

Genworth Australia First Quarter 2015 Earnings

NEP growth and claims performance in line with guidance, GWP pressured by market conditions

(SYDNEY) 29 April, 2015 – Genworth Mortgage Insurance Australia Limited (GMA) has reported a statutory Net Profit After Tax (NPAT) of \$89.5 million for the quarter ended 31 March 2015, an increase of 29.2% compared to the previous corresponding period¹ (pcp). Excluding \$19.8 million of after-tax mark-to-market gains, the Underlying NPAT² of \$69.7 million was flat compared to the pcp.

The following table details the key financial performance measures for the first quarter 2015 (1Q15).

	Quarterly		
	1Q14	1Q15	Change
New Insurance Written (A\$bn)	8.7	7.2	(17.2%)
Gross Written Premium	159.7	127.7	(20.0%)
Net Earned Premium	108.2	110.8	2.4%
NPAT	69.3	89.5	29.2%
Underlying NPAT	69.7	69.7	0.0%
Loss ratio	15.9%	16.6%	0.7%
Total portfolio delinquencies	5,070	5,378	308
Portfolio delinquency rate	0.34%	0.36%	0.02%

Financial Performance for 1Q15

GMA's overall financial performance in 1Q15 reflects continued relatively stable economic conditions, characterised by relatively steady unemployment and benign inflation. The low interest rate environment continues to support a strong Australian housing market.

New business volumes declined during 1Q15 with New Insurance Written (NIW) of \$7.2 billion down 17.2% on the pcp. Gross Written Premium (GWP) of \$127.7 million for 1Q15 was 20.0% lower than the pcp. The decline in NIW and GWP relative to the pcp was driven by three key market factors:

- A continued reduction in mortgage originations in the greater than 90% Loan to Value Ratio (LVR) bracket;
- The lower percentage of owner occupied mortgage originations in the market; and
- Lower levels of mortgage origination growth experienced by GMA's customer base.

Additionally, NIW and GWP were also affected by the timing of payment processing which accounted for approximately half the 20% reduction in GWP compared to the pcp.

The reported loss ratio for the first quarter was 16.6%. This outcome has been influenced by:

- A lower volume of loan arrears converting to claim resulting in a significant decline in the number of claims to 280 for 1Q15, compared to 462 in the pcp;

¹ The results for the previous corresponding period (pcp) are pro forma and were 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.

² Underlying NPAT excludes the after tax impact of unrealised gains/(losses) on the investment portfolio. See note 1 of this release at page 5 for a reconciliation of the pro forma NPAT and Underlying pro forma NPAT for the three months ended 31 March 2015.

- The average claim amount was also lower compared with the pcp consistent with home price appreciation and continued borrower sales; and
- Delinquencies increased and cures declined in line with seasonal patterns.

Also during 1Q15 the loss ratio was positively impacted by a \$9.6 million accrual for an increased level of expected recoveries relating to paid claims reflecting the recent experience of successful borrower recovery activity. The 1Q15 claims ratio excluding this accrual was 25.3%, in line with the full year 2015 loss ratio guidance.

Investment income of \$68.7 million for 1Q15 included a pre-tax mark-to-market unrealised gain of \$28.3 million. As at 31 March 2015 the value of GMA's investment portfolio was \$4.1 billion, all of which continues to be held in cash and highly rated fixed interest securities.

GMA maintains a very sound capital and balance sheet position with \$1.36 billion of Unearned Premium Reserves (UPR) providing a high level of revenue visibility. The company has maintained a solid capital position with a regulatory solvency ratio of 163.1 percent of the Prescribed Capital Amount (PCA) on a Level 2 basis³ as at 31 March 2015.

Customer Update

GMA has entered into a Request For Proposal (RFP) with the National Australia Bank (NAB) regarding NAB's existing Lenders Mortgage Insurance (LMI) contract for the NAB Broker business that has been extended to 20 November 2015. GMA will be submitting its response to the RFP documentation in due course. The LMI business underwritten under this contract represented approximately 11% of GWP in 2014. GMA is committed to working closely with NAB to ensure ongoing recognition of the long standing partnership and GMA's product offering and capital strength.

GMA's largest customer has the right to reduce the percentage of LMI business they write by a specified amount with effect from 1 January 2015. As of this date, that customer has provided no formal indication to GMA of its intention in relation to this right.

Capital Optimisation Initiatives

As previously highlighted, GMA continues to evaluate potential capital management initiatives that would support overall Return on Equity (ROE) progression over the medium term. In April, GMA received regulatory approval for the potential issuance of up to \$250 million of subordinated notes that would qualify as Tier 2 capital under the requirements of GPS 112 Attachment E and G. A decision to issue these notes has not yet been made and will be subject to business and market conditions.

Organisational Matters

An ongoing priority for GMA is to continually refine its data management framework and modelling capabilities in regards to pricing, stress testing, risk management and to position the Company to evaluate opportunities from increased property, mortgage and credit data from its customer base and data partners. With that, the Company is moving to enhance its internal actuarial capability and experience. GMA is well placed in having an individual inside the organisation, Mr Conor O'Dowd, who is uniquely qualified for this role. Mr O'Dowd will transition into the Chief Actuary role over time and in conjunction with the appointment of a new CRO. The Chief Actuary will continue to complement and work closely with GMA's Appointed Actuary (Finity) and drive further progress in fulfilment of modelling and analytic priorities.

Regulatory Environment

The final report of the Financial System Inquiry (FSI) released in December 2014 endorsed the observation that APRA should seek to maintain as much risk sensitivity in the capital framework as possible and, in recommending a narrowing of mortgage risk weight differences, suggested that APRA recognise Lenders Mortgage Insurance (LMI) where appropriate.

³ 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.

On 31 March 2015, GMA provided a response to Treasury regarding the implementation of the FSI recommendations. In this submission we endorsed the findings of the FSI and once again reinforced our view that:

- There should be recognition for LMI in Advanced Internal Ratings Based (AIRB) lenders' models by reducing loss given default (LGD) factors to the lowest percentage permissible by APRA, where a residential mortgage loan is covered by LMI; and
- There should be increased capital requirements for high LVR loans for AIRB lenders by segmenting their mortgage portfolios between high and low LVR loans and introducing minimum risk weights by LVR for high LVR lending [above 80% for standard loans and above 60% for non-standard loans].

Whilst we are extremely heartened by the recommendations of the final FSI report, we firmly believe that there is much more to be done by mortgage lenders, government, regulators and other stakeholders. Encouraging greater competition between lenders through changes to risk weights and extending recognition to the use of LMI will mean that the Australian residential mortgage lending market will be better placed to:

- Put downward pressure on the costs for many Australians in buying their own home;
- Create greater financial stability for the Australian financial system as a whole;
- Increase the liquidity in the residential mortgage loan market; and
- Continue to meet the social needs of making housing more accessible for all Australians.

Conclusion

In conclusion, GMA CEO and Managing Director, Ellie Comerford, noted that “the first quarter Net Earned Premium and loss performance were in line with our expectations. The decline in our GWP reflects the industry-wide reduction in high LVR lending and tightened lender risk appetite reflecting focused regulatory oversight in the Australian mortgage market.

“Our customer relationships are dynamic and we are continually evaluating opportunities to enhance our current business, generate new LMI opportunities or appropriately manage expenses to maintain our return profile.

“Given Genworth’s experience and position in the residential mortgage lending industry, we remain focused on our role as a key risk mitigant for our lender customers. We are committed to supporting the Australian residential mortgage market and importantly, supporting the Australian dream of home ownership.”

Conference Call

A conference call for analysts, institutional investors and media will be held today at 11.00am (Sydney time) to discuss these results. Details of the conference call dial-in numbers are as follows:

Conference name: Genworth Australia First Quarter 2015 Earnings Release

Conference ID: 3290 2848

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

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About Genworth Australia

GMA, through its subsidiary companies Genworth Financial Mortgage Insurance Pty Ltd and Genworth Financial Mortgage Indemnity Ltd (GMA Group), is the leading provider of Lenders Mortgage Insurance (LMI) in the Australian residential mortgage market. The GMA Group has been part of the Australian residential mortgage lending market for 50 years since Housing Loans Insurance Corporation was founded by the Australian Government in 1965 to provide LMI in Australia. GMA is currently a subsidiary of Genworth Financial, Inc. and part of the Genworth Financial, Inc. group of companies. Genworth Financial, Inc's current ownership interest in GMA is approximately 66.2% of the issued shares in GMA.

NOTE 1: Reconciliation of Statutory NPAT to Underlying NPAT for the three months ended 31 March 2015

Reconciliation of Statutory NPAT to Underlying NPAT for the three months ended 31 Mar 2015 (A\$ million)

	<u>31 Mar 15</u>
Statutory NPAT the three months to 31 March 15	89.5
Adjustment for change in unrealised (gains)/losses	(28.3)
Adjustment for tax on change in unrealised (gains)/losses	8.5
Underlying NPAT for the three months to 31 Mar 15	69.7