

## Genworth First Quarter 2016 Earnings

Sales volumes pressured by market dynamics; 2016 guidance unchanged

**(SYDNEY) 29 April 2016** – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) reported statutory<sup>1</sup> net profit after tax (NPAT) of \$67.3 million and underlying<sup>2</sup> NPAT of \$61.8 million for the quarter ended 31 March 2016.

Ms Georgette Nicholas, Chief Executive Officer of Genworth, said, “Our first quarter results are largely in line with our expectations. We continue to see pressure on Gross Written Premium (GWP) levels due to changes in the mortgage market, specifically, a noticeable decline in the proportion of high loan-to-value ratio (LVR) loans originated and changes in lender risk appetite. 1Q16 results reflect continued good underwriting performance with a loss ratio of 27 per cent in line with our guidance and our overall levels of profitability remained strong.

“Given current market conditions, we remain focused on maintaining our risk management discipline. We are also actively managing the Group’s capital position to ensure we are appropriately balancing our objectives of meeting our policyholder obligations, delivering long-term shareholder returns and having the flexibility to grow the business in the future.”

The following table details the key financial performance measures for the first quarter of 2016.

Financial performance measures (A\$ million)	Quarterly		
	1Q15	1Q16	Change
New Insurance Written (A\$bn)	7.2	6.2	(13.9%)
Gross Written Premium	127.7	85.0	(33.4%)
Net Earned Premium	110.8	113.5	2.4%
Reported NPAT	89.5	67.3	(24.8%)
Underlying NPAT	69.7	61.7	(11.5%)
Reported Loss Ratio	16.6%	27.0%	10.4 points
Normalised Loss Ratio <sup>1</sup>	25.3%	27.0%	1.7 points
Total portfolio delinquencies	5,378	5,889	511
Portfolio delinquency rate	0.36%	0.40%	0.04%

<sup>1</sup>The 1Q15 normalised loss ratio excludes the impact of a \$9.6 million borrower recovery receivable.

<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 1Q16**

New business volume, as measured by New Insurance Written (NIW), of \$6.2 billion in 1Q16, decreased 13.9 per cent compared with the previous corresponding period (pcp).

GWP decreased 33.4 per cent to \$85.0 million in 1Q16. The result reflects the combined impact of reduced business volumes, including the full impact of the changes in customers in 1H15, as well as a decline in the LVR mix of business.

Net Earned Premium (NEP) increased 2.4 per cent to \$113.5 million in 1Q16 compared with the pcp reflecting an adjustment to the NEP earnings curve implemented in 3Q15.

The normalised loss ratio rose to 27.0 per cent in 1Q16 from 25.3 per cent in the pcp, reflecting an increased number of delinquent loans relative to a year ago and a higher average paid claim amount.

The overall portfolio is performing in line with expectations. Performance in NSW and Victoria remains strong, while pressure in WA and Queensland continues as those regions navigate through tough economic conditions. The portfolio delinquency rate increased sequentially in 1Q16 versus the final quarter of 2015. This is in line with a typical seasonal increase in delinquencies in the first quarter of each calendar year.

The expense ratio in 1Q16 was 23.4 per cent compared with 27.3 per cent in the pcp. The lower expense ratio reflects the timing of certain payments during the quarter. Genworth continues to manage the business with a target expense ratio of 26 - 28 per cent in 2016.

Investment income of \$43.5 million in 1Q16 included a pre-tax mark-to-market gain of \$8.0 million. As at 31 March 2016, the value of Genworth's investment portfolio was \$3.8 billion, more than 95 per cent of which continues to be held in cash and highly rated fixed interest securities. As at 31 March 2016, the Company had invested \$150 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 1Q16 investment return was 3.55 per cent per annum, down from 3.80 per cent per annum in the pcp.

## **Capital optimisation initiatives**

On 31 March 2016, the Company announced its intention to undertake a capital management initiative for shareholders. The capital management initiative involves the distribution of 34 cents per share to shareholders, representing a total payment of approximately \$202 million. The initiative is designed to return a portion of surplus capital equitably to all shareholders and ensure Genworth maintains an efficient capital structure.

The cash distribution will be combined with a related share consolidation, which will provide shareholders an earnings per share outcome similar to a share buy-back. The capital reduction and related share consolidation are subject to shareholder approval at Genworth's Annual General Meeting (AGM) on 5 May 2016. The Company has obtained approval from the Australian Prudential Regulation Authority (APRA) for the capital reduction.

The proposed capital reduction is a continuation of the capital management actions that are designed to bring the Company's solvency ratio more in line with the Board's target capital range of 1.32 to 1.44 times the Prescribed Capital Amount (PCA) on a Level 2 basis. As at 31 March 2016, the Company's regulatory

solvency ratio was 1.68 times. On a pro forma basis, including the proposed \$202 million capital reduction, the Company's regulatory solvency ratio as at 31 March 2016 would be 1.55 times the PCA.

## **2016 Outlook**

Genworth continues to focus on the strategic needs of our customers, especially during this period of heightened regulatory focus on the Australian mortgage market and lending standards.

The outlook for the Australian residential mortgage market remains strong, supported by sound fundamentals including low unemployment, record-low interest rates and a continued focus by regulators on lending standards. Genworth expects house price appreciation to moderate in 2016.

The high LVR market continues to be constrained in 2016 and Genworth continues to expect GWP to decline by approximately 20 per cent due to these market conditions.

Genworth expects 2016 NEP to decline by approximately 5 per cent and for the full year loss ratio to be between 25.0 and 35.0 per cent. The Board will target an ordinary dividend payout ratio range of 50 to 80 per cent.

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

## **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 2016 Earnings Release**  
**Conference ID: 8900 7187**

### **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**

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.