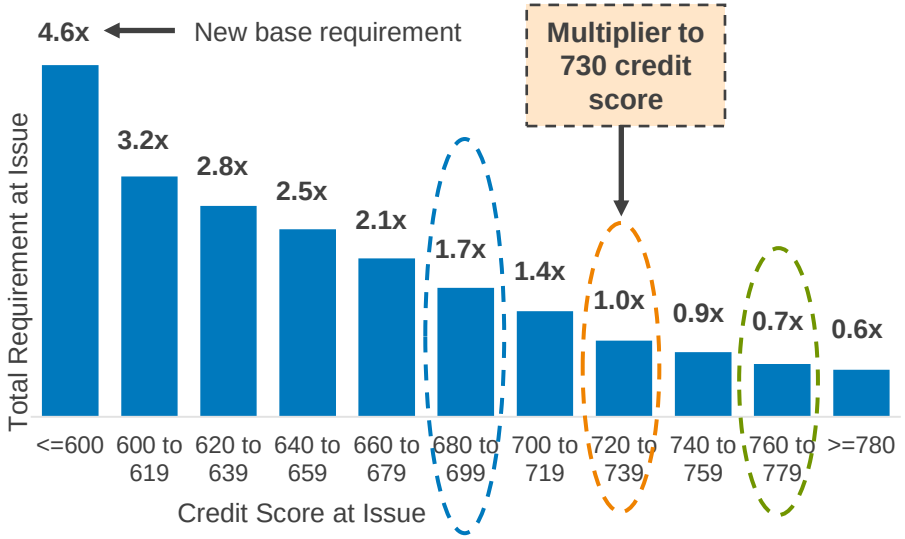
# Regulatory capital, credit scores and future pricing model

Genworth Canada

| Regulatory capital drivers | |
|---|---|
| **2016 & prior** | **2017 & subsequent** |
| Original loan amount | Current outstanding balance |
| Original LTV | Hybrid LTV (O/S balance / original property value) |
| Age of loan | **Original credit score** |
| | Supplementary capital for overheated markets |

## Credit score multiplier for total asset requirement

**Based on highest credit score for multiple borrowers**




**LTV and credit score are the most sensitive variables in regulatory capital model**

**More granular pricing by LTV and credit score could be beneficial**

- Better aligns pricing with underlying risk
- Transparent pricing
- Incentivizes prudent borrower behavior / credit profile
- Reduces adverse selection & moral hazard risk

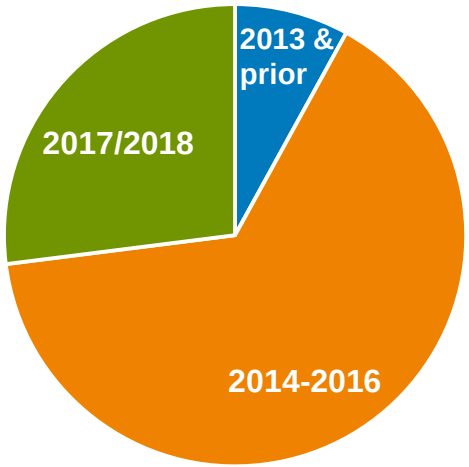
**Pricing by LTV and credit score is predominant model in the US**

**MORE GRANULAR PRICING LIKELY TO EVOLVE OVER TIME**

# 2018 ROE drivers

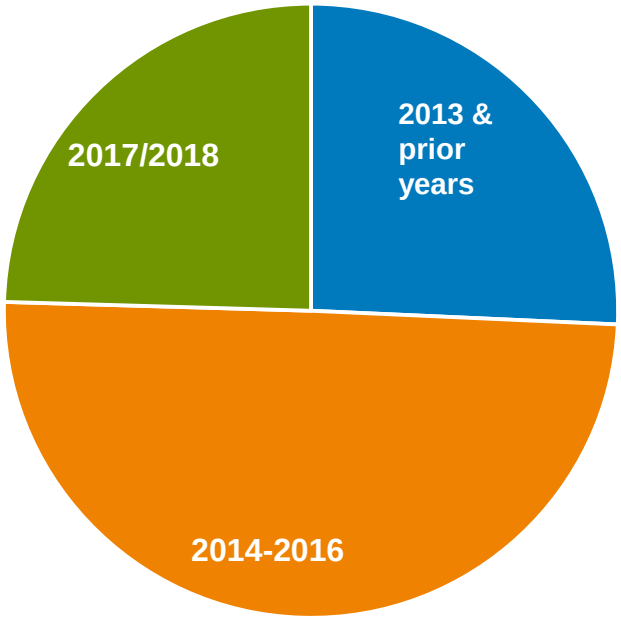
Genworth Canada

## Premiums earned by book year (C$)



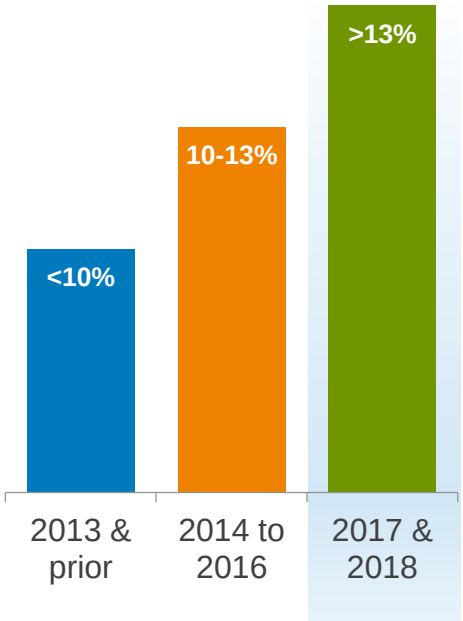

Recent books dominate premiums earned….

## Regulatory capital by book year (~C$3.6B)




….but new capital framework drives higher capital level for 2016 & prior books

## 2018 ROE by book year




….leading to lower ROE on 2013 & prior books, but 13%+ ROE for 2017 book

**2018 OPERATING ROE EXPECTED TO BE SIMILAR TO THAT IN RECENT YEARS OF 12-13%… OVER THE MEDIUM TERM, TARGETING 13% + OPERATING ROE**

# Key takeaways for 2018

Genworth Canada

- **Modestly higher premiums written** driven by modest growth in MI market size and market share coupled with higher average premium rates
- **Flat premiums earned** due to smaller book of business in 2017
- **Normalizing loss ratio range of 15% to 25%** aided by strong portfolio quality and stable economic conditions
- **Modestly higher investment income** inclusive of favorable contribution from interest rate hedging program
- **Consistent with operating ROE** in recent years of 12-13%

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



## Stuart Levings

President and Chief Executive Officer

# Wrap up

# MIC investment thesis

Genworth Canada

- Potential for top-line growth through market size recovery, share growth, and full year impact of premium rate increase
- Seasoned risk management experience and high quality portfolio
- Sound product design and strong regulatory environment
- ROE improvement and strong capital generation over the medium term
- Enabling execution of business strategy and organizational success through people development and cultural alignment

**Proven business model and deep mortgage insurance expertise**

# Culture and values

Genworth Canada




Genworth Canada

Genworth Canada

# Q&A

# Senior management team



**Stuart Levings,** President & Chief Executive Officer

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



**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



**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.



**Michel Cubric,** SVP, Operations

20+ years of experience

Michel Cubric joined Genworth Canada as Senior Vice President, Operations in October 2017. Michel originally hails from Brazil where he started his career in the airline industry. He moved to Canada and began working in the financial services industry. Over a period of 14 years at CIBC, Michel developed his knowledge and expertise in the area of mortgages. In 2009 Michel held the role of Senior Vice President, Operations and Lending Services for Resmor which rebranded to become RMG Mortgages. In 2012, MCAP acquired the mortgage division of RMG, and Michel continued to lead sales and underwriting until 2016 in addition to assuming responsibility for MCAP's sub-servicing and lender marketing units. Michel holds a Bachelor of Arts in Physical Education and a Master of Business Administration.

# Senior management team



**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
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# Investor Relations

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