

Genworth MI Canada Inc. Comments On OSFI's Draft Advisory For The New Capital Framework For Mortgage Insurers

Toronto, ON (September 23, 2016) – Genworth MI Canada Inc. (the "Company") (TSX: MIC) today announced that on September 23, 2016, the Office of the Superintendent of Financial Institutions ("OSFI") released a draft advisory for comment titled "*Capital Requirements for Federally Regulated Mortgage Insurers*". This draft advisory provides a new standard framework for determining the capital requirements for residential mortgage insurance companies. The proposed framework is more risk sensitive and incorporates additional risk attributes, including credit score, remaining amortization and outstanding loan balance. The comment period for the draft advisory ends on October 21, 2016, after which OSFI intends to finalize the advisory. The finalized advisory will come into force on January 1, 2017, replacing OSFI's current advisory, "*Interim Capital Requirements for Mortgage Insurance Companies*", which has been in effect since January 2015.

The draft advisory focuses on capital requirements for insurance risk, which will primarily consist of:

- i. A base requirement that applies to all insured mortgages at all times; plus
- ii. A supplementary requirement that applies only to mortgages originated during periods when the housing market for the region that corresponds to the mortgage has a house price-to-income ratio that exceeds a specified threshold (with this supplementary requirement not applying to mortgages insured prior to January 1, 2017); less
- iii. Premium liabilities, consisting of unearned premiums reserve and the reserve for incurred but not reported (IBNR) claims.

The draft advisory states that:

- i. By using outstanding loan balance as the exposure measure, a mortgage's actual pay down rate is captured and capital is only held against insured mortgages that are still outstanding.
- ii. By using a modified loan-to-value ratio, (outstanding loan balance/original property value), the borrower's equity position in the property is better captured.
- iii. Differentiating requirements by borrower credit score ensures that more capital is held for borrowers who have a greater risk of default, and adjusting borrower credit scores recognizes that credit scores lose predictive value over time.
- iv. Differentiating requirements by remaining amortization recognizes the importance of the expected future pay-down rate and progression of the borrower's equity position.

As of June 30, 2016, the Company's main insurance subsidiary, Genworth Financial Mortgage Insurance Company Canada ("Genworth Canada") reported a Minimum Capital Test ("MCT") ratio of 233% compared to the current "Holding Target" of 220%. Under the new standard framework set forth in the draft advisory, the current Holding Target of 220% will be recalibrated to the OSFI Supervisory MCT Target of 150%. As a result, Genworth Canada's reported MCT ratio under the

new standard framework will be significantly different than the ratio under the current MCT capital model. The Company expects that the capital required for certain loan-to-value categories may increase and this could lead to a corresponding increase in premium rates. In addition for those regions that are impacted by the supplementary capital, premium rates could also increase.

The draft advisory also includes a phase-in period to allow for a smooth transition to the new standard framework. For the following segments of Genworth Canada's insurance in force, these transition arrangements will keep the capital unchanged from the December 31, 2016 level until such time as the required capital under the new standard framework at the OSFI Supervisory MCT Target of 150% MCT ratio is less than the existing required capital at a 220% MCT ratio:

- Transactional insured mortgages originated prior to December 31, 2016 with original amortizations greater than twenty-five years; and
- Portfolio insured mortgages originated prior to December 31, 2016.

Additionally, the draft advisory provides for a three year phase-in period of the impact on capital required for operational risk.

Based on the new framework, the Company estimates that Genworth Canada's *pro forma* MCT ratio as at June 30, 2016 would have been in the range of 153% to 156%. In addition, the Company held \$175 million of cash and investments as of June 30, 2016 and has access to a \$100 million credit facility that is undrawn. These resources could be used to enhance the capital of Genworth Canada. As a result, the Company expects to be compliant with the new framework upon its implementation on January 1, 2017, subject to business and market conditions.

The Company expects to be advised by the Minister of Finance on the revised minimum MCT level under the Protection of Residential Mortgage or Hypothecary Insurance Act ("PRMHIA"). Under PRMHIA, the Canadian federal government partially guarantees the benefits payable under eligible mortgage insurance policies.

It is important to note that further changes to the new standard framework may be made by OSFI as a result of comments and input received during the consultation period. The Company continues to work with OSFI to further refine this new standard framework in specific areas, including the requirement to update credit scores. The proposed updating of credit scores could increase capital requirements in 2017 and future years.

"We are pleased that the new capital framework is nearing completion," said Stuart Levings, President and CEO. "We support OSFI's efforts to develop a more risk sensitive capital model to ensure safety and soundness in the Canadian mortgage and housing system. We look forward to continued dialogue with OSFI and other key stakeholders, including customers, to ensure that the capital requirements in the new framework appropriately capture the underlying risk attributes."

Caution regarding forward looking information and statements

Certain statements made in this press release contain forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). When used in this press release, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions, as they relate to the Company are intended to identify forward-looking statements. Specific forward-looking statements in this document include, but are not limited to, statements with respect to the proposed implementation and timing of the new capital framework, the Company's ability to comply with the new capital framework in future periods, which will depend on a variety of factors, including the performance of in-force policies, levels of new insurance written ("NIW"), the pricing of NIW, and the results of the proposed annual updating of borrower credit scores, all of which are subject to significant volatility, 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. Our inability to meet the proposed new capital requirements would have a material adverse effect on our business, results of operations and financial condition.

The forward-looking statements contained herein are based on certain factors and assumptions, certain of which appear proximate to the applicable forward-looking statements contained herein. Inherent in the forward-looking statements are known and unknown risks, uncertainties and other factors beyond the Company's ability to control or predict, that may cause the actual results, performance or achievements of the Company, or developments in the Company's business or in its industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Actual results or developments may differ materially from those contemplated by the forward-looking statements.

The Company's actual results and performance could differ materially from those anticipated in these forward-looking statements as a result of both known and unknown risks, including: the continued availability of the Canadian government's guarantee of private mortgage insurance on terms satisfactory to the Company; the Company's expectations regarding its revenues, expenses and operations; the Company's plans to implement its strategy and operate its business; the Company's expectations regarding the compensation of directors and officers; the Company's anticipated cash needs and its estimates regarding its capital expenditures, capital requirements, reserves and its needs for additional financing; the Company's plans for and timing of expansion of service and products; the Company's ability to accurately assess and manage risks associated with the policies that are written; the Company's ability to accurately manage market, interest and credit risks; the Company's ability to maintain ratings, which may be affected by the ratings of its majority shareholder, Genworth Financial, Inc.; interest rate fluctuations; a decrease in the volume of high loan-to-value mortgage originations; the cyclical nature of the mortgage insurance industry; changes in government regulations and laws mandating mortgage insurance; the acceptance by the Company's lenders of new technologies and products; the Company's ability to attract lenders and develop and maintain lender relationships; the Company's competitive position and its expectations regarding competition from other providers of mortgage insurance in Canada; anticipated trends and challenges in the Company's business and the markets in which it operates; changes in the global or Canadian economies; a decline in the Company's regulatory capital or an increase in its regulatory capital requirements; loss of members of the Company's senior management team; potential legal, tax and regulatory investigations and actions; the failure of the Company's computer systems; and potential conflicts of interest between the Company and its majority shareholder, Genworth Financial, Inc.

This is not an exhaustive list of the factors that may affect any of the Company's forward-looking statements. Some of these and other factors are discussed in more detail in the Company's Annual Information Form (the "AIF") dated March 16, 2016. Investors and others should carefully consider these and other factors and not place undue reliance on the forward-looking statements. Further information regarding these and other risk factors is included in the Company's public filings with provincial and territorial securities regulatory authorities (including the Company's AIF) and can be found on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com. The forward-looking statements contained in this press release represent the Company's views only as of the date hereof. Forward-looking statements contained in this press release are based on management's current plans, estimates, projections, beliefs and opinions and the assumptions related to these plans, estimates, projections, beliefs and opinions may change, and are presented for the purpose of assisting the Company's securityholders in understanding management's current views regarding those future outcomes and may not be appropriate for other purposes. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company does not undertake to update any forward-looking statements, except to the extent required by applicable securities laws.

About Genworth MI Canada Inc.

Genworth MI Canada Inc. (TSX: MIC) through its subsidiary, Genworth Financial Mortgage Insurance Company Canada (Genworth Canada), is the largest private residential mortgage insurer in Canada. The Company provides mortgage default insurance to Canadian residential mortgage lenders, making homeownership more accessible to first-time homebuyers. Genworth Canada differentiates itself through customer service excellence, innovative processing technology, and a robust risk management framework. For more than two decades, Genworth Canada has supported the housing market by providing thought leadership and a focus on the safety and soundness of the mortgage finance system. As at June 30th, 2016, Genworth Canada had \$6.4 billion total assets and \$3.6 billion shareholders' equity. Find out more at www.genworth.ca.

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