FINAL TRANSCRIPT

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MIC.TO - Q1 2010 Genworth MI Canada, Inc. Earnings Conference Call

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PRESENTATION

Operator

Good morning, my name is Stephanie and will be your conference operator today. At this time, I would like to welcome everyone to the Genworth MI Canada First Quarter 2010 Earnings 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*

Good morning everyone and welcome to our First Quarter 2010 conference call. On the call this morning are Brian Hurley our Chairman and CEO -- Peter Vukanovich our President and COO -- Philip Mayers our Chief Financial Officer and Stuart Levings our Chief Risk Officer. 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 details on the finances 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 management discussion and analysis, the financial statements and financial supplement were released last night and are now posted on our website. We have also posted slides that accompany this presentation. The slides are meant to provide framework for 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 June 15. 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 and Non-GAAP statements 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 floor over to Brian Hurley, our Chairman and CEO. Brian?

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

Thanks, Samantha. Good morning and thank you for joining us for the call today. The first quarter of 2010 was another solid quarter for us. We had net operating income of $81 million translating into diluted earnings per share of $0.69. This quarterly income is up from last quarter and also compares favorably to the same quarter last year. These results generated a return in equity of 13%. Top end volume was strong. We underwrote $6.1 billion of new insurance written and received $94 million in new premiums. In addition, we ended out the quarter with a strong balance sheet with total assets of $5.1 billion and shareholders' equity of $2.7 billion.

Our quarterly performance was driven by numerous factors. First of all the strong housing market continued in the first quarter, a time of year that is historically a slow time for housing. Low interest rates and a view that the rates will go out attracted many buyers. When you couple low rates, encouraging signs in the economy and increasing consumer confidence, many first time home buyers came off the fence and purchased a home.

Secondly, the improving economy combined with our proactive approach to risk management positively influenced our loss performance. Stable unemployment levels and the growing pace of job gains all served to lower our losses on claims. Those macro factors combined with our loss mitigation initiatives helped improve our losses. In fact, our loss ratio is now well within our targeted range. Overall, we feel good about the strong housing market and the factors contributing to that market.

Although there is variability across the country around home price changes, our view is that for the year home price appreciation will be in the 2% to 3% range, a sustainable level. The housing market is returning to a more stable environment and a more traditional balance between supply and demand. In addition, the new mortgage rules that went into effect on April 19 add good discipline to the overall housing market. These rules help insure that the people who purchase homes can readily afford them and can stay in their homes through varying economic times.

While mortgage rates have already increased ahead of overall interest rates, we have underwritten our portfolio with that expectation. We do expect rates to rise but we do not anticipate dramatic swings or rapid interest rate increases that could stress our borrowers or cause significant payment shock. So, regarding the housing market we do not currently see a housing bubble developing here in Canada especially given the lack of any readily foreseeable trigger events. That said, we will continue our rigorous underwriting, property evaluation and risk management discipline as the economy continues to improve. As we have learned, a proactive market approach is a critical discipline.

Turning back to business performance. We continue to focus on our strategy to deliver outstanding customer service, proactively manage risks and deliver consistent and strong financial performance. And we see solid results on the execution of that strategy. We saw a substantial year over year increase and sequential increase in our insurance commitments driven by improved market dynamics and deeper customer penetration.

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Prudent risk management combined with proactive loss mitigation initiatives is having a significant impact on improving our loss and business performance. Our financial results remain very strong. Solid top line growth and operating income is complimented by our investment strategy to redeploy cash.

Another critical component of financial performance is efficient capital management. We have talked about our capital plans at our investor did back in December and during our Fourth Quarter Earnings Call. After extensive and detailed analytical work and regular discussions with our Board, we looked at our capital options and developed a comprehensive capital management plan. We're now in a position to share some further clarity. We've adopted a capital plan that is designed to create a more efficient capital structure and to enhance shareholder value. In addition, this plan ensures we have sufficient capital to manage through varying economic environments and to fund growth opportunities.

As a first step in executing this capital plan, yesterday we filed a preliminary shell prospectus with security regulators across Canada. The prospectus will allow Genworth MI Canada to opt up to $1.5 billion in various securities during a 25 month period. We are planning to add debt to our capital structure taking advantage of current favorable market conditions and bringing us more in line with other publicly traded Canadian insurance companies. The debt to total capital ratio is initially targeted at approximately 10%.

We are also planning to return up to $350 million of capital to shareholders during 2010. The nature, size and timing of any financing or return of capital will be dependent upon our capital requirements at the time, market conditions and receiving the required approvals. This capital plan reflects our confidence in the improving economic fundamentals, solid financial results over the last 12 months and forecasted capital needs to support business growth.

We are also pleased to have paid our quarterly dividend of $0.22 per share to shareholders on March 1, 2010. Our Board has also approved our next regular quarterly dividend to be paid on June 1 to shareholders of record on May 15th of this year.

In summary, the actions we are taking within the business are paying off. And the economic environment continues to show signs of improvement. We are confident in our ability to continue to deliver value to our customers and shareholders. We are pleased with our results this quarter and encouraged by the early signs we are seeing regarding 2010. Now let me turn it over to Phil to walk us through some more detailed financial results. Phil?

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

Thanks, Brian. Our First Quarter financial results were solid. We reported net operating income of $81 million compared to $85 million in the Fourth Quarter. The Fourth Quarter's reported operating income included $8 million of favorable tax benefits related to the impact of lower provincial tax rates and future income taxes. For today's discussion, this $8 million favorable tax item has been excluded for comparison purposes.

Lower losses and higher investment income were the primary contributors to the $4 million sequential improvement of net operating income. Operating EPS of $0.69 represents a $0.04 increase over the Fourth Quarter. We see four levers to growing operating income and improve in our return in equity. First improving our top line, second improving our loss ratios, third enhance in investment deals and fourth a more efficient capital structure.

Let's first take a look at our premiums written. On the top line our net premiums written of $94 million were $15 million lower than the Fourth Quarter. This decrease reflects a traditional seasonality due to fewer home purchases closing during the winter months. Our net premiums written increased 47% from the prior year reflecting growth in the mortgage origination market and our improving market position.

Let's take a look at the drivers or underwriting results. Our underwriting income contributed $15 million on an after tax basis, about $2 million in the Fourth Quarter. These results reflect the improving economy, strong housing markets, the continued

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execution of our loss litigation and risk management strategies. Losses and claims peaked in the Second Quarter of 2009 at $74 million or 46% loss ratio. And since then we've seen three quarters of sequential improvement. This quarter losses and claims were $59 million resulting in a loss ratio of 38%, 1% lower than the Fourth Quarter.

Our delinquencies typically peaked two to four years after mortgages are originated. We believe that our 2006 book is past its peak delinquency period while the 2007 book is showing signs of peaking. More specifically, the delinquency rates for the large 2007 book have been in a relatively narrow range for the last three quarters. We expect that its delinquency rate should decline in the second half of 2010.

Seasonality also plays a key role in the quarterly delinquency patterns. Normally we see higher reported delinquencies in the First Quarter as homeowners deal with payments and holiday spending. This year the seasonal trend was offset by the strong housing market and our proactive loss mitigation strategies. Our delinquency rate remains flat sequentially at 28 basis points and our average reserve for delinquency and our average pay claim both declined by approximately 5%.

Our expenses of $26 million in the quarter were $1 million higher on a sequential basis and our expense ratio increased by 1% to 17% in the quarter. The increases in expenses are primarily due to the higher amortization of previously deferred origination expenses and higher software development costs related to ongoing investment in technology.

Premiums earned of $156 million were consistent on a sequential basis. This quarter's premiums earned include $13 million related to the quarterly updates to the premium recognition curve. The fourth quarter's premiums earned also include a similar amount. Each quarter our actuary analyzes over 20 years of historical loss of element experience and recommends an updated earnings curve, which blends loss experienced from all phases of the economic cycle.

Recent experience has indicated that a higher proportion of losses occur in the first four years as compared to the loss development experience in the 1990s. As a result, the last four quarterly earnings curve updates have resulted in an increase in premiums earned in the range of $12 million to $14 million. We ended the quarter with unearned premiums of $1.9 billion, which represent future underwriting revenues.

Premiums earned may moderately decline in the coming quarters as large 2007 and 2008 books of business move past their peak earning years to the relatively smaller 2009 book enters its peak earning years. Overall, this is our third quarterly increase in underwriting income. Going forward, our underwriting income should benefit from improving loss ratios but may be slightly pressured by decline in premiums earned. We expect for our loss ratio to remain in our target range of 35% to 40% for the remainder of 2010.

Let's turn now to our investment portfolio. Investment incomes are a third gross levered. In the quarter, we continued our cash reinvestment strategy, and reduced our cash positions to more normal levels and ended the quarter with $68 million in cash and a further $92 million in short term investments. Our current book yield increased to 4.4% at the end of the quarter, up from 4% at the end of 2009 and our duration was extended to 3.6 years.

On a net basis, we reinvested $157 million primarily in government guaranteed MBS, single A corporate bonds and preferred shares. We take an active yet prudent approach to investment management. We'll continue to balance and improve on the portfolio yield, while maintain a high quality diversified portfolio going forward.

Our investment income after taxes contributed $31 million or 38% of our First Quarter net operating income. This was up sequentially by $2 million. Our high quality investment portfolio adds a measure of stability to our earnings profile. We believe that there's modest upside from improving investment yields and a rising interest rate environment.

In summary, our financial results this quarter reflect the execution of our core business strategies within the context of an improving economic climate. Our track record of solid profitability is reflected in the quarter over quarter improvement of net operating income, operating EPS and book value per share. We ended the quarter with book value per diluted share of $22.85

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up from $22.40 at the end of 2009. We will continue to drive income growth and return equity improvement through better underwriting performance, enhanced investment yields and a more efficient capital structure. Let me turn it over to Peter to review our operational highlights. Peter?

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

Thanks Phil, and good morning everyone. You just heard it's been another busy quarter for our business. In addition to our financial results, there are a number of operational highlights. First, let me tell you what we are seeing from our customers. Year over year we saw 40% growth in mortgage insurance improvements. This is the result of a stronger housing markets and improvements in our market share, a real positive sign because increased approval volumes ultimately lead to higher premiums written. Our sales teams significantly increased the time they spend with customers during the busy spring lending campaigns. And this ensures the Genworth is top of mind and provide solutions that help our partners grow their business. In addition, we continue to invest in our mortgage broker strategy by combining education and mortgage solutions for their clients, the homebuyer.

Our commitment to the broker community has received a lot of positive feedback and is one of the key reasons for our increase in volume. Also we continue to be the leader in mortgage education for the industry. In the First Quarter we conducted over 3,000 training sessions to lenders, brokers and first time homebuyers. Most popular courses were on the mortgage insurance products themselves as well as the homeowner assistance program.

On the operations side of things we continue to leverage our technology investments and make process changes. This enabled us to make smarter underwriting decisions but at the same time delivering quick approvals. For example, our upgraded property database has enhanced our ability to screen higher risk transactions for a detailed manual review. And this improves our underwriting productivity as well.

And finally I would like to mention our charitable donations and volunteer commitments to communities across Canada. During the Quarter, we announced a $1 million multi year commitment to Habitat for Humanity's Path to Home and completed our third annual Meaning of Home essay writing competition which drew over 2,000 submissions from elementary students from across the country. It's initiatives like these that are important because they enhance our visibility as a homeownership company and serve as great examples of giving back to the communities we live in.

All in all we believe our customer centric approach is working and is resulting in higher volumes. In our quarterly customer survey, 97% rated our overall quality of service as excellent or very good. This compares to 89% from last year, last quarter sorry. The survey also shows a widening gap versus our major competitor.

Next, let me touch on our mortgage portfolio performance for delinquency rates by region. Across Canada, delinquency rates stabilized at .28% as employment levels grew and home prices improved allowing stressed homebuyers to sell their homes if necessary. We also received a big help from our loss mitigation teams who expanded our asset management and recovery strategies. Our homeownership assistance program helped 1,400 families stay in their homes consistent with the same number in the Fourth Quarter. Lenders continue to value our programs as it helps them maintain relationships with their mortgage customers and reduces losses on a variety of other credit products.

Now, let me turn to what we are seeing geographically from a delinquency standpoint. I'll start with Ontario which makes up almost half of our portfolio. In Ontario the delinquency rate remains stable as the manufacturing industry is showing positive signs of recovery and the Toronto housing market is strong. In Alberta, delinquency rates are moderating driven by gains in the commodity sector, improving job markets and a recovery in housing prices. BC is also an area we continue to watch carefully given the affordability challenges there. However, we are encouraged by the pace of recovery in the local housing and job markets.

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Before I go on to Q and A, I'd like to update you on the regulatory front. Effective April 19, the Federal Government made three changes to mortgage rules that impact the insurance market. Overall we support the implementation of these new rules as prudent measures that further contribute to the safety and stability of the Canadian housing market. Let's walk through the changes, their intent and the impact on our business. First, the qualifying rate for loans with less than a five-year term will be the posted mortgage rate. This change will reduce interest rate risk for borrowers and likely drive high ratio borrowers to choose a five year fixed rate mortgage going forward. We won't feel much of an impact because we've always qualified variable rate mortgage rate borrowers using a rate that is 200 basis points above the variable contract rate and that's always provided an interest rate cushion.

Second, by limiting refinances to 90% loan to value, homebuyers are being encouraged to retain higher equity in their homes. This change will have a small impact on our premiums written but a negligible impact on our net income because this has always been a lower margin business for us. And third finally, capping non owner occupied properties to 80% loan to value should reduce property speculation. This change will not impact our business since we stopped insuring these loans in early 2009 and they've always been a very small portion of our book.

So in closing let me touch on where we see our business going. Our prudent strategy of maintaining a high quality diversified insurance portfolio will continue to serve us well. We see further stabilization of delinquencies and the return of loss ratios to our target range of 35% to 40%. The large books continue to pass their peak seasoning periods while economic factors look to be improving. We will continue to help our customers grow and are encouraged by the increased volumes that we are seeing, our customer focus is clearly working.

We will never let our guard down when it comes to risk management. While we are seeing encouraging improvements in the major housing markets across the country, it's critical to ensure we're monitoring trends closely and adapting our underwriting policies accordingly. And finally, our strong financial position will continue to allow customers to have confidence in us, give us the ability to grow and optimize our capital structure. Now I would like to turn it back to Samantha and we'll begin the Q and A.

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

Thank you Peter. Thank you all for listening to the formal part of 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 if there is time available to ask your follow up questions. Operator, please open up the call for questioning.

QUESTIONS AND ANSWERS

Operator

At this time I would like to remind everyone, in order to ask a question please press star then the number one on your telephone keypad. Please refrain from using cell phones, speakerphones or headsets while asking questions. We'll pause for just a moment to compile the Q and A roster.

Your first question comes from Jason Bilodeau with TD Newcrest. Your line is open.

Jason Bilodeau - *TD Newcrest - Analyst*

Hey, good morning guys. Brian, just on the capital program, I understand it is going to be dependent on how you roll it but could you help us understand your preference or bias towards either dividend growth, special dividends or buy back activity? And sort of what criteria or what metrics you're going to be looking at in order to evaluate what strategy you use?

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

Yes Jason, good morning. Regarding that, we've done a lot of work but we still have a little bit more to do. Regarding normal dividends, since we've only got two quarters under our belt that will be an ongoing evaluation that we'll likely revisit in the third and fourth quarter, not part of this initial undertaking. And as far as the form we're going to do it between a share buyback or a special. Got a little bit more to do there but we're getting very very close and you'll see that hopefully soon in our press release what method we're going to do and the timing around that.

Jason Bilodeau - *TD Newcrest - Analyst*

Okay. Can you update us on sort of where you are in terms of acquisition ambitions? Are you still thinking that's a big part of helping you use up some of your excess capital? And any refinement on any areas you are most interested in?

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

Sure. We're still looking although there is nothing imminent on the acquisition front right now. I say what we've learned is there's no natural attachment to us at least nothing that's large out there in the market place. What we may see is some strategic investments over the next while. And as I mentioned in our capital plan we have retained capital for that, both growth in our top line which we're seeing, also the strategic investments that we may be doing in addition to keeping enough capital that if there is a bump in the economy we're well capitalized. But nothing eminent on the acquisition front at the moment.

Jason Bilodeau - *TD Newcrest - Analyst*

Great, okay, thanks guys.

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

Sure.

Operator

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

Gabriel Dechaine - *Genuity Capital Markets - Analyst*

Good morning. Can you give me on the debt side, what's the timing? I'm assuming that's very short term as far as getting some debt into your capital structure?

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

Hi Gabe, this is Brian, I'll take it. Well, we've filed our shelf yesterday so that is a critical initial step. And soon after that we'll be following up with taking on that debt. So you're right, that'll be activity for the next month or so.

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Gabriel Dechaine - *Genuity Capital Markets - Analyst*

Okay. And my second question, the numbers are out there in the financial supplement but if you can provide a bit more granularity on why your net premiums are written -- and we talked about this on the last call that 2010 was going to look quite a bit like 2009. Why they're kind of low in an environment where housing activities picked up quite a bit? Is this because a lot of it is centered at the higher end? You're doing more low loan to value at least this quarter? Whatever granularity you can provide there is very helpful.

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

Yes, Gabe. I'll let Philip take that one.

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

Hi Gabe. I think if you look at our premiums written you've got to remember that there's a lag factor. As Peter eluded to we're seeing strong mortgage approvals. We would expect to see an improving trend for premiums written. The First Quarter always tends to be the low point for the year primarily because there are not many home closes in the winter months. But surely we felt that those very strong approval pipeline that is reflective of the overall growth in the market. And then I think Peter eluded to our improving market positions could contribute to that.

Gabriel Dechaine - *Genuity Capital Markets - Analyst*

And then what about the impact of composition of sales in the market? Resale versus new home purchases and then the higher end market activity. Is that something you could shed some light on?

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

Well our average loan amount is in the high $250,000s, $260,000s. So when you look at it we typically play in sort of the property price marked around $300,000. So clearly a large part of the market activity has been the high end. So when you look at the size of the mortgage origination market we play in, it's probably not as robust. It's not up to 50% that the sales numbers might suggest. It might be more up around 40%. And clearly we are seeing that reflected in our business and we would expect on a go forward basis that the Second Quarter will be a strong quarter from a premiums written perspective.

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

Gabe we saw a bit of an un-normal balance because of low rates with a lot of refi activity. But those folks who wanted to refi through a large mortgage have. And we're seeing our refinance purchase mix come down to more traditional type levels.

Gabriel Dechaine - *Genuity Capital Markets - Analyst*

Okay. This isn't a question. Just to get Peter repeat that point he was making on the approval rates. I missed that. Something about it's going up.

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

Okay, certainly. Peter?

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

Well what I did say is year over year we saw 40% growth in our mortgage insurance approvals. Back to what Phil was saying, not every loan that we approve funds.

Gabriel Dechaine - *Genuity Capital Markets - Analyst*

Right.

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

We only get paid when actually the loan is funded. But I will say in terms of an increase in interest rate environment like the one we're in now, there's a higher propensity for those loans to fund then say there would be in a decreasing interest rate environment.

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

And it's a timing issue. Those approvals will start to come through into certificates in the Second Quarter. I think that's what Phil was eluding to.

Gabriel Dechaine - *Genuity Capital Markets - Analyst*

Okay, thank you.

Operator

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

Geoff Kwan - *RBC Capital Markets - Analyst*

Hi, good morning. My first question is probably more for Stuart. Just looking at the 2008 vintages still going up, are you starting to see signs that we may be peaking? Whether or not it is towards the end of this year. Any thoughts on maybe how much higher the delinquency rate may be higher than the 2007 book.

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

Thanks Geoff. The 2008 book is really still in its seasoning stage. It's only if you think about it now maybe just under two years of age. By the end of this year it will be around two and a half years and as Phil said, books tend to peak more at the three to four year stage so I wouldn't see it peaking in this year. Probably more like sometime in 2011. But that said, it is tracking at a much better level than the 2007 book at a same point in time kind of analysis. So I would expect it will peak at a lower level than the '07 book peaked.

Geoff Kwan - *RBC Capital Markets - Analyst*

Okay. And the second question I had was with the prospect that we're seeing with increased interest rates and HST coming in Ontario, BC in a few months, are you getting the sense that some of this housing activity may be taking home sales from future periods into the current period?

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

To some extent most definitely Geoff. A lot of reasons around a hot First Quarter were low rates, helpful weather conditions but also yes, people looking at this and its going to be a front end weighted year with some slowing down through the second half of the year. We've planned as such and that seems to be a general market consensus.

Geoff Kwan - *RBC Capital Markets - Analyst*

Okay great, thank you.

Operator

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

Paul Holden - *CIBC World Markets - Analyst*

Hi, good morning. Want to talk a little bit more about the shelf you filed yesterday. So $1.5 billion to get your leverage level up to 10% of total cap would require approximately $300 million so leaving a $1.2 billion available in the shelf. You talked a little bit about acquisitions already, what are the other possible uses of capital from that shelf?

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

Yes, Paul. Just to be clear before I turn it over to Phil on acquisitions, this is something we're looking at as a normal course of business. There's nothing significant that we're looking at now and nothing eminent for us to close. My point is that there may be something out there that makes sense for us and we're going to make sure we have sufficient capital to support those things. But nothing in motion as we speak. That said I'll turn it over to Phil about some of the other dynamics of your question.

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

Yes. The $1.5 billion shelf you need to remember it covers a 25 month period. We want to ensure that we have the flexibility over the next two years. So, I wouldn't read more into the amount, I think we've been quite specific in declaring what our short term intentions are with respect to leverage and the return of capital, and I think we'll continue to evaluate over time.

Paul Holden - *CIBC World Markets - Analyst*

Okay. This is my other question. And regarding the investment portfolio you extended the duration and in Q1 which included the reduction in cash but also looked like you went a little bit further out in terms of the yield curve. Given that interest rates are probably going to increase from here, maybe you can tell us a little bit behind the strategy of going further out on the yield curve in Q1.

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

Certainly, I'll take the question Paul. Well clearly as we reinvested cash that would have the natural effect of extended duration. When we viewed it as we were very focused on those active classes we thought offered relative value. It was really a trade off. Do you wait and really continue to have the cash rank or do you invest as you see rates begin to increase? The other thing I would note, Paul, is part of our strategy is we've got about $400 million coming up from maturities in the second half of the

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year, which really felt that they gave us the flexibility to take advantage of a rising rate environment. So really it's a strategy of investing over the course of the year and it's a clear strategy to be fully invested by the end of the year and we're making great strides in doing so.

Paul Holden - *CIBC World Markets - Analyst*

Okay. And one final question. You're still targeting about 5% of the portfolio to go towards prefs?

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

We continue to build our pref portfolio at 5% as a reasonable target. Having said that, supply has been quite limited so it's been a slow build and we would expect it will continue to get full build over the course of the year.

Paul Holden - *CIBC World Markets - Analyst*

Okay. That's all the questions from me, thanks a lot.

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

Thanks Paul.

Operator

Your next question comes from Tom MacKinnon with BMO Capital. Your line is open.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Yes, thanks very much. Good morning everyone. Brian, I just have a couple questions with respect of this capital plan. You haven't filed a normal course issuer bid yet. Is that correct?

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

We have not.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay, so now could you be able to file a five or would you be able to get a 10% NTIB? I mean normally these things would be five but would you be able to --

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

Sorry, Tom you're cutting out a little bit. Can you speak up a little bit? Thank you.

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Tom MacKinnon - *BMO Capital Markets - Analyst*

Sure. I mean normally these things would be for 5%. Would you be able to file for a 10% normal course issuer bid or have you looked into that? I'm just trying to get a feel for how you might be able to negotiate a $350 million return of capital to the shareholders.

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

Yes Tom I get the gist of your question. And as I mentioned before as far as the method and timing around returning capital, we're looking at all the options between special and SIB and all the dynamics around that. So, still got some more analysis to do although we're getting very close on this end and we'll determine that when we finish that analysis.

Tom MacKinnon - *BMO Capital Markets - Analyst*

And I presume that the parent, if there was any kind of buyback, the parent would participate in its pro rata of shares. Is that correct?

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

Well we have a majority shareholder if that's what you're referring to. And I'm sure that is their intent.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay, thank you very much. And just one follow up, is there any update in terms of your market share? I believe in the last quarter you thought it might have been somewhere around the low 20s in the Fourth Quarter. Would you be able to shed any color on that?

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

Sure, I'll let Peter field that one.

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

As you know, the marketplace does not have definitive numbers on shares but what we do is we talk to each lender and we've been encouraged by several in terms of growth. And it's up a couple of points. It's not up large numbers. But again these are all estimates on our end and sometimes also directional as we talked about in terms of approvals that actually turn into net insurance written.

Tom MacKinnon - *BMO Capital Markets - Analyst*

And those couple of points are over what time period. Year over year?

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

No, quarter over quarter.

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Tom MacKinnon - *BMO Capital Markets - Analyst*

And then finally the tax rate. What should we be assuming for a tax rate going forward with respect to you guys somewhere in the area it seemed to be a little bit lower this quarter. Should we be looking at something like 30% going forward?

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

Tom, it's Phil. And that's appropriate. 30% is our effective tax rate.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay, thank you very much.

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

Thank you Tom.

Operator

Again, if you would like to ask a question please press star then the number one on your telephone key pad.

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

Jeff Fenwick - *Cormark Securities - Analyst*

Hi, good morning. First question is I noticed some commentary around your internal target for the MCT that you're contemplating possibly increasing that. Can you just give us some color around the thinking behind that? Is there any suggestion from the regulator that they may be raising their guidance for you? Any detail you can offer?

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

As far as our capital plan, we took a look at all the factors and we've been running with the regulatory capital and ratio in the 150 range as you saw at the end of the First Quarter. And maintaining strong regulatory capital was a critical part of our undertaking from a general sense although we do see encouraging signs in the economy. We're going to be conservative on our MCT levels and on our internal targets until we see some improvement. And regarding the regulator, of course we have an ongoing dialog with him and we'll be reviewing this with him to make the final determination.

Jeff Fenwick - *Cormark Securities - Analyst*

Okay. Next question, I wanted to talk about pricing a little bit and I know this is not an area that is usually focused on in respect to gaining market share volumes. But given that the combined ratio is quite strong here and looks like it may improve over the year and the housing market's stabilized. Do you think you might see a decent demand response if you were to contemplate lower pricing?

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

Regarding pricing, in an oligopoly it's always been a challenge whenever one bumps are up or down is quickly followed. I think the context that I'll give here and then I'll turn it over to Peter for his thoughts, is what we've been through the last few months and what we're seeing on the markets. We do price for a long cycle. We've seen some pressure on our loss ratio last year return below our pricing targets from an ROE perspective in many regards so pricing I think would keep in mind what we've just been through and it was a time of challenges for mortgage insurers, both us and our competitors. That said, with a new interest dynamic and the perspective from the regulators that safety and soundness is foremost. We don't anticipate any downward pricing pressure, but Peter may be able to comment too.

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

I think you pretty much covered it Brian. I don't -- I wouldn't say anything different.

Jeff Fenwick - *Cormark Securities - Analyst*

Okay, and I guess you touched on it as well Brian, there's a new entrance there -- often we look at these markets where you have such profitable business being written you can have a smaller player come in as a big backer behind it and tries to be a bit of a disrupter in the market and I understand it's early days but have you had any sense around what the plans are out of this new group?

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

We're not going to comment on them but we've seen that movie a bit here in Canada with some entrants to try to disrupt and we saw the success that they had. Our general view is that it is private capital, that's the endorsement for the industry. It will keep the service levels up which plays to our strength. But remember, we've been at this for 15 years. We invest a lot in systems, people and technology. Our challenge is to keep our strong position and keep the lead.

Jeff Fenwick - *Cormark Securities - Analyst*

Okay, thank you.

Operator

This concludes the question and answer portion of the call. Thank you for your participation in Genworth MI Canada's First Quarter Earnings Conference Call. You may now disconnect.

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