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# MIC.TO - Q2 2010 Genworth MI Canada, Inc. Earnings Conference Call

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**Irwin Michael**
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## PRESENTATION

**Operator**

Good morning. My name is Melissa. And I will be your conference operator today. At this time, I would like to welcome everyone to the Genworth MI Canada Second Quarter 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. Ms. Cheung, VP Investor Relations, you may begin your conference.

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**Samantha Cheung** - *Genworth MI Canada - Vice-President, IR*

Good morning, everyone. And welcome to our second quarter 2010 conference call. On the call this morning are Brian Hurley, our Chairman and Chief Executive Officer; Peter Vukanovich, our President and Chief Operating Officer; 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 our 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, includes our management's discussion and analysis, the financial statements, and the financial supplement, were released last night and are now posted on our website. We have also posted slides of 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 September 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 and non-GAAP statements and 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.

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?

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**Brian Hurley** - *Genworth MI Canada - Chairman & CEO*

Thanks, Samantha. Good morning. And thank you, all, for joining us for the call today. The second quarter was another strong quarter for our business. We had net operating income of $86 million, translating into diluted earnings per share of $0.73. And this quarterly income is up on the previous quarter by 5% and up 22% compared to the same quarter last year. This generated a return on equity of 13%.

Our top line results for the quarter were solid. We underwrote $7.2 billion of new insurance written, representing a 21% increase from the first quarter. From that new insurance written, we received $175 million of new premium, an increase of $63 million or 67% from the first quarter.

We also ended the quarter with a strong balance sheet with total assets of $5.5 billion and shareholders' equity of $2.8 billion. We continue to make progress towards our three key business objectives; mid-teen ROEs, consistent income growth, and efficient capital management.

In addition to our focused execution within the business, there were key macroeconomic influences that impacted our quarterly performance. First of all, it was a strong housing market in the second quarter. The spring home-buying season typically leads to greater volume.

And this year, the spring market was uniquely strong for a few reasons; anticipation of higher interest rates, and the introduction of harmonized sales tax in BC and Ontario serves a go-forward demand and many first-time homebuyers accelerated their home-buying decision. This dynamic is slowing. And going forward, we see the housing market moving towards a more traditional pace and seasonality.

Secondly, the continued improvement in the economy combined with our proactive approach to risk management drove improvement in our performance. Lower unemployment levels and the growing pace of job gains helped lower our losses. We feel good about the strong housing market and the factors contributing to that market. And as we have mentioned on these calls in the past, home price appreciation is also a key factor that we monitor closely.

In our target market of first-time homebuyers, our view is that home prices will stabilize at a 2% to 3% increase on average for this year. That said, we will continue to be prudent and ensure that we maintain a risk-management strategy that positions us well for any economic scenario.



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Regarding interest rates, we are expecting mortgage interest rates to rise moderately. But we do not anticipate dramatic swings or rapid interest rate increases that could stress borrowers or cause significant payment shock. For those variable-rate borrowers, we have underwritten each borrower to expect and support future interest rate increases. That said, the majority of our borrowers in our portfolio are fixed rate.

With that backdrop, our strategy continues to be, deliver outstanding customer service, proactively manage risk, and consistently deliver strong financial performance. We are achieving solid results with the execution of that strategy. We saw a substantial year-over-year increase in our insurance application volume driven by a strong market, improved customer service, and higher customer penetration.

Prudent risk management combined with proactive loss-mitigation initiatives favorably impacted loss and business performance. And the result is that we delivered strong top line growth, improved loss performance, and solid net income.

Another critical component of financial performance is efficient capital management. We have talked about capital planning during the last few quarterly calls, and we're now executing the plan that we highlighted. The first step in our plan was to adjust our debt-to-equity ratio to include a portion of leverage. We successfully raised $275 million of ten-year debt. We believe that we were opportunistic in accessing the debt markets at this time, and the small amount of leverage helps us achieve better capital efficiency.

After we reevaluated the economic environment and our internal capital needs, the second step in the plan is to return capital to shareholders. This month, we announced a substantial issuer bid for up to $325 million of our common shares at a price between $24 and $28. This offer closes on August 24th.

We believe that the recent market price of our common shares does not fully reflect the value of our business and our future prospects. This offer via a share buyback represents an effective and efficient use of our resources to provide immediate accretion to earnings per share and return on equity.

Post share buyback, we're confident that the capital we have on hand will be sufficient to manage varying economic environments and to fund future growth objectives. In addition, we plan and continue to operate at higher capital levels. Accordingly, we increased our internal MCT target ratio to 145%.

We also paid our quarterly dividend of $0.22 per common share to shareholders on June 1st. And at our last board meeting, our board approved our next regular quarterly dividend to be paid at September 1st to shareholders of record on August 15th.

So in summary, it's been a focused quarter targeting growth, loss mitigation, and capital management. The actions we are taking within the business are paying off and the economic environment continues to show signs of improvement. We're well positioned on a go-forward basis to deliver solid results and to grow.

Now, let me turn it over to Phil to walk us through a more detailed look at the financial results.

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**Philip Mayers** - *Genworth MI Canada - CFO*

Thanks, Brian. The second quarter's net operating income of $86 million represents our fourth consecutive quarterly increase in earnings, driven by our improved underwriting performance and consistent investment income.

In the quarter, net premiums written were $157 million, representing a sequential increase of 67%. In addition to a strong housing market, this increase also reflects a 5% higher average premium rate for high loan-to-value mortgages, resulting from a higher proportion of purchase versus refinanced transactions.



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Premiums earned of $154 million were marginally lower by $2 million sequentially. For the last four quarters, premiums earned have been between $153 million and $156 million. As the large 2007 book moves past its peak earnings years, premiums earned will be impacted in the coming quarters, while our 2010 book will partially offset this impact.

Each quarter, we review and update our premium recognition curve to reflect changes in the loss development pattern. The last five quarterly earnings curve updates have resulted in an increase to premiums earned between $11 million and $14 million.

Losses on claims decreased sequentially by 17% to $49 million. And our loss ratio declined sequentially six points to 32%. This improvement in loss ratio is the key driver behind our 14% sequential increase in underwriting income of $81 million.

Investment income, excluding gains and losses, was $42 million, a sequential decrease of $3 million. We realized $2 million from higher interest and dividend income as the portfolio yield improved. However, this increase was offset by a $3 million loss from a bond call and $1 million lower equity in earnings of the guarantee fund resulting from higher exit fees.

Overall, our second quarter's net operating income of $86 million and operating EPS of $0.73 represent progress towards our long-term business objectives as outlined by Brian.

Our combined ratio improved to 47% in the quarter, driven by the 32% loss ratio, which is marginally below our loss ratio target range of 35% to 40% over an economic cycle. Since our loss ratio peaked at 46% in the second quarter of 2009, our quarterly losses and loss ratio declined in each successive quarter. This trend reflects the improved housing market, lower unemployment rates, and the contributions of our loss mitigation strategies.

Our claim severity declined by one point to 25% in the quarter and the number of outstanding delinquencies were lower by 9%. Delinquencies have peaked on the 2007 and 2006 books and their respective delinquency rates declined in the quarter. Loss of employment continues to be the primary driver of delinquencies. We expect that the improved unemployment rate should offset the effects of a slowing housing market on our losses.

Our expense ratio decreased sequentially to 15%. Overall, total expenses were $24 million, a $2 million sequential decrease due primarily to the timing of expenses. With the completion of our ten-year public debt issue, interest expense going forward will be $4 million per quarter.

Underwriting income after taxes increased 12% sequentially to $56 million. We expect this trend of solid underwriting income to continue in the coming quarters. Investment income contributed $30 million after taxes or 34% to our operating income of $86 million. We will continue to drive income growth and return on equity improvement through better underwriting performance, enhanced investment yields, [on our] capital efficiency.

Our investment portfolio is prudently managed to generate competitive portfolio yields from a high-quality diversified portfolio. Excluding the net proceeds from our debt offering, our cash position increased to $263 million at quarter's end as a result of bond maturities. Our book yield of 4.4% at June 30 was unchanged sequentially, while our duration decreased from 3.6 years to 3.4 years due to higher cash balances. Bond yields declined in the quarter. We postponed the reinvestment of cash (inaudible).

On a net basis, we reinvested $150 million primarily in single A corporate bonds and preferred shares. Our high quality investment portfolio adds stability to our earnings profile, and we believe that there are opportunities to improve investment yield in the coming quarters as we continue to refine our investment strategy.

We have taken several steps towards the execution of our capital plan, as Brian has already mentioned. We have operated with an MCT ratio above 145% since the third quarter of 2009 and ended this quarter with an MCT ratio of 154%. We will fund $50 million of our announced share repurchase with dividends from the insurance subsidiary. After reflecting the share repurchase, the pro forma MCT ratio would be approximately 150% as at June 30, 2010.



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In summary, we ended the quarter with book value per diluted share of $23.56, up from $22.85 at the end of the first quarter. With shareholders' equity of $2.8 billion and unearned premiums of $1.9 billion, we have a strong balance sheet to fund growth and dividends, as well as to manage through various economic scenarios.

Peter will now review our operational highlights. Peter?

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**Peter Vukanovich** - *Genworth MI Canada - President & COO*

Okay. Thanks, Phil. And good morning, everyone. In addition to solid financial results, our operating teams exceeded their goals in a number of ways. On the customer side, we continue to strengthen relationships and grow application volumes by delivering outstanding customer service and remaining highly visible with lenders.

This includes a new relationship that helps diversify our lender base and market position. They've been particularly impressed with our willingness to be flexible on underwriting decisions as well as our common sense approach to business.

In the area of education, we conducted over 3,500 training sessions to help lenders and homebuyers be more informed about their mortgage options. And also, as part of our spring marketing campaign, we launched National Home Ownership Education Week. This provided us with good visibility in the market and a vehicle to help educate first-time homebuyers on the steps to buying a home and importantly purchasing responsibly.

In operations, we leveraged technology investments and process changes to further drive increased underwriting productivity and a better customer experience. For example, our new underwriting [pairing] strategy has delivered lender feedback. Our lenders now have a single point of contact that results in better communication and highly customized service.

In loss mitigation, our teams continue to make big contributions. And their role is expanding. For the first time in many quarters, we did fewer workouts than in the prior quarter. But this is a positive since there are fewer new delinquencies coming in and fewer homeowners needing our help.

And while our home ownership assistance program continues to be a strong driver of lower losses, the slowing activity has allowed us to redeploy some resources to further mitigate losses. We've enhanced our capabilities to take properties back from lenders and work with our network of realtors to sell them at higher properties and prices.

All these operational highlights lead to customer satisfaction. In the latest independent customer survey, we scored a very high 97% rating in overall customer quality of service. This is consistent with the last quarter. But it also shows that the gap between us and our major competitor continues to widen. The survey also reconfirms its fast, flexible underwriting and knowledgeable sales professionals that our customers value.

Now, let me turn over to the mortgage portfolio performance. Overall delinquency rates in our portfolio were lower at 0.26, driven by strong employment gains, a robust housing market, and our loss mitigation efforts. This is particularly true for Ontario and Quebec, which saw improvements in employment levels, particularly in the services sector.

The Ontario rate decreased by four basis points to 0.19, while Quebec decreased by six basis points to 0.24. This had a significant impact on overall losses as these two provinces make up approximately 62% of our portfolio.

In Alberta, the delinquency rate increased marginally to 0.57. And as in the previous quarter, the pace on increase is moderating. We remain confident that Alberta's housing markets will bounce back once commodity markets expand again.



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The BC portion of our portfolio saw a delinquency rate of 0.26, a slight increase from the 0.25 in the last quarter. And this region is seeing a slowing job market recovery, despite the temporary boost it got from the Olympics. That said, we expect this will improve as exports gain momentum.

And recently, there's been a lot of media attention on the future of the Vancouver housing market and I'd like to put some of those comments in perspective as it pertains to our portfolio. Vancouver prices are high because of limited land resources, a strong demand from foreign borrowers that buy with wealth and not income. And this drives affordability measures, such as price-to-income multiples, artificially higher.

So while we're likely to see some mild price correction in the second half, most of this will impact higher-priced properties. We believe these changes will have a lesser impact on us because we insure on the lower-priced end of the market. In our book, average home prices are one-third less than the average home in Vancouver. So that, combined with our focus on strong credit scores and reasonable debt-service ratios, means we expect to see continued good loss performance in the area.

In closing, I'd like to reiterate our confidence in our business. As Brian said earlier, we see the housing market returning to a more normalized state between supply and demand, particularly in the first-time homebuyer segment. We'll continue to be focused on increasing our market penetration through the execution of our customer-centric service strategy. While meaningful sales growth takes time, we believe our customer strategy will continue to show positive results.

Our risk-management strategy of maintaining a high-quality, diversified insurance portfolio will also continue to serve us well. Our loss performance during the recent economic turmoil demonstrates the value of our risk-management capabilities.

As Phil described, our financial position is strong. And our balance sheet fully supports our business and growth objectives. And our financial strength's a valuable asset in our standing with our customers. All in all, we're well positioned to remain the leading mortgage insurer in what we believe is a very healthy Canadian mortgage insurance market.

And with that, I'd like to turn it back to Samantha to begin the Q&A. Thank you.

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**Samantha Cheung** - *Genworth MI Canada - Vice-President, 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. And you may reenter the queue and if there's time available to ask your follow-up questions.

Operator, please open up the call for questions. Thank you.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Your first question is from the line of Jason Bilodeau from TD Newcrest. Your line is now open.

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**Jason Bilodeau** - *TD Newcrest - Analyst*

Hey, thanks. Good morning, everyone. Brian, just thinking about the regular dividend here -- payout ratio is fairly low. The buyback is going to save you a little bit of money on the dividend front and even with the leverage, still a pretty conservative



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leverage ratio at the Company and good capital metrics. So I guess I'm trying to get to what is the hesitation to start to move on the regular dividend if any at this point?

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**Brian Hurley** - *Genworth MI Canada - Chairman & CEO*

Hey, Jason. I would say, no, there is no hesitation. Part of our capital plan was to get through this process. And now that this is well in swing, revisiting our regular dividend is actually on our Board agenda for this fall. So it was just part of the sequencing, something that we're going to take a good hard look at.

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**Jason Bilodeau** - *TD Newcrest - Analyst*

Okay. That makes some sense. Can you give me some thoughts about how do you size the dividend? What metric do you think is most important in terms of how big should it get?

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**Brian Hurley** - *Genworth MI Canada - Chairman & CEO*

Yes, versus giving you a bad insight, let us get through the analysis. And sometime during the next quarter, we'll have a little bit better gauge of where we're going. But right now, we're looking at competitors. There is no direct competitor to us. So it's hard to see who looks and feels like us. We look at the banks. We look at everyone in the financial sector. And we're doing all that gauging I guess, if you will, right now.

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**Jason Bilodeau** - *TD Newcrest - Analyst*

Okay. That's fair color. Peter, can you talk a little bit about market share? I know it's tough to really nail it down. But based on what you're seeing at the front lines, do you feel that the Company's still gaining sort of incremental share here? And are there any updates on a couple of customers where you're materially underrepresented, any developments there that give you some optimism you'll get back into their flow?

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**Peter Vukanovich** - *Genworth MI Canada - President & COO*

Yes, good morning. Definitely, we think we're growing share. It's just, as you mentioned earlier, not easy to estimate how much it is. Our competitors don't put out their numbers. Some lenders also track the share very closely and share that with us. Others don't. But in general, we're very pleased with the net premiums written for the quarter and the feedback we're getting from lenders, as I mentioned in terms of the customer survey, very strong. So, we do believe we're making progress.

And your second question related to progress with a couple of underrepresented lenders. Still continuing to work with them. I believe that still creates a great opportunity for us going forward.

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**Jason Bilodeau** - *TD Newcrest - Analyst*

Okay. I'll leave it there. Thanks, guys.

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**Brian Hurley** - *Genworth MI Canada - Chairman & CEO*

Thanks, Jason.

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**Operator**

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

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**Geoff Kwan** - *RBC Capital Markets - Analyst*

Hi. Good morning. I missed Brian's comments earlier on the call just explaining the increase in the internal MCT ratio target.

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**Brian Hurley** - *Genworth MI Canada - Chairman & CEO*

Hey, Geoff. This is Brian. We are going to raise our internal MCT target to 145% and we're doing it for a couple reasons. One, we feel this is the right thing to do to make sure we have sufficient capital to weather the storm, as we stress and analyze our business. It was a prudent thing to do.

Secondly, as we chatted about, customers get comfortable with us since we're so heavily capitalized; it's a comforting fact for them. And thirdly, we reviewed this with our regulators. And they get that same degree of comfort. So, we've been running in this range for multiple quarters now; we just decided to adopt it formally within the business as an internal goal.

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**Geoff Kwan** - *RBC Capital Markets - Analyst*

Okay. And second question I had was the average reserve per delinquent mortgage insurance policy ticked up slightly quarter over quarter. And I understand the reasons why. I was just wanting to get a sense -- the way you're looking at, say, the next couple of quarters, given the reasons that it went up, is that something that may stay at that level? Or, is this more of a temporary slight uptick?

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**Brian Hurley** - *Genworth MI Canada - Chairman & CEO*

I'll let Phil take that call -- take that question.

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**Philip Mayers** - *Genworth MI Canada - CFO*

Hey, Geoff. When you -- as we look at that metric, we certainly saw the upward proportion certainly ticked up a bit. We expect that it will moderate down from where it currently is at. Certainly, with the improvement in home prices, that certainly helps. And we would expect that that metric would stay within a relatively narrow band but be trending downwards over time.

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**Geoff Kwan** - *RBC Capital Markets - Analyst*

Okay. Great. Thank you.

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**Brian Hurley** - *Genworth MI Canada - Chairman & CEO*

Thanks, Geoff.

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**Operator**

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



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**Paul Holden** - *CIBC - Analyst*

Hi. Good morning. So first question is related to the premium recognition curve. So you updated it in Q2 and pulled forward the amortization of unearned premiums a bit. However, the loss ratio is trending down. So, I'm just wondering how those two movements are kind of congruent. Why would you pull forward the premium recognition when loss ratios are coming down?

**Brian Hurley** - *Genworth MI Canada - Chairman & CEO*

Sure. Thanks, Paul. Leave that to Philip.

**Philip Mayers** - *Genworth MI Canada - CFO*

Paul, the way we think about the earnings curve is more a long-term perspective. So when we analyze our -- the pattern of loss development, it is using data over a 20-year period. And because of that, we're especially making incremental changes to the premium recognition curve that reflect emerging trends. Losses in a particular quarter are going to happen based on the quarter's activities and what relates to unemployment and sort of delinquency. And that's a more immediate impact.

So what you're seeing in the earnings curve is continuation of a long-term trend, a trend that really reflects that losses are happening sooner in the last 2000s book of business than it did in the 1990s and early 2000s book of business. And because we're averaging over 20 years of data, that -- the transition to the quicker development of losses is being done over time.

And therefore, you'll see more than likely a continuation of that pattern, while losses in a particular quarter are going to reflect the emergence of economic conditions, which will emerge much faster than the way we deal with the earnings curve. And that's because there's actuarial conservatism, and we like that.

**Brian Hurley** - *Genworth MI Canada - Chairman & CEO*

Paul, we had that significant adjustment to the earnings curve a few quarters ago. And on an ongoing basis, I think we're going to continue to see this tuning, for lack of a better description -- not a major swing on a quarterly basis, but tuning to reflect the environment.

**Paul Holden** - *CIBC - Analyst*

Okay. And second question is with respect to any kind of reasonable expectations you can provide us with respect to premiums written in Q3 and how those would potentially compare to Q2, given the pull forward and the volumes.

**Brian Hurley** - *Genworth MI Canada - Chairman & CEO*

Yes, well, you're right about the pull forward in volumes -- rates ticking up and after that strong spring market, things are starting to slow down. We're seeing that ourselves. We're hearing that from our customer base. But I think it's too early to call what the quarter's going to look like. The last 25 basis point increase from the Bank of Canada may have been a signal. But we're not sure how it impacted volume yet. So, I think the quick answer is too soon for us to give a forward look to 3Q.

**Operator**

(Operator Instructions)



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Your next question is from the line of Irwin Michael from ABC Funds. Your line is now open.

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**Irwin Michael** - *ABC Funds - Portfolio Manager*

Thank you. Congratulations, on a good quarter. My first question relates to delinquencies. With unemployment at 7.9%, do you have any analysis on earning sensitivity or delinquencies for, say, every 0.1% of decline or increase?

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**Brian Hurley** - *Genworth MI Canada - Chairman & CEO*

You mean how delinquencies correlate to that. Let me turn that over to Stuart Levings.

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**Stuart Levings** - *Genworth MI Canada - Chief Risk Officer*

Hi. Good morning, Irwin. The answer to that is no, and that is not very simple. You don't have a direct correlation. We do have directional correlation, obviously. But there are so many variables that go into what would drive a change in unemployment. It depends on which area that unemployment occurred in, it depends on which sector of the economy that unemployment occurred in, even which age group.

Because when we think about our customer, it's the first-time homebuyer, if senior manufacturing workers are being let go, they're typically not high-ratio insured borrowers. So you might see an unemployment tick upwards, but you may not have any impact on our losses.

So it's been very difficult to do any real correlation like that. Directionally, we know unemployment is a driver of frequency. But beyond that, it's not really a precise science to say one point unemployment equals X many losses or points of loss ratio.

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**Irwin Michael** - *ABC Funds - Portfolio Manager*

Okay. I see. But in any event, any decline, obviously, it may not be across the board with all the people you insure but nonetheless, it's assisting you on your delinquencies.

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**Stuart Levings** - *Genworth MI Canada - Chief Risk Officer*

That's correct.

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**Irwin Michael** - *ABC Funds - Portfolio Manager*

Okay. My second question relates to your investment portfolio. When you went public, you had an incredibly cash-rich, say, [TBL]-oriented portfolio. Has that changed? And are you taking advantage I guess of preferreds, et cetera, and other investments?

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**Brian Hurley** - *Genworth MI Canada - Chairman & CEO*

Yes, and we did go public. It was cash rich just because we were going public. And we spent the last year or so putting that cash to work. But Philip will take that question.

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**Philip Mayers** - *Genworth MI Canada - CFO*

We really began our investments in booking preferred shares. We see that it's an attractive asset class for us. We built up just under $60 million in preferred shares through the first half of this year and our goal is to continue to build that portfolio --

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**Irwin Michael** - *ABC Funds - Portfolio Manager*

Excuse me, Philip. I can't hear you. Somehow, it's not coming through.

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**Philip Mayers** - *Genworth MI Canada - CFO*

Okay.

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**Samantha Cheung** - *Genworth MI Canada - Vice-President, IR*

Just hang on one moment while we adjust.

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**Philip Mayers** - *Genworth MI Canada - CFO*

Is that better now?

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**Irwin Michael** - *ABC Funds - Portfolio Manager*

A lot better.

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**Philip Mayers** - *Genworth MI Canada - CFO*

Okay. We started our investments in preferred shares and we built up a portfolio of about $60 million through the first half of 2010. Our goal is to continue to add to our preferred share portfolio. For our type of business, we believe it's an attractive investment. The equivalent pre-tax yields are quite attractive to us. And we continue to look at other asset classes that can enhance our yield, but we still have a focus on high-quality investments.

I mean, the way we approach it is we are looking for investments that have low correlation to our core business. But at the same time, we believe that it's better to err on the side of quality than chase yield.

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**Irwin Michael** - *ABC Funds - Portfolio Manager*

Okay. Good. So at this point, you're still sort of searching, looking I guess for some sort of model to put so much in preferred. Are you going to invest in common stocks as well?

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**Philip Mayers** - *Genworth MI Canada - CFO*

We do have the ability to invest in common stocks. We've not done so to date. We are looking -- I mean, for us, we are a really a yield investor. So it would certainly have to be common stock that has a good attractive yield. So, we'll continue our due diligence in that area.



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I think the thing that we're sensitive to is that the mark-to-market on the portfolio does impact to our MCT ratios. So you have to be very conscious that you can cover the volatility that comes with other asset classes and work on that continues.

And we would expect that over the next six to nine months, we'll continue to transition in a gradual manner into different asset classes that enhance the portfolio yield, but at the same time have a volatility profile that is consistent with our risk appetite.

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**Brian Hurley** - *Genworth MI Canada - Chairman & CEO*

I think the first part of your comment is spot on. We're going to continue to search for prefs that meet our criteria. I don't see ourselves getting into commons too much in the short term.

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**Irwin Michael** - *ABC Funds - Portfolio Manager*

How big is your portfolio by the way -- the potential for it to be?

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**Philip Mayers** - *Genworth MI Canada - CFO*

Well, our portfolio of assets are just about -- we have invested assets of $5.2 billion in total.

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**Irwin Michael** - *ABC Funds - Portfolio Manager*

Wow.

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**Irwin Michael** - *ABC Funds - Portfolio Manager*

$60 million isn't very much to start.

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**Philip Mayers** - *Genworth MI Canada - CFO*

Well, $60 million's not a lot to start. What we've found is it's very difficult to build a portfolio quickly, so we've been adding about $10 million per month. We'd like to add at a quicker pace, but it's really based on availability.

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**Peter Vukanovich** - *Genworth MI Canada - President & COO*

And so maybe just I'll -- it's Pete. I'll just jump in quickly. It's safe to say for the foreseeable future that the predominant piece of the portfolio will be blue chip Canadian bonds. So anything that we do beyond that would be very minor in the total scheme of things.

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**Irwin Michael** - *ABC Funds - Portfolio Manager*

Perfect. Thank you so much.

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**Brian Hurley** - *Genworth MI Canada - Chairman & CEO*

Thanks, Irwin.



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**Operator**

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

**Geoff Kwan** - *RBC Capital Markets - Analyst*

Hi, just had a follow up. Peter, I think you had been talking in terms of the customer satisfaction survey that the gap had been widening. I was just kind of curious with respect to the other competitor, do you have those numbers and can you provide those?

**Peter Vukanovich** - *Genworth MI Canada - President & COO*

Well, we don't make them public. We certainly -- our survey firm, the independent survey firm that provides the results does look at both companies. And really, they're trying to get to quality of satisfaction around underwriting and quality of satisfaction around sales. And the gap in terms of our trending over the last several years that we've done it is continuing to widen.

And I do believe that a lot of the process changes that we've made and the technology changes we've made are what's contributing to that.

**Brian Hurley** - *Genworth MI Canada - Chairman & CEO*

So, Geoff, we gauge this very closely to the competitor. We also gauge as to what best in class is and that's how we continue to refine our approach, but we don't share that publicly.

**Geoff Kwan** - *RBC Capital Markets - Analyst*

Okay. Thank you.

**Operator**

There are no further questions at this time. This concludes today's conference call. You may now disconnect.

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