

## Genworth First Quarter 2017 Earnings

1Q in line with expectations; 2017 guidance unchanged

**(SYDNEY) 3 May 2017** – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) reported statutory<sup>1</sup> net profit after tax (NPAT) of \$52.2 million and underlying<sup>2</sup> NPAT of \$68.3 million for the quarter ended 31 March 2017.

Ms Georgette Nicholas, Chief Executive Officer and Managing Director of Genworth, said, “Our results in the first quarter of the year were in line with our expectations. Our profitability remains strong despite revenue being pressured by a smaller high loan-to-value ratio (LVR) market. At this time, our full year 2017 guidance is unchanged from that provided to the market in February.

“Australian regulators have taken further steps recently to reinforce sound housing lending practices, with a particular focus on slowing the growth in investor lending and limiting the flow of new interest-only lending. We are supportive of regulatory measures that promote prudent mortgage lending standards and ultimately foster long-term sustainable credit growth.

“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.

“Our business focus is to address our customers’ capital and risk management needs and to deliver a sustainable return on equity for shareholders. We have strategic initiatives underway to redefine our core business model with a particular focus 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)

	Quarterly		
	1Q16	1Q17	Change
New Insurance Written (A\$bn)	6.2	6.8	9.7%
Gross Written Premium	85.0	88.2	3.8%
Net Earned Premium	113.5	107.9	(4.9%)
Reported NPAT	67.3	52.2	(22.4%)
Underlying NPAT	61.7	68.3	10.7%
Reported loss ratio	27.0%	34.8%	7.8%
Total portfolio delinquencies	5,889	6,926	1,037
Portfolio delinquency rate	0.40%	0.48%	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) on the investment portfolio.

## **Financial Performance for 1Q17**

New business volume, as measured by New Insurance Written (NIW), increased 9.7 per cent to \$6.8 billion in 1Q17 compared with \$6.2 billion in 1Q16. The result included \$1.3 billion in bulk portfolio transactions.

GWP increased 3.8 per cent to \$88.2 million in 1Q17. This reflects a higher LVR mix of business compared with the same quarter in 2016 and the impact of the premium rate actions taken in 2016.

Net Earned Premium (NEP) of \$107.9 million in 1Q17 decreased 4.9 per cent compared with \$113.5 million in 1Q16 reflecting lower earned premium from recent book years.

The expense ratio in 1Q17 was 25.2 per cent compared with 23.4 per cent in 1Q16.

The loss ratio was 34.8 per cent in 1Q17, up from 27.0 per cent in 1Q16, due to lower NEP, an increase in the number of delinquent loans relative to a year ago and a higher average paid claim amount.

New South Wales and Victoria continue to perform strongly. 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 benefited from the growth in the resources sector.

Investment income of \$34.3 million in 1Q17 included a pre-tax mark-to-market unrealised loss of \$23.1 million (\$16.1 million after-tax). The result also included a \$30.0 million pre-tax realised gain (\$21.0 million after-tax) following the rebalancing of the investment portfolio. As at 31 March 2017, the value of Genworth's investment portfolio was \$3.4 billion, more than 90 per cent of which continues to be held in cash and highly rated fixed interest securities.

As at 31 March 2017, the Company had invested \$207 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 1Q17 investment return was 3.14 per cent per annum, down from 3.55 per cent per annum in 1Q16.

As at 31 March 2017, the Company's regulatory solvency ratio was 1.71 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.

## **Customer Portfolio update**

Genworth previously announced that the exclusivity agreement for the provision of LMI with its second largest customer was terminated in April 2017. The Company has been successful in entering into new business with that customer that assists them in managing mortgage default risk through alternative insurance arrangements.

Genworth also advises that its customer, the National Australia Bank, has issued a Request For Proposal relating to its LMI requirements. The Company has submitted its proposal and will provide updates as to the outcome of its proposal.

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.

The national unemployment rate has moved up slightly to 5.9 per cent in March 2017 and 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 following regulatory measures to slow the growth in investment lending and limit the flow of new interest-only lending. Recent mortgage interest rate increases, particularly for investor loans, may also impact price growth this year.

Genworth remains engaged with existing and prospective 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.

## **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 Quarter 2017 Financial Results**

**Conference ID: 1171 8799**

### **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 dialled.

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**

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 over 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.