FINAL TRANSCRIPT

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MIC.TO - Q3 2009 Genworth MI Canada, Inc. Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Genworth MI Canada Third Quarter 2009 Result Conference Call. At this time, all participants are in a listen only mode. Later we will conduct a question and answer session with instructions provided. I would like to remind everyone that this conference call is being recorded today, October 30, 2009.

And I would now like to turn the conference over to Samantha Cheung, Vice President, Investor Relations. Please go ahead.

Samantha Cheung - *Genworth MI Canada, Inc. - VP - IR*

Thank you, Tracy. Good morning, everyone, and welcome to our Third Quarter Conference Call. On the call this morning are Brian Hurley, our Chairman and CEO; Peter Vukanovich, our President and COO; and Philip Mayers, our CFO. We also have Stuart Levings in the room, our Chief Risk Officer.

We will all be available during our question and answer session following the formal part of our presentation. We will go through the agenda as outlined on the slides, and then as usual open up the call for questions. Brian will provide some comments on our strategic focus. Phil will provide the financial details surrounding our results. And Peter will comment on how we executed operationally this quarter to deliver our strategy.

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Our news release, including the MD&A and financial supplement, was released last night and is now posted on our website. We have also posted slides that accompany this presentation. These slides are meant to provide a framework for our discussion today. A replay of this call will be available on our website following today's presentation and will remain available there for 45 days until December 15th. Following our call today, our team is available for any follow up.

We would like to draw your attention to our forward-looking statement. We note that our actual results may differ from statements that we make which are forward-looking. We advise you to read the cautionary note regarding these forward-looking statements. Please also see our disclosure on non-GAAP measures. Some of the financial metrics presented on this call today are non-GAAP measures and as such do not have standardized meaning and are unlikely to be comparable to similar measures by other companies.

Before I turn things over to Brian, I also wanted to let you know that we are holding our inaugural investor day on December 9th in Toronto. Electronic invitations have been sent out and if you haven't yet received an invitation and would like to attend, please let me know.

With that I will now turn the call over to Brian. Brian?

Brian Hurley - *Genworth MI Canada, Inc. - CEO*

Thanks, Samantha, and good morning, everyone and, again, I'd like to thank you for being on the call today. Genworth MI Canada delivered solid results for the third quarter. In fact, we performed well on all key measures of the business. This performance is due to three factors. First, our strategy is working; second, we're feeling the impact of encouraging signs in the economy; and finally, we continue to be the company that executes.

Let me briefly touch on each of these areas. The environment we're in is still one of the most challenging environments that we've seen for years. But our business model focused on prudent risk management and a disciplined approach to underwriting has proven effective. With a long cycle business like ours, it's important to closely monitor and stay ahead of the changing economic conditions and to quickly adapt to changing market dynamics.

Portfolio dispersion, our quality and the fluctuations in property values are the foundational elements we must closely monitor and react to in good times and challenging ones. And, of course, we need to balance all of this with the needs of our customers. Our lender partners depends on us for our underwriting expertise and business support throughout varying economic cycles.

For those of you who heard our story during our initial public offering or during our second quarter investor call, you've heard our strategy before. But let me take a moment to refresh you on it and to highlight some results this strategy is driving.

We're focused on growing our top line by deepening our lender relationships through value added customer service. Some of these lenders we've worked with for over a decade and we're committed to help them grow, and we're committed to help more Canadians achieve the dream of home ownership.

Our status as a standalone entity and the transparency that we now have with respect to our financials has given our lenders much more comfort in the strength of our business, and we're confident in our ability to pay claims throughout any economic cycle. In this perspective from our lender partners is critical and a key part of our plan to improve our market penetration levels.

Another component of our strategy is that we have a relentless focus on risk management looking at all the elements of our portfolio to ensure we're putting the right risk on our books; this helps the quality performance of our portfolio, and also helps keep solid underwriting discipline in the market.

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Loss mitigation is another area that's strategic to the business, and we will continue to work with our lender partners to help Canadian homeowners through challenging times and to keep them in their homes.

And in addition, we're focused on capital making sure we operate well above the regulatory requirements, demonstrating our financial strength and commitment to our customers while keeping our financial flexibility. The business is currently conducting a comprehensive review of our capital plans.

And the ultimate measure of all of this is a creation of shareholder value in terms of return on equity. One factor that is important to note is that the Canadian mortgage market is quite different from many others. A strong regulatory environment, disciplined lending practices, and prudent loan underwriting has all served this market well.

So, our strategy is working and our third quarter results attest to the importance of this focus for our business. The execution of this strategy translated to solid financial results for the quarter. We delivered $75 million in net operating income, $0.63 in operating earnings per share, and a return on equity of 12%.

The strength of the economy is an important driver of our business performance and we're seeing positive signs in the overall trends in the economic environment. Slowing rates of job losses, continued low interest rates, improving home prices, increased consumer confidence, and the resulting strong presence of first time homebuyers has helped drive a stronger housing market as a whole and has a corresponding positive impact on our business.

Specifically, these positive market trends impacted our third quarter results from an improving top line, through a strengthening of the risk profile of our business, to a significant impact on loss performance. It's these environmental elements and others that will continue to influence the performance of our business and we're encouraged that the momentum we saw in the third quarter will continue.

Another driver of our third quarter results is how we execute within our business. We continue to be a company that focuses on operational excellence and we make sure that we closely monitor and measure these results. From the underwriting of an individual borrower, to a specific risk dispersion target by region, to an ongoing focus on customer satisfaction it's the focus on execution that has been the principal driver of business results over the years.

For this quarter we made great progress in areas like improving our risk profile, loss mitigation performance, and key lender penetration. So before we take you through a more a detailed view of the business, let me summarize. We feel good about the business. As I mentioned earlier, to deliver these solid third quarter results in such a challenging environment is evidence that our strategy is working.

We're seeing encouraging signs in those areas of the economy that impact our operating results, and continued improvement in these areas should bode well for our business. And we continue to execute, generating solid results for the key measures of the business and continued top line growth and customer satisfaction.

With that, let me turn it over to Phil, who will walk us through some of the details of the quarterly financial results.

Philip Mayers - *Genworth MI Canada, Inc. - SVP - CFO*

Thanks, Brian, and good morning. I'm going to build on Brian's overview and go a little deeper into our financial performance and the underlying business drivers. We continued our record of solid profitability with reported net income and net operating income of $79 million and $75 million respectively. Lower losses on claims were the main contributor to the 10% sequential increase in net operating income.

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We also saw top line growth with premiums written of $104 million, a $22 million increase over the second quarter. This sequential increase is primarily due to an improving housing market and seasonality. In comparison to the prior year, premiums written are down 53%. This was a result of three factors; market size, market share and product mix. Let me give you some color in each of these.

In terms of the market, the vast majority of our third quarter premiums written come from second quarter mortgage insurance applications, a period when the housing markets across the country were in the early stages of recovering and home sales were below 2008 levels. The resulting smaller market size has significantly impacted our premiums written.

With regards to market share, we gave up some ground as lenders became concerned about the difference in the government guarantee compared to our major competitor. Also our decision to strengthen our underwriting criteria in certain markets adversely impacted our market share. With the improved economic outlook and a strong resale housing market, we're better positioned to strengthen our share over time.

Thirdly, our average premium rate is lower due to a product mix shift resulting from a higher proportion of refinance business, the elimination of mortgages above 95% loan to value for mortgages with amortizations greater than 35 years.

Premiums earned of $154 million were slightly higher than last quarter, reflecting the continued seasoning of the large 2007 and 2008 books. At the end of the quarter, unearned premiums reserves stood at $2 billion. Approximately 90% of this amount is scheduled to be earned into revenues as net premiums earned over the next five years. As a reminder, premiums are earned into revenue in accordance with the expected loss emergence patterns.

Turning to losses -- losses were $64 million, a 10% decrease from the prior quarter. These lower losses reflect an improving economic environment, the strengthening of our underwriting guidelines and procedures that started in early 2008, and the continued implementation of our home ownership assistance program, which Peter will discuss a little later.

Our investment income excluding investment gains was $43 million -- essentially flat the last quarter. A modest increase in the portfolio assets was offset by lower rates and new investments made during the quarter. In summary, we delivered $0.63 in operating EPS, a $0.03 improvement over the second quarter.

There are two key contributors to our solid financial performance, namely underwriting income and investment income. This quarter, we delivered 10% higher underwriting income as our combined ratios sequentially declined by five points to 57% driven by a lower loss ratio of 42% in the quarter. We're encouraged by improvements this quarter as the job markets recovered and home prices stabilized.

The investment income from our high quality investment portfolio has offset some of the earnings volatility associated with our underwriting results. Our investment income after taxes has been relatively stable over the last five quarters, and has significantly contributed to the stability of our earnings profile. Overall, the end result is a continuation of solid business performance in a challenging environment.

Turning to the performance of our insurance in force portfolio -- our overall delinquency rate declined from 30 basis points at June 30th to 28 basis points at September 30, 2009. Compared to other markets, the Canadian delinquency rate has remained relatively low.

A key driver of delinquency rate is the number of job losses in the market. We have seen delinquency rate improvements in most markets, especially in Ontario, as a result of an improving job market as evidenced by two consecutive months of job growth in both August and September.

The benefits of having a geographically diversified portfolio are clear. With Alberta representing only 15% of our insurance in force, Alberta's higher delinquency rate of 50 basis points has been offset by the strong performance in other regions.

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We're encouraged by the slowing pace of delinquency growth in Alberta in recent months, as home prices are showing signs of stabilizing and as job losses have slowed dramatically. Overall, we believe that the combination of our portfolio diversification and improving economy and continued execution of our loss mitigation strategies will positively impact the delinquency rate and losses on claims over the next few quarters.

Turning to our investment portfolio -- we continue to maintain a high quality portfolio with 98% in cash or securities rated A or better. Similar to the second quarter, there were no impairments this quarter.

Interest rates declined and credit markets improved in the quarter, and these factors show an increase in the unrealized gains on the Genworth portfolio to $128 million. We continue to actively manage interest rate risk and our duration is relatively short at a little over three years with a book yield of 4% at the end of the quarter.

During this quarter, we invested $244 million primarily in government securities. Our cash position remained above $500 million due to the maturities in the portfolio. Given the consensus economic view that the current low level of interest rates will persist into the first half of 2010, we're committed to managing the portfolio to maximize long term value.

Our long term strategy continues to focus on low volatility investments, while pursuing yield enhancements. Going forward, we continue to opportunistically deploy available cash in asset classes which offer the best relative value. We believe that this prudent approach will enhance investment yields in the coming quarters.

Turning to capital management -- our regulatory capital ratios has significantly strengthened over the past year. We continue to be we capitalized ending the quarter with a regulatory capital ratio of 147%, 12 points above our target level of 135%. Our strong capital position gives us the flexibility to fund the core growth over our new insurance written and pursue other growth initiatives.

Overall, our book value reached $2.6 billion in the quarter, or just under $22 per share. Yesterday, we declared our first common dividend of $0.22 per share. As Brian noted, we're in the midst of review of our capital management options.

Let me now turn it over to Peter, to discuss our third quarter operational highlights. Peter?

Peter Vukanovich - *Genworth MI Canada, Inc. - President, COO*

Hey, thanks, Phil. Good morning, everyone. The key to winning back market share and improving the longer term financial results heavily depends upon executing our lender strategy. For us, it's always been about having deep, cross functional relationships with our lender partners. This allows us to differentiate our service and processes for them, but is also means we match our best and brightest talent directly with their teams to help them exceed their goals.

This quarter we launched several initiatives that resulted in more applications, faster turnaround time and improved lender satisfaction. For instance, our sales teams spent hundreds of hours with their lender partners in training sessions discussing our underwriting policies, latest technology tools, and how best to guide first time homebuyers through the many mortgage options that are available to them.

These cross-Canada road shows really allowed us to showcase our competitive strengths to lenders, mortgage brokers and realtors, and have really raised our profile with them. These dialogues also give us the ability to highlight the power of a homeownership assistance program, which has been a key differentiator for us. I'll talk to you a little bit more about that in a minute.

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Another key component on our lending strategy -- our lender strategy is developing outstanding customer service. Our customer service teams in the Oakville and Montreal underwriting centers have done a great job in improving the customer experience by enhancing our appraisal processes and realigning underwriting contact touch points.

These changes have allowed us to be much more proactive in providing underwriting feedback to lenders while still maintaining a very close eye on property valuations. Lenders are also very pleased to see increases to our auto-decisioning rates, as we made adjustments to reflect the improving economic conditions and stabilizing home prices in many parts of the country.

Our customer surveys continually show that our turn around time is a key driver of lender satisfaction and that's what matters most to homebuyers as well, particularly in the hot housing markets we saw during the summer.

Finally, our technology teams have made great progress on investments that'll take our platform to the next generation, and result in much more accurate property values and information reporting. We are partnering with the smartest companies in the industry to further our abilities to make fast and smart underwriting decisions. In total, it's the sum of all these activities that is leading to higher insurance applications, greater traction with lenders, and a positive outlook for market share improvements.

I'd like to talk next about our loss mitigation efforts. As Brian and Phil mentioned, improving loss trends are really the big story this quarter. And while we've seen improvements in the economy, another key contributor was the efforts of our loss mitigation teams.

Our home ownership assistance program team helped over 1,300 families stay in their homes this quarter; this is up 8% from the second quarter, and significantly higher from the second quarter of 2008. This program has been growing in importance with lenders and homeowners because it demonstrates our ability to creatively come up with customized win/win/win solutions.

Homeowners win, depending on their situation we come up with creative solutions that result in them staying current in their mortgage and in their homes. These solutions ranges from capitalizing missed payments to lowering -- helping them lower their mortgage payments and, again, reflect a more current economic situation for them.

Lenders also win if they maintain a strong relationship with their customers, and we obviously wanted again to avoid a large claim. Let me walk you through just one example of how the homeownership assistance program works.

A homeowner in southwestern Ontario had been feeling the impact of the downturn in the economy and found himself out of work. We could have allowed the lender to pursue foreclosure and create a claim over $50,000, but instead worked with the lender and the homeowner to make the homeowner's mortgage and utility payments for him.

During this period, he listed and sold his home so his family could move into something more affordable. This shortfall sale, as we call it, is what homeownership assistance teams have been doing day in and day out throughout the quarter and it's working. Overall, the success rate is over 80%. It's very important and it means that the vast majority of workout participants that remain current in their mortgages and not becoming a new delinquent.

Finally, on loss mitigation, I'd like to also acknowledge the positive impact of our collections, property management and quality assurance teams are making. We're beginning to collect more significant dollars from past claims and selling properties at higher prices and making a difference ensuring lenders are consistently underwriting loans using industry-best practices. Taking a proactive approach to loss mitigation results in lower losses, and that's been a big impact to the bottom line this quarter.

To sum things up -- you've heard about the importance of our strategy and how it's working, particularly in areas of customer service and satisfaction. You've also heard about the importance of risk management, generally improving economic conditions as well as our strong capital position.

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Going forward will be elements that combined with all of these things, along with our better relationships and value added customer services that result in us gradually winning back our market share. And that's what leads us to believe we're very well positioned to continue our growth and shareholder returns over the next few quarters.

Thanks, and I'll now turn it back over to Samantha and the operator to open it up for questions.

QUESTIONS AND ANSWERS

Samantha Cheung - *Genworth MI Canada, Inc. - VP - IR*

Thank you, Peter. Thank you all for listening to the formal part of our remarks. We would ask you to limit your questions to no more than three questions in order to allow as many people as possible to ask their questions. You may reenter the queue and if there is time available ask your follow up questions.

Tracy, please open the call up for questioning.

Operator

(Operating Instructions)

Your first question comes from the line of Paul Holden from CIBC. Your line is open.

Paul Holden - *CIBC World Markets Inc. - Analyst*

Hi, good morning. I want to ask you a couple of questions on the market share front. The first one was you announced some adjustments here, underwriting criteria at the end of August. How significant do you think that impact could be with respect to market share, and when do you think it'll flow down to your premiums written?

Brian Hurley - *Genworth MI Canada, Inc. - CEO*

Hey, Paul, thanks for the question. This is Brian. One quick comment before I turn it over to Peter. Any adjustments in the underwriting criteria that we may have done is just part of the normal ongoing part of the business. That's what we do -- right, when we see an improving economy or an improving region of the country we may adjust accordingly. So it was nothing unusual there; it was just part of our normal approach to market, but --.

Peter, do you have another view?

Peter Vukanovich - *Genworth MI Canada, Inc. - President, COO*

Yes, I think the question on timing, Paul, is that as you know when we underwrite applications it takes typically 45 to 60 days for those deals to close. So, we will start seeing the effects of that in terms of premiums written in the fourth quarter, but at the same time we have noticed a significant increase in applications during the last few weeks.

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Paul Holden - *CIBC World Markets Inc. - Analyst*

Okay, good to hear. And in terms of the magnitude -- I mean, I think some of the items that Phil highlighted included tighter underwriting standards. Are you back to where you were earlier in 2008?

Brian Hurley - *Genworth MI Canada, Inc. - CEO*

I would say not quite. There are still some challenging economic areas in the country that we're keeping a close eye on and, of course, we also got out of investment properties and some of the more challenging aspects of no doc/low doc type loans. So, that combined with the changes that the government worked out to put in place last year with 100% loan to value in 40 year AMs, I think it created a much better risk profile for us.

Peter Vukanovich - *Genworth MI Canada, Inc. - President, COO*

Yes, Paul, overall there's some higher risk areas that we haven't budged on. We're still keeping a very, very watchful eye and we don't anticipate changing those higher approach to those higher risk areas in the short term.

What we have looked at if there's some postal codes, for example, that have seen some solid home price appreciation for some consecutive quarters. We're seeing some areas of the country which we thought was going to be hit very, very hard from an unemployment perspective and it didn't materialize so we revisited some of our approaches to those markets. But overall, those high risk areas that you mentioned we're going to hold tight there until we see some more consistent quarterly results from the marketplace.

Paul Holden - *CIBC World Markets Inc. - Analyst*

Okay. And my last question is with respect to penetration with the banks and in particular where the two where you may have lost more share than with the other three. Are you seeing any bounce back in business with the banks?

Brian Hurley - *Genworth MI Canada, Inc. - CEO*

Peter, could you take that, please?

Peter Vukanovich - *Genworth MI Canada, Inc. - President, COO*

Yes, Brian. We're in constant discussions with these folks and we're encouraged by what we're seeing. I don't want to get into too much detail here, but I think we're -- we've got a solid relationship with both of those banks, and as you know a lot of their decisions were based on the economic global credit crisis and that's obviously abating.

Paul Holden - *CIBC World Markets Inc. - Analyst*

Okay. I'll jump back in the queue, thanks.

Brian Hurley - *Genworth MI Canada, Inc. - CEO*

Thanks, Paul.

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Operator

Your next question comes from the line of Jason Bilodeau from TD Newcrest. Your line is open.

Jason Bilodeau - *TD Newcrest - Analyst*

Actually, you know what? Those were really the issues I wanted to hit on was the market share with the big banks. So I'll pass it on, thanks.

Brian Hurley - *Genworth MI Canada, Inc. - CEO*

All right, Jason. Thank you.

Operator

Your next question comes from the line of Tom Mackinnon from Scotia Capital. Your line is open.

Tom Mackinnon - *Scotia Capital - Analyst*

Yes, thanks very much. Good morning, everyone. A question with respect to this review of your capital management that you alluded to, Phil. I wonder if you might be able to elaborate on that to some extent. Is there some -- what would you deem your excess capital to be right now? What are some of the plans to put that capital to work? And I've got a couple of follow ups as well.

Brian Hurley - *Genworth MI Canada, Inc. - CEO*

Yes, Tom. Well certainly. You heard during our discussions here that we're in a middle of a quite a detailed review of capital, but Phil can certainly give you some thoughts about where we're heading.

Philip Mayers - *Genworth MI Canada, Inc. - SVP - CFO*

Yes, when you think about the 147% regulatory capital ratio, I mean being well capitalized has served us well as we've gone through this difficult economic scenario. At the same time, a portion of that growth in our MCT ratio reflects the improvement in the mark to market in the investment portfolio.

So when we stand back and look at it we're probably sitting with approximately $150 million of capital above our 135% target. We're looking at all opportunities to deploy that capital to enhance shareholder returns. We're in the midst of the review and at this point in time it would premature to discuss any specific plans, but I think rest assured that it's something that's on our radar screen, it's something that we'll be aggressively looking at to take action on.

Tom Mackinnon - *Scotia Capital - Analyst*

One of the defaults has to do with the seasonality of the business. In terms of if you were probably going to take just a unit of four in terms of net premiums written over the year. Obviously, we don't take one in each one of the quarters.

Can you - is it possible that you might be able to give us a feeling as to how to break down that percentage in terms of the quarters to give us a little bit of feel for the seasonality?

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Brian Hurley - *Genworth MI Canada, Inc. - CEO*

Yes, Phil, why don't you take that one?

Philip Mayers - *Genworth MI Canada, Inc. - SVP - CFO*

Yes. Well, in seasonality perspective if you think of 100% we'd probably see the first quarter and the fourth quarter being somewhere close to 20% and the second and third quarter being the peaks. Clearly, there's a spring home buying market in Canada and that typically means that our premiums are in their highest in the third quarter.

Having said that, patterns change from year to year and what we saw this year was very strong summer months from a home sales perspective. So I think this year the pattern might be somewhat different, but traditionally it would be 20%/20% in the first and fourth, somewhere more like 25%/ 27% in the second quarter, and then the third quarter being the highest -- closer to 30% of the market.

Tom Mackinnon - *Scotia Capital - Analyst*

Yes, well, if you're saying that the fourth quarter looks like it's going to be around the same level as the third quarter, then that would suggest that you're getting continued momentum in the top line. Am I reading that correctly?

Philip Mayers - *Genworth MI Canada, Inc. - SVP - CFO*

I think you're clearly seeing momentum. I think the second part is we had a very strong summer and August/September were records months up from last year in terms of home sales and we'll see that translate into the fourth quarter. But, Tom, to your point, it's demonstrating some evidence of the progress we're making in the overall marketplace.

Tom Mackinnon - *Scotia Capital - Analyst*

And then finally, you're still -- I think you're still sitting 11%-ish in cash. That component may have come down a little bit. What's the plan to put some of that to work?

Brian Hurley - *Genworth MI Canada, Inc. - CEO*

Okay, Philip?

Philip Mayers - *Genworth MI Canada, Inc. - SVP - CFO*

Yes. As I mentioned in my remarks, we clearly are taking a long term view, and clearly the loan interest rate environment has been challenging in terms of the decision, do you put it to work today or do you wait?

What we have done is really look for where's the best relative value and we've really focused in on securities that traded a premium to governments but have a duration that is less than five years. And we've invested a lot in NHA MBS in the third quarter and we'll be doing so on a go forward basis because we think that offers a good relative value.

At the same time, we're also looking at other asset classes and including preferred shares and we're close to making a decision on that asset class. But clearly, Tom, we're looking for the long term and we're looking at all the options, and we're making a decision in terms of is it better to reduce cash today, or is it better to take a look and wait into 2010.

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Brian Hurley - *Genworth MI Canada, Inc. - CEO*

And as we discussed in our prior call, we are putting this capital to work; we're not waiting. And as Phil mentioned, we put over $200 million to work and already in the third quarter and we'll continue to deploy that into the fourth quarter -- just being smarter where we put it and making sure we're looking at all our options is the process we're undertaking.

Tom Mackinnon - *Scotia Capital - Analyst*

Okay, thanks very much. A good quarter.

Brian Hurley - *Genworth MI Canada, Inc. - CEO*

Thanks, Tom.

Operator

Your next question comes from the line of Gabriel Dechaine from Genuity Capital. Your line is open.

Gabriel Dechaine - *Genuity Capital Markets - Analyst*

Good morning. Another question on the excess capital. I guess if you're somewhere $100 million to $150 million of excess capital, are you -- I mean, it's going to take a lot of gross premiums written growth. I understand that's your focus for using excess capital. It's going to take a lot of gross premium written to soak up that excess capital.

So is there room for dividend increases keeping in mind that you've just declared your first one? But when would we look for potential increases, I guess?

Brian Hurley - *Genworth MI Canada, Inc. - CEO*

Yes. Gabriel, this is Brian. Your initial comment is spot on. Although that's our first priority is to use that capital to fund our top line growth, and as we talked about this morning we are seeing some encouraging signs there. So, that is going to be our first usage.

But when you look at all stakeholders that we need to look at, first of all it's the regulators, certainly our investors, and also our lender base -- our lender base values our strong capital position, especially coming out of some of the more challenging times. So as Phil mentioned, that's just what we're looking at how do we approach and satisfy each of these stakeholders, and how do we look to returning the returns to our investors.

And that's the process we're in the middle of so it'd be a bit premature to give you any indication where we're heading now. But if that's your message -- it's a balanced approached.

Gabriel Dechaine - *Genuity Capital Markets - Analyst*

I guess conservatism when you factor in the regulators and the lenders - getting them comfortable in your capital, that's probably trumping the dividend increase potential at this stage?

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Brian Hurley - *Genworth MI Canada, Inc. - CEO*

Well, we're looking at all the options and certainly we have investors at top of mind, too, so --.

Gabriel Dechaine - *Genuity Capital Markets - Analyst*

Okay. Now with regards to the homeowners assistance program -- the workouts there -- if I wanted to be devil's advocate here -- play devil's advocate here, you're kind of -- and say well, maybe you're understating your delinquency numbers by putting more people into the HAP program. Right? I guess they would otherwise be in the delinquent loan numbers. Right?

But you're still getting an 80% success rate on the resolutions, so I should be worried I guess? Is that -- what are your thoughts on that?

Brian Hurley - *Genworth MI Canada, Inc. - CEO*

Yes, thank you. Let me turn that over to Stuart Levings, our Chief Risk Officer, to field that one.

Stuart Levings - *Genworth MI Canada, Inc. - SVP - CRO*

Yes, good morning, Gabriel. I think the way to look at that is that you wouldn't really be saying 1,300 delinquencies would have occurred had we not done the HAP on those because not every one of those would go to delinquency. Remember that a lot of these people are 30 and 60 days and would naturally have cured, which is what we would have found in the past.

By intervening, we're making sure that they don't become a delinquency. It's a win/win/win as Peter indicated. But only a portion of those may ever have made it through to our delinquencies, so I wouldn't see it as understating the delinquency count.

Gabriel Dechaine - *Genuity Capital Markets - Analyst*

Okay, so these are like what would be -- I don't know if you can provide that number, but what would be the proportion of these that aren't real delinquent loans, i.e., either less than 90 days on the impairment, I guess? And then how do you identify them?

Stuart Levings - *Genworth MI Canada, Inc. - SVP - CRO*

The first point, the majority of them are less than 90 days when we deal with them.

Gabriel Dechaine - *Genuity Capital Markets - Analyst*

Okay.

Stuart Levings - *Genworth MI Canada, Inc. - SVP - CRO*

And it is hard to say how many of those would've ultimately made it through to delinquency. And the identification is really because of the absolute promotion of this program. As Peter mentioned when we go across the country, one of the big highlights we do -- highlight to our lender groups, even our website promoters -- so borrowers in their homes know about it, and approach us either directly or through their lending institutions.

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Gabriel Dechaine - *Genuity Capital Markets - Analyst*

Okay, great. The other thing on the delinquencies here, if I'm being optimistic and assume that the pace of delinquencies stabilizes and starts trending downwards, would I also -- you naturally expect that's good for your claims outlook, but what about your expenses?

Are you -- would you expect your expenses to come down substantially because of that because you're involved in less workouts -- that's a somewhat related matter -- but also you've just got less paperwork on delinquencies and stuff like that?

Stuart Levings - *Genworth MI Canada, Inc. - SVP - CRO*

Yes, sure. I've got the question. I'll turn it over to Phil and Phil maybe you should answer.

Philip Mayers - *Genworth MI Canada, Inc. - SVP - CFO*

Okay. Gabe, the way we think about it is the loss mitigation costs might well decrease over time if there are fewer delinquencies. However, from a reporting perspective, those expenses are included in the losses on claims line so the expense line is really pure the cost of underwriting, selling and really administrative expenses. So you won't see expense -- the expense line decrease as a result of lower delinquencies. They'll be reflected in the loss line.

Brian Hurley - *Genworth MI Canada, Inc. - CEO*

I'll add just one other thing to that. What we've also consciously done, Gabe, the folks that we've got on our program we're also looking to re-deploy them to the underwriting side to look after the market share growth, so when that slows down most folks will transition to underwriting to look after that.

Gabriel Dechaine - *Genuity Capital Markets - Analyst*

Okay, that makes sense. Thanks a lot.

Brian Hurley - *Genworth MI Canada, Inc. - CEO*

Thanks, Gabe.

Operator

Your next question comes from the line of Geoff Kwan from RBC Capital Markets. Your line is open.

Geoffrey Kwan - *RBC Capital Markets - Analyst*

Hi, good morning. I just wanted to follow up on some of these market share questions and give it a look at more broadly. Can you talk about I guess within your larger customers -- not necessarily just say if a couple of banks reduced their lending to you -- the conversations that you're having with them are they giving you indications that over the past couple of months they're increasing the amount of business that they're doing with you versus say CMHC?

And also, have they given some indications of how that may play out going forward given that we are in better economic times?

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Brian Hurley - *Genworth MI Canada, Inc. - CEO*

Yes, sure. I'll start, and then I'll turn it over to Peter to walk us through some of the detailed discussions. But let me say that we're in a weekly dialogue with each of our key lenders to make sure that we're serving their needs, listening to them intently, and also positioning our self to win as much business as possible. And as we touched upon earlier today, it's monitoring the daily and the weekly application volume which is our best indication.

So it may not have quite come through in these third quarter results, but we're certainly seeing it in our daily application volume coming from these key customers. So despite the fact that CMHC measures on an annual basis and it's tough to gauge day to day, the dialogue from our customers and monitoring what percent of the business that we're getting and also monitoring our overall applications is where we're getting our encouragement from.

Any other comment, Peter?

Peter Vukanovich - *Genworth MI Canada, Inc. - President, COO*

I think that's pretty much on, Brian. Did that answer your question, Geoff?

Geoffrey Kwan - *RBC Capital Markets - Analyst*

Yes, it does. The second question is when I look at the average reserve per delinquent mortgage it was up I think 8% quarter-over-quarter. I'm just trying to reconcile in terms of looking at well, the home prices are up for a lot of -- across Canada. If you look at say homes that may -- or policies that might have been taken out in 2007 or 2008, obviously it's an average number that I'm looking at but -- and there may be different variances. I just wanted to get some color as to the what we saw in Q3.

Brian Hurley - *Genworth MI Canada, Inc. - CEO*

Yes, Geoff, got it. Philip, why don't you handle that?

Philip Mayers - *Genworth MI Canada, Inc. - SVP - CFO*

Geoff, I think it really comes down to the mix and the regional mix that are in our delinquencies. Clearly Alberta has been a challenged market because of higher loan amounts and obviously the home price depreciation that they've experienced.

They're experiencing a higher average reserve per deal. And it's really a higher mix of Alberta's delinquencies in the overall population that's the key driver behind the increase in the average reserve per deal.

Geoffrey Kwan - *RBC Capital Markets - Analyst*

Okay, that's perfect. Thank you.

Operator

(Operating Instructions)

Your next question comes from the line of Jeff Fenwick from Cormark Securities. Your line is open.

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Jeff Fenwick - *Cormark Securities, Inc. - Analyst*

Hi, good morning. Actually all of my questions have been asked and answer, so thank you.

Brian Hurley - *Genworth MI Canada, Inc. - CEO*

That's efficient. Good, Jeff, thanks.

Operator

At this time we have time for one more question and that comes from the line of Paul Holden from CIBC. Your line is open.

Paul Holden - *CIBC World Markets Inc. - Analyst*

Yes, a couple of follow up questions. Maybe you can focus on Alberta for a minute since it's your greatest source of delinquencies today. Is there anything we should look for other than the obvious in terms of the situation in Alberta improving? And is there anything in your control in Alberta specifically that you can do to bring down the delinquency rates?

Brian Hurley - *Genworth MI Canada, Inc. - CEO*

Yes, certainly, Paul. I'll turn that over to Stuart Levings, our Chief Risk Officer.

Stuart Levings - *Genworth MI Canada, Inc. - SVP - CRO*

Well, I think the first part is as you indicated a lot of it is related to the economy and we have seen definitely a slowing in the growth of the delinquency rate. If you look at our own results you can see that. The other aspect to keep in mind is that the level of bankruptcies in Alberta have certainly plateaued so that's another positive. And then the job losses have slowed dramatically.

So those are the items that we can't necessarily control. The parts we do control is really the workout efforts and how we focus our efforts there. And clearly we do focus where there's opportunities.

Keep in mind that Alberta is only 15% of our portfolio and as Phil alluded to earlier the diversification of that HAP really helps in terms of the impact overall to our losses. But we definitely do focus on where the workout opportunities are and given that they've had higher levels of unemployment, there's a lot of opportunities there and we're certainly focused on that.

Brian Hurley - *Genworth MI Canada, Inc. - CEO*

You know, Paul, this is an area where our rigorous underwriting approach actually pays off. You know, we dissect that market by postal code and we approach it accordingly, so thumbs up the appraisals, making sure we're doing the appraisals ourselves.

In addition to us, it's done by our own internal approval to appraisal panel, and making sure that we're tailoring our approach with customers postal code by postal code. So some look better than others, but it's this underwriting approach and the precision with our approach that makes the biggest impact.

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Paul Holden - *CIBC World Markets Inc. - Analyst*

Okay, thanks a lot.

Brian Hurley - *Genworth MI Canada, Inc. - CEO*

Sure.

Samantha Cheung - *Genworth MI Canada, Inc. - VP - IR*

Since there are no more questions on behalf of the team here at Genworth MI Canada, thank you very much for the opportunity to speak to you today about our third quarter results.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for your participation, and you may now disconnect your line.

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