

Genworth First Quarter 2018 Earnings

Good progress in implementing strategic initiatives

New on-market share buy-back of up to \$100 million announced

(SYDNEY) 2 May 2018 – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) today reported statutory¹ net profit after tax (NPAT) of \$8.4 million and underlying² NPAT of \$19.9 million for the quarter ended 31 March 2018 (1Q18).

Ms. Georgette Nicholas, Chief Executive Officer and Managing Director of Genworth, said, “We have previously stated that 2018 will be a transitional year for our Company and our 1Q18 results reflect this.

“Our performance this quarter reflects:

- the impact of the annual premium earning pattern review announced to the market on 15 December 2017 (2017 Earnings Curve Review);
- initiatives we have rolled-out pursuant to our strategic program of work (Strategic Program of Work); and
- a mark-to-market loss on our equity portfolio.

“Our 1Q17 underlying NPAT included a \$20.8 million realised gain resulting from a rebalancing of our investment portfolio.

“I am pleased to report that we are making good progress in redefining our core business model through our Strategic Program of Work, in particular, in the areas of product innovation and revenue stream diversification.

“We continue to be focused on ensuring we have an optimal capital structure and that we maintain the Board’s targeted Prescribed Capital Amount (PCA) of 1.32 to 1.44 times. To this end, we are today announcing an on-market share buy-back of up to a value of \$100 million, subject to shareholder approval at our Annual General Meeting (AGM) on 10 May 2018.”

Financial performance measures (A\$ million)

	Quarterly			
	1Q17	4Q17	1Q18	Change (1Q17 vs. 1Q18)
New Insurance Written (A\$bn)	6.8	5.4	4.3 ³	(36.8%)
Gross Written Premium	88.2	97.7	174.1 ⁴	97.4%
Net Earned Premium	107.9	58.8	67.4	(37.5%)
Reported NPAT	52.2	28.4	8.4	(83.9%)
Underlying NPAT	68.3 ⁵	17.1	19.9	(70.9%)
Reported loss ratio	34.8%	53.1%	55.9%	21.1ps
Total portfolio delinquencies	6,926	6,696	6,958	32
Portfolio delinquency rate	0.48%	0.47%	0.49%	1bp

¹ The financial result of Genworth and its subsidiary companies (the Group) prepared in accordance with recognition, measurement and classification aspects of all applicable Australian Accounting Standards (AAS) adopted by the Australian Accounting Standards Board, which are consistent with those under International Financial Reporting Standards (IFRS). The financial result does not include all disclosure requirements of all AAS and IFRS.

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

³ Excludes excess of loss insurance (excess of loss insurance includes business written by Genworth’s new Bermuda entity)

⁴ Includes GWP written pursuant to a customer contract entered into by Genworth’s recently established Bermudan insurance entity. This transaction includes a consortium of reinsurers therefore only a portion of GWP written will flow through to NEP

⁵ 1Q17 Underlying NPAT included \$20.8 million after tax realised gains from rebalancing of the investment portfolio

STRATEGIC UPDATE

Genworth operates in a competitive and dynamic market where borrower and lender expectations are evolving due to technological advances and regulatory change. To effectively compete in this environment the Company is continuing its Strategic Program of Work designed to position it as the leading provider of customer-focused capital and risk management solutions.

To this end, the Company has:

- entered into an agreement with a customer to provide a bespoke risk management solution via its newly established Bermudan insurance entity;
- entered into an agreement with a customer for the provision of borrower-paid lenders mortgage insurance (LMI) in the less than 80% LVR segment on a micro-markets basis (Micro Markets LMI); and
- entered into an agreement to provide excess of loss cover with a customer whose traditional LMI contract expired in April 2017.

These agreements relate to new offerings that are complementary to Genworth's traditional LMI and enable the Company to offer lender customers a broader suite of risk and capital management solutions.

1Q18 FINANCIAL PERFORMANCE

New business volume, as measured by **New Insurance Written (NIW)**, decreased 36.8% to \$4.3 billion in 1Q18 compared with \$6.8 billion in 1Q17. NIW excludes excess of loss insurance and the new business written via Genworth's Bermudan entity.

NIW reflects the fact that:

- there were no bulk portfolio transactions in 1Q18 (1Q17 included \$1.3 billion of bulk portfolio business); and
- 1Q17 included business written pursuant to an agreement with the Company's then second largest customer. This agreement terminated in April 2017 and represented \$1.6 billion of NIW in 1Q17.

Gross Written Premium (GWP) increased 97.4% to \$174.1 million in 1Q18 (1Q17: \$88.2 million). This includes the new business written via Genworth's Bermudan entity and the new Micro Markets LMI business. Genworth has retained \$170.2 million of risk and placed the remainder with a consortium of global reinsurers through its Bermudan entity. Net of the premium to the consortium of global reinsurers, Genworth's GWP increased 26.5% in 1Q18. For reporting purposes this risk is not reflected in NIW. In terms of the traditional LMI business written during the quarter, the lower volumes were partially offset by the higher LVR mix resulting in a modest increase in the average price of the flow business.

Net Earned Premium (NEP) decreased 37.5% from \$107.9 million in 1Q17 to \$67.4 million in 1Q18. This reflects the \$32.3 million impact of the 2017 Earnings Curve Review and lower earned premium from current and prior book years. Excluding the 2017 Earnings Curve Review impact, NEP would have declined 7.6%. The 2017 Earnings Curve Review took effect from 1 October 2017 and has the effect of lengthening the period of time over which premium is earned. It does not however affect the quantum of revenue that will be earned over time. The unearned premium reserve as at 31 March 2018 was \$1.2 billion.

The **delinquency rate** increased slightly from 0.48% in 1Q17 to 0.49% in 1Q18, driven by Western Australia and New South Wales (NSW). South Australia and Queensland experienced lower delinquency rates, whilst the delinquency rate in Victoria increased marginally. All states experienced a decline in **new delinquencies**, with the exception, of Western Australia. Delinquencies in mining areas are showing

signs of improving. In non-mining regions there are indications of a softening in **cure rates**, in particular in NSW and Western Australia. These are being closely monitored to ascertain any developing adverse trends.

Net Claims incurred was stable during the quarter at \$37.7 million (1Q17: \$37.6 million). The **loss ratio** in 1Q18 was 55.9%, up from 34.8% in 1Q17, reflecting the impact of lower NEP due to the 2017 Earnings Curve Review. Excluding the impact of the 2017 Earnings Curve Review the 1Q18 loss ratio would have been 37.8%.

The **expense ratio** in 1Q18 was 33.5% compared with 25.2% in 1Q17, reflecting the lower NEP and expenditure on the Strategic Program of Work.

Investment income of \$7.8 million in 1Q18 included a pre-tax mark-to-market loss of \$16.4 million (\$11.5 million after-tax). In the first quarter of 2017, the portfolio was restructured to reduce interest rate risk exposure, resulting in pre-tax realised gains of \$29.7 million (\$20.8 million after tax). This gain was included in the **underlying NPAT** reported in 1Q17. As at 31 March 2018 the value of Genworth's investment portfolio was \$3,285.4 million, more than 83% of which is held in cash and highly rated fixed interest securities. The Company had \$216.9 million invested in Australian equities as at 31 March 2018. Whilst volatility in equity markets contributed to unrealised losses in 1Q18, the equity portfolio has delivered a return of 8.9% p.a. (pre-tax) since inception in 2016.

CAPITAL MANAGEMENT

As at 31 March 2018, the Company's regulatory solvency ratio was 1.84 times the **Prescribed Capital Amount (PCA)**. This reduced to approximately 1.70 times the PCA on 1 April 2018 following the Company's decision not to renew a \$100 million remote layer of reinsurance due to a lack of internal economic capital credit recognition and reducing Probable Maximum Loss. The Board continues to target a capital range of 1.32 to 1.44 times the PCA on a level 2 basis.

Since listing on the Australian Securities Exchange in 2014, Genworth has distributed all its after-tax profits by way of dividends to shareholders and returned more than \$1 billion (or \$2 per share) of excess capital.

Ms. Nicholas said, "Ensuring we have an optimal capital structure continues to be a priority and an integral component of our Strategic Program of Work. Our philosophy remains unchanged and we constantly evaluate uses for our excess capital.

"Given our strategic focus is on ensuring we can deliver ongoing sustainable returns for shareholders, our first call for excess capital is to deploy it toward profitable business opportunities. However, at the end of 1Q18 our regulatory capital base of \$2.1 billion represented a coverage ratio of 1.84 times the PCA well above the Board's targeted range. Accordingly, we are today announcing an on-market share buy-back up to a value of \$100 million, subject to shareholder approval at the AGM," Ms. Nicholas said.

Genworth will consider implementing the buy-back where opportunities exist to repurchase securities at a discount to book value per share. Buy back acquisitions would therefore be accretive to earnings and net assets per share of the Group.

Based on Genworth's closing share price of \$2.38 on 1 May 2018, the on-market buy-back would represent 8.9% per cent of the Company's issued share capital or around 42 million ordinary shares. The total number of shares to be purchased by Genworth under the on-market share buy-back will depend on business and market conditions, the prevailing share price, market volumes and other considerations.

The Company has received consent from its majority shareholder, Genworth Financial, Inc. (Genworth Financial), under the Shareholder Agreement, and the necessary regulatory approvals for the on-market share buy-back.

Genworth Financial has indicated that it presently intends to engage in on-market sale transactions during the buy-back in order to maintain its approximately 52 per cent stake in the Company, subject to matters including the prevailing market price of the Company's shares during the buy-back, market trading volumes and applicable legal constraints.

An Appendix 3C in respect of the on-market share buy-back is attached. Genworth reserves the right to vary, suspend or terminate the buy-back at any time and there is no guarantee that the Company will purchase any or all of the shares referred to above.

Macquarie Securities (Australia) Limited has been appointed as the Company's transaction broker in relation to the on-market buy-back.

2018 ECONOMIC OUTLOOK

We have seen the Australian domestic economy perform relatively well to date, underpinned by strong infrastructure investment at both federal and state levels in non-mining areas. The risks to this outlook are lack of wage growth, increasing underemployment levels, escalating global trade tensions, potential additional regulatory measures tightening credit availability and consumer sentiment being adversely impacted by slowing house price appreciation and rising debt levels.

From an individual state and territory perspective there appears to be some convergence in the performance gap. NSW and Victoria remain the strongest performers although there has been some easing in their growth rates. Western Australia continues to face challenging conditions as it transitions away from the mining investment boom.

Latest employment figures indicate a strong labour market with growth in full-time jobs outpacing population growth. Despite this, wage growth remains weak. Expectations are that if the current growth in full time employment continues for the remainder of the year there will be a gradual uplift in wages.

The official cash rate is likely to remain on hold throughout most of 2018 due to ongoing benign wage growth and inflation remaining below the Reserve Bank of Australia's (RBA) 2% to 3% target band.

Housing market conditions have continued to moderate and are expected to ease further in 2018 as macro-prudential measures continue to take effect and new housing supply comes onto the market. Metropolitan housing markets in Sydney and Melbourne are expected to moderate in 2018 and regional housing markets, particularly within resource states, are expected to face continued pressure, albeit to a lesser extent than experienced in 2017. Genworth expects national housing prices to be flat in 2018.

OUTLOOK FOR GENWORTH

The Company's guidance provided at the time of its FY17 results announcement remains unchanged. It is noted that some signs of a softening in cure rates emerged in 1Q18 and the Company continues to monitor this potential development.

GWP is expected to increase in FY18 reflecting the premium written pursuant to the Company's new Bermudan entity and the Micro Markets LMI agreement announced earlier this year.

NEP and the full year loss ratio are expected to be adversely impacted by the 2017 Earnings Curve Review in FY18 (and to a lesser extent in FY19). In FY18, NEP is expected to decline by approximately 25% to 30%. Despite an expectation that Net Incurred Claims will be lower in 2018 than in 2017, the lower NEP means the full year loss ratio is expected to be between 40% and 50%.

Genworth continues to target an ordinary dividend payout ratio range of 50% to 80% of underlying NPAT.

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

Ms Nicholas said, "We reiterate that 2018 will be a transitional year for our business as the impact of the 2017 Earnings Curve Review will result in lower NEP.

"Having said that, we are making good progress in redefining our core business model. The increase in GWP that we reported this quarter is indicative of the opportunities we have to grow our business by offering customers a broader suite of complementary capital and risk management solutions.

"We remain committed to actively managing our capital position. Our Company is well capitalised, we have a solid balance sheet with net tangible assets of approximately \$3.83 per share as at 31 March 2018. We have a good track record of delivering solid profits and attractive shareholder returns. This continues to be an integral part of our strategy going forward."

ENDS

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 2018 Financial Results
Conference ID: 4899505

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	Japan	0120994669
New Zealand	0800 452 782	Singapore	800 616 2288
China	4001 203 085	United Kingdom	0808 234 0757
Hong Kong	800 908 865	United States	1855 293 1544
India	1800 3010 6141		

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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.