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MIC.TO - Q2 2011 Genworth MI Canada Inc Earnings Conference Call

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CORPORATE PARTICIPANTS

Samantha Cheung
Genworth MI Canada Inc. - VP, IR

Brian Hurley
Genworth MI Canada Inc. - Chairman and CEO

Phil Mayers
Genworth MI Canada Inc. - CFO

Stuart Levings
Genworth MI Canada Inc. - Chief Risk Officer

CONFERENCE CALL PARTICIPANTS

Geoff Kwan
RBC Capital Markets - Analyst

Shubha Khan
National Bank - Analyst

Tom Mackinnon
BMO Capital - Analyst

Paul Holden
CIBC - Analyst

Chris Giovanni
Goldman Sachs - Analyst

Bryan Brown
Macquarie Capital - Analyst

PRESENTATION

Operator

Good morning. My name is Tracy, and I will be your conference operator today. At this time, I would like to welcome everyone to the Genworth MI Canada Inc. Company 2011 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. 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, IR*

Thank you. Good morning, everyone, and welcome to our second quarter 2011 conference call. Joining me today are Brian Hurley, our Chairman and CEO; Philip Mayers, our CFO; and Stuart Levings, our Chief Risk Officer. We will start with the formal remarks followed by a Q&A session.

Our news release, including our management's discussion and analysis, the financial statements, and the financial supplement were released last night and are posted on our website at www.genworth.ca. A link to our live webcast and the slides for today's

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discussion are also posted on our website. A replay of this call will be available on our website following today's presentation and will remain available there for approximately 45 days, until September 15.

As a reminder, our presentation and discussion today contain a disclaimer on forward-looking statements and non-IFRS 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-IFRS measures and, as such, do not have standardized meaning and are unlikely to be comparable to similar measures by other companies.

I would now like to turn the call over to Brian to begin his remarks. Brian?

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

Thanks, Samantha. Good morning. And, again, thank you all for joining us for the call today. On many fronts, the second quarter of 2011 was another solid quarter for us. We delivered strong top-line performance, demonstrated great progress in our loss ratio, and made significant strides in capital management.

We had net operating income of $81 million. This translated into diluted operating earnings per share of $0.77. And overall, these results generated an operating return on equity of 13% for the quarter. The backdrop for these results is an encouraging one. The outlook for the broader economy is positive and we're seeing some solid fundamentals for the housing market.

From a macro perspective, a good outlook for GDP growth, historically low interest rate levels, and a slowing growth rate for personal debt levels all bode well for the general economy and for our business. And when we drill down to the more specific drivers of the mortgage market, we see [solid] elements there, too.

Unemployment improved during the quarter to 7.4% with some encouraging full-time job gains. These unemployment trends are a critical component of our outlook on new delinquencies. As borrowers remain employed, the potential of new delinquencies decline.

From a national market perspective, housing supply and demand sit in a balanced state, meaning supply and demand are in sync. And in addition, we see an encouraging outlook for first-time homebuyers. So our overall view of the housing market and the supporting fundamentals is a positive one.

There have also been some legislative announcements during the quarter that will impact mortgage insurance providers. The objective of this legislation is to formalize the government guarantee agreement and strengthen the Minister of Finance's oversight of the mortgage insurance industry.

To be clear, this has no impact on our government guarantee, and we believe these changes do not impact the outlook and prospects for our business. What it does do, in our view, is to reinforce the stability of the Canadian housing finance system. The specifics on how this legislation is going to translate to our business, as well as the effective date, have yet to be determined.

This market environment, combined with our strong business execution, translated well to our performance in the second quarter. We continued to improve our position in the market. Insurance volume was strong, due to our consistent sales and service execution. We underwrote $7.7 billion of new insurance written, representing an increase of 42% sequentially and 7% over the same period last year. And from this volume, we received $149 million in new premiums.

Even though low interest rates and the view that rates will go up attracted many buyers, the spring market was softer when compared to previous years. With that said, these top-line premium results show that our market penetration strategies continue

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to work in growing our customer penetration. In addition, we ended the quarter with a strong balance sheet with total assets of $5.3 billion, shareholders' equity of $2.5 billion, and a minimal capital test ratio of 158%.

Turning to losses, our loss experience during the quarter was a favorable one. Our rigorous file-by-file underwriting, proactive property valuation, and risk management discipline continues to positively impact our loss performance. The decisive underwriting action we took back in 2008 is clearly translating into better loss performance for us.

On the capital front, our Board has approved our next regular quarterly dividend of $0.26 per common share, to be paid on September 1 to shareholders of record on August 15, 2011. We will continue to conduct an ongoing review of our common dividend yield to ensure we are competitive.

Looking ahead, rising interest rates and a strengthening economy could pressure housing affordability in the near term; however, we believe that rates will increase gradually and long-run affordability will be supported by income growth. Overall, a good quarter from a financial perspective with some solid progress realized on our strategic goals.

Now, let me turn it over to Phil to walk us through some more details on the financial results. Phil?

Phil Mayers - *Genworth MI Canada Inc. - CFO*

Thanks, Brian. This quarter we reported net operating income of $81 million, higher by $3 million sequentially. This improvement is driven primarily by better underwriting results. Compared to the prior year, net operating income declined by $5 million due to interest expense on the 2010 debt issuances.

On the new business front, our net premiums written of $149 million were up 48% from the first quarter, reflecting seasonal trends and business execution. Compared to last year, net premiums written were lower by $8 million, or 5%, as the result of a smaller origination market.

As anticipated, our premiums are in decline sequentially by $4 million, reflecting the maturing of the large 2007 and 2008 books. Unearned premiums were $1.85 billion at June 30, unchanged from the first quarter. Losses and claims decreased 15% sequentially to $15 million as seasonal loss pressure abated, and our loss mitigation programs continued to deliver positive results.

The resulting five point sequential improvement in the loss ratio to 33% was the principal driver of the $6 million improvement in underwriting income to $77 million. We also earned $43 million in investment income in the second quarter, flat to the prior quarter. Once again, our quality investment portfolio continues to add stability to our net operating income. Overall, net operating income increased sequentially by $3 million and operating EPS of $0.77 was $0.03 higher sequentially, but $0.05 higher year-over-year.

Book value per share increased by 9% year-over-year to $25.59 due to continued profitability and the reduction in the number of outstanding shares. The share repurchase, which was completed on June 30, will have a positive impact on operating EPS in subsequent quarters.

Turning to our top line. In the quarter, we wrote $149 million of net premiums written on $7.7 billion in new insurance written. The number of resale transactions during the spring period of March to May were lower by 6% year-over-year in part due to the recent government guarantee product changes. For purchased transactions, the traditional spring market was soft as volume was pulled forward into the first quarter in advance of the elimination of the 35-year amortization option.

As well, refinance volumes were down 25% sequentially in response to the lower maximum loan-to-value of 85% for refinances. We believe that the premiums for high loan-to-value mortgages will be reduced by 5% to 10% going forward as a result of these product changes; however, we remain confident in our ability to grow premiums written through market share gains.

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Premiums earned have been relatively stable over the past eight quarters. With the large 2007 and 2008 books beyond their peak earning years, premiums earned are expected to modestly decline quarter-over-quarter for the remainder of 2011 and into 2012, before we see the full benefit of the 2010 and 2011 books. At the same time, we expect that our losses on claims should continue to improve as a partial offset to the anticipated decline in premiums earnings.

The delinquency picture improved in the second quarter as expected. The delinquency rate declined sequentially by two basis points to 25 basis points. We saw a lower delinquency rate in most markets, notably Alberta, Ontario, and Quebec, with BC remaining flat quarter-over-quarter.

In addition to the improved delinquency picture, house prices rose modestly in most regions, including Alberta. These factors contributed to a five point decline in our loss ratio of 33%, which is at the lower end of our target pricing range of 35% to 40%.

Our focus on loss mitigation continued this quarter with encouraging results. We completed approximately 1,000 workouts through our Homeownership Assistance Program and intensified our asset management efforts to remarket select properties. Through our remarketing efforts, we are reducing the time it takes to list and sell foreclosed properties, thus saving the property management fees and accrued interest costs.

We ended the quarter with a combined ratio of 49%. We expect our loss ratio to be in the mid 30s for the remainder of 2011 due to the improving job picture, our prudent risk management, and focused loss mitigation programs.

The asset allocations for our $5 billion investment portfolio was relatively unchanged in the quarter. Our focus continues to be on investment grade fixed income bonds, with 96% of our bond holdings rated single-A or better.

The portfolio yield remained unchanged at 4.3% against a backdrop of lower bond yields during the quarter. Portfolio duration increased to 3.9 years, as we added to our 10-year provincial bond holdings. Our active portfolio management continues.

Our 5% allocation to common equities and preferred shares continued to provide attractive pretax equivalent dividend yields and some potential for capital appreciation. With approximately $260 million from bond maturities in the second half of 2011, we will largely adjust our portfolio mix to optimize portfolio yields while maintaining a high quality portfolio.

Our capital position is strong with $2.5 billion of shareholders' equity, a debt to total capital ratio of 14%, and a minimum capital test ratio of 158%, 13 points above our internal targeted 145%. This capital strength gives comfort to both our lenders and regulators.

Under the new government guaranteed legislation, the guarantee fund will be eliminated and the investments currently held in trust will revert back to the Company. In turn, the Company will be subject to a higher capital requirement prescribed by the Minister of Finance.

Currently, the guarantee fund is deducted from capital available for MCT purposes. When the new guarantee legislation becomes effective, our regulatory capital available will increase by the amount of the guarantee fund net of related income taxes payable. We expect that this net amount will be used as the initial base for determining the new capital requirement.

While we do not anticipate any significant changes to our business prospects, a full assessment of the impact on the Company's business cannot be conceded until the regulations referenced in the legislation are finalized.

Our capital management priorities are clear; keeping a sound regulatory capital position and strong rating, funding organic growth and attractive business development opportunities, maintaining our dividend policy targeted payout ratio of 30% to 40%, and maintaining an efficient capital structure with modest debt levels. In summary, our strong balance sheet provides financial flexibility and the foundation for ongoing execution of our strategic priorities.

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I'll now turn it back to Brian.

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

Thanks, Phil. And before we go to our question-and-answer period, let me remind you of our strategic focus for the remainder of 2011 and beyond. We remain positive about the Canadian mortgage insurance market and believe that the housing market is in a healthy state. We like our position, one that is built on a strong foundation of financial strength and proven business execution.

We've made good progress in terms of market penetration, as demonstrated by our increases in premiums written. And going forward, we're focused on three key elements, which will contribute to our ongoing profitability. We're going to continue our relentless focus on disciplined execution. In our view, this is one of the key differentiating factors for us.

On one front, this means keeping a very proactive underwriting discipline, tailoring our approach to unique market conditions we see. And on the other hand, this means leveraging our deeply experienced team to ensure we're capturing input from our customers and putting that input into action.

We will continue to operate at an efficient capital structure, one that ensures we have the financial flexibility to fund growth, support our insurance in force, maintain strong credit ratings, and to optimize returns. We're going to focus on the elements of our business model that have proven to be successful. This means keeping a balanced portfolio in force, taking a conservative approach to our investment portfolio while endeavoring to improve returns whenever possible.

And, lastly, we're going to build on our business foundation through prudent risk management, keeping a strong capital base, and delivering consistent dividends. Ultimately, we're focused on enhancing total shareholder value by delivering long-term business growth, sharp execution, and capital efficiency.

Thanks for your time this morning. And before we turn it back to Samantha for our typical Q&A, we thought we would address a topic that seems to be top-of-mind for many of you. And over the last few months we have been asked numerous times to give our view of the housing market, given our experience in the marketplace. So before we turn it over to our normal Q&A, we thought it would be good to address this prevalent question first.

Stuart Levings, our Chief Risk Officer, has joined us today. And let me turn it over to Stuart to comment on the housing market. Stuart?

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

Thanks, Brian, and good morning, all. I'd like to expand on our view of the housing market and highlight the key loss drivers for our business. As Brian said, in our view the housing market is transitioning to a more stable, sustainable pace of activity following a period of significant volatility over the past three years.

Looking at some recent market data, average selling prices reported by CREA have increased 8% year-over-year during the first half of 2011. This change, however, was influenced by a significant increase in sales of high-end properties over $1 million, particularly in Vancouver and Toronto.

In the absence of these high-end sales, which are often cash-based transactions, the increase drops to a more modest 4%, in line with the change reported by the Teranet-National Bank Home Price Index, which is based on same property sales, much like the Case-Shiller Index in the US.

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Much of the media attention has been focused on Vancouver, where the average selling price increased 18% year-over-year. Excluding these high-end sales, many of which are driven by foreign investment, the increase drops to approximately 5%, once again more in line with Teranet's number at 6%.

Based on the above data points and other metrics we monitor, we believe the Canadian housing market is well balanced, underpinned by reasonable supply currently running at around six months, and solid demand driven by steady gains in the job market and relatively low rate environment and consistent immigration.

That said, we do believe the market is somewhat overvalued in certain regions based on traditional metrics such as price-to-income. Furthermore, affordability will become more strained as interest rates begin to rise. Consequently, in our view the market is likely to moderate over the next few years with flattish house prices, perhaps some softening in the high-end markets of Toronto and Vancouver, allowing affordability metrics to return to more reasonable levels.

Specifically, we expect the Vancouver market may soften over the next 12 to 18 months with potential for a 10% to 15% correction in the high-end market. The impact on the first-time homebuyer market, however, will likely be marginal as this segment represents the most affordable entry point in this region.

Let's focus for a moment on what really drives losses in our business. The most important economic factor is unemployment, which drives actual mortgage delinquencies. House values will ultimately impact the size of a loss; however, changes in value do not typically impact a buyer's ability or willingness to make mortgage payments.

We do stress our portfolio on a regular basis to gauge the impact of potential housing corrections. For example, based on a simulation where Vancouver prices in our target market declines 20% over three years and unemployment increases 100 basis points, we estimate our loss ratio would rise but remain within the upper end of our pricing range over the stress period.

Given that our average house price in this region is 30% lower than the market and the majority of our applicants are dual-income families, our debt service and price-to-income ratios are materially lower than market averages. That, together with the fact that Vancouver represents only 8% of our insurance in force, helps to mitigate the impact from such a housing correction scenario.

So, in conclusion, we view the Canadian housing market as well balanced with some affordability pressure that will ease due to stagnant house prices over the next few years. We continue to execute on our risk management strategy, assessing macroeconomic factors in all our regional markets and making underwriting changes in a proactive manner. It's important to remember that jobs, not house prices, drive delinquencies in our business and the outlook remains positive for the job market.

With that, I'll hand the call back to Samantha for the Q&A session.

QUESTIONS AND ANSWERS

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

Thank you, Stuart. We are now ready to take your questions. Tracy, please open the call up for questioning. Thank you.

Operator

(Operator Instructions)

Your first question comes from the line of Geoff Kwan with RBC Capital Markets.

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Geoff Kwan - *RBC Capital Markets - Analyst*

Hi. Good morning. The first question I had was taking a look at the average reserve per delinquent loan, it was down quite a bit quarter-over-quarter. And I was just trying to get a sense of during the past cycle where that might have bottomed out at, and where it is today. Where you think -- could it get to that level from the last cycle, or where it might potentially get to?

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

Hey, Geoff. Yes, we've done some analysis on that. I'll let Phil lead that answer.

Phil Mayers - *Genworth MI Canada Inc. - CFO*

Good morning, Geoff. I think as you look at average reserve per delq, there are a couple of factors that really drive the number. One is the mix of delinquencies, and certainly the improvement quarter-over-quarter really relates to a lower mix of Alberta. At the same time, though, outside of Alberta, and especially Ontario and Quebec, we have delinquencies, but the likelihood of loss is much lower in those delinquencies.

If you think back to prior cycles, I think the average reserve per delq would have gotten down probably to the 40s, and that's really a reflection of circumstances where housing prices continue to rise. And therefore, even though borrowers become delinquent, the likelihood of us suffering a loss is low. In the current situation, we expect that the average delinquency averages per DELQ will decrease over time, but modestly. We don't see any sharp decreases in the next 12 to 18 months.

Geoff Kwan - *RBC Capital Markets - Analyst*

Okay. And the second question that I had was given the news around what's going on with your US parent in kind of shifting some of their capital and moving some of their stock in MIC, has that resulted in any sort of questions, conversations with the lenders that you deal with?

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

No, Geoff, it hasn't. I think the general feel from our perspective is there's no impact on us. This is them really shifting shares from the left pocket to the right pocket within their own business. No change of ownership. They still like the position in MIC. No change in their intent. They like the shares that they own. So, no, it has not gotten a lot of play in the marketplace. And, from our view, it's a non-event from a majority shareholder perspective.

Geoff Kwan - *RBC Capital Markets - Analyst*

Yes, I know. I was just thinking from a counterparty risk perspective, if there was any at least questions around what this might mean for Genworth Canada.

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

So far no. Although, as you know, Genworth US just got through a rather detailed explanation of this. They may start to come today, but so far no.

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Geoff Kwan - *RBC Capital Markets - Analyst*

Okay, perfect. Thank you.

Operator

Your next question comes from the line of Shubha Khan with National Bank. Your line is open.

Shubha Khan - *National Bank - Analyst*

Hi. Good morning. If I could just follow-up on Geoff's first question there on average reserves, claims paid continues to tickup. And your severity ratio has been fairly stubbornly high for a while now, which is somewhat surprising to me given the overall health of the housing market.

I know there's some regional, some mix issues there, but can you give us an indication of how close you feel you are in terms of -- or how close you feel you are to the peak in terms of claims paid and severity? Should we see the average amount paid to start falling as soon as maybe next quarter or the quarter after? And, how quickly do you think they will moderate? Because I imagine that at some point the amount paid and the amount reserved have to converge, yet they're about $30,000 apart right now.

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

Thanks, Shubha. Phil?

Phil Mayers - *Genworth MI Canada Inc. - CFO*

Yes. Well, I think certainly you're absolutely right. Mix plays a key part in the paid claim number because it really reflects the payments we've made to lenders in that quarter when we've settled claims. Certainly, Alberta -- we've settled a higher percentage of Alberta claims in the quarter, and that really drove the number up.

I think in time we would expect the number to begin to moderate back down. It won't exactly equal the average reserve per DELQ because in the denominator for delq there's certainly delqs where we don't anticipate a claim. So that number will always be lower because of what we refer to as the delq-to-claim roll rate, meaning that not all delinquencies become claims. And therefore, the average reserve per DELQ will always be lower.

But, we do expect the paid claim number to decline, primarily as the mix of Alberta claims returns to a more normal level over time. And we would expect that to start probably the fourth quarter through the first half of 2012.

Shubha Khan - *National Bank - Analyst*

Perfect. Thank you.

Operator

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

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Tom Mackinnon - *BMO Capital - Analyst*

Yes, thanks very much. Good morning. The first question, just on the spike in the severity. All these questions about these ratios and the arithmetic involved, but I'm sure you have an explanation for the fact that the severity is about the highest we've seen in I think a couple of years.

Phil Mayers - *Genworth MI Canada Inc. - CFO*

I think, Tom, the answer to the question around the average paid claim is really the same answer for severity. Effectively, severity is really a definition of the average paid claims divided by the claims that were settled. And really, it really speaks to the mix of Alberta claims, which, as you can appreciate, have a much higher average severity.

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

You know, Tom, one way to look at this is that we're hammering through our portfolio sort of getting through some of our more problem loans right now. So it's a bit overweight to those that would have a higher severity component as we flush through those, and I think we did a lot in 2Q.

We'll see that improve, to Phil's point, as the year progresses. So, it truly is a timing one. Hopefully, a timing one very focused on Q2.

Tom Mackinnon - *BMO Capital - Analyst*

And I'm sure it should improve, given the fact that the delinquencies in Alberta are coming down.

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

Correct. Delinquencies are coming down. Home prices are coming back. So, that's why we're pretty optimistic that this could be a turn in the short-term.

Tom Mackinnon - *BMO Capital - Analyst*

Second question is with respect to the new legislation that's going to be coming in force. How is that going to change your tax rate? Should we look at adding another percent to the tax rate going forward?

Phil Mayers - *Genworth MI Canada Inc. - CFO*

Tom, it's Phil. I took a look at that. The estimated tax impact is probably just about 25 basis points. The other thing to remember is that federal tax rates and Ontario tax rates are scheduled to decrease next year. So all in total, we would expect to see the effective tax rate actually come down as we move into 2012.

Tom Mackinnon - *BMO Capital - Analyst*

And if there wasn't the decrease, then it would just be 25 basis points --?

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Phil Mayers - *Genworth MI Canada Inc. - CFO*

It would just be 25 basis points.

Tom Mackinnon - *BMO Capital - Analyst*

Okay. And then, finally, with respect to the regulations and the MCT impact, adding in the government guarantee, less I guess the deferred tax liability associated with that, can be a substantial boost in terms of your MCT ratio. Now, are you anticipating that the -- what is going to be rather than -- are they going to raise the level that you're going to want to hold such that we should probably not expect to see any change in your, what we could call, excess capital over your target?

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

Tom, this is something we're in the middle of the debate now in Ottawa. Hard to predict where this is going to come out. They have various levels of view what the MCT levels should be for our business, and they're still stressing that. They're still analyzing that and we're weighing it as best we can with data.

So, hard to share a range and hard to share what the potential impact may be. But safe to say if they took our whole guarantee fund and put it over into MCT, that would be a very richly capitalized business. But let's just leave it at that.

Tom Mackinnon - *BMO Capital - Analyst*

Okay. I guess we'll stay tuned and get an update then on that.

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

Yes. Hopefully, this fall. Again, we're spending a lot of time in Ottawa. We're sharing as much data as we can.

Tom Mackinnon - *BMO Capital - Analyst*

And in capital at the HoldCo, I think you had $200 million before the buyback. Is this somewhere around the area of $60 million, $70 million right now?

Phil Mayers - *Genworth MI Canada Inc. - CFO*

Tom, it's in the range of $100 million prior to the payment of the dividends that we announced.

Tom Mackinnon - *BMO Capital - Analyst*

Okay. Okay. Thanks for that.

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

Yes. Thanks, Tom.

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Operator

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

Paul Holden - *CIBC - Analyst*

Thank you. Good morning. A question related to the change in case reserves and IBNR during in the quarter was a larger than normal number. Just wondering what's driving that.

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

Phil, if you'll take that one, too.

Phil Mayers - *Genworth MI Canada Inc. - CFO*

Yes. I think, Paul, what's really driving the change in the reserves is the number of paid claims in the quarter. As I think Brian alluded to, we settled a number of claims. Part of that was related to the spring housing market. Coming out the winter months where it's more difficult to sell property, we were able to sell a large number of foreclosed properties during the quarter and therefore settle the claims, and that's really what's changing the mix.

There's not really any substantial change in IBNR. Obviously, IBNR relates to incurred but not reported, and with delinquencies declining it would be a little bit of a favorable adjustment. But the bigger fact here is the number of paid claims.

Paul Holden - *CIBC - Analyst*

Okay. And then, next question, given some of the uncertainty regarding capital requirements with the changes you've talked about, would you still consider a dividend increase in 2011?

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

Certainly would. That's something that we continue to evaluate, Paul, and it's a very active discussion with our Board. As a matter of fact, that very topic is on the Board agenda for September, so that will be an ongoing discussion within this business.

Paul Holden - *CIBC - Analyst*

Okay. So you increased it with the Q3 results last year, so you'll be discussing it ahead of Q3 results this year.

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

Discussing it. Not sure what the outcome may be.

Paul Holden - *CIBC - Analyst*

Okay. That's all the questions I had. Thanks.

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

Thanks, Paul.

Operator

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

Chris Giovanni - *Goldman Sachs - Analyst*

Good morning. Thanks so much. Wanted to follow-up on the survey that you guys put out earlier this month, where you highlighted an expected tickup in first-time homebuyers, and see what you guys are doing on the product front to try and win a larger percentage of those buyers.

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

Thanks, Chris. That was a good study we did. We had a broad reach in the marketplace just to gauge folks' sentiment to see where they were at given some of the concerns around the housing market, given the newspaper test, if you will, and also given the rate environment that we see.

The big lesson learned for us is to reach out and help educate these people. And that's where we're spending our time is getting them ready for the decision to be a first-time homebuyer, walking them through what it means to them financially, walking them through what it might mean from a maintenance perspective and a tax perspective.

And all those elements that for many of us come naturally, but it's the education piece that we're spending our focus on with these first-time homebuyers and getting them comfortable that even in a rising rate environment they can make it. So that's been our reach-out so far. That will evolve as the year progresses here, but so far that's where we've been spending our time.

Chris Giovanni - *Goldman Sachs - Analyst*

And so it's education, not product.

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

Not yet. As you know, the sandbox changes we saw from an overall product perspective has limited opportunity there. But we also think there's ways to introduce new products that aren't the typical introduction, which was going down the risk curve. So that's something that we have in process, but still working on it.

Chris Giovanni - *Goldman Sachs - Analyst*

Okay. And then maybe for Stuart, based on sort of the expectations that you guys have for maybe a bit of a cooling housing market in certain regions, are you adjusting any of the underwriting that you guys are doing for certain loans?

And then regarding the sensitivity that you guys gave for Vancouver, if you did a similar analysis for maybe one of your larger regions, what would the impact be maybe from a loss perspective?

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

Chris, yes. Thanks. I think the underwriting side -- we constantly do make changes. And certainly with our view on certain areas here being a little bit more overvalued, we have made changes around what type of loans we want to do at higher loan-to-values, what kind of credit scores we're more comfortable with. We're looking at our own internal proprietary scoring model and using that to its fullest advantage. So yes, we have made changes and we continue to do so.

And then regarding your second question, the analysis on more of a larger area, say, Ontario or something, we haven't done that one specifically just because we don't see it in the same risk light as the Vancouver market. But clearly, it's going to be related to what kind of equity build-up you had, as well as how much insurance in force you have there.

With that being a larger area, it will have a bigger impact. But on the offset, you have a lot more built-up equity because it hasn't really had, say, a market correction like Calgary has. And, again, I would suggest that in the scenario we did, 100 basis points unemployment, that's what would really drive the losses. If you took prices down in the absence of that change in unemployment, even Ontario, which is a much bigger area, you're not going to see a significant jump in the losses.

Chris Giovanni - *Goldman Sachs - Analyst*

Okay. Thank you, very much.

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

One last comment on underwriting, I think Stuart hit it very well -- is that these underwriting changes that we're doing I would say are quite precise. They're not broad-brush approaches to the marketplace. Given our database, given how we track these markets, we can focus on property types, we can focus on postal codes. So, so far it's been a very precise approach and we haven't seen the need to do anything on a broader basis.

Chris Giovanni - *Goldman Sachs - Analyst*

Okay. And then -- sorry, just one last one, if I may. Just in terms of increased competition from maybe some of the other private MI companies that were taken over by former parents, any comment in terms of what you're seeing on the competition side?

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

No doubt, this is a very competitive industry. But so far, we've been able to focus on what we do best -- build on our foundational strength, continue to execute, leverage our database, and do all of the things that got us to where we're at today and we've been able to grow share. So, we haven't seen any impact on our own market position for new competition as yet.

Chris Giovanni - *Goldman Sachs - Analyst*

Great. Thanks so much.

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

Sure.

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Operator

(Operator Instructions)

Your next question comes from Bryan Brown with Macquarie Capital. Your line is open.

Bryan Brown - *Macquarie Capital - Analyst*

Good morning. We saw a decline in the earned premiums from recognition to the -- or from an update to the recognition curve. And is this indicative of recent stability that you're seeing in terms of losses? And could you recommend an indicator in the market or in your results that would help us get a sense of how we can forecast this in the near-term?

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

Thanks, Brian. We'll let Philip handle that one.

Phil Mayers - *Genworth MI Canada Inc. - CFO*

Yes. Certainly, Brian. I think you saw that our earned premiums declined. I think it is a reflection of the stabilization as it relates to delinquency development. I think the other thing to think about is with the '07 and '08 books of business being on the back of the earnings curve, they'll continue to contribute less and less to our earned premium.

You'll note in our supplement that we do show unearned premiums by book year, and I would suggest that using that as well as using the published curve would be a good indicator of what the quarter-over-quarter change is likely to be on a go-forward basis.

I tend to think that in terms of the earnings -- the contribution of the earnings curve updates, those amounts we would expect would decline over time, both because we're now in a mature delinquency-to-claim situation, as well as the fact that the larger books of business are contributing less and the pattern of losses has been fairly consistent in recent quarters.

Bryan Brown - *Macquarie Capital - Analyst*

Okay, thanks. And in terms of the new capital rules that we should be seeing, would this deter you from using excess capital for things such as share buybacks or even potential acquisitions in the future?

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

Bryan, I'm not sure there's any specific restrictions in that regard. We still have the ability to invest in acquisitions. If there's something that makes sense, we still have the ability to pursue that. There's no specific restrictions coming out of this regulation.

I guess the only addendum to that I would add is we do want to see where this MCT trend is going before we have a significant undertaking. And as we discussed, hopefully we'll have a feel for that earlier versus later, so it wouldn't be an impairment on the business.

Bryan Brown - *Macquarie Capital - Analyst*

Okay. That's great, and I think that's all I've got for you today.

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

Excellent.

Operator

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

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