

Genworth Mortgage Insurance Australia

3Q 2014 Financial results presentation

06 November 2014



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Overview of 3Q14 financial performance

Solid third quarter financial performance

- Underlying pro forma NPAT¹ of \$70.2m for the quarter ended 30 September 2014.
 - Reported Net Profit After Tax (NPAT) of \$64.0m includes \$6.2m of post tax mark to market losses.
- New Insurance Written (NIW) of \$9.8bn compared to \$8.8bn in the prior corresponding period (pcp).
- Gross Written Premium (GWP) of \$157.5m, up 5.3% compared to pcp.
- Net Earned Premium (NEP) of \$112.0m, an increase of 9.5% compared to pcp.
- Closing delinquencies of 5,300 down from 5,405 as at 30 June 2014.
 - Delinquencies down by 105 from 5,405 as at 30 June 2014 reflecting anticipated leveling of delinquency profile after seasonal uptick in the first half.
 - Delinquency rate consistent at 0.36% compared to last quarter and down 0.01% compared to pcp.
- Reported loss ratio of 21.4% for the quarter ended 30 September 2014, year to date loss ratio of 20.2%.
- Lower losses and delinquencies underpinned by low interest rate environment and ongoing strength in housing markets.
 - Improved housing market supporting a trend in a reduction in late stage arrears and a lower average claim amount.
- Investment income of \$32.2m pre tax (includes \$8.9m (pre tax) of mark to market losses).
- Strong stable balance sheet with \$1.3bn of Unearned Premium Reserve (UPR).
- Cash and fixed interest Investment portfolio of \$4.0bn with 2.2 year duration.
- Regulatory capital solvency ratio 156.4% on a level 2 basis²

1. The pro forma results have been prepared on the same basis as the financial information (including financial forecasts) disclosed in the prospectus lodged by GMA with the Australian Securities and Investments Commission on 23 April 2014 (Prospectus), which reflected the post re-organisation structure. Underlying NPAT excludes the after tax impact of unrealised gains/(losses) on the investment portfolio.
2. Level 2 solvency ratio is only required to be calculated and submitted to APRA on a semi annual basis, quarterly estimates have not been audited.

3Q 2014 pro-forma income statement

Strong housing and stable economic conditions have supported solid performance

(A\$ millions)	Q313	Q314	Change	YTD '13	YTD '14	Change	FY14 F'cast ²
Gross written premium	149.6	157.5	5.3%	422.7	471.2	11.5%	663.2
Movement in unearned premium	(29.3)	(26.6)	(9.2%)	(73.6)	(84.1)	14.3%	(146.8)
Gross earned premium	120.3	130.9	8.8%	349.1	387.1	10.9%	516.4
Outwards reinsurance expense	(18.0)	(18.9)	5.0%	(54.6)	(56.7)	3.8%	(76.2)
Net earned premium	102.3	112.0	9.5%	294.5	330.4	12.2%	440.2
Net claims incurred	(28.1)	(24.0)	(14.6%)	(109.3)	(66.8)	(38.9%)	(133.1)
Acquisition costs	(11.7)	(11.9)	1.7%	(34.3)	(36.0)	5.0%	(49.6)
Other underwriting expenses	(14.9)	(17.6)	18.1%	(45.3)	(51.6)	13.9%	(71.8)
Underwriting result	47.6	58.5	22.9%	105.6	176.0	66.7%	185.7
Inv. income on tech reserves ¹	9.4	9.2	(2.1%)	20.2	36.4	80.2%	40.7
Insurance Profit	57.0	67.7	18.8%	125.8	212.4	68.8%	226.4
Inv. income on shareholders' funds	26.8	23.1	(13.8%)	58.8	99.9	69.9%	116.9
Financing costs	(2.9)	(2.8)	(3.4%)	(8.7)	(8.4)	(3.4%)	(11.2)
Profit before income tax	80.9	88.0	8.8%	175.9	303.9	72.8%	332.1
Income tax expense	(24.7)	(24.0)	(2.8%)	(54.0)	(88.5)	63.9%	(101.0)
Net profit after tax	56.2	64.0	13.9%	121.9	215.4	76.7%	231.1

1. Interest income on Technical Funds and Shareholder Funds include the before-tax effect of realised and unrealised gains/(losses) on the investment portfolio.

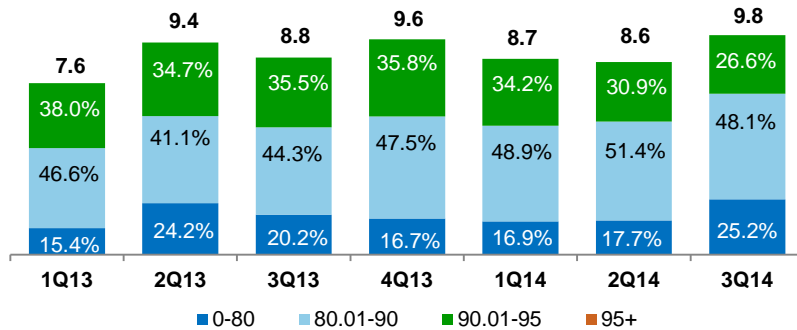
2. IPO Prospectus forecasts as at 23 April 2014.

New insurance written

New business mix reflecting policy changes since 2009

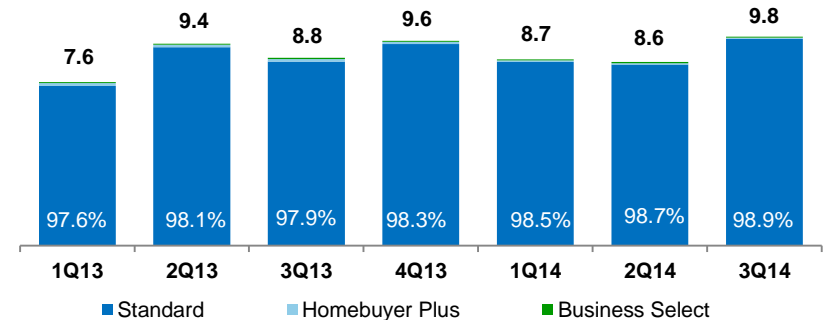
Total NIW by LVR band (quarterly)

\$ billions, %



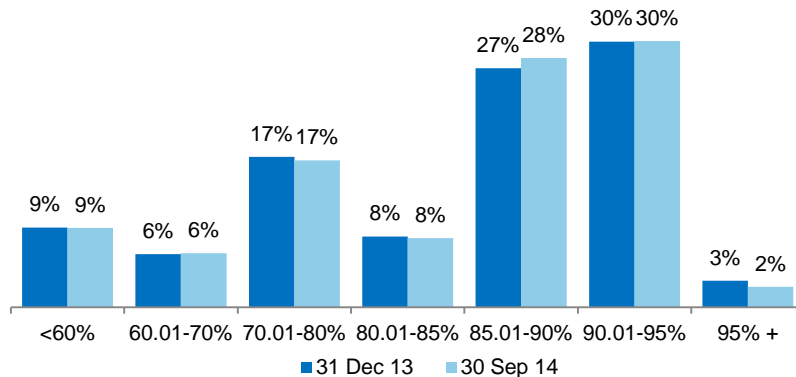
NIW by product type (quarterly)

\$ billions, %

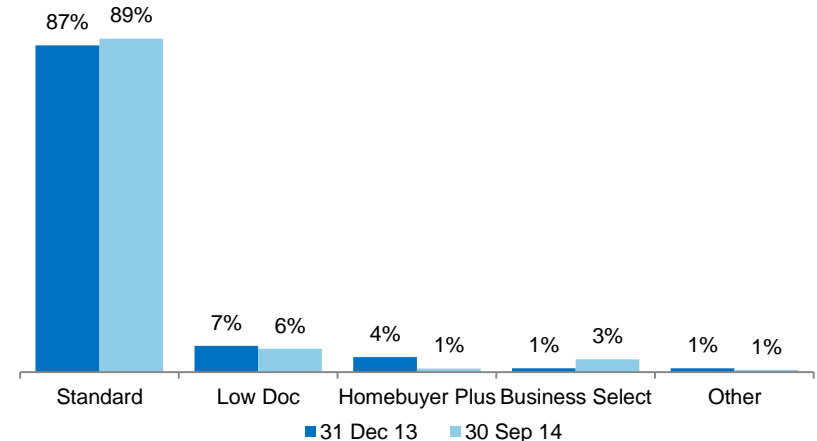


Insurance in force by LVR band (original LVR), as at

Total IIF \$310 billion



Insurance in force by product type, as at

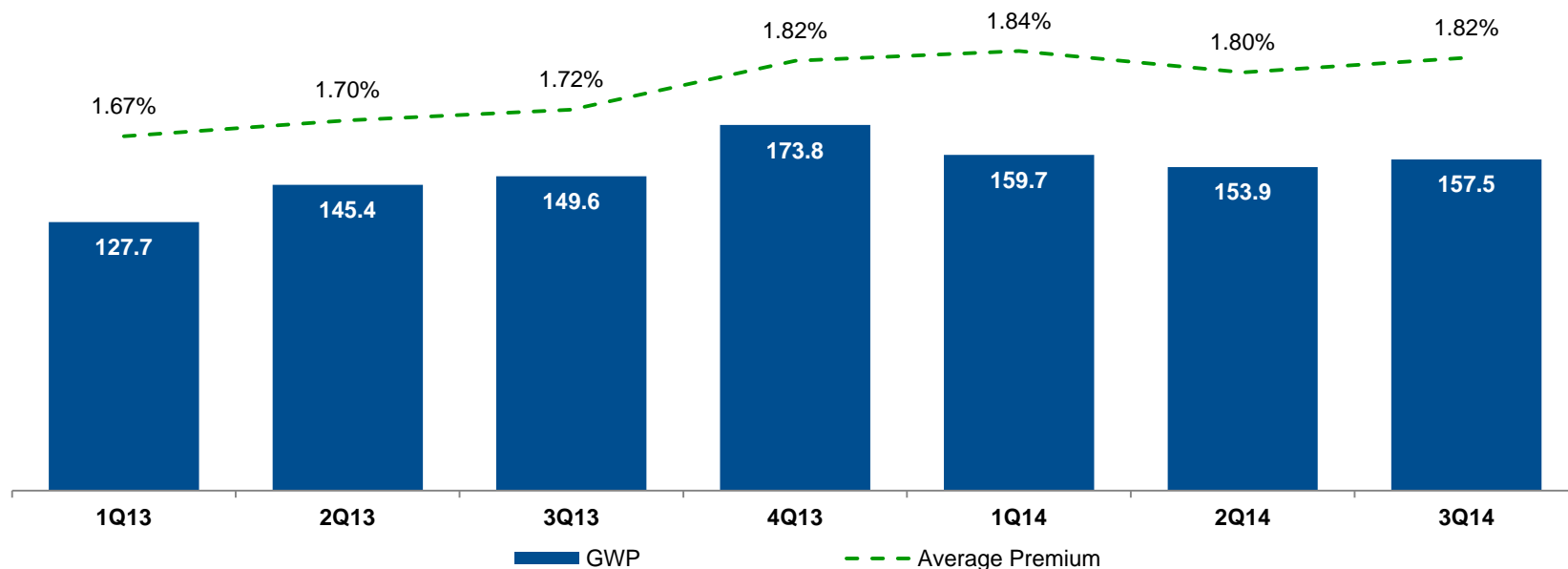


Gross written premium

Price increases offset by shift in LVR mix

Total GWP and Flow average price (Flow GWP / Flow NIW)

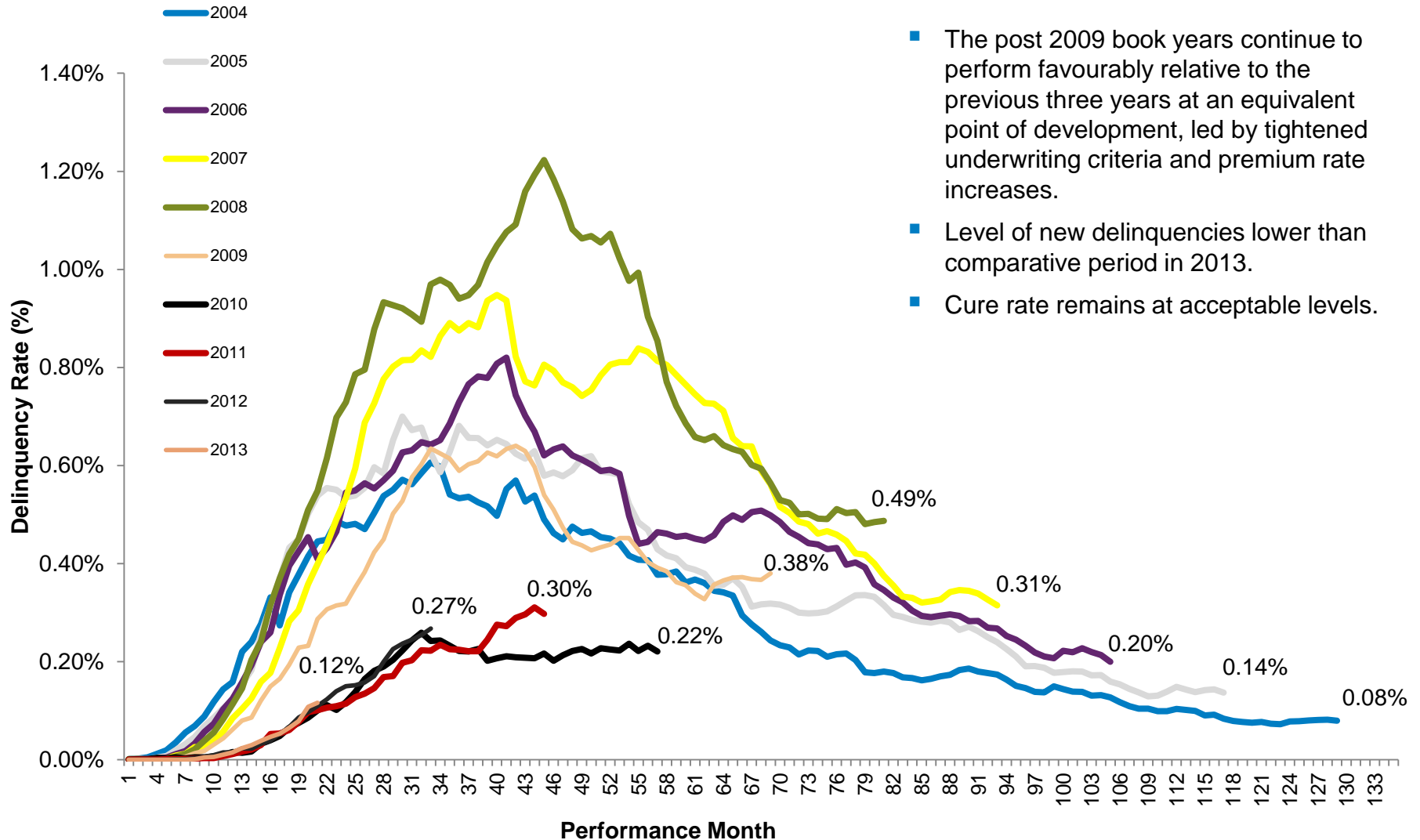
\$ millions, %



- GWP growth of 5.3% vs. pcp.
- Average price of 1.82% is an 5.8% increase vs pcp and reflects price increases implemented in 2013.

Delinquency development

Favourable performance post 2009 with usual seasonal trends



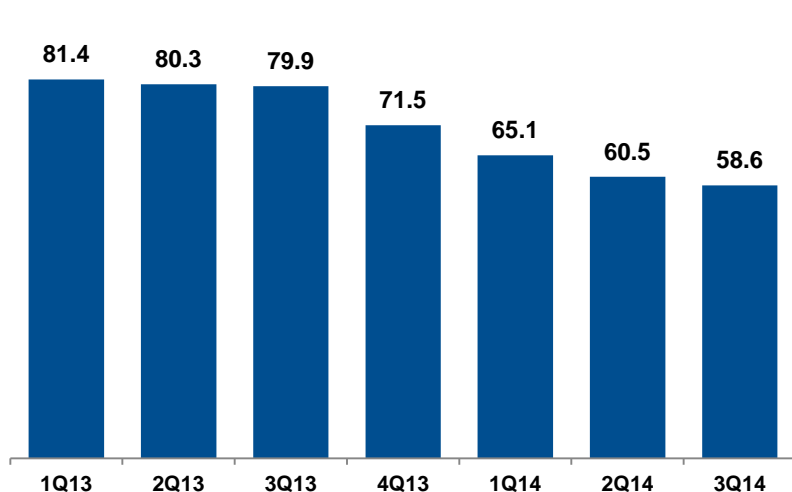
- The post 2009 book years continue to perform favourably relative to the previous three years at an equivalent point of development, led by tightened underwriting criteria and premium rate increases.
- Level of new delinquencies lower than comparative period in 2013.
- Cure rate remains at acceptable levels.

Net incurred claims

Lower level of delinquencies flowing through to MIP and lower average claim size

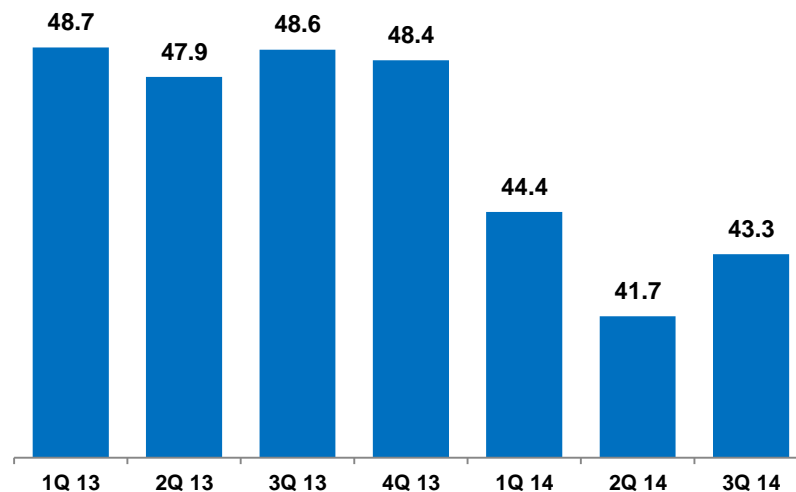
Average paid claim

\$ thousands



Average reserve per delinquency

\$ thousands



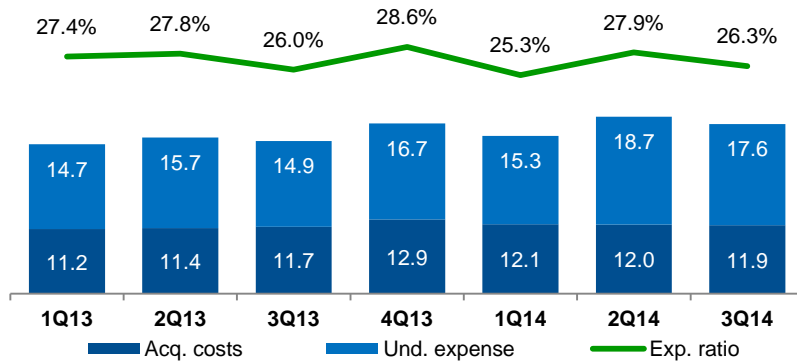
Composition of net incurred claims (A\$ millions)

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Number of paid claims	722	549	510	581	462	419	350
Average paid claim	81.4	80.3	79.9	71.5	65.1	60.5	58.6
Claims paid	58.7	44.1	40.7	41.5	30.1	25.3	20.5
Movement in reserves	(14.1)	(7.5)	(12.7)	(23.1)	(12.8)	0.2	3.5
Net claims incurred	44.7	36.6	28.1	18.5	17.3	25.6	24.0

Insurance ratio analysis

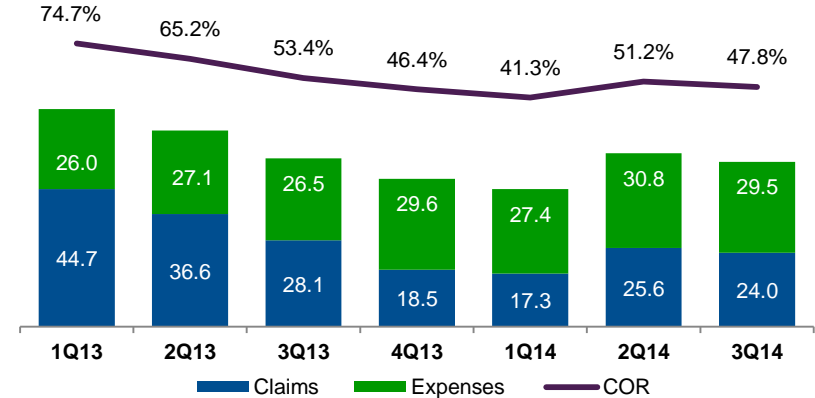
Expenses

\$ millions, %



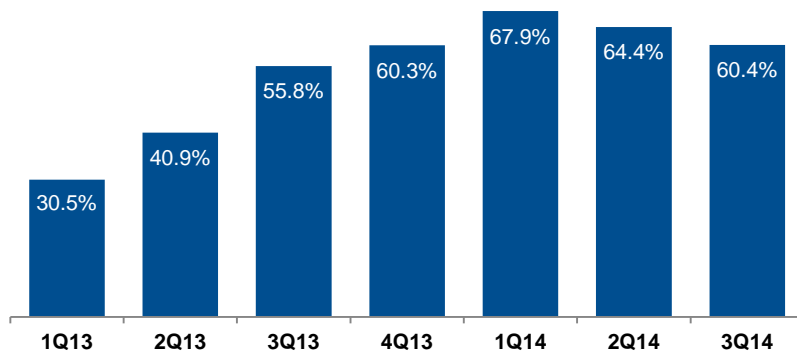
Combined ratio

\$ millions, %



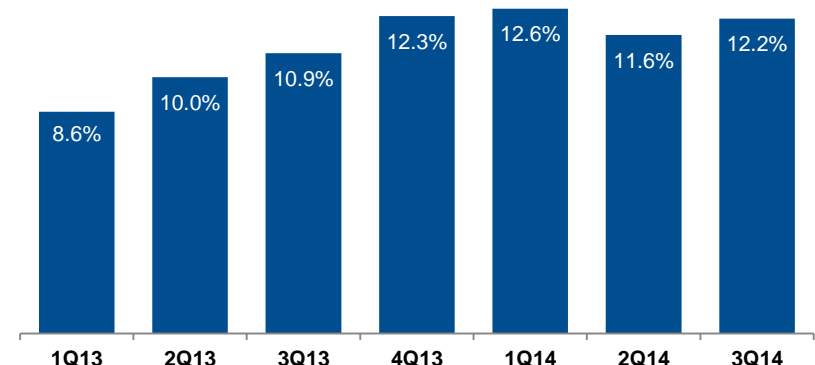
Insurance margin

%



Annualised underlying ROE

%



Q3 2014 regulatory capital position

Improved solvency from strong performance and seasoning of old books

Level 2 ¹ (A\$ in millions)	31 Dec 13	30 Jun 14	30 Sep 14
Capital Base			
Common Equity Tier 1 Capital	2,440.0	2,598.7	2,654.2
Tier 2 Capital	126.0	112.0	112.0
Regulatory Capital Base	2,566.0	2,710.7	2,766.2
Capital Requirement			
Probable Maximum Loss ('PML')	2,595.0	2,587.5	2,586.8
Net premiums liability deduction	(225.0)	(240.4)	(245.5)
Allowable reinsurance	(924.0)	(844.7)	(844.6)
LMI Concentration Risk Charge ('LMICRC')	1,446.0	1,502.4	1,496.7
Asset risk charge	124.0	97.6	117.8
Asset concentration risk charge	0.0	0.0	0.0
Insurance risk charge	180.0	182.0	188.1
Operational risk charge	22.0	21.8	22.6
Aggregation benefit	(59.0)	(46.7)	(55.9)
Prescribed Capital Amount ('PCA')	1,712.0	1,757.1	1,769.2
PCA Coverage ratio (times)	1.50 x	1.54 x	1.56 x

1. Level 2 solvency ratio is only required to be calculated and submitted to APRA on a semi annual basis, quarterly estimates have not been audited.

Genworth Australia 2014 full year outlook

Based on pro forma financial information as set out in the prospectus

Key measures - full Year 2014 financial guidance	IPO prospectus	Revised target
Flow NIW (\$ billions)	\$33.8 bn	\$35.0bn - \$36.0bn
Portfolio NIW (\$ billions)	\$4.0 bn	\$2.0bn - \$3.0bn
Average price - Flow NIW	1.93%	1.80% - 1.85%
Gross written premium (\$ millions)	\$663.2 m	\$640.0m - \$650.0m
Net earned premium (\$ millions)	\$440.2 m	\$440.0m - \$445.0m
Loss ratio	30.2%	20.0% to 25.0%
Underlying NPAT (\$ millions)	\$231.1 m	\$250.0m to \$270.0m
Underlying ROE	10.2%	11.0% - 12.0%
Dividend Payout Ratio	55%	55%

Full year outlook is subject to market conditions and unforeseen circumstances or economic events

Supplementary Slides

Pro forma income statement reconciliation – Q3'14

Reconciling to the USGAAP figures reported by Genworth Financial, Inc.

	USGAAP AU Segment Results in USD	Add Back: Non Controlling Interest (NCI)	USGAAP AU Segment Results + NCI	USGAAP AU Segment Results + NCI	Adjustments				Total Adjust.	GMA Group pro forma
	US\$m	US\$m	US\$m	A\$m	(a)	(b)	(c)	(d)	A\$m	A\$m
Premiums	105	-	105	112	-	-	-	-	-	112
Interest income	37	-	37	40	-	-	-	-	-	40
Realised investment gains/(losses)	1	-	1	1	-	-	-	-	-	1
Unrealised gains/(losses)	-	-	-	-	-	-	(9)	-	(9)	(9)
Other income	(7)	-	(7)	(7)	7	-	-	-	7	-
Total revenue	136	-	136	146	7	-	(9)	-	(2)	144
Net claims incurred	22	-	22	24	-	-	-	-	-	24
Other underwriting expenses	25	-	25	26	(4)	(6)	-	-	(10)	16
Amortization of Intangibles	1	-	1	1	-	-	-	-	-	1
Acquisition costs (DAC amortisation)	4	-	4	4	-	8	-	-	8	12
Interest expense	3	-	3	3	-	-	-	-	-	3
Total expenses	55	-	55	58	(4)	2	-	-	(2)	56
Total pre-tax income	81	-	81	88	11	(2)	(9)	-	-	88
Total tax expense	10	-	10	11	16	-	(3)	-	13	24
Net income	71	-	71	77	(5)	(2)	(6)	-	(13)	64
Less: Net income attributable to NCI	23	(23)	-	-	-	-	-	-	-	-
Net income avail to GNW stockholders	48	(23)	71	77	(5)	(2)	(6)	-	(13)	64

(a) Interest income, FX measurement adjustment for US entities outside of GMA Australia Group but included as part of the USGAAP AU Segment results, Corporate overhead allocation and U.S. Shareholder tax impact.

(b) Differing treatment of DAC, with AGAAP seeing a higher level of deferral and amortisation.

(c) Under AGAAP unrealised gains/(losses) on investments are recognised in the income statement.

(d) AGAAP requires reserve to be held with a risk margin and an adjustment to the level of reserves for the non reinsurance recoveries.

Quarterly pro forma financial information

Pro forma statement of comprehensive income

(A\$ in millions)	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Gross written premium	127.7	145.4	149.6	173.8	159.7	153.9	157.5
Movement in unearned premium	(14.8)	(29.6)	(29.3)	(51.4)	(32.6)	(25.0)	(26.6)
Gross earned premium	112.9	115.8	120.3	122.4	127.1	128.9	130.9
Outwards reinsurance expense	(18.3)	(18.2)	(18.0)	(19.0)	(18.9)	(18.8)	(18.9)
Net earned premium	94.6	97.6	102.3	103.4	108.2	110.1	112.0
Net claims incurred	(44.7)	(36.6)	(28.1)	(18.5)	(17.3)	(25.6)	(24.0)
Acquisition costs	(11.2)	(11.4)	(11.7)	(12.9)	(12.1)	(12.0)	(11.9)
Other underwriting expenses	(14.7)	(15.7)	(14.9)	(16.7)	(15.3)	(18.7)	(17.6)
Underwriting result	24.0	33.9	47.6	55.4	63.6	53.8	58.5
Inv. income on tech reserves ⁽¹⁾	4.8	6.0	9.4	7.0	9.9	17.2	9.2
Insurance Profit	28.8	39.9	57.0	62.4	73.5	70.9	67.7
Inv. income on shareholders' funds	14.5	17.6	26.8	18.8	27.9	49.1	23.1
Financing costs	(2.9)	(2.9)	(2.9)	(2.8)	(2.8)	(2.8)	(2.8)
Profit before income tax	40.4	54.6	80.9	78.5	98.7	117.2	88.0
Income tax expense	(12.8)	(16.5)	(24.7)	(21.0)	(29.4)	(35.1)	(24.0)
Net profit after tax	27.6	38.1	56.2	57.5	69.3	82.1	64.0

Quarterly pro forma financial information

Financial ratios

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Loss ratio	47.2%	37.5%	27.4%	17.8%	15.9%	23.2%	21.4%
Expense ratio	27.4%	27.8%	26.0%	28.6%	25.3%	27.9%	26.3%
Combined Ratio	74.7%	65.2%	53.4%	46.4%	41.3%	51.2%	47.8%
Insurance Margin	30.5%	40.9%	55.8%	60.3%	67.9%	64.4%	60.4%
Effective Tax Rate	31.7%	30.2%	30.6%	26.7%	29.8%	30.0%	27.3%

Delinquency development

Quarterly delinquency roll and delinquency composition

Delinquency Roll	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Opening balance	5,851	5,868	5,820	5,454	4,980	5,070	5,405
New delinquencies	2,928	3,095	2,901	2,383	2,689	2,913	2,734
Cures	(2,189)	(2,594)	(2,757)	(2,276)	(2,137)	(2,159)	(2,489)
Paid claims	(722)	(549)	(510)	(581)	(462)	(419)	(350)
Closing delinquencies	5,868	5,820	5,454	4,980	5,070	5,405	5,300
Delinquency rate	0.41%	0.40%	0.37%	0.34%	0.34%	0.36%	0.36%

Delinquencies by book year	Jun 14	Sep 14	
2006 and prior	1,526	1,414	0.22%
2007	839	773	0.68%
2008	1,003	951	0.93%
2009	855	889	0.70%
2010	383	358	0.38%
2011	351	364	0.41%
2012	333	369	0.33%
2013	114	172	0.15%
2014	1	10	0.01%
TOTAL	5,405	5,300	0.36%

Delinquencies by geography	Jun 14	Sep 14	
New South Wales	1,268	1,192	0.30%
Victoria	1,244	1,204	0.32%
Queensland	1,538	1,562	0.49%
Western Australia	544	549	0.34%
South Australia	451	453	0.43%
Australian Capital Territory	45	47	0.13%
Tasmania	157	163	0.31%
Northern Territory	30	32	0.21%
New Zealand	128	98	0.26%
	5,405	5,300	0.36%