

## Genworth third quarter 2017 earnings

### Third quarter in line with expectations; 2017 guidance updated

**(SYDNEY) 3 November 2017** – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) reported statutory<sup>1</sup> net profit after tax (NPAT) of \$32.1 million and underlying<sup>2</sup> NPAT of \$40.5 million for the third quarter ended 30 September 2017.

Ms Georgette Nicholas, Chief Executive Officer and Managing Director of Genworth, said, “Our third quarter results were strong and demonstrate the resilience of the business managing through various cycles. Our profitability remains strong in light of the small high loan-to-value ratio (LVR) market and continued development of losses in mining areas. At this time, our full year 2017 guidance has been updated from that provided to the market in February reflecting better than expected loss performance.

“We are managing our capital position actively and are continually evaluating potential uses for our excess capital. As part of our ongoing capital management strategy we have partially completed a previously announced \$100 million on-market share buy-back to a value of \$45 million and we plan to continue the buy-back subject to business and market conditions, the prevailing share price, market volumes and other considerations.

“Our business focus is to address our customers’ capital and risk management needs and to deliver a sustainable return on equity for shareholders. We remain focused on executing our business strategy to redefine our core business model.”

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

	Quarterly			Year to date (as at 30 Sep)		
	3Q16	3Q17	Change	2016	2017	Change
New Insurance Written (A\$bn)	6.1	5.5	(9.8%)	20.1	18.5	(8.0%)
Gross Written Premium	92.5	88.9	(3.9%)	282.2	271.2	(3.9%)
Net Earned Premium	115.9	100.1	(13.6%)	344.8	311.6	(9.6%)
Reported NPAT	46.7	32.1	(31.3%)	182.6	120.7	(33.9%)
Underlying NPAT	47.4	40.5	(14.6%)	160.3	154.0	(3.9%)
Reported loss ratio	45.3%	37.0%	(8.3pts)	37.1%	35.5%	(1.6pts)
Total portfolio delinquencies	6,844	7,146	4.4%	6,844	7,146	4.4%
Portfolio delinquency rate	0.47%	0.50%	3bps	0.47%	0.50%	3bps

<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 third quarter 2017**

New business volume, as measured by New Insurance Written (NIW), decreased 9.8 per cent to \$5.5 billion in 3Q17 compared with \$6.1 billion in 3Q16. The current quarter result included \$0.8 billion of NIW in bulk portfolio transactions.

Gross Written Premium (GWP) decreased 3.9 per cent to \$88.9 million in 3Q17. This reflects the changes in the customer portfolio over the period, partially offset by changes in the business mix compared with the same period in 2016.

Net Earned Premium (NEP) of \$100.1 million in 3Q17 decreased 13.6 per cent compared with \$115.9 million in 3Q16 reflecting lower earned premium from recent book years.

The expense ratio in 3Q17 was 29.7 per cent compared with 25.8 per cent in 3Q16, due to the lower NEP.

The loss ratio was 37.0 per cent in 3Q17, down from 45.3 per cent in 3Q16, due to lower new delinquencies net of cures, relative to a year ago, but partially offset by lower NEP.

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 previously benefited from the growth in the resources sector.

Investment income of \$15.6 million in 3Q17 included a pre-tax mark-to-market unrealised loss of \$12.0 million (\$8.4 million after-tax). As at 30 September 2017, the value of Genworth's investment portfolio was \$3.4 billion, 89 per cent of which continues to be held in cash and highly rated fixed interest securities.

As at 30 September 2017, the Company had invested \$214 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 3Q17 investment return was 2.88 per cent per annum, down from 3.51 per cent per annum in 3Q16.

## **Capital management**

Genworth's regulatory solvency ratio of 1.84 times continues to be above the Board's target capital range of 1.32 to 1.44 times the Prescribed Capital Amount (PCA).

The Company has completed the on-market share buy-back to a value of \$45 million and intends to continue the buy-back for shares up to a maximum total value of \$100 million, subject to business and market conditions, the prevailing share price, market volumes and other considerations.

The proposed on-market share buy-back is a continuation of the capital management actions that are designed to bring Genworth's solvency ratio more in line with the Board's target capital range of 1.32 to 1.44 times the PCA on a Level 2 basis.

## **Customer portfolio update**

Genworth previously advised that its customer, the National Australia Bank Limited, extended its Supply and Service Contract for the provision of Lenders Mortgage Insurance (LMI) for NAB's broker business. The term of the contract has been extended by one year to 20 November 2018.

## **Premium earning pattern**

In its 2 August 2017 first half earnings announcement Genworth advised that the premium earning pattern (also known as the "earnings curve") was being reviewed, consistent with Genworth's practice of annual review. That process is ongoing and Genworth has not at this stage concluded whether any change should be made to the premium earning pattern for the current or future periods. Genworth currently expects that this review process will be completed this financial year. Genworth will continue to assess information available from this review process and update the market as appropriate.

## **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 improved slightly to 5.5 per cent in September 2017 but key labour market indicators remain mixed. The underemployment rate continues to be elevated, 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 perpetuating the instance of mortgage stress in certain regional economies and Genworth expects elevated mortgage delinquencies in these regions for the remainder of 2017.

House price growth continues to moderate following regulatory measures to slow the growth in investment lending and limit the flow of new interest-only lending. Mortgage interest rate increases, particularly for investor and interest only loans, and recent changes to minimum bank equity requirements may also impact price growth this year.

Genworth expects 2017 NEP to decline by approximately 10 to 15 per cent. The full year loss ratio guidance has been updated to be between 35 and 40 per cent (based on the current premium earning pattern). Any change to the premium earning pattern may result in a change to these expectations.

The Board continues to target an ordinary dividend payout ratio range of 50 to 80 per cent of underlying NPAT and will continue to evaluate other capital management opportunities.

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 (AEDT) to discuss these results. Details of the conference call dial-in numbers are as follows:

**Conference name:** Genworth Australia third quarter 2017 financial results

**Conference ID:** 1192 871

## **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 King	800 908 865	United Kingdom	0808 234 0757
India	1800 3010 6141	United States	1855 293 1544
Japan	0120 477 087		

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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.