

## Genworth First Half 2016 Earnings

2016 guidance maintained; capital management initiatives continue

**(SYDNEY) 3 August 2016** – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) reported statutory<sup>1</sup> net profit after tax (NPAT) of \$135.8 million and underlying<sup>2</sup> NPAT of \$112.9 million for the half year ended 30 June 2016.

The Genworth Board declared a fully franked interim ordinary dividend of 14.0 cents per share and a fully franked special dividend of 12.5 cents per share, both payable on 31 August 2016 to shareholders registered on 17 August 2016. The ordinary dividend represents a payout ratio of 63.2 per cent, up from 61.2 per cent in 1H15.

Ms Georgette Nicholas, Chief Executive Officer and Managing Director of Genworth, said, “Our solid first half results reflect the resilience of the business and our focus on maintaining our risk management discipline in a dynamic market. Key performance metrics for the first half were in line with our expectations and our full year 2016 guidance remains unchanged.

“Overall economic conditions are supportive and the fundamentals of the residential mortgage market are sound, but there is pressure in some areas of the market. It is clear that the business is navigating through some variability and changes in the residential mortgage market. In particular, there has been a significant decline in the proportion of high loan-to-value ratio (LVR) loans originated given regulatory changes and changes in lender risk appetite.

“We continue to work on strengthening our value proposition focused on meeting our customers’ strategic capital and risk management needs as well as working with various stakeholders to address the issue of housing affordability.”

### Financial performance measures (A\$ million)

	Half Year		
	1H15	1H16	Change
New Insurance Written (A\$ billion)	17.7	14.0	(20.9%)
Gross Written Premium	285.4	189.8	(33.5%)
Net Earned Premium	225.7	228.8	1.4%
Reported NPAT	113.0	135.8	20.2%
Underlying NPAT	132.9	112.9	(15.0%)
Reported Loss Ratio	22.1%	33.0%	10.9 points
Normalised Loss Ratio <sup>3</sup>	26.4%	33.0%	6.6 points
Total portfolio delinquencies	5,900	6,413	513
Portfolio delinquency rate	0.40%	0.43%	3 bps

<sup>3</sup> The 1H15 normalised loss ratio excludes the impact of a \$9.6 million borrower recovery receivable.

<sup>1</sup> The financial result of Genworth and its subsidiary companies (the Group) prepared under a statutory basis (prepared in accordance with Australian accounting standards, which comply with International Financial Reporting Standards (IFRS)).

<sup>2</sup> Underlying NPAT excludes the after tax impact of unrealised gains/(losses) on the investment portfolio.

## **Financial Performance for 1H16**

New business volume, as measured by New Insurance Written (NIW), of \$14.0 billion in 1H16, decreased 20.9 per cent compared with the previous corresponding period (pcp).

GWP decreased 33.5 per cent to \$189.8 million in 1H16. This reflects a number of factors including reduced high-LVR penetration in the market, a lower LVR mix of business, as well as the full impact of the changes in customers in 1H15.

Net Earned Premium (NEP) increased 1.4 per cent to \$228.8 million in 1H16 compared with the pcp reflecting an adjustment to the NEP earnings curve implemented in 3Q15.

The normalised loss ratio rose to 33.0 per cent in 1H16 from 26.4 per cent in the pcp, due to an increase in the number of delinquent loans relative to a year ago and a higher average paid claim amount.

The overall portfolio continues to be supported by strong performance in New South Wales and Victoria. However, the performance in Queensland and Western Australia is still challenging, reflecting increased delinquencies, particularly in regions exposed to the slowdown in the resources sector as the economy in those areas navigates through a period of transition.

The expense ratio in 1H16 was 24.4 per cent compared with 26.7 per cent in the pcp. The lower expense ratio reflects a continued focus on expense management. Genworth continues to manage the business with a target expense ratio of 26 - 28 per cent in 2016.

Investment income of \$103.8 million in 1H16 included a pre-tax mark-to-market gain of \$32.7 million. As at 30 June 2016, the value of Genworth's investment portfolio was \$3.6 billion, more than 95 per cent of which continues to be held in cash and highly rated fixed interest securities.

As at 30 June 2016, the Company had invested \$129 million in Australian equities in line with the previously stated strategy to improve investment returns on the portfolio within acceptable risk tolerances. After adjusting for the mark-to-market movements, the 1H16 investment return was 3.53 per cent per annum, down from 3.72 per cent per annum in the pcp.

## **Capital management**

During the period, the Company implemented a capital management initiative by way of a capital reduction and associated share consolidation. A distribution of 34 cents per share, representing a total payment of approximately \$202 million, was paid to shareholders on 1 June 2016. The cash distribution was combined with a related share consolidation, through the conversion of each share into 0.8555 shares, which was designed to provide shareholders an earnings per share outcome similar to a share buy-back.

The capital reduction is a continuation of the capital management actions that are designed to bring the Company's solvency ratio more in line with the Board's target capital range of 1.32 to 1.44 times the Prescribed Capital Amount (PCA) on a Level 2 basis. As at 30 June 2016, the Company's regulatory solvency ratio was 1.56 times PCA.

The Board declared a fully franked interim ordinary dividend of 14.0 cents per share and a fully franked special dividend of 12.5 cents per share, both payable on 31 August 2016 to shareholders registered on 17 August 2016. The interim ordinary dividend represents a payout ratio of 63.2 per cent of 1H16 Underlying NPAT.

The Company is continuing to evaluate further capital management initiatives that could be implemented in 2016.

## **2016 Outlook**

Genworth continues to focus on the strategic needs of our customers, especially during this period of heightened regulatory focus on the Australian mortgage market and lending standards.

The outlook for the Australian residential mortgage market remains strong, supported by sound fundamentals including low unemployment, record-low interest rates and a continued focus by regulators on lending standards. Genworth expects house price appreciation to moderate in 2016.

The high LVR market continues to be constrained in 2016 and Genworth continues to expect GWP to decline by approximately 20 per cent for the year due to these market conditions.

Genworth expects 2016 NEP to decline by approximately 5 per cent and for the full year loss ratio to be between 25.0 and 35.0 per cent. The Board will target an ordinary dividend payout ratio range of 50 to 80 per cent.

The full year outlook is subject to market conditions, including expected seasonal business patterns in the second half of the year, as well as unforeseen circumstances or economic events.

## **Conference Call**

A conference call for analysts, institutional investors and media will be held today at 10.30am (Sydney time) to discuss these results. Details of the conference call dial-in numbers are as follows:

**Conference name: Genworth Australia First Half 2016 Financial Results**

**Conference ID: 4332 2539**

### **Australia dial-in details**

1800 123 296 (toll free)

+61 2 8038 5221 (toll)

### **International dial-in details**

These numbers are toll-free dial-in numbers for each country listed below. For countries not listed below, the Australian Participant Toll number listed above can be dialed.

Canada	1855 5616 766	New Zealand	0800 452 782
China	4001 203 085	Singapore	800 616 2288
Hong Kong	800 908 865	United Kingdom	0808 234 0757
India	1800 3010 6141	United States	1855 293 1544

For more information:

Analysts and Investors should contact:

Media should contact:

**Alistair Reid**  
Investor Relations Manager  
T: +61 2 8248 2552

**Mark Westfield**  
M: +61 457 805 838

#### **About Genworth**

Genworth Mortgage Insurance Australia Limited (Genworth), through its subsidiary companies Genworth Financial Mortgage Insurance Pty Ltd and Genworth Financial Mortgage Indemnity Ltd (together, the Genworth Group or the Group), is the leading provider of Lenders Mortgage Insurance (LMI) in the Australian residential mortgage lending market. The Genworth Group has been part of the Australian residential mortgage lending market for 50 years since the Housing Loans Insurance Corporation was founded by the Australian Government in 1965 to provide LMI in Australia. Genworth is currently a subsidiary of Genworth Financial, Inc. and part of the Genworth Financial, Inc. group of companies. The Genworth Financial, Inc. group of companies' current ownership interest in Genworth is approximately 52% of the issued shares in Genworth.