

Genworth first quarter 2019 (1Q19) earnings

- Statutory net profit after tax (NPAT) in 1Q19 of \$47.8 million¹ (1Q18: \$8.4 million) and Underlying NPAT² of \$22.3 million (1Q18: \$19.9 million)
- New Insurance Written (NIW) up 24.0% (1Q19: \$5.4 billion versus 1Q18: \$4.3 billion) – reflecting growth in Genworth’s traditional LMI flow and bulk business
- 1Q19 earnings in line with full year guidance (NEP up 8.2%; Loss Ratio 55.3%) – the loss ratio is indicative of the traditional seasonal uptick in delinquencies historically experienced by our business
- Ongoing progress in enhancing core business model through strategic program of work
- \$100 million on-market share buy-back commenced in February 2019 (\$29.4 million completed as at 31 March 2019)
- Since listing on the ASX in 2014, Genworth has returned more than \$1 billion to shareholders, including distribution of 100% of after tax profits
- Unearned Premium Reserve of \$1.2 billion as at 31 March 2019
- Strong capital position – Net Tangible Assets of \$4.00 per share as at 31 March 2019 (4Q18: \$3.94)

(SYDNEY) 1 May 2019 – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) today reported its first quarter financial results for the 2019 financial year (1Q19). Statutory³ net profit after tax (NPAT) for 1Q19 (which ended on 31 March 2019) was \$47.8 million and Underlying NPAT was \$22.3 million.

Genworth Chief Executive Officer and Managing Director, Ms. Georgette Nicholas said, “Our 1Q19 financial performance is in line with full year guidance and reflects the seasonal increase in the loss ratio historically experienced by our business.

“Whilst moderating housing market conditions, tightening credit and increases in mortgage interest rates have continued to be prevalent, our traditional lenders mortgage insurance (LMI) business (both flow and bulk) continued to deliver growth in our New Insurance Written during this quarter. This demonstrates the strong fundamentals underlying the business performance.

“Our strategic program of work is gaining traction and we are making good progress in enhancing our core business model particularly in terms of product innovation and the utilisation of technology and data to deliver underwriting and operating efficiencies. Importantly, we continue to remain focused on optimising our capital position, with the commencement of a \$100 million on-market share buy-back in February 2019 and the payment of our FY18 fully franked final ordinary dividend of 9.0 cents per share in March 2019.”

¹ 1Q19 Statutory NPAT includes an after tax unrealised gain of \$25.5 million on the investment portfolio compared to an unrealised after tax loss of \$11.5 million in 1Q18.

² Underlying NPAT excludes the after tax impact of mark-to-market gains/(losses) of \$25.5 million on the investment portfolio, and the impact of unhedged movements in foreign exchange rates on Genworth’s non-AUD exposures. The bulk of these foreign exchange exposures are hedged.

³ The financial result of Genworth and its subsidiary companies (the Group) prepared in accordance with the Australian Accounting Standards (AAS) adopted by the Australian Accounting Standards Board, which are consistent with those under International Financial Reporting Standards (IFRS).

Financial performance measures (A\$ million)			
	Quarterly		Change
	1Q18	1Q19	(1Q18 vs. 1Q19)
New Insurance Written ⁴	4,349.2	5,393.5	24.0%
Gross Written Premium	174.1 ⁵	86.3	(50.4%)
Net Earned Premium	67.4	72.9	8.2%
Reported NPAT	8.4	47.8	469.0%
Underlying NPAT	19.9	22.3	12.1%
Reported loss ratio	55.9%	55.3%	(60bps)
Total portfolio delinquencies	6,958	7,490	7.6%
Portfolio delinquency rate	0.49%	0.57%	8bps

STRATEGIC UPDATE

Over the past two years the Company has focused on a strategic program of work designed to position it as the leading provider of customer-focused risk and capital management solutions in the Australian residential mortgage market. This has included introducing new product offerings that diversify Genworth's revenue streams and complement its traditional LMI business.

Ms Nicholas said, "We are operating in a dynamic market, with technological, regulatory and competitive changes resulting in evolving lender and borrower expectations. Our new offerings, such as our bespoke risk management solutions (written via our Bermudian insurance entity), micro markets LMI, excess of loss cover and our auto decision platform and data-only submission channel (eLMI) are all designed to address evolving customer needs."

During 1Q19 the Company continued to progress its strategic program of work by leveraging technology and data in delivering both underwriting risk management insights and operational efficiencies. This has included identifying and securing new data sources that have further enhanced the benefits of the Company's lapsed policy initiative, enabling refinanced or discharged loans to be more swiftly identified.

Progress has also been made in product enhancement, with Genworth developing capabilities to offer variations on traditional LMI including regular premium LMI offerings and LMI premiums based on a risk assessment utilising additional data sources.

FINANCIAL PERFORMANCE

New Insurance Written (NIW) increased 24.0% from \$4.3 billion in 1Q18 to \$5.4 billion in 1Q19. NIW excludes the Company's excess of loss insurance and business written through Genworth's Bermudian entity.

The increase in NIW in 1Q19 is the result of sustained growth in LMI flow and bulk portfolio business (no bulk portfolio cover written in 1Q18) reflecting the resurgence of the first home buyer segment and the greater proportion of LMI business written by Genworth lender-customers.

Gross Written Premium (GWP) decreased 50.4% to \$86.3 million in 1Q19 (1Q18: \$174.1 million). GWP in 1Q18 included a bespoke transaction written through Genworth's Bermudian insurance entity⁶. Excluding this transaction, GWP increased 7.5% in 1Q19 versus 1Q18.

In the traditional LMI business, GWP attributable to bulk portfolio transactions was \$1.9 million in 1Q19 (1Q18: nil). GWP resulting from flow business was also up in 1Q19 versus 1Q18.

⁴ Excludes excess of loss insurance.

⁵ Includes GWP written pursuant to a customer contract entered by Genworth's Bermudian insurance entity. This transaction includes a consortium of reinsurers therefore only a portion of GWP written flowed through to NEP.

⁶ The Bermudian bespoke transaction reported in 1Q18 was structured utilising a consortium of global reinsurers. Genworth retained \$170.2 million of risk and placed the remainder with the reinsurers. The 1Q18 GWP figure includes premium that was ceded to these reinsurers.

Net Earned Premium (NEP) increased 8.2% from \$67.4 million in 1Q18 to \$72.9 million in 1Q19. This includes \$4.5 million of unearned premium that was released as part of the Company's lapsed policy initiative in 1Q19. Excluding the \$4.5 million impact of the lapsed policy initiative in 1Q19, NEP increased 1.5%. Genworth's **Unearned Premium Reserve** as at 31 March 2019 was \$1.2 billion.

The **Delinquency Rate** (number of delinquencies divided by policies in force but excluding excess of loss insurance) increased 8 basis points (bps) from 0.49% in 1Q18 to 0.57% in 1Q19. This was driven primarily by an increase in delinquency rates year-on-year across all states (particularly in Western Australia, New South Wales and Queensland). To a lesser extent, the decrease in policies-in-force resulting from new data sources secured in 1Q19 as part of the Lapsed Policy Initiative also led to a slight uptick in the delinquency rate.

New Delinquencies were down (1Q19: 2,662 versus 1Q18: 2,701) although the trend of softening cure rates first identified in FY18 continued in 1Q19 with the number of **Cures** decreasing from 2,074 in 1Q18 to 1,998 in 1Q19.

The number of **Paid Claims** was also down (1Q19: 319 vs. 1Q18: 365) as was the average quantum paid per claim which decreased from \$117,800 in 1Q18 to \$94,200 in 1Q19.

Net Claims Incurred in 1Q19 was \$40.3 million (1Q18: \$37.7 million). The 1Q19 **Loss Ratio** was 55.3% (1Q18: 55.9%). This is in line with the Company's FY19 guidance range of 45%-55% after factoring in the seasonal increase in delinquencies traditionally experienced by Genworth in the first half of each year.

The **Expense Ratio** in 1Q19 was in line with 1Q18 (1Q19: 34.0% compared with 33.5% in 1Q18).

Investment Income in 1Q19 was \$63.1 million (1Q18: \$7.8 million) and included:

- an unrealised gain of \$36.4 million⁷ (\$25.5 million after tax) compared to an unrealised loss of \$16.4 million (\$11.5 million after tax) in 1Q18; and
- a realised gain of \$5.0 million in 1Q19 (\$3.5 million after tax) versus a realised gain of \$2.5 million (\$1.7 million after tax) in 1Q18. These realised gains were included in the Underlying NPAT reported in both quarters.

As at 31 March 2019, the value of Genworth's investment portfolio was \$3.2 billion, more than 83% of which continues to be held in cash and highly rated fixed interest securities. The Company also had \$72.4 million invested in Australian equities and \$548.7 million invested in non-AUD income securities⁸.

CAPITAL MANAGEMENT

Genworth's regulatory solvency ratio of 2.01 times as at 31 March 2019 was comfortably above the Board's target capital range of 1.32 to 1.44 times the **Prescribed Capital Amount (PCA)** on a level 2 basis.

Ms Nicholas said, "Ensuring we have an optimal capital structure continues to be a priority and we remain focused on evaluating uses for our excess capital on an ongoing basis."

To this end, in February 2019 the Company commenced a new \$100 million on-market share buy-back. As at 31 March 2019, Genworth had bought back 11.8 million shares as part of this capital management initiative for a purchase consideration of \$29.4 million⁹. Genworth intends to recommence this buy-back, subject to business and market conditions, the prevailing share price, market volumes and other considerations.

In addition to the existing share buy-back program currently in place, a resolution will be put to shareholders at the Company's Annual General Meeting in May 2019 to consider and approve future possible buy-backs of up to 100 million shares over the next 12-month period.

⁷ This reflects unrealised gains predominantly from the fixed income portfolio due to reducing interest rates. This amount excludes foreign exchange gains/losses and has been excluded from Underlying NPAT.

⁸ Includes cash to be invested. The non-AUD investment was held in collateralised loan obligations denominated in USD and investment grade credits denominated in USD and EURO. The foreign exchange (FX) exposures of the non-AUD investments are hedged through FX forward contracts.

⁹ These amounts are inclusive of 1.3 million shares bought back on 28 March 2019 for a purchase consideration of \$3.2 million which were cancelled on 1 April 2019.

ECONOMIC OVERVIEW

Economic growth in 1Q19 was consistent with trends in the second half of 2018, reflecting softening of credit growth rates. The fundamentals of the economy remained positive, supported by strong investment in public and private infrastructure, stability in commodity prices and a robust export market. Unemployment and underemployment levels also remained stable. Despite these positive indicators, global economic uncertainty coupled with moderating housing markets resulted in more cautionary household consumption and GDP growth below market expectations.

Metropolitan housing markets continued to moderate in 1Q19, albeit in the context of strong house price appreciation over the past six years. This reflects weakened investment property demand, fewer foreign buyers and greater housing supply following peak construction activity in recent years. Whilst the rate of moderation slowed in March, the trend was experienced more broadly across Australia, with all capital cities (other than Hobart and Canberra) experiencing a decline in house prices. Within this environment there have been signs of first home buyers re-entering the market.

Genworth expects the moderating trend in metropolitan housing markets to continue through 2019 reflecting tightened credit conditions, weak wage growth and increased levels of supply particularly in parts of Sydney and Melbourne. Perth continues to experience challenging market conditions following the end of the mining boom and this is expected to continue throughout 2019.

2019 OUTLOOK FOR GENWORTH

The guidance provided by the Company in its FY18 results announcement remains unchanged with FY19 NEP expected to be within the range of -5% to +5% of FY18 NEP and the full year loss ratio expected to be between 45% and 55%.

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 (including volatility in investment markets) as well as unforeseen circumstances or economic events.

Ms. Nicholas said, "We are focused on maintaining the momentum of our strategic program of work by implementing initiatives that grow our GWP and diversify our revenue streams. Active management of our capital position continues to be a priority and we remain committed to continuing our track record of delivering strong profits and capital returns to shareholders. Our Company is well capitalised, with a solid balance sheet and net tangible assets of approximately \$4.00 per share as at 31 March 2019."

ENDS

Conference Call

A conference call for analysts, institutional investors and media will be held at 10.30 am (Sydney time) on Wednesday 1 May 2019 to discuss these results. Details of the conference call are:

Conference name: Genworth Australia First Quarter 2019 Financial Results

Conference ID: 2088163

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 2666 836	United States	1855 293 1544
Japan	0120 994 669		

2019 Annual General Meeting

Genworth's Annual General Meeting will be held on Thursday, 9 May 2019 at The Mint, 10 Macquarie St, Sydney NSW 2000.

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.