FINAL TRANSCRIPT

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MIC.TO - Q4 2009 Genworth MI Canada, Inc. Earnings Conference Call

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CORPORATE PARTICIPANTS

Samantha Cheung
Genworth MI Canada, Inc. - VP IR

Brian Hurley
Genworth MI Canada, Inc. - Chairman & CEO

Philip Mayers
Genworth MI Canada, Inc. - CFO

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

Stuart Levings
Genworth MI Canada, Inc. - Chief Risk Officer

CONFERENCE CALL PARTICIPANTS

Geoffrey Kwan
RBC Capital Markets - Analyst

Gabriel Dechaine
Genuity Capital - Analyst

Paul Holden
CIBC - Analyst

Jeff Fenwick
Cormark Securities - Analyst

Jordan Hymowitz
Philly Financial - Analyst

Mike Morden
Howson Tattersall - Analyst

PRESENTATION

Operator

Good morning. My name is Stephanie, and I will be your conference operator today. At this time, I would like to welcome everyone to the Genworth MI Canada Fourth Quarter 2009 Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session.

(Operator Instructions)

Thank you. Samantha Cheung, Vice President of Investor Relations, you may begin your conference.

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

Thank you, Stephanie. Good morning, everyone, and welcome to our fourth quarter 2009 conference call. On the call this morning are Brian Hurley, our Chairman and Chief Executive Officer; Peter Vukanovich, our President and Chief Operating Officer; and, Philip Mayers, our Chief Financial Officer. Stuart Levings, our Chief Risk Officer, is also present today. We will all be available during our question and answer session following our prepared remarks.

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We will go through the agenda as outlined on the slides and then, as usual, open up the call for questions. Brian will provide a business review; Phil will provide the financial details surrounding our results; and, Peter will comment on how we executed operationally this quarter to deliver our strategy.

Our news release, including the review of performance, financial statements, and financial supplement, were released last night and are now posted on our website. We've 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 there for 45 days until March 15th.

Following our call today, our team is available for any follow up. As usual, we also want to draw your attention to our forward-looking statement on disclosure. 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.

As well, 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.

I would now like to turn the call over to Brian Hurley, our Chairman and CEO. Brian?

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

Thanks, Samantha. And good morning, everyone. And again, thank you for taking the time to be on the call today. Genworth MI Canada ended up the year in strong note. We had fourth quarter net operating income of $85 million, translating to $0.74 per diluted share, compared to $0.63 last quarter and $0.66 per share during the same period last year. This generated a 14% return on equity for the quarter.

In looking at total year 2009 performance, we're pleased with the results. From a financial perspective, we underwrote $17 billion of new insurance written and delivered net income of $379 million. We also ended the year with $5.2 billion in total assets, $2.6 billion in shareholders' equity, and overall return on equity of 13%.

And aside from those financial measures, we had numerous other key accomplishments. We reshaped our book of business to a higher-quality portfolio. We built our capital base to position us against any economic environment. We strengthened the business analytical capabilities and loss mitigation capacity. And in the midst of all that, we took our company public. So by any reasonable benchmark, 2009 was one heck of a year for us.

Turning to the quarterly results, they were strong against all our key measures and there are a few principle drivers for those results. The first area to note is a solid housing market. The demand for housing and mortgage loan originations have both remained strong. After a slow start in the first quarter of 2009, we saw a mortgage market evolve last year that has continued into 2010.

And there are numerous positive factors driving the market -- interest rates alone, helping affordable and also incenting qualified homebuyers who may be on the fence to lock-in low rates. There's also a strong demand for homes, and housing supply has come back to more normal standards after the building slowdown of last year and earlier this year. In fact, when you combine those low interest rates with more stable home prices, housing affordability for the segment of the market we serve is returning to more traditional levels.

Other economic drivers that impact the business are also seeing encouraging trends. We're seeing unemployment stabilize and the rate of job loss slow down. This is not only reflected in the favorable loss performance of the business, but also in consumer confidence. With this combination of low rates, strong demand, improving unemployment, and strong consumer confidence, there's a clear alignment with drivers of the housing market and our business.

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Another key contributor to our performance is that we continued to successfully execute our strategy. We're focused on our customers; raising service levels and helping them grow. We're investing in the business, in technology, training, and human resources. And, we're managing risks by staying close to markets, keeping our underwriting discipline and resourcing loss mitigation efforts and that strategy is working. We have a sharp focus on top line growth that's translated to tangible progress in the market.

Portfolio quality and loss performance of the business is a top priority for us. And a focus on high-quality loans and risk dispersion has served this business well, as evidenced by our improving loss ratio trend. And, there's an ongoing investment in loss mitigation. Not only are we keeping more people in homes, but this effort is having a strong impact on our loss performance.

On the investment front, we'll keep our investment portfolio conservative in nature but ensure we are enhancing our yield. We've made progress here, and this'll be an ongoing effort throughout 2010. We will also continue to actively manage our capital. We ended up the year with a strong capital position. And in our view, that's a good place to be in today's environment.

Our perspective on capital is a straightforward one. We'll make sure our regulators remain comfortable with the capital in the business. In addition, our customers want a well-capitalized counterparty to ensure claims can be paid in all economic conditions. And lastly, we want to make sure we have capital to fund growth opportunities, such as our strengthening market position that I mentioned.

All that said, we clearly understand we need to balance that capital strength and the efficient use of that capital. Make no mistake; our critical success measure and focus for us is delivering strong return on equity performance for our shareholders. Yesterday, we announced our second quarterly dividend of $0.22 per common share payable on March 1st, and that's another good milestone for the business.

So wrapping up my comments, we delivered solid results for the quarter in a challenging but improving economic environment. 2009 was a banner year for the business. In addition to our financial performance, we accomplished some key strategic initiatives that position us well for the future.

The environment we operate in looks encouraging with current low rates, balanced supply-demand, and consumer confidence driving a solid housing market. Our market position's improving, building for 2010 and beyond. And this year, we'll generate strong capital and implement strategies to optimize our capital base.

With that, let me turn it over to Phil Mayers to give us a more granular, insightful look into our financial performance. Phil?

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

Thanks, Brian, and good morning, everyone. Overall, we're encouraged by our financial results. In the fourth quarter, net operating income was $85 million, up $10 million or 15% sequentially. The fully diluted operating EPS was $0.72, up $0.09 quarter over quarter.

We should note that lower provincial tax rates on future taxes accounted for $7 million of the quarter-over-quarter increase in net operating income and $0.06 of the EPS increase. A strong healthy market and our improved market position led to a modest sequential increase in net premiums written to $110 million this quarter.

Our sales momentum is expected to continue and contribute to year-over-year top line growth in the first quarter of 2010. Our underwriting income after taxes was $56 million; a $10 million increase from the third quarter. A three point improvement in the loss ratio to 39% drove $3 million of this sequential increase, while with the other $7 million coming from the favorable impact of lower future tax rates.

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Investment income after taxes was flat at $29 million quarter over quarter, adding stability to our financial performance. We made progress in putting our cash to work. The result of this ongoing strategy will be reflected in our 2010 results. We ended 2009 with net operating income of $307 million and operating EPS of $2.67, both excluding the impact of the change of the premium recognition curve in the first quarter.

We are pleased with this year's results, especially having achieved a 13% operating return on equity in a challenging but improving economic climate. With a regulatory capital ratio of 149%, 14 points above our internal capital target, we were well positioned to take advantage of growth opportunity.

Let's turn our attention to our underwriting results and premiums earned. Net premiums earned were essentially flat sequentially at $155 million for the quarter. Our single upfront premiums are earned into revenues based on the loss emergence pattern. For a single book, approximately 50% is earned in the peak loss years of years two to four, with approximately 75% being earned in the first five years. This provides good visibility into underwriting revenues.

While premiums earned in 2010 will continue to benefit from the larger 2007 and 2008 books, the relatively smaller 2009 book will negatively impact premiums earned going forward. In summary, our $2 billion of unearned premiums represents future revenues and profit. 90% of this $2 billion in unearned premiums will be earned in the next five years.

Let's now review our loss performance and combined ratio. We saw a three-point sequential improvement in our loss ratio to 39% in the fourth quarter. This is the second quarterly decline after the loss ratio peaked at 46% in the second quarter of 2009. We're encouraged by the trend in delinquencies with our delinquency rate remaining flat at 28 basis points.

We expect that our loss ratio will trend back to our pricing loss ratio target of 35% to 40% as the 2007/2008 books continue to season in an improving economic climate. We estimate that one point improvement in loss ratio contributes $4 million to annual net operating income. Our expense ratio increased by one point to 16% in the quarter, resulting in a 55% combined ratio.

Let's now take a look at our investment portfolio performance. Our $5 billion investment portfolio adds stability to our financial performance. Investment income contributed $29 million after taxes fourth quarter or 34% of our net operating income. While we've maintained a high-quality investment portfolio with no impairments this year, our overall book yield stands at 4%.

We invested $247 million in the quarter, of which $111 million was invested in government and corporate bonds. And another $136 million was invested in short-term securities. The total invested was offset by maturities and bond sales of $107 million.

Interest rates are expected to rise in the second half of 2010, and our portfolio is well positioned with a relatively short duration of 3.1 years. At the end of 2009, we held cash and short-term securities of $630 million. In order to reach our cash target of $150 million to $200 million, we're actually putting cash to work by continuing to invest in preferred shares, government-guaranteed mortgage-backed securities, and investment-grade corporates that offer attractive risk-reward profiles.

We expect that these initiatives should result in higher investment income in 2010. A 25-basis point increase in the overall yield would add $8 million to net operating income and 30 basis points of ROE. In summary, we have a strong balance sheet that supports our growth objective going forward.

Let me turn it over to Peter to cover the execution of our business strategies.

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

Thanks, Phil, and good morning, everyone. You just heard from Brian and Phil; our team's been very busy this quarter. Some of the highlights include a gain in momentum in mortgage insurance applications and premiums written and customer service enhancements; lower losses due to proactive risk management initiatives; great work by our loss mitigation teams by helping

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more families stay in their homes; and, a lot of collaboration with the federal government on mortgage information and insight on mortgage markets.

On the volume side of things, we're encouraged by the increasing level of business from a number of key levers. Fourth quarter was our biggest quarter in terms of approvals and premiums in all of 2009. While the mortgage market's been strong, we believe we are gaining some market position, resulting from faster turnaround times and auto-decisioning improvement.

We'll also recall in the third quarter, we adjusted underwriting criteria in certain markets in response to an improving economic climate. Another big impact came from the way we've redesigned the way our underwriters interact with lenders, and it has led to higher levels of customer satisfaction. Finally, our sales teams have been out continuing to add value by educating lenders and mortgage brokers on how to help them grow and also educate first-time homebuyers. In a nutshell, it's through these actions that we're being rewarded.

On the risk side of things, improving economic and employment pictures have helped stabilize delinquencies at 0.28%; flat from the end of September, down from 0.3% at the end of June. And this reinforces that the economy is stabilizing, and our risk management strategies are working.

To give some detail on a regional basis, Ontario, which represents approximately half of our risk in force, improved significantly by dropping five points to 0.25% as housing demand remains strong in the GTA and the job picture has become clearer in the manufacturing sector.

In BC, Alberta, and Quebec, delinquencies are peaking, as job losses slowed significantly. These housing markets have stabilized due to low borrowing costs and renewed consumer confidence. Overall, the combination of portfolio diversification and improving economy and continued execution of our risk strategies have helped to keep losses low. During the fourth quarter, we've continued to invest in our property and appraisal technologies, and that's also helping us make better underwriting decisions.

Our home ownership assistance program continues to deliver results, and remains a key differentiator in the eyes of our customers. This quarter, we helped approximately 1,400 families stay in their homes. And all in all, we completed 4,600 workouts in 2009 versus just 700 in 2008. With our lender partners, we're becoming increasingly proficient at identifying workout candidates using a newly designed screening tool and a website that explains the process to homeowners who are experiencing financial difficulties.

The third element of our risk management success can be attributed to the efforts of our quality assurance teams. This quarter, they looked at over 5,500 files, ensuring consistent policy adherence and providing real-time feedback to our underwriters and our lender partners. And finally, we've been reducing losses by improving the condition of distressed properties. And that's helping to sell them for much higher prices than we otherwise thought.

Let me wrap it up by telling you how we feel about our business. With the improvement in the economy, lenders are again looking for Genworth to be their growth partner. We believe that our commitment to offering high levels of differentiated services will lead to continued improvement in our market position and top line.

On losses, we're targeting a 35% to 40% loss ratio for the year. And while it may take a quarter or two to develop, with the large 2007 book we'll be coming down the loss curve, job losses will decline, and housing markets are likely to remain strong.

With that, I'm going to turn it back over to you, Brian.

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

Thanks, Peter. And before we turn the call back to Samantha and the operator to take your questions -- we've been in touch with some of you on this call over the last few weeks, and there were two clear areas that many of you have been asking about; first of all, being in the housing market; and, second of all, being the competitive landscape. So I thought it'd be helpful to try to address those areas right out of the gate here, and share our views.

As you can imagine, we spend a lot of time analyzing the housing market and getting feedback from many external sources. And Peter has pulled together our view of housing. Peter, why don't you walk us through that?

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

Now as I mentioned earlier, we're spending a lot of time with the government discussing this topic. And we really don't feel there is a housing bubble currently. I mean, you've also probably noticed that the Bank of Canada has recently commented in the media that they don't see one either, and the topic has died down at least for now.

But in 2010, we believe that the current sellers' market will revert to more of a balanced market and will stabilize over the year to home prices growing on average about 2% to 3%, so in other words very sustainable levels. We think that demand will begin to ease in the second half of the year, particularly as rates rise and supply catches up.

Having said that, I do believe the issue is really about whether today's borrowers will be able to handle interest rate increases over the next 12 to 18 months. And to that end, we've spent a significant amount of time sharing data and our views on this. And I think the one thing we've all agreed on is that the best way to approach this problem would be to use a scalpel versus a sledgehammer, if at all any future changes are warranted.

Around 20% of today's market has a 5% down payment, and any changes to regulations need to be focused on the riskier portion of that 20%, perhaps say investor properties. In terms of our business, we get comfort that low down payment borrowers are playing in the end of the market that typically sees much less price volatility than the higher-priced properties on the market.

Also, we've always qualified borrowers at a higher rate than what they actually pay. Today, we qualify all borrowers using a minimum of a 4% interest rate. So, that's already based in a cushion of about 150 to 175 basis points on any future interest rate increase.

Another key to note is that today only 15% of our borrowers are taking variable-rate mortgages, so they are really being quite cautious. The vast majority taking fixed-rate mortgages are locking in for five years. So rate changes will not affect them for some time to come and by then, they'll have a chance to build up some equity and some earnings power.

So in summary, we believe that while we need to closely monitor this, generally any federally mandated changes will likely be marginal changes focused on the borrowers who are least likely to be able to handle these changes and not a wholesale prohibition on mortgages with a 5% down payment.

Back over to you, Brian.

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

Good view. Thanks, Peter. On the competitive front, I'll field that one. First of all, you can understand we don't make specific comments on competitors, but we have been on the record of supporting competition in the marketplace. And in a more general sense, we view new entrants and new private capital as an endorsement of the health of the market.

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We also think it speaks to the long-term financial potential, the vital role more insurance plays in the mortgage market and, ultimately, speaks to the potential profitability of our business.

Our objective is to grow our market position and as you've heard already today, we're well positioned to do that. We've been at this for 15 years, building credibility with lenders, building the technology linkages, building our analytics; all aimed at helping our customers grow. We've invested heavily in this business in people, infrastructure, and capital.

We understand. We've earned the trust of our customers and need to continue to earn that trust and support everyday. So, I guess I'd say in summary we like our position and what we're seeing in the economy and the market. And we're as hungry as ever to help keep the strong position we've earned in the marketplace.

And with that, I'll turn it back to Samantha for broader questions.

QUESTIONS AND ANSWERS

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

Thank you, Brian. Thank you, all, for listening to our remarks. We kindly ask you to limit your questions to no more than two questions each in order to allow everyone to ask their questions. You may re-enter the queue and if there's time available to ask your follow-up questions.

Stephanie, please open the call up for questioning.

Operator

(Operator Instructions)

Your first question comes from Geoff Kwan with RBC Capital Markets. Your line is open.

Geoffrey Kwan - *RBC Capital Markets - Analyst*

Hi. Good morning. First question I had was -- when we're looking at the pulling of the excess capital, I mean, as earnings continue to grow, the MCT ratio should increase. And you can [point] some of that using just in terms of new business. But I'm just trying to get a sense of how long would you wait if you're not able to find, say, an acquisition that suits you that you may, for example, do a dividend increase and ultimately try and deliver higher ROEs?

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

Hey, Geoff, it's Brian. I'll take that one. As we've mentioned on this call and in the past, we're in the middle of doing this analysis right now. And to your point, we're casting a pretty wide net on this one. So, looking at new business opportunity is one aspect. Looking at other alternatives, such as increasing dividend or a special dividend, is another aspect. And also to help get those ROEs up, looking at the possibility of leverage is also in the mix.

So, we're not going to let this thing linger. We're actively involved. We have a regular rhythm around this from within the business and with some external advisors. This is something that we look to wrap up in 1Q. And if it does linger, it'll just be the start of 2Q. So, we're on it and we understand the impact on ROE. But we're turning over every stone, which I think is appropriate.

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Geoffrey Kwan - *RBC Capital Markets - Analyst*

Okay. Second question I had was--I know when you were talking earlier that some of the vintages may still see delinquency rates go up. But I mean, the way that you see the world today, are you thinking that the delinquency rates for Genworth have hit their peak and also the average reserve per delinquency loan?

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

Yes, I'll let Stuart Levings, our Chief Risk Officer, take that one. Stuart?

Stuart Levings - *Genworth MI Canada, Inc. - Chief Risk Officer*

Thanks, Geoff. The delinquency rate overall is very close to being at the peak if not at the peak. The reason behind that is that the biggest book we have is the '07 book. And that particular book is definitely peaking at the moment. The other book, the '08 book, is still only in its second year now and it's still seasoning a little bit.

So we will still see some rise in that delinquency rate, but it's going to be offset by declining delinquency rates on the previous books, 2006 and prior. And as I said, the '07 book is peaking at this time and is going to start to decline through 2010. So overall, we should see delinquency rates very stable through this year and potentially going down towards the latter part of this year.

Geoffrey Kwan - *RBC Capital Markets - Analyst*

Great. Thanks very much.

Operator

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

Gabriel Dechaine - *Genuity Capital - Analyst*

Good morning. You made the scalpel comment there in terms of regulatory changes. What's the potential I guess for -- aside from going after the 5% down market -- maybe getting CMHC to increase pricing on mortgage insurance? Is that -- do you consider that a scalpel approach? And is that even on the table or talked about in your circles? And would that benefit you because obviously are you going to follow suit and your prices are going to go up?

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

Hey, Gabe, yes, I'll turn that one over to Peter.

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

Good morning, Gabe.

Gabriel Dechaine - *Genuity Capital - Analyst*

Morning.

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

I think most of the attention has been focused on guideline and product changes. At the same time, I couldn't honestly tell you what CMHC's intentions are with regards to pricing. But the reality of it is, I think the good news is there's a lot of consultation going on amongst the different industry players on this. And it's not going to be any sort of knee-jerk reaction based on the bank's comments that rates are going to remain low for the first half of the year.

Gabriel Dechaine - *Genuity Capital - Analyst*

Okay. Then the -- sorry, another ROE question here--if you're looking at adding leverage I guess is the -- and this was mentioned on the Genworth -- the US call. They mentioned that you guys would be comfortable with a 10% debt-to-cap ratio. Is that accurate? And presumably, you would be using that debt to buyback stock. How comfortable are you then boosting the ownership level of your US parent in that scenario?

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

Let me take the leverage question first of all. As I mentioned, this is something that we're evaluating. And if we were to lever up, I guess we'd walk before we'd run, and that's where that 10% number comes from. So, that's in a range that we're entertaining. But the use of that leverage, is still part of the analytics that we're doing.

Gabriel Dechaine - *Genuity Capital - Analyst*

Okay. I'll re-queue.

Operator

Your next question comes from Paul Holden with CIBC. Your line is open.

Paul Holden - *CIBC - Analyst*

Good morning. Wanted to ask you some questions with respect to the investment portfolio. So you currently have a book yield of 4%. I believe your long-term target is 5% plus. Can you provide us any kind of context for realistic expectation for 2010 as you put cash into higher-yielding products?

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

I'll take that.

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

Turn that one over to Philip.

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

Paul, good morning. As you recognize, Paul, we're in a low interest rate environment. And what we're doing is really position our portfolio to take advantage of the potential rising interest rates in the second half of the year.

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The second point I would make is that we believe that our portfolio should be managed on a conservative basis, so we will not be chasing yield. We think that the 5% target is something that's a long-term target that we will achieve over time, not necessarily achieving that all in 2010.

Part of it is that within our insurance portfolio, we have economic risk and we don't want to really add to those risks through the investment portfolio. We believe that our strategy to focus on investment products that offer attractive yields relative to Canada's, that being MBS as an example, where it's government guaranteed but yet trades at a premium, or quality preferred shares, where we're currently able to add to our portfolio at a yield around 4.5% dividend yield, which effectively is an after-tax yield.

We believe that that's a prudent strategy. We'll continue to deploy that strategy over time. It will take time, but we believe that that's the best long-term strategy on the investment portfolio.

Paul Holden - *CIBC - Analyst*

Okay. I'll put a follow-up question then, with respect to investing in prefs. At the end of December you had approximately $200,000 in prefs. I believe your sort of long-term targets go up to maybe $200 million or so, equivalent to 5% of the investment book. I mean, how long approximately will it take to get up to that long-term target in terms of prefs?

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

Well, that's largely driven by the amount of supply available in the market and clearly, we don't want to influence the market. We think that over a six to nine-month period that we'd be able to meet our target of $200 million.

Paul Holden - *CIBC - Analyst*

Okay. Thanks.

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

Thank you.

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

Thanks, Paul.

Operator

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

Jeff Fenwick - *Cormark Securities - Analyst*

Hi. Just one question with respect to your premium amortization curve -- I believe I saw in the MD&A there that you had updated the curve in November of 2009. Could you just give us some color on what took place there? You did one big adjustment at the beginning of the year. Is this just a tweaking on what was the current curve? Just sort of like -- my understanding was you only do this once in awhile -- just sort of surprised me that you would do it twice in one year.

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

Jeff, it's Phil. I'll take that question. What we've done is that we review the loss emergence pattern on a quarterly basis. And we now have a process to update it with our actuary on a quarterly basis. And you're absolutely right. They're tweaks. Each quarter, we review the loss emergence pattern and then we determine if there's a need to tweak the curve.

And we do that on a quarterly basis so that if there is a change in loss emergency pattern, we're basically staying on top of it rather than having it lag and having a substantial amount, like we did have in the first quarter of the year.

Jeff Fenwick - *Cormark Securities - Analyst*

Okay, then. And just in terms of order of magnitude impact then on the premiums earned, can you give us any sense is that like $1 million or $2 million, or any kind of color you can give us there?

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

I think the color we can give is it tends to be in that $5 million to $10 million range. As you can appreciate, with $2 billion of unearned premium, it doesn't take a large percentage change to drive an amount of that magnitude.

Jeff Fenwick - *Cormark Securities - Analyst*

Absolutely. And then that was -- did that work to your favor then in the quarter?

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

It did.

Jeff Fenwick - *Cormark Securities - Analyst*

Okay.

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

Jeff, I think the way Phil described it is good. That was sort of a one-time only type of catch up. And going forward, it'll be more refining our approach based on what dynamics we see in the marketplace and our portfolio. So, we won't see swings like that on a quarterly basis going forward. At least we don't anticipate it.

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

We don't.

Jeff Fenwick - *Cormark Securities - Analyst*

Okay. Great. And just OSFI's view on that, I guess they find that acceptable if that's your plan. You've already told them that's the goal for you?

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

Definitely. OSFI's comfortable. I mean, when OSFI allowed us to update the curve from the regulatory curve, their policy became if you have relevant data that shows evidence that the loss emergency pattern has changed, they encourage and allow us to update the curve.

Jeff Fenwick - *Cormark Securities - Analyst*

Great. Thank you. I'll get back in the queue.

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

Thanks.

Operator

Your next question comes from Jordan Hymowitz with Philly Financial. Your line is open.

Jordan Hymowitz - *Philly Financial - Analyst*

Hey, guys. Thanks for taking my question. The 35% to 40% loss ratio for 2010, can you talk about -- is that for the full year? Is that by the end of the year?

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

Hey, Jordan, this is Brian. You'll see in our business that there is some seasonal variability. Typically in the first quarter, just as you see in many markets around the world, post-holiday blues I guess, you often see some tickup in delinquencies. So there may be some pressure on that loss ratio. But that range that we're talking about is for the -- an annual type of range, getting back to pricing, that 35% to 40% range on an annual basis.

Jordan Hymowitz - *Philly Financial - Analyst*

That's pricing for that? Or, that's what number you'll see next year 2010?

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

That's what we anticipate seeing. And that's getting back to our pricing model, is my point.

Jordan Hymowitz - *Philly Financial - Analyst*

So for next year, we should anticipate an average of between 35% and 40% loss ratio.

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

That's what we're planning.

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Jordan Hymowitz - *Philly Financial - Analyst*

Okay. My second question is -- you guys are just in Canada obviously now. But Genworth has some other countries besides the US that it's operating in. Is there any chance that you could take over those other countries or expand into other countries besides Canada or the US?

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

Okay. Jordan, I'm familiar with those other businesses that Genworth has. And our view is that we've got a great market here, a market we understand extremely well, a market that we're well positioned to grow in. So, I guess my quick answer would be we have terrific opportunity here in our own backyard and that's what we're focused on.

Jordan Hymowitz - *Philly Financial - Analyst*

Okay. But is that specifically not ruling out other things or no?

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

That's our plan at the moment.

Jordan Hymowitz - *Philly Financial - Analyst*

Okay. And final question in that regard -- actually, forget it. That's all my questions. Thank you very much.

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

Great. Thanks, Jordan.

Operator

(Operator Instructions)

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

Gabriel Dechaine - *Genuity Capital - Analyst*

Hi. Can you give me a sense of what the impact of rising interest rates would be on your portfolio, any sensitivity to any mark-to-market losses or anything like that that you might anticipate there?

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

I'll turn that over to Philip.

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

Gabe, based on our portfolio, the sensitivities are about one basis points translates into about $1.3 million of sensitivity.

Gabriel Dechaine - *Genuity Capital - Analyst*

And that's of income or what?

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

That's in the mark-to-market.

Gabriel Dechaine - *Genuity Capital - Analyst*

Yes, okay.

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

As you recognize, I mean, we do not trade our portfolio actively. So really, it's an unrealized reduction or unrealized gains at this point in time.

Gabriel Dechaine - *Genuity Capital - Analyst*

And those would be held to maturity I guess or available for--?

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

Classified as available for sale.

Gabriel Dechaine - *Genuity Capital - Analyst*

Right, right, yes.

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

But they go through other comprehensive income.

Gabriel Dechaine - *Genuity Capital - Analyst*

Okay. Yes, exactly. All right. And what about in terms of managing your claims cost aside from the HAP, the Homeowner's Assistance Program? How about like your I guess tightening the terms, or taking a closer look at claims and rejecting them? Is that taking place more today than you were in the past?

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

Gabe, I'll also turn that one over to Peter.

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

Gabe, no, we're not seeing claims rejections at all. So again, I think we've got some very good relationships with our lender partners. And the reality of it is we spend a lot of time with them on the QA side of things. That's why I wanted to mention that this quarter. And overall, their processes and our processes are very much in line.

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

You've got to remember our process, we do a lot of work on the property. We underwrite those loans ourselves. So the issuer certificate, it's our approval and we stand by that.

Gabriel Dechaine - *Genuity Capital - Analyst*

Fair enough. This is a two-prong question here, and my last one. And I'm sorry if I missed this in your opening comments. But did you -- you alluded to market share gains as a reason for the sequential increase in your net premiums written.

Could you delve a bit more into that, and comment specifically on where you think your market share is now versus that 30% magic number, I guess? If you're willing to do that, that'd be great. And then also, for your outlook here, what kind of year do you think 2010's going to be? Is it -- I mean, obviously not 2007, but is it -- what do you think it's going to shape up to be like?

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

Peter, you want to take that on share?

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

Yes, sure. Couple things -- the main player in the market doesn't disclose their numbers, so it's not like you can exactly come up with a number per se. We've talked about mid-20s before. You mentioned 30%. We do talk to lenders specifically one on one, and they told us this quarter we are moving north of where we were. We're in those mid to higher-20s numbers.

With regards to the market, in general, I think we're going to see a strong spring season, again, driven by low rates and good consumer confidence. At the same time, the second half of the year with demand being exhausted and supply coming on, I think it's going to slow down. So I would say if you average it all out, a similar year to 2009 in total numbers.

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

And that's nothing close to 2007. I think generally, Gabe, I would say those days are gone.

Gabriel Dechaine - *Genuity Capital - Analyst*

For good and bad, I guess.

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

Yes, exactly right.

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Gabriel Dechaine - *Genuity Capital - Analyst*

All right, so just to reiterate here; Based on your channel checks or whatever, you were in the low 20s. And now you're -- for market share -- and now, based on the feedback you're getting, you're mid- to high-20s.

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

Yes, I said mid -- we were around the mid-20s and moving north of that.

Gabriel Dechaine - *Genuity Capital - Analyst*

How low did it go in early 2009?

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

I mean, it's again -- there's periods of time. The first few months were pretty slow months in the market and as well as pretty challenging from a financial outlook perspective. So I don't have an exact number for you, Gabe.

Gabriel Dechaine - *Genuity Capital - Analyst*

Okay.

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

The punch line is we are getting feedback from key customers and we are grabbing share with those customers. We really can't give an accurate number, Gabe, until our competitors publish, which probably isn't until April, so--

Gabriel Dechaine - *Genuity Capital - Analyst*

All right. Same challenge we face.

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

Yes.

Gabriel Dechaine - *Genuity Capital - Analyst*

Thank you.

Operator

Your last question comes from Mike Morden with Howson Tattersall. Your line is open.

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Mike Morden - *Howson Tattersall - Analyst*

Yes, thanks. Good morning. The discussion on market share was really what I was after. But I just also wanted to touch on the new competitor, the teachers buying the AIG book. Can you sort of comment on what your thoughts are there and what AIG had been doing in the market in recent months and quarters? And what do you think the outlook might be with the new competitor in there?

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

Yes, I tried to address a lot of that, Mike, in my earlier comments. But in general, I'll reiterate. The competition is good. Competition with a smart approach to the marketplace and a strong balance sheet will be helpful for the industry, so we like the concept. As far as what AIG was doing, I mean, for awhile, they've been dormant. So, they have not been writing a lot of business here in the marketplace.

And what they did write, I think if you look at their loss performance, it almost speaks for itself. They weren't focusing on the same borrower profile and I would say A-paper that we're focused on, so had a different approach to the market. And I'm not sure what the new competitor's going to do. You have to chat with them.

Mike Morden - *Howson Tattersall - Analyst*

Great. Thanks.

Operator

There are no further questions at this time.

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

Thank you, operator. And with that, thank you all for listening to our fourth quarter conference call.

Operator

This concludes today's conference call. You may now disconnect.

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