

## Genworth Full Year 2016 Earnings

Financial performance in line with expectations

14cps fully franked final dividend

**(SYDNEY) 8 February 2017** – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) reported statutory<sup>1</sup> net profit after tax (NPAT) of \$203.1 million and underlying<sup>2</sup> NPAT of \$212.2 million for the year ended 31 December 2016.

The Genworth Board declared a fully franked final ordinary dividend of 14.0 cents per share payable on 8 March 2017 to shareholders registered on 22 February 2017. The ordinary dividend represents a payout ratio of 71.8 per cent, up from 63.2 per cent in 2H15.

Ms Georgette Nicholas, Chief Executive Officer and Managing Director of Genworth, said, “Our 2016 results were in line with our guidance. Despite some challenging market dynamics, including a smaller high loan-to-value ratio (LVR) market and a rise in mortgage delinquencies in resources-exposed regional economies, our profitability is strong, our business model is resilient and we are strongly capitalised.

“We continue to actively manage our capital position and we are continually evaluating our excess capital and potential uses. In doing so, we will focus on our strategy of balancing our objectives of meeting our policyholder obligations, delivering long-term shareholder returns and having flexibility to grow the business in the future.

“From a strategic perspective, we are beginning a program of work to redefine our core business model, to further address our customers’ capital and risk management needs and to deliver a sustainable return on equity for shareholders. In particular, we are focused on improving our underwriting efficiency, enhancing our product offerings and where appropriate, leveraging our data and partnerships along the mortgage value chain.”

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

	Full Year		
	2015	2016	Change
New Insurance Written (A\$bn)	32.6	26.6	(18.4%)
Gross Written Premium	507.6	381.9	(24.8%)
Net Earned Premium	469.9	452.9	(3.6%)
Reported NPAT	228.0	203.1	(10.9%)
Underlying NPAT	264.7	212.2	(19.8%)
Reported loss ratio	24.0%	35.1%	11.1%
Total portfolio delinquencies	5,552	6,731	1,179
Portfolio delinquency rate	0.38%	0.46%	0.08%

<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) and impairment losses on the investment portfolio.

## **Financial Performance for 2016**

New business volume, as measured by New Insurance Written (NIW), of \$26.6 billion in 2016, decreased 18.4 per cent compared with \$32.6 billion in the prior year.

GWP decreased 24.8 per cent to \$381.9 million in 2016. 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 2015.

Net Earned Premium (NEP) of \$452.9 million in 2016 decreased 3.6 per cent compared with \$469.9 million in the prior year.

The loss ratio was 35.1 per cent in 2016, up from 24.0 per cent in 2015, due to an increase in the number of delinquent loans relative to a year ago and the expectation of higher average paid claim amounts.

New South Wales and Victoria continue to perform strongly, reflecting strong labour markets and property prices in those states. However, the performance in Queensland and Western Australia remains challenging and delinquencies are elevated due to the slowdown in those regional and metropolitan areas that have been previously exposed to the resources sector.

The expense ratio in 2016 was 25.7 per cent compared with 26.2 per cent in the prior year and in line with the targeted range of 26 to 28 per cent. Genworth continues to focus on expense management, but expects the expense ratio to be between 28 and 30 per cent in 2017 due to expected revenue trends and expenditure on redefining our core business model, improving underwriting efficiency and enhancing our product offerings.

Investment income of \$126.0 million in 2016 included a pre-tax mark-to-market loss of \$13.1 million (\$9.1 million after-tax). As at 31 December 2016, the value of Genworth's investment portfolio was \$3.5 billion, more than 92 per cent of which continues to be held in cash and highly rated fixed interest securities.

As at 31 December 2016, the Company had invested \$188 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 2016 investment return was 3.41 per cent per annum, down from 3.69 per cent per annum in 2015.

As at 31 December 2016, the Company's regulatory solvency ratio was 1.57 times the Prescribed Capital Amount (PCA). The Board continues to target a capital range of 1.32 to 1.44 times the PCA on a Level 2 basis.

The Company continues to actively manage its capital position and is continually evaluating its excess capital and potential uses.

## **Customer Portfolio Update**

As announced on 3 November 2016, Genworth renewed its Supply and Service Contract with its largest customer, the Commonwealth Bank of Australia, for a further 3 years to 31 December 2019. This contract represented 47 per cent of GWP in 2016.

The contract with the second largest customer expires in February 2017. Genworth is in ongoing discussions with this customer about managing its mortgage default risk and is aware that the customer is considering other alternatives to traditional Lenders Mortgage Insurance (LMI), in particular for their less-than-80% LVR portfolio, and this may impact the level of business received by Genworth.

The Company also advises that the current Supply and Service Contract with its third largest customer is due to expire on 20 November 2017 and that this customer may, or may not, issue a Request For Proposal prior to that time.

Genworth continues to pursue other profitable opportunities in the market that meet its risk appetite and return on equity profile.

### **2017 Outlook**

Australian economic conditions have moderated recently as the economy continues to transition away from the mining investment boom. There is considerable variation in economic activity across the country with continued growth in New South Wales and Victoria offset by weaker activity in Queensland and, in particular, Western Australia.

Although the national unemployment rate has moved up slightly to 5.8 per cent in December 2016, key labour market indicators remain mixed. Employment growth is being primarily driven by an increase in part-time employment. The under-employment rate remains elevated and at near-record highs, implying a greater degree of spare capacity in the economy than indicated by the unemployment rate alone. Wage growth is also subdued, especially due to the transition away from mining-led activity and low actual and expected inflation. These labour market dynamics are increasing the instance of mortgage stress in certain regional economies and Genworth expects these trends to drive elevated mortgage delinquencies in these regions in 2017.

House price growth is likely to moderate in 2017, with Sydney and Melbourne continuing to outperform the other major cities. There may be a wider variance in price movements of single dwellings compared to high density properties, particularly in east coast capital cities.

Genworth remains engaged with other existing and potential customers about the provision of LMI and other risk management solutions and will continue to actively pursue new agreements over the course of 2017. Overall, the Company expects GWP in 2017 to be below 2016 levels, down between 10 per cent and 15 per cent, subject to the timing and extent of any changes in the customer portfolio.

Genworth expects 2017 NEP to decline by approximately 10 to 15 per cent and for the full year loss ratio to be between 40 and 50 per cent. The Board continues to target an ordinary dividend payout ratio range of 50 to 80 per cent of underlying NPAT.

The full year outlook is subject to market conditions as well as unforeseen circumstances or economic events.

## **Result Briefing and Conference Call**

A result briefing for analysts, institutional investors and media will be held today at Level 2, Museum of Sydney, corner of Bridge and Phillip Streets, commencing at 10.30am (Sydney time).

The briefing will be accessible via teleconference and will be webcast through the company's website <http://investor.genworth.com.au/Investor-Centre>. A replay of the webcast will also be made available following the briefing on the company's website.

The briefing will also be available to access via conference call at:

**Conference name: Genworth Australia Full Year 2016 Financial Results**

**Conference ID: 5308 4268**

### **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

## **2017 Annual General Meeting**

Genworth advises that, in accordance with ASX Listing Rule 3.13.1, its Annual General Meeting will be held at 11.00am (Sydney time) on Thursday, 11 May 2017 at The Mint, 10 Macquarie St, Sydney NSW 2000. A Notice of Meeting will be lodged with the ASX closer to the date.

For more information:

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#### **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.