FINAL TRANSCRIPT

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MIC.TO - Q4 2010 Genworth MI Canada, Inc. Earnings Conference Call

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PRESENTATION

Operator

Good afternoon. 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, Inc. 2010 Fourth 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. As a reminder, the conference is being recorded for replay purposes. Also we ask that you refrain from using cell phones, speaker phones or headsets during the Q&A portion of today's call.

I would now like to turn the presentation over to Samantha Cheung, Vice President, Investor Relations. Ms. Cheung, you may proceed?

Samantha Cheung - *Genworth MI Canada, Inc. - VP Investor Relations*

Thank you, Melissa. Good afternoon, everyone, and welcome to our Fourth 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, Mr. Levings, our Chief Risk Officer.

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

Our news release, including our review of performance, the financial statements, and the financial supplement were released today, and are now posted on our website. We have also posted slides that accompany this presentation. These slides are meant to provide a framework for our discussion today.

A replay of this call will be available on our website following today's presentation, and will remain available there for 45 days until April 15th. Following the 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 which 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 and CEO*

Thanks, Samantha. Good afternoon, everyone, and thank you for joining us for the call today. Genworth MI Canada ended 2010 with strong results. We had fourth quarter net operating income of $84 million. This resulted in diluted earnings per share of $0.79 and generated a 14% operating return on equity.

From a strong top line to continued loss improvement, the fourth quarter was one solid execution quarter for the business. In looking at our full year 2010 performance we're pleased with the results. We underwrote over $27 billion of new insurance written, compared to $18 billion in 2009, generated $552 million in net premiums written, and delivered full year operating income of $343 million.

Our loss ratio for the year was 33% reflecting our prudent approach to underwriting in an improving economy. We ended the year with $5.4 billion in total assets, and $2.6 billion in shareholders' equity, and improved our overall returned equity by one point as compared to last year.

We saw some positive trends in 2010 that will help provide some momentum for this year. First of all, the housing market picked up the pace in the fourth quarter, as there was a slight increase in sales transactions driving a modest national increase in home prices. Our estimate for the full year is that home prices increased approximately 6% in 2010. And going forward, we believe that home prices will be generally flat for 2011.

2010 brought balance to the housing market in most of the provinces across Canada. Supply and demand was stable, and market corrections were experienced in areas that needed it most. Our characterization of 2010 is that it was a year of market normalization. In major metropolitan areas like Toronto and Vancouver, this normalization effect had a positive influence on the market.

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However, Alberta is still the only province not yet back to pre recession levels of home prices. The oversupply of housing stock in this region has kept prices low, and will likely continue going forward for a few more quarters to come. Overall for the country as a whole, we feel that the housing market is in a balanced state of supply and demand.

When it comes to interest rates, I think most of us are expecting interest rates to rise in 2011. That said, mortgage rates are still attractive by historical standards, and for most Canadians the dream of owning a home remains affordable. And for our insured portfolio which is predominantly fixed rate, an increase in interest rates has less of an impact on our borrowers' ability to make their mortgage payments.

In addition to home prices and interest rates, unemployment is the third key factor that influences our performance. We saw some positive movement during the fourth quarter of 2010 as the unemployment rate in Canada decreased to 7.6% at the end of December, down from 8% at the end of September.

Our expectation is that the unemployment rate will continue to decline modestly this year. And that improving environment in combination with our loss mitigation efforts, should continue to positively benefit our loss ratios.

As we have highlighted in discussions in the past, the critical contributor to the performance of the market is the strong regulatory environment we have here in Canada. Because of changes made in 2009 and 2008, 2010 was a year of quality originations that are expected to perform well for years to come.

Recently, we saw some additional mortgage regulatory changes around amortization periods and refinance loan-to-values that will have some impact on our mortgage origination market. Overall, we feel these changes are prudent and will improve the long term safety and soundness of the industry.

And although it is our estimation that these changes will not have a dramatic impact in overall market originations or home sales, they strike an appropriate balance between maintaining a healthy demand for home ownership while discouraging imprudent borrowing. The bottom line is that this will result in a better borrower risk profile.

And for the insurer market, our initial assessment is that the rules may have a dampening impact on new premiums. For our business, we estimate our premium written impact could potentially be in the 5% range.

With that said, a stronger spring market and other factors could help offset some of this potential downward pressure. But because of our premium recognition patterns, the impact in income this year will be minor.

Looking back on last year, we set out at the beginning of 2010 with a set of key priorities for our business. Our priorities focused on premium and revenue growth, prudent risk execution, investment portfolio growth, capital management and dividend growth. And we delivered solid results on each of these areas.

We had a 53% increase in net premiums growth driven by a strong mortgage market, and improved positions with some key lenders. Our focus on risk management and loss mitigation delivered a loss ratio of 33%.

We've repositioned our investment portfolio with a long term goal of delivering higher yield while keeping a balanced and high quality focus. We have a capital structure that includes a modest amount of debt at a low relative cost of funds, and are now more efficient from a capital structure position.

We are currently reviewing our capital plans of 2011 to determine how we will leverage our strong capital position. We also increased our quarterly dividend payout in December to $0.26 per common share.

Going forward, we're encouraged by the improving economic indicators we're seeing, and we're confident in our ability to continue to successfully execute on our business objectives. We're building off some solid momentum, and we expect in many

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ways 2011 will be a continuation of 2010 against the backdrop of a better economy. We're focused on leveraging our strengths to competitively grow the business.

And our focus of this year remains to deliver outstanding customer service to our lender partners by exceeding their needs, and to organically improve our top line, to actively manage risks to ensure we maintain a high quality insurance portfolio, to balance yield versus quality in our investment portfolio, and to efficiently manage our capital while maintaining capital flexibility.

And all of this results in the consistent delivery of strong financial performance.

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

Phil?

Philip Mayers - *Genworth MI Canada, Inc. - Chief Financial Officer*

Thanks, Brian. Our results this quarter highlights the continued execution of our strategic priorities. Overall, fourth quarter net operating income was $84 million, an $8 million decline quarter over quarter. This decline is primarily driven by a $5 million non-recurring favorable tax adjustment in the third quarter, and higher losses and claims reflecting typical seasonality.

Housing activity is usually slower in the fourth and first quarters due to the winter months. Consistent with this seasonal pattern, net premiums written were $134 million in the quarter, down 19% sequentially, but higher by 22% compared to the fourth quarter of 2009.

Premiums earned of $156 million were essentially flat. This includes $13 million from the update to our premium recognition curve based on the quarterly actuarial review of our loss development patterns. Losses on claims have increased sequentially by $3 million to $50 million, and our loss ratio is two points higher, at 32%.

The drivers of this increase were a 12% increase in new delinquencies reflecting typical seasonality, and a higher loss severity on Alberta delinquencies. Our expense ratio was marginally higher in the fourth quarter at 18% due to higher public company costs, and the timing of certain expenses.

Our expense ratio for the full year was 17% in line with our pricing expectations. Overall, we reported solid underwriting income of $77 million, down sequentially by $5 million.

Investment income, excluding gains and losses was $44 million, representing a sequential decrease of $1 million, arising primarily from lower invested assets and a marginally lower investment portfolio yield. With our solid fourth quarter net operating income of $84 million, we reported full year net operating income of $343 million, and an operating ROE of 14%. Both reflect the continued execution of our business strategies.

Our top line performance was once again solid. We reported net premiums written of $552 million in 2010, up from $360 million in 2009. With strong year-over-year increases in each quarter, the resulting 53% full year growth rate reflect continued sales momentum arising from low mortgage rates, lower unemployment levels, and improved market penetration. We believe that our market penetration improved further in the fourth quarter.

Our underwriting performance continues to be the key driver of our profitability led by consistent premiums earned and an improved loss ratio of 33% in 2010. During 2010, premiums earned for each quarter have been in a narrow range, reflecting the impact of the large 2007 and 2008 books being in their peak earning years.

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Over the last two years, our loss experience has shown that a higher proportion of losses now occur in the first four years. This has resulted in positive contributions to premiums earned in the range of $10 million to $14 million from the quarterly updates to the premium recognition curve.

In 2011, our premiums earned will be modestly impacted by the 2007 book moving past its peak earning years, and by smaller contributions from the quarterly update to the premium recognition curve as the loss development pattern stabilizes. Our 2010 book which is over 50% larger than the 2009 book will partially offset these factors.

A lower unemployment rate, stabilizing house prices and the continued execution of our loss mitigation strategies, have all contributed to our loss ratio being below our target range of 35% to 40% for the last three quarters.

The fourth quarter loss ratio increased by two points to 32% due primarily to seasonality and higher loss severity on Alberta delinquencies. This seasonal trend is expected to persist into the first quarter of 2011.

Our focus on quality, fixed income investments adds stability to our earnings profile with investment income representing approximately one third of our net operating income. These investment grade fixed income securities make up 92% of the $4.5 billion general portfolio.

The low interest rate environment and our short portfolio duration have pressured our investment returns. December 31, 2010 our book yield was 4.2% on our general portfolio, up ten basis points sequentially. Our duration was unchanged at 3.6 years sequentially, and positions us well to take advantage of rising rates.

To enhance our investment income, we've added $195 million in investment grade preferred shares and dividend paying common shares to our investment portfolio during 2010. We particularly like the pre-tax equivalent yields offered by these asset classes.

We anticipate extending our portfolio duration as interest rates normalize during the course of 2011, which should provide incremental yield in the portfolio. A modest improvement of ten basis points in the overall portfolio yield would add $3 million to our bottom line. We continue to have a strong balance sheet, ending the quarter with a Minimum Capital Test ratio of 156%.

We currently operate with capital at levels above our internal regulatory capital target of 145% and we will continue to do so going forward. Our strong capital position gives comfort to both lenders and regulators that we can withstand various economic scenarios.

As the larger books mature, thereby consuming less capital, our capital flexibility should continue to grow. This is positive for our business. Our priorities are to fund growth, maintain a competitive and sustainable dividend policy, and return capital to shareholders as appropriate.

Since our IPO, our book value per diluted share has increased by 16% to $24.45. With shareholders' equity of $2.6 billion, a debt to total capital ratio of 14%, and the unearned premiums of $1.9 billion, our strong capital base and modest leverage provide us with financial flexibility going forward.

Before I hand it over to Peter, I want to touch upon one last thing -- our IFRS readiness. We are on track to report our first quarter of 2011 results under IFRS. The impact in January 1, 2010 opening retained earnings is only $39,000, which is related to the IFRS differences for employee benefit plans.

A great deal of work has gone into executing our IFRS conversion plan, and the key milestones achieved are outlined in our review of performance. In summary, we expect a smooth transition to IFRS, and expect that the result in IFRS differences will not be significant.

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I will now turn it over to Peter to review our operational performance.

Peter?

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

Thanks, Phil, and good afternoon, everyone. In addition to solid financial results, our operating teams delivered on exceeding customers' needs, and we ended up the year with a lot of momentum. In terms of premium growth and market penetration, business increased in all lender segments, due to a high level of customer service and visibility in the marketplace.

Our customer services teams continue to enhance our underwriting processes by refining auto approval routines, and quickly helping lenders with files that require clarification or adjustment.

Another other growth driver is providing valuable home buyer information to lenders and mortgage brokers. In October, we launched our second issue of a better way to home ownership. And that covers many topics including the role of mortgage insurance, and the financial implications of a consumer taking a fixed versus variable rate mortgage.

It's these types of publications that are great ways for us to add value to mortgage originators, and educate first time home buyers on how to borrow prudently.

In addition, we increased our contributions to the communities we work in. We continue to support a number of partners such as Habitat for Humanity through our Meaning of Home writing contest, as well as the United Way through annual employee campaigns. During the year we're very proud to have raised over $700,000 and contributed over 4,000 volunteer hours for organizations right across the country.

In terms of risk and loss mitigation, we continue to minimize losses and help families stay in their homes. Our risk team made several improvements in risk analytic tools. These analytics are key to understanding housing markets at the local level, and they help make underwriting adjustments to stay ahead of any potential housing market downturns.

We also made enhancements to our property valuation processes, which drove further improvements in application decision times, as well as the consistency of those decisions.

In loss mitigation, we continue to reach out and help as many struggling borrowers as possible. During the fourth quarter, we helped 1,400 families stay in their homes during the times of temporary financial difficulty. And we've also become very involved in selling foreclosed properties. This includes assuming properties from lenders, and working with our network of preferred realtors to ensure that we get the highest sales price possible.

Next, let me touch on our mortgage portfolio performance. Overall, from last quarter the portfolio delinquency rate increased by one basis point to 0.26% driven by normal seasonal effects. Regionally, the increase in delinquency rate was higher in western Canada, as jobs and the housing markets have not yet seen the same level of recovery as in the rest of Canada.

As Brian mentioned earlier, the Alberta market, in particular, softened further in the latter part of 2010. And through 2011, we believe Alberta and BC delinquency rates will continue to moderate as commodity markets gain momentum, and there's net positive migration that will resume in those provinces.

In closing, I'd like to remind you of our focus going forward. Our first priority is to increase our market penetration by continuing to execute our customer service strategies. And as you've seen in 2010, we believe this is a model that is valued by our customers and it will result in continued top line growth.

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In addition, we're planning our expansion into other mortgage related services that will add value to lenders. This will help us sell more mortgage insurance, differentiate us from our competitors, and develop broader relationships with our lender partners.

We'll also continue to actively mitigate our insurance risk through comprehensive housing market analytics and more proactive loss mitigation efforts. And, we also see an effort to grow our investment yields over time because our portfolio is quite well positioned for an increasing interest rate environment.

Finally, we'll continue to officially manage our capital to support our insurance in force, fund growth opportunities and maximize returns for our investors. So, all in all, we're very confident that we're well positioned to continue as the leader in the private mortgage insurance industry.

I'd like to now turn the call back over to Samantha to begin the question and answer. Thank you.

Samantha Cheung - *Genworth MI Canada, Inc. - VP Investor Relations*

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, and if there's time available, to ask your follow up questions.

Melissa, please open up the call for questioning.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

Geoff Kwan - *RBC Capital Markets - Analyst*

Good afternoon. Just had two questions. First one was, I know it's not even been -- I guess, three weeks since the government of Canada made their announcement. Just wondering if you've seen what you think would be increased activity relating to the government, or the pending government changes.

And then my second question is, when I'm looking at the investment portfolio, I think it's roughly about 5% in pref shares and common shares. Wondering in a normalized environment, what contribution or what percentage of the portfolio do you think you'd be comfortable with? And, is it best to look at it on a combined basis or trying to separate between common shares and pref shares?

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

Hey, Geoff. It's Brian. Let me take the first part of that anyway. Yes, the paint is still wet on some of these changes coming out of Ottawa, but that could be a result. As these things get implemented March 18th, there could be some refinance pull forward, for example, which would hopefully help an early acceleration at the spring market. But no, we haven't seen any real activity yet. But that could come mid-Feb up until March 18th.

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On the investment portfolio, Philip, why don't you take that one?

Philip Mayers - *Genworth MI Canada, Inc. - Chief Financial Officer*

Certainly, Geoff. I think, Geoff, the way we think about our investment portfolio is that we're primary a fixed income investor. Having said that, we have a target allocation of approximately 6% of the portfolio to other asset classes. That rounds out around $300 million. So, I mean, I would think about the cumulative between prefs and common somewhere in that $300 million range.

We're currently at 195, and certainly we continue to reassess the opportunity. And we'll continue to make decisions based on the risk return profile that's available to us.

Geoff Kwan - *RBC Capital Markets - Analyst*

Great. Thank you.

Operator

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

Jeff Fenwick - *Cormark Securities - Analyst*

I have a question on the expense line. Saw a bit of an uptick on the expenses in the quarter. Just wondering if you could maybe get into a little detail there about how much of that would be sort of one time perhaps bonus related, or other items there that might be inflating that number to the end of the year.

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

Philip?

Philip Mayers - *Genworth MI Canada, Inc. - Chief Financial Officer*

Yes, Jeff. The way I would think about that is -- our run rate for the full year was 17% expense ratio. The fourth quarter we had some one time items, and also under Canadian GAAP the way that we account for share based compensation items is based on the difference between the strike price and the closing price.

As well -- the stock price ticked up in December, so that certainly added to the quarter an amount that would not have been there in previous quarters. So certainly, we see that our run rate is more around the 17% expense ratio level.

Jeff Fenwick - *Cormark Securities - Analyst*

Okay. And with respect to the workout activity, is there are a significant portion of the expense base there that's just driven by the level of workouts? And, do you expect that to perhaps taper off as conditions improve here in Canada?

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

Yes, Jeff. This is Brian. You know what we've done is to try to realign some resources to sort of self fund a lot of that workout activity from within the business. So, you wouldn't see a dramatic increase in head count over the last year or so. We've been moving some deck chairs here, and putting some talent from underwriting, for example, into loss mitigation.

But, I don't think that will be tapering off any time soon. The approach we take and what we do in loss mitigation may evolve over time as the delinquency opportunity may shrink. But, I think for this year and into next year you'll see us continue to resource that area. It's a high impact area for us.

Philip Mayers - *Genworth MI Canada, Inc. - Chief Financial Officer*

And I think just to add to that, Jeff, the costs associated with workouts are included in our claim numbers. That's the way the GAAP accounting works. Any loss mitigation costs are added to the losses on claims. So, the workout expenses are not really part -- a part of the sales and admin expenses.

Jeff Fenwick - *Cormark Securities - Analyst*

Okay. That's helpful, and actually leads into my second question. There was good positive movement in the average reserve per claim. But, at the same time the average payout went up in the quarter. And I'm just wondering if you'd give us a bit of an explanation around how those two are moving in different directions.

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

Yes. Sure. Stuart Levings can take that one for us.

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

Yes. Thanks, Jeff. Generally speaking, the driver behind that is mix of claims. When you think about -- claims are paid out approximately 12 months after the reserve originally comes in. So, the mix of claims can vary depending on where the activity is.

And in this particular quarter, we had a few more claims out in western Canada. We also had a couple of claims that we worked on and were more problematic properties. They tend to have a higher severity. So, when you throw a bit more of those into the mix, you see that average claim increase there.

Jeff Fenwick - *Cormark Securities - Analyst*

Okay. And then the reserve for claim -- that was a pretty nice downtick you saw there. And again --

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

Yes, yes.

Jeff Fenwick - *Cormark Securities - Analyst*

-- (inaudible) are we seeing an improvement here overall?

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

The reserve per claim is really a reflection of as new files come in, the reserves on those are less because there's more accumulated house price appreciation again. And they actually don't have as much severity. So that we'll see continue through the year we expect as most markets, as Brian said, have recovered; Alberta being the one that's still lagging.

Jeff Fenwick - *Cormark Securities - Analyst*

Okay. Great. Thank you, very much.

Operator

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

Tom Mackinnon - *BMO Capital - Analyst*

Yes. Thanks, very much. Good afternoon, everyone. There's a question about -- when we get the annual report we do get a little bit more of a look at what the reserve development was at least for the year. And I'm wondering if there was any kind of favorable or unfavorable reserve development in the quarter. Is that generally addressed on an annual basis?

I know in -- at the end of 2009 the annual report showed some significant unfavorable development. I'm wondering if we're getting any favorable development coming through as a result of the (inaudible) this year?

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

Thanks, Tom. Philip, do you want to take that?

Philip Mayers - *Genworth MI Canada, Inc. - Chief Financial Officer*

Certainly, Tom. I think we will see in our formal MD&A that will be published later in February -- we will have the reserve development. I think what we saw throughout the year -- on the first part of the year was that it was a little bit of an acceleration in terms of delinquencies.

So, there was a little bit of unfavorable development. But, we'll have the specific numbers when we publish the formal MD&A later this month.

Tom Mackinnon - *BMO Capital - Analyst*

So -- and is that generally just all done in the fourth quarter, or how is that --? I mean, you're doing this on a quarterly basis and you're not telling us it until we have to wait around until the annual report.

Philip Mayers - *Genworth MI Canada, Inc. - Chief Financial Officer*

Well, I think, Tom, it's one of those items that because of the number of external factors that go into reserve is inclusive of home prices, and the time it takes to go from delinquency to claim. The correlating numbers are going to be up and down. So, as a practice we report it annually.

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Tom Mackinnon - *BMO Capital - Analyst*

Okay - was the trend in the fourth quarter any different than the trends we would have seen -- the slightly unfavorable that you saw in the first few quarters?

Philip Mayers - *Genworth MI Canada, Inc. - Chief Financial Officer*

Well, I mean, I think you would look at the housing markets. The fourth quarter that was unlike other quarters was that we saw [soft] house prices in western Canada as we went into the winter months. And that certainly has impacted development.

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

But, Tom, I'd say nothing unusual there. I'd say a big piece of that is typical seasonality.

Tom Mackinnon - *BMO Capital - Analyst*

Okay. And just finally -- just with tax rate going forward, should we look at something around 30%? I know it was a little bit -- it was around 28% in the quarter here. And it looked like there was some -- a little bit of a favorable one time in some future tax rates?

Philip Mayers - *Genworth MI Canada, Inc. - Chief Financial Officer*

Yes, I think that you've hit the nail on the head. On a current tax basis it's about 30%. But because a number of our deductions that generate future taxes, with the tax rates projected to come down, future taxes are being booked at a lower rate than 30%, so it will be a blend.

Tom Mackinnon - *BMO Capital - Analyst*

So do you think it will -- what should we model going forward somewhere around 30%, or some -- somewhere just under 30%?

Philip Mayers - *Genworth MI Canada, Inc. - Chief Financial Officer*

I think something around 30% --

Tom Mackinnon - *BMO Capital - Analyst*

Okay. Thanks very much, then.

Philip Mayers - *Genworth MI Canada, Inc. - Chief Financial Officer*

-- being conservative.

Operator

Your next question comes from the line Chris Giovanni from Goldman Sachs. Your line is now open.

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Chris Giovanni - *Goldman Sachs - Analyst*

Thanks so much. Just one question. You've seen a nice improvement in the delinquencies in your largest market. But this -- your second and third largest -- BC and Alberta, continue to see delinquencies move higher. And this trend has been pretty consistent over the past three years.

Can you talk some just in terms of what your expectations are for delinquencies in these two markets around when you expect to see peak delinquencies and at what level?

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

Yes, thanks, Chris. We'll let Stuart take that one.

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

Thanks, Brian. Yes, Chris, as Brian said earlier, and as we've talked about the Alberta market certainly has lagged the rest of Canada as far as a recovery is concerned. The unemployment that that market took earlier in the recession has left damage in the form of under-employment or reduced incomes. And we've seen that play out through the delinquency rates.

We expect that that will turn or stabilize through this summer. Basically, Alberta is poised to be a leader in growth in 2011 for Canada as the commodity market rally continues. That always drives improved consumer sentiment, positive net migration into that province which will help to soak up some of that extra -- excess supply, which then of course lends more stability in the housing market.

And all these things contribute to more stable delinquencies. So to answer your question, we would say that we expect stabilization in those delinquency rates through the summer of this year.

Chris Giovanni - *Goldman Sachs - Analyst*

And in BC?

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

I would say the same. It's a similar pattern -- similar issue as you've seen in Alberta to a lesser degree. But, it's also a commodity based economy out there for the most part.

Chris Giovanni - *Goldman Sachs - Analyst*

Okay. And I know you touched some on this in your investor day. But, can you just provide something in terms of what you're thinking from a capital deployment standpoint around share repurchases and maybe what the next strategy might be?

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

Yes, sure, Chris. I'll take that one. We do have a strong capital position that when we'll -- that will be building as this year progresses. And at the moment, we're in the middle of finalizing our 2011 capital plans.

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And we look at a bunch of things. We look at the business needs for growth, the dividend needs and interest payment requirements. We're stressing the portfolio to be ready from a capital perspective for numerous different economic scenarios. And we're also touching base with the regulators to make sure there's nothing on the horizon that we could be seeing.

But after looking at all those items, we work with our Board of Directors to determine our potential uses of capital. And one of those potential uses could be a potential return of capital to shareholders. And the timing informing of -- form of that return is part of that review. So, stay turned. We're in the middle of this process right now.

Chris Giovanni - *Goldman Sachs - Analyst*

Okay. And then -- sorry, one last quick question. When you think about stress in your portfolio, I mean, what's the greatest sensitivity? Is it home prices, employment, disposable income? I mean, what really matters the most?

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

Yes, we look at all those levers when we do a stress. But what we're stressing the most now is they would be home prices, especially on a regional basis like Stuart just walked us through. What could be the variability there? And that will have an immediate impact to us. On unemployment, it could tick up a bit, but that seems to be hitting at a better direction.

So, it would be really home prices -- would be the most sensitive one right now.

Chris Giovanni - *Goldman Sachs - Analyst*

Okay. Thanks so much.

Operator

(Operator Instructions)

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

Paul Holden - *CIBC - Analyst*

Wanted to ask a couple of questions regarding increased market penetration. In Q4 was that primarily coming from lenders that you do existing business with, or were there some new wins in terms of adding lenders?

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

Hey, Paul. I'll let Peter field that one.

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

Good afternoon, Paul. Well, actually we saw increases in both sides. We have some existing customers who increased their usage of us. We believe that's a combination of the way we've been getting out and working with them. And, again, some of the things that we've told you in the past around aligning our underwriting teams with their business teams.

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On the other side, we have had a couple of lenders who have switched strategies, where they were primarily involved in I'll say, near prime lending that have moved into the prime space. And they have also increased their use of us. Many of those folks are in what we call the Mortgage Bank Segment. So, big push for us on the mortgage broker side.

Paul Holden - *CIBC - Analyst*

Okay. And then related question is do you think there's a significant opportunity to increase market penetration further in 2011? Or, at least where do you see the pockets of opportunity?

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

Well, I think they're right across the border. Again, as you saw in 2010 we're going to keep sticking to the strategy of excellent customer service. So, we've got our eye on all the customers thinking that we can do more. And as we've told you before, as the economy and the outlook for the economy remains positive. I think that's good for us.

Paul Holden - *CIBC - Analyst*

Okay. Do you think you can get back to a level as you were say three or four years ago?

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

I don't want to particularly make a prediction on that level. But, I do think we can get -- we can certainly grow from where we are today.

Paul Holden - *CIBC - Analyst*

Okay. Thanks a lot.

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

Hey, Paul, I'd just build on that to say we've seen some good momentum. And I think Peter's point is an important one that it's in buckets across the board. So, we're seeing it with the big five, we're seeing it with the mortgage bank, we're seeing it with the brokers.

So, we're pretty optimistic about the momentum that we built in the fourth quarter. And to your point, 2011 is a chance for us to continue that momentum.

Operator

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

Jeff Fenwick - *Cormark Securities - Analyst*

I just wanted to circle back to the adjustments to the premium recognition curve. And so, you gave us a little color there in your commentary. So, it looks like a pretty consistent -- you mentioned range there over the course of this year where there were some additive contributions from that adjustment.

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Can you just sort of revisit what that is looking like going forward here? You said it's going to decline as we go into 2011.

Philip Mayers - *Genworth MI Canada, Inc. - Chief Financial Officer*

Yes, I mean, if you think about it, what we're trying to do is match the loss emergence pattern, and recognize premiums consistent with that pattern. What we've seen is as we've gone through the last four years more losses occur in the first four years then they have historically.

Our actuary reviews the loss development date on the quarterly basis. And then, he recommends to us what the earnings curve should be going forward. What we've seen is that consistent movement of the pattern. But because by nature the process is always one quarter behind, there's always going to be that catch up as those trends emerge.

We expect that the trends are beginning to stabilize in terms of the loss development pattern. And once you've essentially caught up, then you really have a smaller impact from any marginal movements in loss development patterns.

So we would expect that based on what we've seen in more recent quarters in terms of the shifts, that those -- that pattern is going to stabilize, and there will be less movement in the loss development pattern, and therefore, a smaller change to the quarterly earnings curve going forward.

Jeff Fenwick - *Cormark Securities - Analyst*

And I mean, it does look like at this point there is some -- when we use the OSFI curve there's clearly some variance there. Would you guys be willing to publish maybe even on an annual basis what that updated curve looks like versus the OSFI curve?

Because it seems like we're just hopefully that, as you say, that understatement will go away. Like are we reverting back to something more similar to the OSFI curve? Or, are we just talking about a new curve for you guys that's just now a little more stable?

Philip Mayers - *Genworth MI Canada, Inc. - Chief Financial Officer*

I think we're talking about a new curve for us that's more stable. I think the thing to remember is the OSFI curve was set on data based on -- prior to the 2000. So the OSFI curve does not reflect any loss development patterns that have changed since 2000. While for GAAP purposes, we're certainly reflecting what we believe the current loss development pattern is.

Jeff Fenwick - *Cormark Securities - Analyst*

Okay. Well, certainly my vote is if you guys could put out what your curve looks like it would certainly probably help all of us out there on the street.

Philip Mayers - *Genworth MI Canada, Inc. - Chief Financial Officer*

(Inaudible) and we'll take it under consideration.

Jeff Fenwick - *Cormark Securities - Analyst*

Thank you.

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Operator

Since there are no further questions at this time this concludes the conference call today. Thank you for your participation. You may now disconnect your line.

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