Genworth MI Canada Inc.

Primer on Proposed New Regulatory Capital Framework for Mortgage Insurers

September 26th, 2016

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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; <u>plus</u>
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); <u>less</u>
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.

The draft advisory can be accessed on OSFI's website using the link below:
http://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/adv-prv/Pages/cptins_let.aspx

As of June 30, 2016, Genworth MI Canada Inc.'s (the "Company") 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%. Under the new framework, the Company holds approximately $125 million above the OSFI Supervisory MCT Target. In addition, the Company holds $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.

Specific Elements Of The New Capital Framework For Mortgage Insurance Risk

The key elements of the new framework and the resulting implications are described throughout the remainder of this document.

A. The new framework recalibrates the MCT ratio such that capital required at the current 220% MCT Holding Target will be generally equivalent to the Supervisory MCT Target of 150% under the new standard framework.

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%. For example, one MCT point is approximately $15 million of required capital under the current MCT guideline, compared to approximately $25 million under the new framework. 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, even though capital available under the new framework should remain the same or marginally higher.

Upon finalization of the new standard framework, Genworth will determine its new internal target to ensure that Genworth Canada maintains the appropriate capital buffers to ensure that the OSFI Supervisory MCT Target and PRMHIA minimum are not breached in the normal course.

Overall, the Company expects to be compliant with the requirements of the new standard framework on January 1, 2017.

B. Base and Supplementary Requirements are independent of premium received

- The total asset requirement (Base Requirement + Supplementary Requirement*)* under the new framework will no longer depend on the premium a mortgage insurer charges for underwriting a particular risk, as compared to the current MCT guideline, which sets out a specified capital requirement instead of a total asset requirement.
- In the draft advisory, OSFI has indicated that it believes that the new framework for mortgage insurance risk creates the right risk management incentives.

Genworth Observation:
Capital requirements for insurance risk will be calculated as:

Base Requirement + Supplementary Requirement – Premium Liabilities[1]

The sum of the Base Requirement and Supplementary Requirement is an estimate of the loss exposure under a severe recession, and results in mortgage insurers holding assets equal to or greater than the estimated total loss exposure. This approach ensures mortgage insurers are appropriately capitalized while providing the appropriate pricing incentive, given that an increase in pricing results in higher premium liabilities and thus reduces capital requirements.

[1] Premium Liabilities consist of Unearned Premiums Reserve and a reserve for Incurred But Not Reported Claims

C. The Supplementary Requirement will likely apply to approximately 35% to 40% of Genworth Canada's transactional new insurance written in 2017

- In the draft advisory, OSFI has indicated that the Supplementary Capital Requirement Indicators ("SCRIs") will be tied to the behavior of property prices. This will be reflected in terms of both recent housing price trends and the behavior of housing prices relative to household incomes using data for each of the 11 cities in the Teranet – National Bank House Price Index™ for those exposures within such cities, while using the composite-11 data for loans outside of the 11 cities. The SCRIs will be based primarily on the ratio of the Teranet data for a particular metropolitan area to the national per capita income, which is then compared to a prescribed threshold value for that particular metropolitan area.
- If the SCRI for a particular metropolitan area exceeds the OSFI prescribed threshold, the total requirement for a new loan originated in this area is the sum of the base requirement and the supplementary requirement. The supplementary requirement varies primarily based on loan-to-value and is generally between 10% and 20% of the base requirement.

Genworth Observation:

Based on the proposed methodology for calculating SCRIs, Calgary, Edmonton, Toronto, Vancouver and Victoria would have breached their respective prescribed SCRI thresholds at the end of the first quarter of 2016. These metropolitan areas represented approximately 35% to 40% of transactional new insurance written by the Company in the first six months of 2016.

The Company expects that transactional and portfolio insurance premium rates may have to be increased for affected metropolitan areas as a result of the implementation of the new supplementary requirement in 2017.

D. The new framework uses outstanding loan balance and remaining amortization for each insured mortgage to capture the current risk exposure

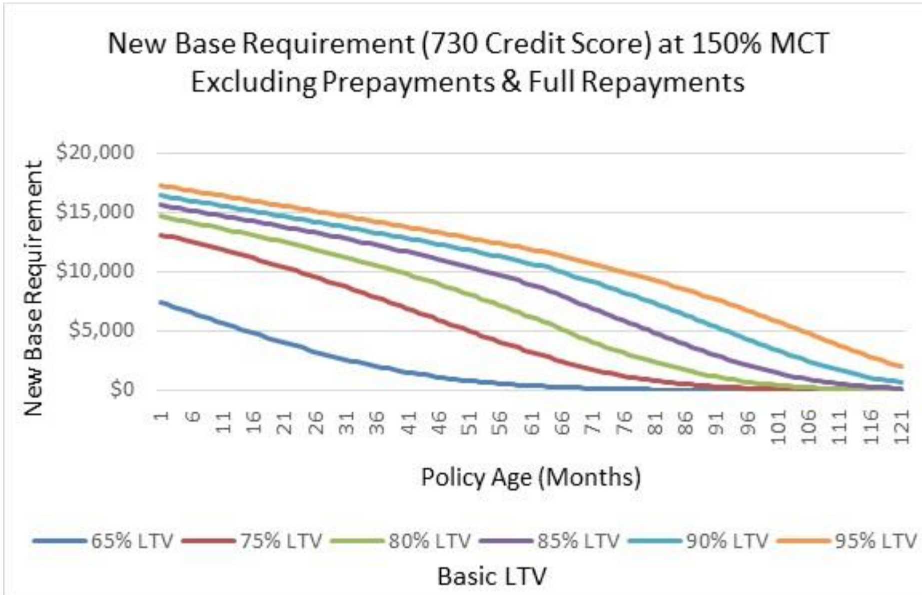
- OSFI's draft advisory has identified a number of advantages in moving to the criteria used in the new framework, as described below.
- First, by using information as of the reporting date, rather than information at origination, mortgage insurers will have to maintain up-to-date information on their exposures, supporting better risk management.
- Second, by using outstanding loan balance on the valuation date as the exposure measure, a mortgage's actual pay-down rate is captured and capital is only held against mortgages that are still in force.
- Third, differentiating requirements by remaining amortization on the valuation date recognizes the importance of the expected future pay-down rate and progression of the borrower's equity position.
- Finally, the new framework uses modified loan-to-value (current outstanding loan balance / original property value) to capture loan seasoning.

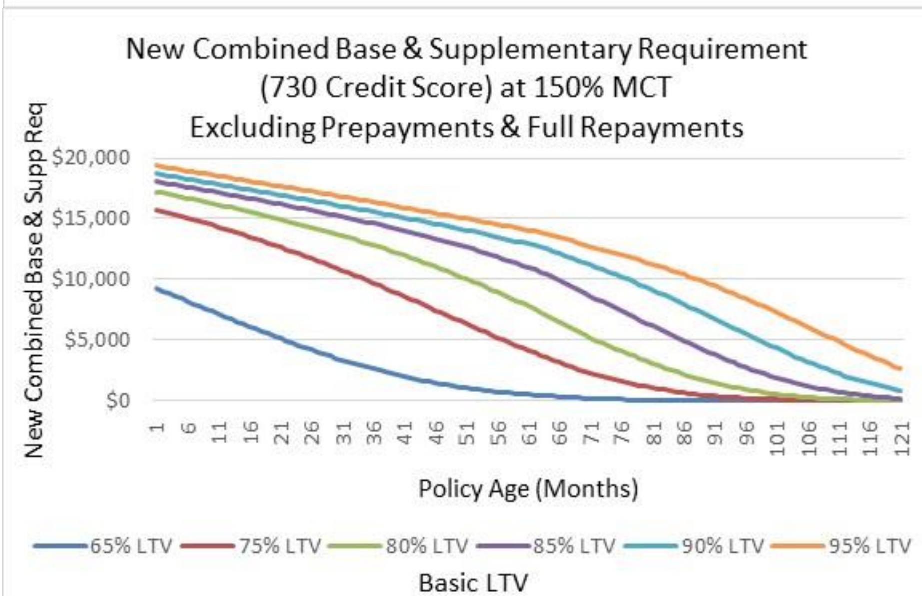
The following table shows the mortgage amount and related loan-to-value ("LTV") information at origination based on the current standard premium rates, as of September 26, 2016. The total LTV inclusive of the capitalized premium and applicable sales tax is used to calculate the base and supplementary requirements. The information in the table below is used for all of the subsequent graphs.

Table of Assumptions

Basic LTV at Issue	Property Value at Issue	Basic Mortgage Amount (New Insurance Written)	Capitalized Premium	Provincial Sales Tax (ex. Ontario)	Total Insured Mortgage Amount	Total LTV Including Premium & Taxes
65%	$461,538	$300,000	$1,800	$234	$302,034	65%
75%	$400,000	$300,000	$2,250	$293	$302,543	76%
80%	$375,000	$300,000	$3,750	$488	$304,238	81%
85%	$352,941	$300,000	$5,400	$702	$306,102	87%
90%	$333,333	$300,000	$7,200	$936	$308,136	92%
95%	$315,789	$300,000	$10,800	$1,404	$312,204	99%

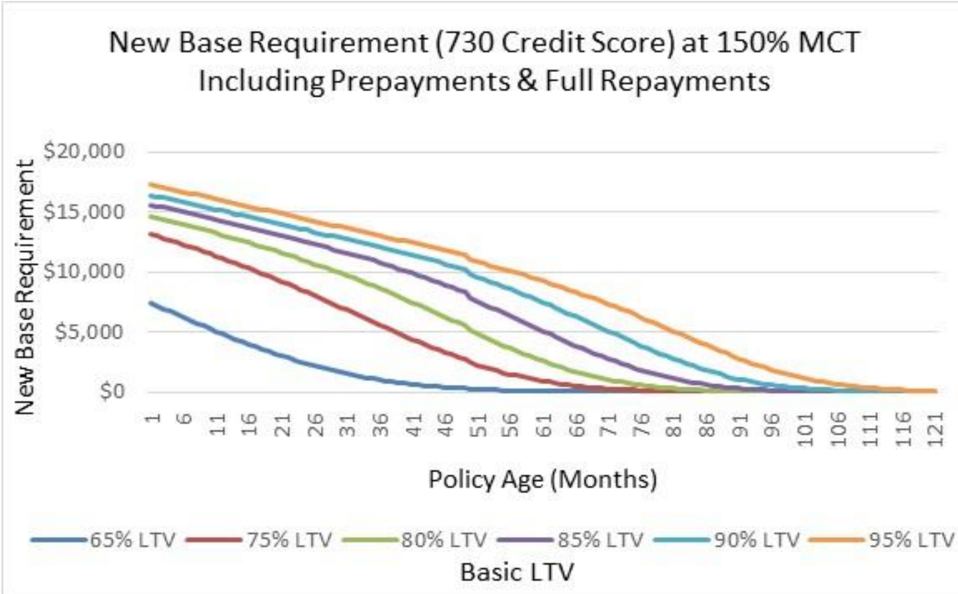
The following graphs illustrate the run-off pattern of the Base Requirement and Combined Base and Supplementary Requirement for a 25-year amortization mortgage, assuming no partial prepayments or full repayments and a constant credit score of 730.

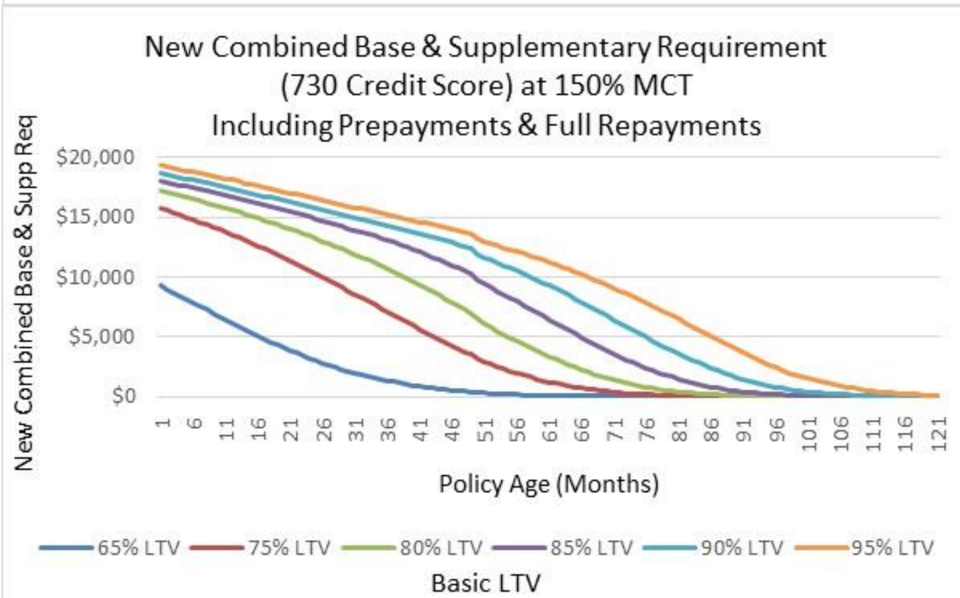




The run-off pattern varies by LTV and is faster for lower LTVs. Furthermore, the run-off pattern is influenced by the level of partial prepayments and full repayments. For illustrative purposes, the following graphs show the accelerated run-off pattern using the following assumptions:

Annual partial prepayments for Transactional Insurance	1%
Annual full repayments based on policy age for Transactional Insurance	
Year 1	0%
Year 2	4%
Year 3	8%
Year 4	10%
Year 5 and subsequent	12%

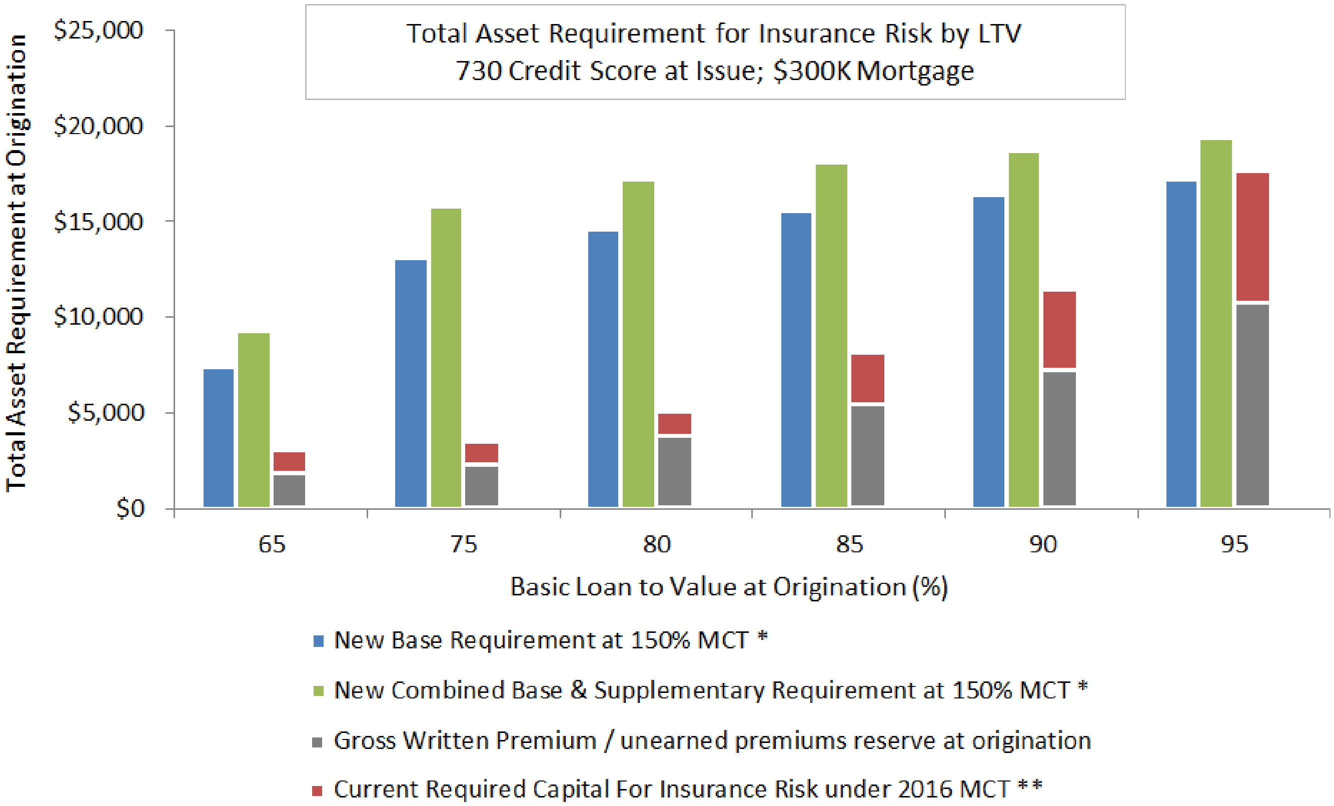




Genworth Observation:
The use of updated outstanding insured balances and remaining amortization results in a more risk sensitive model. The benefit from including these two variables in the model generally outweighs the pro-cyclical element associated with these variables.

E. <u>The total asset requirement for mortgage insurance risk is higher under the new framework at the OSFI Supervisory MCT Target of 150% as compared to the current MCT guideline with a 220% Holding Target</u>

- OSFI has indicated in its draft advisory that, by using a modified loan-to-value ratio, the borrower's equity position in the property is better captured.



** 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.*

Genworth Observation:
Compared to the current capital model, the proposed new framework is relatively neutral for the Base Requirement at the 95% LTV level but results in significantly higher Base Requirement for LTVs <=90%, especially for LTVs <=80%. If the proposed Base Requirement is implemented as is, this may require an increase in the premium rate for LTVs <=90%.

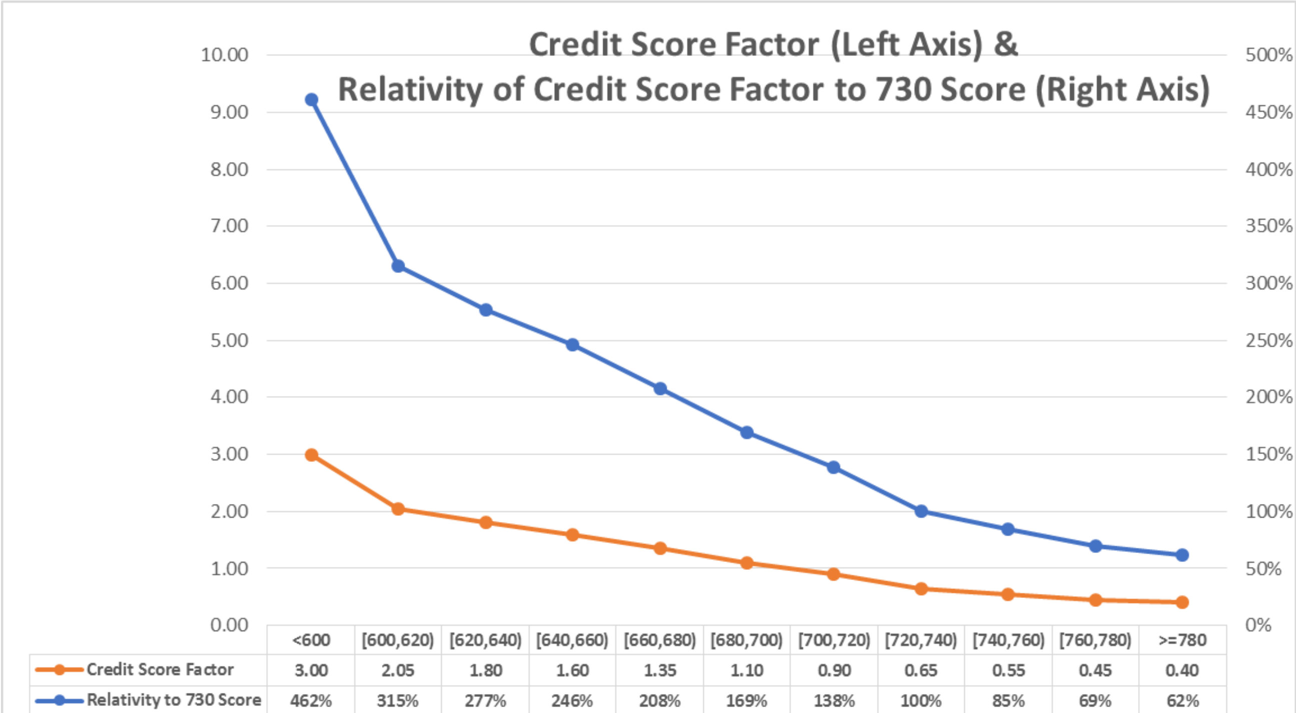
F. New framework uses credit score to capture loan quality

- Under the draft advisory, differentiating requirements by borrower credit score ensures that more capital is held for borrowers who have a greater risk of default, while adjusting borrower credit score for age recognizes that credit scores lose predictive value over time.
- The following is a table of the credit score factor embedded in the calculation of the Base Requirement which illustrates the relative multipliers for credit scores. For mortgage loans with more than one borrower, the credit score used to determine the related credit score factor is the maximum of the credit scores of the individual borrowers.

Most Recent Credit Score	Credit Score Factor	Illustrative Credit Score Mix *
< 600	3.00	1%
[600,620)	2.05	0%
[620,640)	1.80	0%
[640,660)	1.60	2%
[660,680)	1.35	1%
No Hit	1.30	3%
[680,700)	1.10	6%
[700,720)	0.90	9%
[720,740)	0.65	12%
[740,760)	0.55	16%
[760,780)	0.45	19%
≥ 780	0.40	32%
Average *	**0.62**	

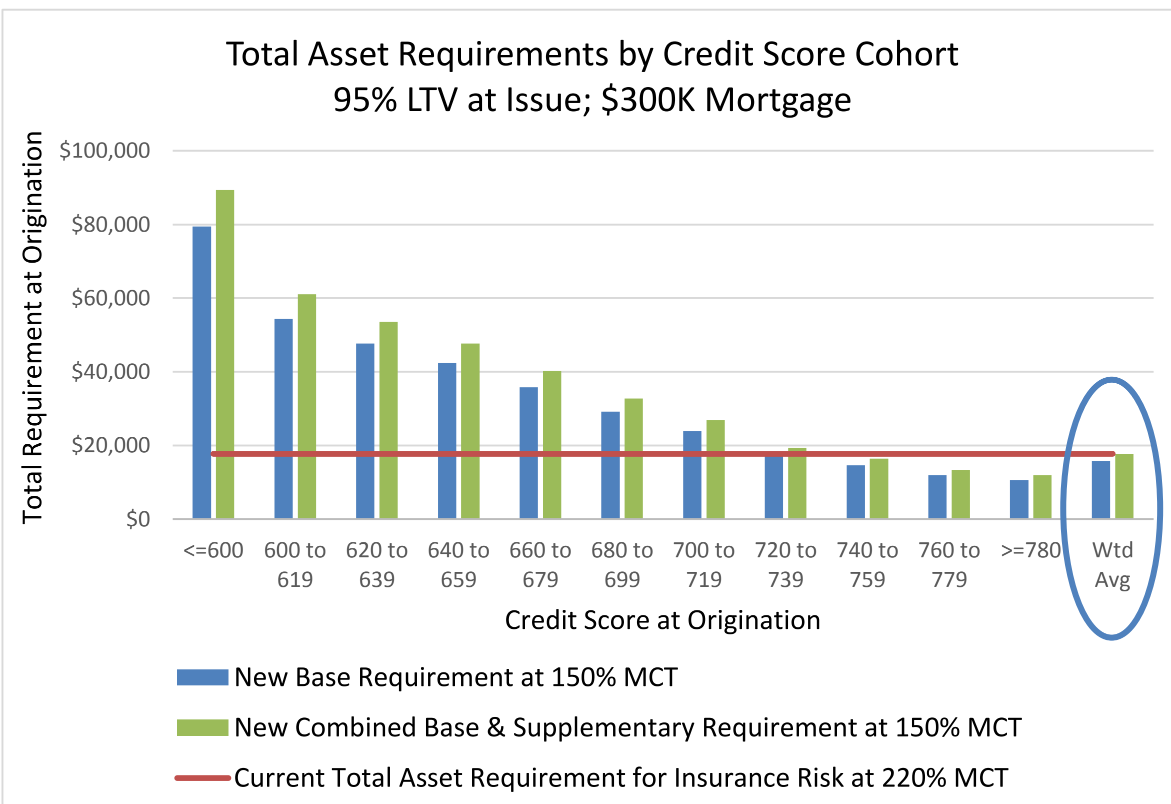
** Based on transactional new insurance written during the first half of 2016*

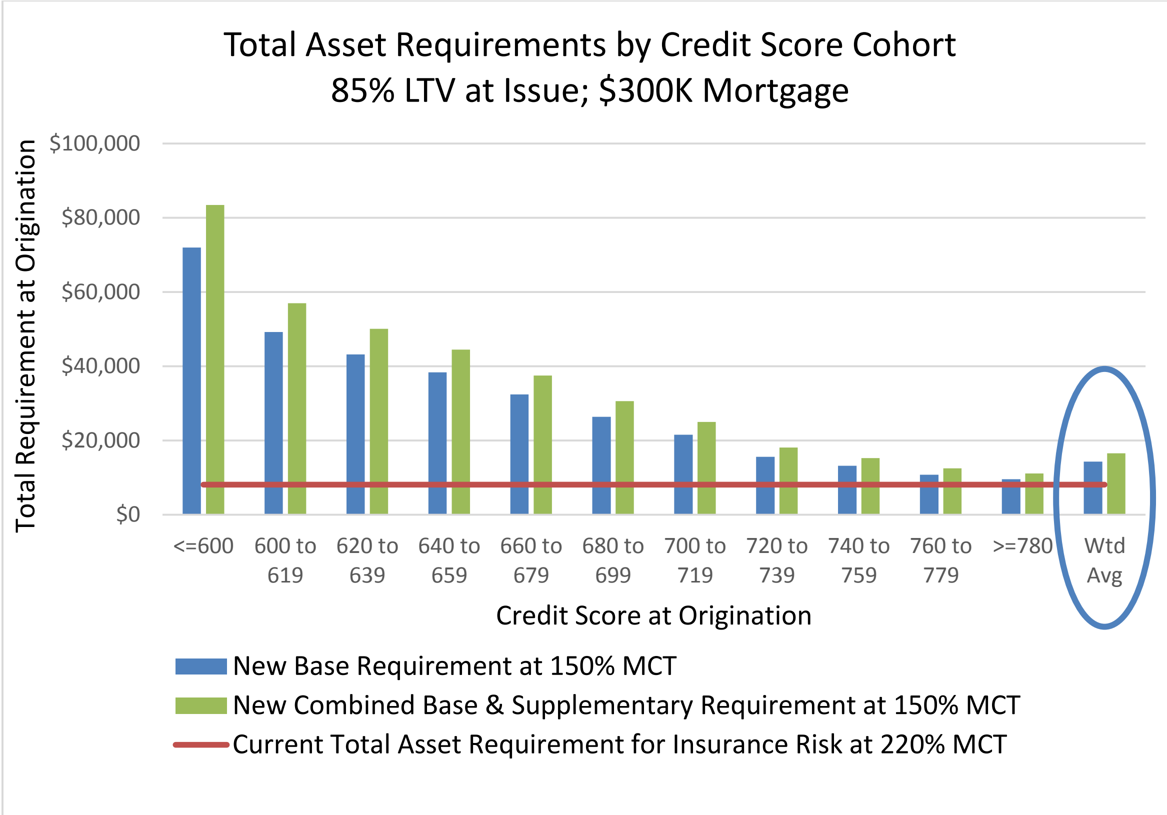
The chart below illustrates the relative impact of credit scores on the Base Requirement. The relativity curve is steep as scores decline. For example, the Base Requirement for a 690 and 650 credit score would be 169% and 208% higher, respectively, compared to the Base Requirement for a 730 credit score, assuming all other factors are the same. Likewise, a 750 and 790 score require 85% and 62%, respectively, of the Base Requirement for a 730 score.



	<600	[600,620)	[620,640)	[640,660)	[660,680)	[680,700)	[700,720)	[720,740)	[740,760)	[760,780)	>=780
Credit Score Factor	3.00	2.05	1.80	1.60	1.35	1.10	0.90	0.65	0.55	0.45	0.40
Relativity to 730 Score	462%	315%	277%	246%	208%	169%	138%	100%	85%	69%	62%

As set out in the Table of Assumptions, the following two graphs compare the Base Requirement and Combined Base and Supplementary Requirement by credit score cohort for 95% and 85% basic LTV loans at origination to the total asset required for insurance risk at 220% MCT ratio under the current MCT guidelines.





Genworth Observation:
Differentiating requirements by credit score is more reflective of the underlying risk. As illustrated in the graphs above, the total asset requirement for 95% LTV is relatively neutral overall, while 85% LTV loans would attract a higher total asset requirement.
As currently outlined in the draft advisory, changes in the distribution of credit scores after issue will impact the Base Requirement and Combined Base and Supplementary Requirement over time. The requirement to annually update credit scores is pro-cyclical and introduces volatility to the capital requirements, which generally outweighs the risk management benefit of updating credit scores. More specifically, the Base Requirement at origination is calibrated to a severe tail event (e.g. approximating a 99.8th percentile tail event) which would already reflect a significant deterioration in credit scores.

G. New framework includes transitional arrangements to phase in the impact of the changes to the capital requirements

As is typical in the implementation of a new regulatory capital model; OSFI has included several transitional provisions to phase in the impact of the new standard framework on legacy books of business.

The key transitional provisions set forth in the draft advisory are noted below.

- For mortgages originated before December 31, 2015, the LTV input is calculated by dividing the outstanding loan balance on the reporting date by the estimated property value as at December

31, 2015 using the relative change in the relevant Teranet-National Bank House Price Index value from the time of origination to December 31, 2015.

- For the following segments of Genworth Canada's insurance in force, the 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.
- The impact of the increase in capital required for operational risk as at January 1, 2017 will be phased in on a straight line basis over 12 quarters starting in 2017. The capital differential will be computed by comparing the capital required for operational risk at December 31, 2016 under the current capital model to the *pro forma* capital required under the new framework at December 31, 2016.

Genworth Observation:
The Company estimates that the phase-in requirements will be completed within a 3-year period. As a result of the increase in capital required for insurance risk, capital required for operational risk is likely to increase throughout the phase in period.

Summary

Overall, the Company supports 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.

Overall, the Company expects to be compliant with the requirements of the new standard framework on January 1, 2017.

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 standard framework, the expected impact of the new standard framework on capital requirements and the Company's compliance with such requirements, the possibility of increased premium rates as a result of changes in the capital requirements, and the Company's ability to comply with the new standard 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 ability to increase premium rates; 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, including under the new standard framework; 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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Glossary

“base requirement” means the total base assets required for insurance risk for an individual mortgage loan calculated in accordance with subsection 1.1.2 of OSFI’s draft advisory “*Capital Requirements for Federally Regulated Mortgage Insurers”* released on September 23, 2016.

“credit score” means the maximum credit score of all borrowers on a mortgage insurance application. This is a key measure of household financial health.

“full repayment” means instances where a borrower repays the outstanding mortgage amount in full.

“house price-to-income ratio” means the ratio of the Teranet – National Bank National Composite House Price Index to per capita income using Statistics Canada household disposable income and population data for each one of the following 11 metropolitan areas (Calgary, Hamilton, Québec, Victoria, Edmonton, Montréal, Toronto, Winnipeg, Halifax, Ottawa-Gatineau, and Vancouver).

“incurred but not reported” or **“IBNR”** reserves means the estimated losses on claims for delinquencies that have occurred prior to a specified date, but have not been reported to the Company.

“loan-to-value ratio” means the original balance of a mortgage loan divided by the original value of the mortgaged property.

“MCT holding target” is a target designed to provide a capital buffer to allow management time to take the necessary actions should capital levels be pressured by deteriorating macroeconomic conditions.

“Minimum Capital Test” or **“MCT”** means the minimum capital test for certain federally regulated insurance companies established by OSFI (as defined herein). Under the MCT, companies calculate a ratio of regulatory capital available to regulatory capital required using a defined methodology prescribed by OSFI in monitoring the adequacy of a company’s capital. The MCT ratio is a key metric of the adequacy of the Company’s capital in comparison to regulatory requirements and is used for comparisons to other mortgage insurers and internal targets.

“portfolio insurance” means mortgage insurance covering an individual mortgage that is underwritten as part of a portfolio of mortgages that have a loan-to-value ratio equal to or less than 80% at the time the loan is insured.

“partial prepayment” means unscheduled principal payments made by borrowers in addition to scheduled principal and interest payments.

“PRMHIA” means the Protection of Residential Mortgage or Hypothecary Insurance Act (Canada).

“remaining amortization period” means the estimated number of years that it takes to repay the outstanding mortgage balance as of the reporting date based on the regularly scheduled payments of principal and interest.

“supplementary requirement” means the supplementary capital requirement calculated in accordance with subsection 1.1.3 of OSFI’s draft advisory “*Capital Requirements for Federally Regulated Mortgage Insurers”* released on September 23, 2016 for a mortgage loan originated after December 31, 2016 corresponding to a property that is located in one of the 11 metropolitan areas listed in Appendix A of the draft advisory if the value of the supplementary capital requirement indicator (SCRI) for this metropolitan area is greater than the threshold value for this metropolitan area prescribed by OSFI.

“total asset requirement” means the sum of the base requirement and the supplementary requirement for insurance risk. It represents an estimate of the assets that a mortgage insurer would hold in support of its insurance risk.

“transactional insurance” means mortgage insurance covering an individual mortgage that typically has been underwritten individually, and which is predominantly a mortgage with a loan-to-value ratio of greater than 80% at the time the loan is originated.

“unearned premiums reserve” or **“UPR”** means that portion of premiums written that has not yet been recognized as revenue. Unearned premium reserves are recognized as revenue over the policy life in accordance with the expected pattern of loss emergence as derived from actuarial analysis of historical loss development.