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PRESENTATION

Operator

Good morning, my name is Michelle and I will be your conference operator today. At this time, I would like to welcome everyone to the Genworth MI Canada Incorporated 2010 Third 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, speakerphones 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 third quarter 2010 conference call. On call this morning are Brian Hurley, our Chairman and CEO; Peter Vukanovich, our President and COO; Philip Mayers, our Chief Financial Officer, and Stuart Levings, our Chief Risk Officer. We will go through the agenda as outlined on the slides, and then as usual open up 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. Our news release, including 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 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 December 15th.

Following our call today, our team is available for any follow-ups, as well we will be hosting an Investor Day on December 1st in Toronto. Electronic invitations have already been sent along with the registration details. Please let me know if you did not receive the invitation and would like to attend this event.

As usual, we also want to draw your attention to our forward looking statement and our non-GAAP disclosures on -- statements on disclosure. We note that our actual results may differ from statements that we make which are forward looking. We advise you to read the cautionary note regarding these forward looking statements. Some of the financial metrics presented on this call today are non-GAAP measures, and as such do not have standardized meaning and are unlikely to be comparable to similar measures by other companies. I would now like to turn the call over to Brian Hurley, our Chairman and CEO. Brian?

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

Thanks, Samantha, and good morning. Thank you for joining us for the call today. The third quarter was another strong quarter for us. In fact, we made solid progress against all our key measures of the business. We had net operating income of $92 million, translating into diluted earnings per share of $0.81. This quarterly income is up from the previous quarter by 7% and up 22% over the same comparable quarter last year. Overall, we generated a return on equity of 14% for the quarter, up one point from the prior quarter.

Our growth strategy continues to gain momentum, as demonstrated by the volume improvement in our top line. We under-wrote $7.6 billion of new insurance written, a 6% increase from the second quarter, and a 51% increase over the same quarter last year. From this, we received a $166 million in new premium, an increase of $9 million from the second quarter and $62 million increase over the same quarter last year.

This quarter's premium benefited from numerous factors, including a strong spring housing market, improved market penetration by us and higher average premium as the levels of purchase activity in the market increased from the first part of the year. Year-to-date we've generated $417 million in new premiums written as compared to $250 million for the same period last year.

In addition, we ended the quarter with a strong balance sheet with total assets of $5.3 billion and shareholder's equity of $2.6 billion. Another key milestone for our business was the addition of our company to the S&P/TSX Index in September, as measured by a market cap, MIC is in the top 100 companies in this index, and we're proud to be among this elite group of companies.

When it comes to the market environment, there were several macroeconomic themes that influenced our results. First of all, our view of the housing market remains encouraging. We feel that the housing market is returning to a more balanced state of supply and demand. After a robust spring sales market, the pace is beginning to slow and response has stopped the demand that is typical for the latter part of the year.

We expected this slowdown, and in fact see this as a necessary component of orderly market cooling or normalization. After a flat market for prices for the remainder of this year and into 2011, we expect the market to return to historical norms with growth rates in the 2% to 3% range. As well, consumer confidence, while down over the last several periods is still strong relative to historic levels and to slow during the recent recession.

Solid consumer confidence and historically low mortgage rates support a strong first-time homebuyer market. Although we have seen some interest rate increases, mortgage rates are still effective and we do not anticipate any significant increases in interest rates at this time. And given that our insurance portfolio consists largely of fixed rate borrowers, an increase in interest rates has less of an impact on our borrower's ability to make their mortgage payments.

In addition, ongoing job creation combined with our proactive approach to loss mitigation positively influenced our loss performance. Since job loss is the principle driver of default frequency, positive job growth is a key contributor to stabilizing losses. All that said, we continue to be cautious about the housing market in certain geographical areas. We intend to keep our present more conservative underwriting approach, and we will continue to insure we have a sharp focus on collateral valuation. All of this means that a prudent risk management strategy is still top of mind for our business.

Overall, we are focused on the execution of our strategy and are seeing the tangible impact our strategy is having on both the top and bottom lines. Our strategy continued to be -- to deliver outstanding customer service to our lender partners and to grow the top line, to prudently manage risk, to ensure we maintain our high quality insurance portfolio, and to actively manage capital and keep our capital flexibility. And all that means is we'll consistently deliver strong financial performance.

Over the last few quarters, managing our capital has been a critical focus for the business and we've been executing on the plan that we discussed in previous calls like this. In August, we successfully completed a $325 million share buyback. We also paid our quarterly dividend of $0.22 per common share to shareholders on September 1, 2010. Furthermore, our Board has also approved a regular quarterly dividend increase of $0.04 to $0.26 per common share to be paid on December 1st to shareholders of record on November 15, 2010. We believe our new dividend policy provides a sustainable and competitive yield and sustainable payout ratio.

Efficient management of our capital will continue to be a key item for this business. We intend to deliver strong returns to our shareholders, and in addition we will maintain sufficient capital to allow us to operate successfully through varying economic conditions and have capital on hand for business growth.

Overall, we are pleased with the results for the quarter. We're encouraged by the improving economic conditions we are seeing and we're confident in our ability to continue to successfully execute on our business objectives. Now, I will turn it over to Phil to walk us through a more detailed look at the financial results. Phil?

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

Thanks Brian. In the third quarter, our net operating income increased quarter-over-quarter to $92 million. Excluding the $5 million favorable tax adjustment, our core net operating income increased by $1 million as higher underwriting and investment income was offset by a full quarter of interest expense in our ten year debt.

Net premiums written increased $9 million sequentially to $166 million. Three factors contributed to this increase. First, mortgage closings from the strong spring market, second, our improved market penetration, and third, a 4% higher average premium rate for high loan to value mortgages due to a stronger purchase market.

Housing activity is usually slower in the fourth and first quarters, and accordingly we expect lower net premiums written in the coming quarters. Premiums earned of $155 million were marginally higher. For the last five quarters, premiums earned have been in the narrow range of $153 million to $156 million, reflecting the impact of the large 2007 and 2008 books being in their peak earning years. Premiums earned will be impacted in the coming quarters as the 2007 book moves past its peak. Our 2010 book will partially offset this impact.

Our quarterly review of our loss development pattern resulted in a $12 million increase to premiums earned in the quarter from the update to our premiums recognition curve. Over the course of the last two years, our loss experience has shown that a higher proportion of losses now occur in the first four years. We expect that the impact of the quarterly update to the premium recognition curve will be smaller in the coming quarters, as the loss development pattern is expected to stabilize.

In the third quarter, losses and claims decreased sequentially by $2 million to $47 million. This loss ratio was two points lower at 30%. New delinquencies were flat sequentially, but we saw a 3% decrease in the average reserve for delinquent loan, reflecting the cumulative improvement in house prices over the past 12 months. Operating expenses increased $2 million over the second quarter to $26 million, resulting in a 17% expense ratio, which is consistent with our target. Overall, we reported solid and consistent underwriting income of $82 million, up sequentially by $1 million.

Investment income excluding gains and losses was $45 million, representing a sequential increase of $3 million. Our focus on quality fixed income investments adds stability to our earnings profile. Our investment yield of 4.3% in the quarter is consistent with this focus. After excluding the $5 million favorable tax adjustment, core net operating income and operating EPS were $87 million and $0.77 respectively, reflecting the continued execution of our business strategies.

Our underwriting performance continues to be the key driver of our profitability. Our combined ratio was flat quarter over quarter at 47% with a two point improvement in our loss ratio to 30% being offset by an increase in our expense ratio. This loss ratio improvement reflects a lower unemployment rate, stabilizing house prices and the continued execution of our loss mitigation strategies.

These positive factors translate into a 3% decline in outstanding delinquencies. All this said, delinquencies typically increase in the fourth quarter due to seasonality, and this may impact our loss ratio accordingly. Our proven track record of profitability continued this quarter with underwriting income after taxes increasing by $1 million sequentially to $57 million, through primarily by our loss ratio improvement.

Approximately one third of our net operating income comes from investments. Investment income after taxes contributed $33 million to our core net operating income of $87 million, which includes interest expense of $4 million. Operating ROE improved to 14%, reflecting our solid net operating income and a more efficient capital structure arising from the addition of leverage and the completion of the share repurchase.

We remain focused on delivering income growth and return on equity improvements through better underwriting performance, enhanced investment yield and continued capital efficiency. Our investment portfolio is prudently managed to generate competitive yields from a high quality diversified portfolio, consisting primarily of fixed income investments.

We continue to refine our investment strategies as the low interest rate environment continues to pressure our investment returns. During the quarter, we increased our preferred shareholders to $67 million to take advantage of the attractive pre-tax equivalent yield and are targeting further additions in the coming quarters. As well, we've expanded our approved asset classes to include a small portfolio allocation to dividend paying common shares. Starting in October, we began adding common shares to the portfolio.

At September 30, our book yield was 4.1% on a $4.3 billion general portfolio, down sequentially by 30 basis points due to lower reinvestment rates. We increased our duration from 3.4 years to June 30, to 3.6 years, as we reduced our cash position after funding the share repurchase. Going forward, we'll continue to refine our investment strategy to maintain competitive yield and a high quality portfolio.

We continue to have a strong balance sheet, and in the quarter with an MCT ratio of 153% after funding $50 million of the share repurchase with dividends from the insurance subsidiary. Since our IPO, our book value for diluted share has increased by 15% to $24.30 at the end of the third quarter. The shareholder's equity of $2.6 billion, debt to total capital of 10% and unearned premiums of $1.9 billion, our strong balance sheet provides us with flexibility to fund growth, increase our quarterly dividend, as well as to manage through various economic scenarios. I'll now turn it over to Peter to review our operational performance. Peter?

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

Hey, thanks Phil and good morning everyone. In addition to our solid financial results, our operating teams really delivered this quarter. In terms of premiums, we continue to strengthen relationships with several key lenders and look forward to adding more customers in the fourth quarter. We continue to win because of our outstanding customer service and our common sense approach.

As an example, we expanded our underwriting pairing strategy that allows lenders to receive personalized service on their applications, and this truly differentiates us from our competitors. Also, we've made several technology investments and process improvements that resulted in a better customer experience and faster turnaround time.

In loss mitigation, our teams continue to reach out and help as many struggling borrowers as possible. Lender adoption of our Homeowner Assistance Program has accelerated and we finalized several systems improvements to simplify things. In the third quarter, we did 1300 workouts, up 23% from the second quarter.

And while our Homeowner Assistance Program continues to be a strong driver of lower losses, we've enhanced our capabilities to take properties from lenders and sell them at higher prices. All these operational highlights lead to customer satisfaction. In the latest independent customer survey, we again scored a 97% rating in overall quality of service. This is consistent with last quarter as well.

The survey reconfirms that it is fast, flexible underwriting and knowledgeable sales professionals that our customers value most.

In addition, we believe it's important to be visible and give back to the communities we work in. In September, we launched our fourth annual Meaning of Home writing competition for grade school students in support of Habitat for Humanity.

The Meaning of Home raises awareness about the value of home and helps to teach the new generation about the importance of caring or writing about why their home is important to them. We will soon be sifting through thousands of national entries and announce the winners in January.

Next, let me touch on our mortgage portfolio performance. Overall, the delinquency rate in our portfolio improved by 1 basis point to 0.25% due to unemployment gains, strong housing markets and loss mitigation efforts. I'll start with Ontario and Quebec, which makes up 62% of our portfolio, both showed continued improvements in their delinquency rates.

The Ontario rate decreased 2 basis points to 0.17%, while Quebec decreased 3 basis points to 0.21%. In both provinces, the improvements were due to job gains and strong housing markets. In Alberta, the delinquency rate increased by 1 basis point to 0.58%, and as in the previous quarter, the pace of increase is moderating. So, while Alberta is seeing employment gains, the housing market has not yet seen the same level of recovery as in the rest of Canada, but we remain confident that Alberta's housing markets will bounce back once commodity markets expand again.

The BC portion of our portfolio saw a delinquency rate of 0.27%, a slight increase from 0.26% in the last quarter. It's worth noting that much of the headline news on affordability pressure in Vancouver relates to the high end of the market. The average price of the homes in new insurance is about 30% less than the market average, reflecting the fact that we mainly insure first time homebuyers.

So, in summary it's been another good quarter from a delinquency perspective, because our underwriting processes continue to produce solid results. In closing, I'd like to remind you of our focus going forward. Our first priority is to increase our market penetration through the execution of our customer service strategy by listening and executing flawlessly.

We will also continue to maintain a high quality diversified insurance portfolio by closely tracking economic and housing trends. As Phil described, we'll see growth in our investment yields over time, because our portfolio is well positioned for increasing interest rate environment, and we will be prudently investing in high yielding securities. And lastly, we'll continue to manage capital to support our business growth objectives and maximize shareholder returns.

All in all, we're very confident that we're well positioned to remain the leading private mortgage insurer in a healthy Canadian mortgage insurance market. With that, I'd like to turn the call back to Sam to begin Q&A. Thank you.

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

Thank you Peter. Thank you all for listening to the formal part of our remarks. We kindly ask you to limit your questions to no more than two questions each in order to allow everyone to ask their questions. You may re-enter the queue, and if there is time available, ask a follow up question. Operator, please open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from Geoff Kwan. Your line is open.

Geoffrey Kwan - *RBC Capital Markets - Analyst*

Hi, good morning. The first question I had is -- I think Brian had mentioned at the start of the call that housing activity is expected to moderate, and I just wanted to get your sense, how you think that will translate into the premiums that you guys recognize, that it would be -- have somewhat of the same, call it percentage change effect? Or do you think that factors such as mix and other things can help to lessen the impact of the slowing housing activity?

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

Yes, hi Geoff. I think the latter part is what I'd focus on. We are going to see an overall slowdown but there are a couple of other factors. First time homebuyers are still out there. As I mentioned, strong low interest rates and strong consumer confidence gives us an encouraging outlook for first time homebuyers, which we're anticipating to be a key part of this market going forward, many of them being high LTV borrowers.

And secondly, as you know, a big piece of our focus is also new to Canada, and that will be another proportion of the market that looks stronger than the overall mortgage originations going forward. So, what I'm saying is that even though there will be a market slowdown overall, our outlook for the high loan to value component looks like it will outpace the rest of the origination market.

Geoffrey Kwan - *RBC Capital Markets - Analyst*

So, would it be fair to then characterize -- because historically people always talked about this whole pent up demand for the better part of the decade. Now, that it looks like maybe rates are going to remain low at least in the near term, is that pent up demand still there, just less than what it might have been over the past several years?

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

Yeah, I think that's a fair characterization.

Geoffrey Kwan - *RBC Capital Markets - Analyst*

Okay, and the second question I had was on the -- all the SG&A expense, and when I say SG&A, I'm going to exclude the premium taxes that you include as well as the deferred policy acquisition costs. How are you thinking about it when you're looking ahead to 2011, whether or not it's from staffing or other? Do you think that what we've seen in the past quarter or two is somewhat indicative of what we might see in 2011? Obviously there may be some gradual increases, but is there anything that might be significant plus or minus?

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

Yeah, I'll start with that, then turn it over to Phil. But in general, Geoff, I think our expense ratio is running just about where we think we should be operating. There may be some efficiencies there, but we don't see any major swings in our expense ratio going forward. But specifically to SG&A, Philip, what will be the view?

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

Well, I concur with Brian too. Our expense ratio is 17%, it's probably very close to what our targets are. I think one thing to note is that it is measured as a percentage of premiums earned, but as you move into 2011 as we described, there maybe some pressure on the premiums earned line and the ratio might bounce around a point or two, but we feel really good that the expense pace will not increase in quantum on dollars spent, but the percentage may move around a little bit.

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

You know Geoff, when it comes to doing that build on resource that we did a year and a half ago by becoming a public company, those adds are essentially done. So, we built the infrastructure, and that 17% looks like about a right level for us to run at.

Geoffrey Kwan - *RBC Capital Markets - Analyst*

Okay, perfect. Thank you.

Operator

The next question comes from Phil Hardie. Your line is open.

Phil Hardie - *Scotia Capital Inc - Analyst*

Hey, good morning, just a follow up question in terms of some of the color on the premiums written. I know you mentioned a number of different factors including some of the mix particularly between purchase and refinance, but I'm wondering if you can drill down to that a bit deeper and maybe talk about maybe specific product mix and maybe some opportunities that we've seen with some changes by CMHC.

And particularly kind of related to the investment property insurance line, and I guess specifically a look at some of their debt servicing guidelines are slightly different from yours. I wonder if that's created an opportunity in some of the growth we're seeing.

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

Yeah, hi Phil, it's Brian. It could, but when you look at the mix change for us now, as you noted, there's a couple of factors. One, it is just the purchase versus refi, folks that were refinancing was as you know a big component of the marketplace in the first half of the year. That came back to a much more normal balance. Right now we're seeing about, I'd say, 75% purchase, 25% refi, so a much stronger purchase market, which drives a stronger premium for us.

Getting into products, as you described, investment properties, that's something that we have not done historically and something that we're probably not inclined to go into too heavily, especially in today's economic outlook. There are some parts we're -- especially on the high end of those properties, it could be quite sensitive, and that's something -- when we look at our plans for growth going forward, that would not be a top priority for us. Stuart, do you have anything to add?

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

Yeah, just the comment regarding some different underwriting criteria, that relates more to where there is perhaps a borrower buying a home that has a rental unit within that home or perhaps they have another rental property that provides some income. We have some slight variation in our guidance, we're a little more flexible from a regional basis, but it's not material to our overall writings, and therefore probably would not be a big generator of additional premium, but it is a small advantage that customers will appreciate.

Phil Hardie - *Scotia Capital Inc - Analyst*

Okay, great, and my second question just relates to investments. Just looking through your slides, I think on slide 13, adding high dividend paying common shares in Q4 2010. I was wondering if you can kind of maybe talk about what the target allocation for that would be, as well as kind of revisit perhaps shares and whether that's still kind of targeted around 5%.

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

Yeah, Philip?

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

Yes, certainly. Phil, as you appreciate, we're primarily a fixed income investor, we cherish yield. Having said that, we believe that common shares that pay a reasonable dividend are attractive, primarily because dividend income is not taxed, so the pre-tax equivalents can be around 5%. Or allocation is about 3% of our overall portfolio or $120 million, and we think that we'll be able to sort of fill that over two quarters.

On the preferred shares, supply is really holding us back. We'd still love to target 5% of our portfolio, but the build is much lower than we had anticipated. We continue to make progress, but the availability of the preferred shares is really what's constraining our build, and hence are looking into the common shares with dividend, because that can be a faster build.

Phil Hardie - *Scotia Capital Inc - Analyst*

Okay, great, thanks. I'll re-queue.

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

Thanks, Phil.

Operator

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

Paul Holden - *CIBC World Markets Inc - Analyst*

Thanks. First question is with respect to market penetration. You mentioned that you're strengthening your penetration with key lenders. Now, are those key lenders ones where you already had fairly high penetration and it's just getting higher or perhaps are they key lenders where your penetration was lower than average and now you're just kind of bringing it up to where the average should be?

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

Hey Paul, it's Brian. Of course, it's a little bit of both, so maybe hard for you to get a feel for, but yeah, as you know, we've had some very, very strong relationships, and through the service activity that Peter mentioned, we're growing that, but I'd say a big piece of this penetration is coming from new volume and new relationships that are improving our relationships with those that we have room for improvement on.

Paul Holden - *CIBC World Markets Inc - Analyst*

Okay. Second question is with respect to the MCT ratio and excess capital. I mean MCT ratio is already at a fairly high level, and I expect it to build fairly significantly probably over the next 12 months. Is there kind of a level where you would expect to return additional capital to shareholders either through substantial issue or bid or a special dividend?

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

Well, yes -- our priorities are to keep some additional capital for economic uncertainty. Our view is that we're not quite out of the woods yet, but also as we talked about growing share, we need to make sure we have enough capital there in order to continue that market penetration that we talked about, but yes, even beyond those two undertaking, we're going to be running in a very strong capital position, and just like we did the middle part of this year, we're reviewing our options, reviewing the return of capital either through a share buyback or a special dividend type.

And even looking at reinvesting in the business or the things that we can do on the technology side or with partnerships to help make more insurance more sticky and help differentiate us from the competitors, so as we did in the middle of this year, we're in the middle of looking at our capital needs and what capital regenerating, and evaluating all of that.

Paul Holden - *CIBC World Markets Inc - Analyst*

Okay, thanks.

Operator

(Operator Instructions)

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

Tom Mackinnon - *BMO Capital Markets - Analyst*

Yeah, thanks very much, good morning everyone, two questions. First question is really with respect to the premium recognition. There's been a sort of a pattern here of effectively bringing forward some of what would have been deferred premium into it -- into earnings now. And I'm wondering what is the thinking behind this.

I understand that if the claims are coming in a little bit faster than anticipated, -- how much arbitrariness is involved in development of this or changing this loss -- premium recognition curve, because if I look at the loss ratios, they are actually below your targeted range. So, if you're finding that the claims are coming in faster than anticipated, why are you bringing more premium revenue into the equation as such that you're actually running at a loss ratio below your targeted range? And as a follow up to that, who looks at that premium recognition curve? Does OSFI look at it? How often is it reviewed, and how much leeway do you have in setting that thing, and are there any guidelines?

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

Yeah, okay, Tom, good questions. Philip, I'll turn it over to you.

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

Yeah. Tom, we work with our external actuary, and our external actuary looks at our loss development pattern, and he prepares a quarterly report outlining what he recommends the earnings curve should be updated to. Essentially he's looking at loss development over our history, and that goes back 20 years, and he's trying to come up with what the long term earnings curve looks like.

Having said that, the earnings curve from the early 90s is quite different from the loss development pattern that has occurred in the 2000s. And what you're seeing is the gradual shift forward from what was the historical curve where losses tended to be protracted to a situation where losses tend to happen more front end loaded in the first four years.

The report is reviewed by our auditors, so there is certainly a number of reviews, and it's something that ultimately we take the recommendation from our actuary. So, it's not something that we arbitrarily set, it's something that there is a disciplined, established process for it and we follow that process consistently quarter over quarter.

Tom Mackinnon - *BMO Capital Markets - Analyst*

I understand that it's driven by the claims. I'm just trying to wonder why the bring-forward of the premiums isn't enough just to match the increase in the pace of the claims, because it seems to be that the loss ratio has been -- has been enhanced to the tune of four, five combined ratio points in each of the last several quarters as a result of it.

Tom Mackinnon - *BMO Capital Markets - Analyst*

And I'm wondering why you end up getting a pick up --

Tom Mackinnon - *BMO Capital Markets - Analyst*

When the actual claims are kind of like relatively stable over the last couple of quarters.

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

Well, I think there are two factors. I mean one is there is the earnings curve and then there's the losses. And what we're seeing in the loss front is largely driven by economic factors, but our accounting policy is to match the recognition of premiums for the pattern of loss development, and effectively that's what our process is focused on. We continue to review the patterns, and essentially what you're seeing in the loss ratio is the improvement in underlying losses.

And then the earnings curves, you look at the actual numbers, they've been fairly stable in the last five quarters that are around a $153 million. So, even though that we have updated the earnings curve, the resulting premiums earned are stable, and it's the losses that are coming down, that are driving the loss ratio improvement.

Tom Mackinnon - *BMO Capital Markets - Analyst*

And to what extent is the regulatory oversight on that?

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

Well, certainly we're bound by GAAP, and we do work closely with OSFI, but essentially we're following GAAP principles, and OSFI does review our appointed actuary's work periodically.

Tom Mackinnon - *BMO Capital Markets - Analyst*

Okay, so, I mean in the end the only comment I make is, when you did this thing in the first quarter of 2009, we were sort of told to ignore it, and then since then you've updated it to the tune of four or five combined ratio points in each of the last six quarters, and it just sort of gets pulled into the results.

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

Well, I think if you remember, the first quarter was the first time change of the earnings curve from 2000, so you really had a very long period of time, over which changes had developed, and at that point in time, insurance companies, the OSFI had a prescribed curve, which was intended to match GAAP. Because of the diversions between the prescribed curve and the loss development pattern, we updated the curve and agreed to update on the quarterly basis, so that we would not build up an amount as substantial as we did back in the first quarter of 2009.

Tom Mackinnon - *BMO Capital Markets - Analyst*

And when was the last time OSFI looked at your curve. Is that -- do they do that on an annual basis, and what kind of a guideline do they impose on top of that?

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

OSFI does periodic reviews, sometimes more frequently than annually, and they have reviewed the updated curve.

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

Tom, I think the important point is that we did play that one time catch up. This is more tuning on a quarterly basis. I think Phil's point is an important one, that our improvement in loss ratio is coming from the result of our underwriting positions and underwriting stance in the marketplace, but also the improving economy. We're not getting a lot of lift from this earnings turn -- earnings curve, let's say, adjustments or tweaking during the quarters.

Tom Mackinnon - *BMO Capital Markets - Analyst*

Yeah, well, I think it's probably in the area of $0.06 or $0.07, probably just by bringing that up. But nevertheless, it is GAAP, and it's being externally approved. Maybe you think it's probably going to be a little bit smaller going forward as well, is that right, just as the book matures?

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

Yes, and that's because you're you're reflecting a pattern. If the pattern stabilizes, therefore the need for the adjustments is diminished.

Tom Mackinnon - *BMO Capital Markets - Analyst*

Okay, thank you for that. Now, Brian, just a --

Operator

Your next question comes from Shubha Khan. Your line is open.

Shubha Khan - *National Bank Financial - Analyst*

Hi, thanks. I think somebody got caught off there, but anyway most of my questions have been answered. I'd just like to drill to -- drill down into your underwriting a little bit like previous speakers. Just so that I understand, what exactly transpired this quarter? Could you help me understand all the factors, possibly in order of importance, that drove higher underwriting activity, premiums written this quarter, especially if you measure that against the backdrop of a sharp sequential drop in home sales. I think home sales dropped 31%?

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

Yea, there's a couple of big factors there, and I'll turn it over to some detailed discussions, but first of all, in general, we had a very, very strong market in the first half of this year, a very strong spring market. Typically that market has a bit of a hard time catching its legs in the first quarter of the year. This year it came out almost strong out of the gate with one of the strongest second quarters seen from a while, folks feeling good about the economic recovery, rates being low, and everyone anticipating an increase in rate, so they came off the fence.

That was the biggest driver of overall macro activity. And an important piece, as we discussed earlier, is that underwriting premium also. The premium that we got on a very strong purchase market, that we've seen evolved, again people walking in those fixed rates for five year periods. So, from a general sense, those two elements drove the macro line, but there were some strong elements below that also. First time homebuyers are a big piece of our business. The units of those were up over prior quarters, new to Canada that we chatted about, were also up over prior quarters. So, there were numerous factors, both in macro lift and the specific dynamics within our business which we saw.

Shubha Khan - *National Bank Financial - Analyst*

Perfect, thank you.

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

Sure.

Operator

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

Christopher Giovanni - *Goldman Sachs & Co - Analyst*

Thanks. Brian, you just commented in terms of people rushing out to maybe get a mortgage ahead, of rates moving higher. So, can you comment some around your underwriting practices to make sure that after the sort of the five year reset from a shock lapse perspective, that the borrower is still comfortable paying a higher rate down the road?

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

Yeah, sure, Chris, and I have been mixing words, I apologize. Rushing might have been a strong characterization, but folks did come off the fence and folks were looking at rates to say, hey, this is probably a smart time for us to lock in. But yeah, we kept our underwriting discipline. We look at rate shock as a principle component of how we underwrite loans. I'll let Stuart Levings walk us through the mechanics of that.

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

Yeah, I mean the thing to know at this point is that our average rate so far this year on the five year is around 4.5%, 4.4%. If those folks come up for renewal five years down the road and rates are hovering around the traditional or historical norm of let's say 6.5%, that's only a 200 basis point increase, which from our estimation will not put these people into jeopardy.

They're able to withstand, we would say, at least a 300 basis point increase before debt ratio started to reach dangerous levels. Our average debt ratio is in fact quite well below the maximum that we allow, so we're quite comfortable with that. Variable rate borrowers on the other hand are actually underwritten now, as you know, based on the government's changes at the five year posted rate, which is already quite a substantial buffer over the actual prevailing variable rate.

So, again, we feel quite confident with those people. And lastly, just to remember, approximately 75% of the people that we insure, are in fixed rate mortgages at around the five year being the most popular. So, there is a high proportion of fixed rate.

Christopher Giovanni - *Goldman Sachs & Co - Analyst*

Okay, thank you. And then can you talk about what you're seeing from new private competitors in the marketplace and things they're trying to do to differentiate themselves from you guys?

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

You won't get a lot of insight from us, Chris, on that one. There is a new private competitor in the marketplace, and they're out there trying to make -- get some traction, but we haven't seen a lot honestly, so I think you'd have to ask them.

Christopher Giovanni - *Goldman Sachs & Co - Analyst*

Okay, all right, thank you.

Operator

The next question comes again from Tom Mackinnon from BMO Capital. Your line is open.

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

You're back Tom, I'm sorry about -that.

Tom Mackinnon - *BMO Capital Markets - Analyst*

Yeah, no problems. Brian, I just wanted to get some of your thinking behind the dividend increases, is it a feeling of comfort (inaudible) with the market conditions?

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

It's a combination of things. It's based on a count of what our capital position is going forward, coupled with the market conditions that we see for the business, and also something that we can do to make sure we're staying competitive in that front with something that we measure. So, a combination of those factors is what drove that.

Tom Mackinnon - *BMO Capital Markets - Analyst*

Okay, thanks very much.

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

Certainly, Tom.

Operator

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

Jeff Fenwick - *Cormark Securities, Inc - Analyst*

Hi, good morning. I just wanted to get back onto the loss ratio again, and it's ticked down nicely for you, and I'm sure you're pleased with that, and it's certainly well below your targeted range here, and just wondering, everyone is thinking about the downside of the market, but what if economic conditions improve here, and is it feasible that you get back to some of the loss ratio levels you saw through '06 and '07 where that loss ratio was down below 20%? What's kind of the outlook there on how that could shift?

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

Yeah, hi, Jeff. When we look forward into the future, we just got done our multi year plan, we feel that this loss ratio level is about where it's going to be. Those levels that we saw back in the early '90s, or even sooner, was I'd say an economic environment that we probably won't see for some time. That was wildly strong home price appreciation, unemployment down to record lows and all those elements, at least during our multi-year plan that we just completed, we don't see it coming back to those levels. We do see some improvements.

Unemployment, for example, a principle driver, we see improving over the next three to five years by getting down to that full pool of unemployment around 6.5%, 6.7%, not improving much better than that for example, is our assumption. So, I guess I'm saying that this range of loss ratios is what we're anticipating for the next while.

Jeff Fenwick - *Cormark Securities, Inc - Analyst*

Okay, and I guess it just comes from your outlook being one way, and we're still seeing that decline in the loss ratio. So, I guess you're just sort of suggesting we'll see a moderation around where we are today, then.

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

Yeah, yeah, don't forget there's seasonality there too. I mean typically coming into the winter months, delinquencies go up and losses are pressured, so we have a couple of quarters here that we need to be thoughtful about that too.

Jeff Fenwick - *Cormark Securities, Inc - Analyst*

Thank you very much.

Operator

We have one more question, and it comes from Paul Holden from CIBC. Your line is open.

Paul Holden - *CIBC World Markets Inc - Analyst*

Question with respect to CMHC, Peter, you mentioned that you've made a number of enhancements to your technology and turnaround times et cetera. Any idea if CMHC is going to respond with similar improvements to their technology?

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

Hey Paul, you know what, I don't really generally comment on that, to be honest with you. We know though that we do quite a bit more property evaluation than they do, and that's where we really have to be sharp, because doing the property evaluation, particularly when there is an appraiser involved, we've got to get some real fast speeds in there. So, some of the things that we've done have really helped that process, but I can't tell you much about what they're doing.

Paul Holden - *CIBC World Markets Inc - Analyst*

Okay. And then a last question, again with respect to CMHC. You mentioned the service level -- the service level that you receive from the consulting group, like a 97% rating. In the past we've seen, I guess, a comparable number for CMHC. Do you also still get that on a quarterly basis, how their rating --

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

Yes we do, but we don't publicly talk about what exactly it is. It's a significant gap.

Paul Holden - *CIBC World Markets Inc - Analyst*

Okay, still a significant gap, okay. Is their service level -- can you tell me the trend in their service level, is it staying about the same or improving?

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

Yeah, you know what, I'd rather not say.

Paul Holden - *CIBC World Markets Inc - Analyst*

Okay.

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

You know Paul, look at the scoreboard, I mean we are gaining some traction in the marketplace and winning customers, which is an encouraging sight for us.

Paul Holden - *CIBC World Markets Inc - Analyst*

Absolutely, yeah. Okay, thanks a lot.

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 line.
