

Genworth full year 2017 earnings

Good progress in redefining core business model & implementing strategic initiatives
12cps fully franked final dividend

(SYDNEY) 7 February 2018 – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) today reported its 2017 full year (FY17) financial results. Statutory¹ net profit after tax (NPAT) for the year ended 31 December 2017 was \$149.2 million and underlying² NPAT was \$171.1 million.

The Genworth Board declared a fully franked final ordinary dividend of 12 cents per share payable on 16 March 2018 to shareholders registered on 2 March 2018. The total ordinary dividend for 2017 was 24 cents per share and represents a payout ratio of 70.3%, up from 67.2% in 2016.

Ms Georgette Nicholas, Chief Executive Officer and Managing Director of Genworth, said, “Our 2017 results are in line with our guidance and reflect the impact in 4Q17 of our annual premium earning pattern review (2017 Earnings Curve Review), which we announced to the market on 15 December 2017.

“In early 2017 we commenced a strategic program of work to redefine our core business model and position Genworth as the leading provider of customer-focused capital and risk management solutions (Strategic Program of Work). I am pleased to report that we have made significant progress in implementing initiatives pursuant to this program of work.”

Financial performance measures (A\$ million)

	Full Year		
	2016	2017	Change
New Insurance Written (A\$bn)	26.6	23.9	(10.2%)
Gross Written Premium	381.9	369.0	(3.4%)
Net Earned Premium	452.9	370.5	(18.2%)
Reported NPAT	203.1	149.2	(26.5%)
Underlying NPAT	212.2	171.1	(19.4%)
Reported loss ratio	35.1%	38.3%	3.2pts
Total portfolio delinquencies	6,731	6,696	(35)
Portfolio delinquency rate	0.46%	0.47%	1bp

Strategic Update

The Company’s Strategic Program of Work is designed to address evolving lender and consumer expectations (resulting from technological and regulatory change) by leveraging Genworth’s existing core competencies in managing mortgage credit default risk.

¹ 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)).

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

As part of this work program a number of initiatives have been identified that focus on improving the Company's underwriting efficiency, enhancing its product offerings and, where appropriate, leveraging its data and mortgage partnerships along the mortgage value chain.

One such initiative has involved the establishment of an offshore insurance entity based in Bermuda, which provides Genworth with the capability to structure bespoke risk management solutions for portfolio cover across both high and low loan to value ratios (LVR). By leveraging its strong relationships in the global reinsurance market, Genworth has created a consortium and entered into an agreement with a customer to utilise the new structure to manage mortgage default risk. This bespoke solution is a complementary risk management tool to traditional LMI cover.

The second half of 2017 also saw the culmination of work undertaken by Genworth to create and implement risk management solutions for borrower-paid LMI in the less than 80% LVR segment on a micro market basis (Micro Market LMI).

Ms Nicholas said, "Both of these initiatives demonstrate our ability as an organisation to tailor products and solutions for customers that address their evolving capital and risk management needs in a dynamic market environment.

"They also demonstrate our ability to leverage our extensive local experience, global expertise and strong relationships within international risk and capital markets to offer customers a greater depth and breadth of tailored risk and capital management tools that complement our traditional LMI offering."

Over the course of 2018 Genworth will continue to engage with other existing and potential lender customers regarding the provision of capital and risk management solutions, including LMI and other tailored structures, in addition to actively pursuing new agreements that meet Genworth's risk appetite and return on equity profile.

The Company will also continue to roll-out other strategic initiatives it has identified as part of its Strategic Program of Work. Updates on progress will be provided to the market throughout the year.

Financial Performance for 2017

New business volume, as measured by New Insurance Written (NIW), of \$23.9 billion in 2017, decreased 10.2% compared with \$26.6 billion in the prior year.

Gross Written Premium (GWP) decreased 3.4% to \$369.0 million in 2017. This decline was partially offset by the impact of the premium rate actions taken in 2016 and reflects changes in the customer portfolio and changes in business mix during the year.

Net Earned Premium (NEP) of \$370.5 million in 2017 decreased 18.2% compared with \$452.9 million in the prior year reflecting the \$37.3 million impact of the 2017 Earnings Curve Review and lower earned premium from current and prior book years. Without the 2017 Earnings Curve Review adjustment, NEP would have declined 10.0%.

New delinquencies decreased in both mining and non-mining areas. The proportion of new mining delinquencies has been increasing in Western Australia while Queensland mining experience has been quite stable. Cures increased, particularly in non-mining areas. The number of claims paid in FY17 was higher than FY16, mainly driven by a higher proportion of claims in mining areas.

Net Claims incurred fell 10.7% from \$158.8 million in FY16 to \$141.8 million in FY17. The loss ratio in FY17 was 38.3%, up from 35.1% in FY16 reflecting the impact of lower NEP due to the 2017 Earnings Curve Review. Without this adjustment the FY17 loss ratio would have been 34.8%.

The expense ratio in FY17 was 29.3% compared with 25.7% in the prior year, reflecting the lower NEP and expenditure on the Strategic Program of Work. This is in line with the expected target range of between 28% and 30%.

Investment income in FY17 was \$103.3 million and included a pre-tax realised gain of \$36.4 million (\$25.5 million after tax) and a mark-to-market loss of \$31.3 million (\$21.9 million after-tax). After adjusting for the mark-to-market movements, the FY17 investment return was 2.82% per annum, down from 3.41% per annum in FY16.

As at 31 December 2017, the value of Genworth's investment portfolio was \$3.4 billion, more than 86% of which continues to be held in cash and highly rated fixed interest securities. The Company had

invested \$237.4 million in Australian equities as at year-end in line with the previously stated strategy to improve investment returns on the portfolio within acceptable risk tolerances. In 2017, the Board approved a strategy to diversify the Company's assets by investing in non-AUD fixed income securities. This will be implemented in 2018.

Capital Management

As at 31 December 2017 Genworth's regulatory solvency ratio was 1.93 times the Prescribed Capital Amount (PCA) which is above the Board's target capital range of 1.32 to 1.44 times.

Throughout the year the Company embarked on a number of capital management initiatives designed to bring Genworth's solvency ratio more in line with the Board's target range. A fully franked special dividend of 2 cents per share and fully franked ordinary dividends totalling 24 cents per share were declared by the Board. This equates to a yield of 8.7% based on the share price of \$3.00 as at 31 December 2017.

In 2017 the Company also commenced an on-market share buy-back up to a maximum value of \$100 million. As at 31 December 2017, \$51 million of shares had been acquired as part of this initiative. Genworth intends to continue the buy-back of shares in 2018, 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 Company will continue to actively manage its capital position and proactively evaluate potential uses for its excess capital.

Customers

Genworth has commercial relationships with over 100 lender customers across Australia and Supply and Service Contracts with 10 of its key customers. Our top three customers accounted for approximately 60% of our total NIW and 72.7% of GWP in 2017. We estimate that we had approximately 25% of the Australian LMI market by NIW in 2017.

On 10 March 2017 Genworth announced that the exclusivity agreement for the provision of LMI with its then second largest customer would terminate in April 2017. The Company has been successful in entering into new business with this customer that assists them in managing mortgage default risk through alternative insurance arrangements.

On 20 September 2017 Genworth announced that it had extended its Supply and Service Contract with National Australia Bank (NAB) for the provision of LMI for NAB's broker business. The term of the contract has been extended for one year to 20 November 2018.

2018 Economic Outlook

The Australian economy performed relatively well throughout 2017 with positive economic growth, an improving labour market and a lift in business investment. Victoria and New South Wales continued to perform well due to solid labour markets and property price appreciation, although a slowdown in the New South Wales property market was noted in the last quarter of 2017. Queensland and Western Australia continued to experience the flow on impacts of the slowdown in the resources sector.

The economic outlook for 2018 is expected to be relatively similar to 2017, with growth remaining below long-term trend. Domestic demand growth will be driven by business and government investment, particularly infrastructure spending. Residential dwelling construction activity is likely to ease due to cooling housing market conditions.

Labour market growth is expected to continue into 2018, albeit at a more moderate pace than in 2017.

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 are expected to ease further in 2018 as macro-prudential measures continue to take effect and record levels of 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.

2018 Outlook for Genworth

The Company expects GWP to increase in 2018 reflecting the premium written pursuant to the new customised risk management solution and Micro Markets LMI.

NEP and the full year loss ratio are expected to be adversely impacted by the 2017 Earnings Curve Review. 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 full year loss ratio is expected to be between 40% and 50%. The 2017 Earnings Curve Review will not affect the total amount of revenue expected to be earned over time from the premiums already written.

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, "2018 will be a transitional year for our business as we continue to implement initiatives pursuant to our Strategic Program of Work. We are focused on enhancing our existing LMI business and growing our business by leveraging our core competencies to offer a broader suite of complementary capital and risk management solutions for customers.

"We remain committed to actively managing our capital position by continually evaluating potential uses for our excess capital. In doing so, we are focused on balancing our objectives of meeting our policyholder obligations, delivering long-term shareholder returns and having flexibility to grow the business.

"Our Company is well capitalised and has a good track record of delivering solid profits and attractive shareholder returns. This continues to be an integral objective of our strategy going forward," Ms Nicholas said.

Result Briefing and Conference Call

A result briefing for analysts, institutional investors and media will be held today at the offices of Ashurst Australia, Level 11, 5 Martin Place, Sydney at **9.30am** (Sydney time).

The briefing will be accessible via teleconference and will be webcast through the Company's website <http://investor.genworth.com.au/Investor-Centre>. A replay of the webcast will also be made available following the briefing on the Company's website.

The briefing conference call details are set out below.

Conference name: Genworth Australia Full Year 2017 Financial Results

Conference ID: 5999399

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
China	4001 203 085
Hong Kong	800 908 865
India	1800 3010 6141

2018 Annual General Meeting

Genworth advises that, in accordance with ASX Listing Rule 3.13.1, its Annual General Meeting will be held at 11.00am (Sydney time) on Thursday, 10 May 2018 at The Mint, 10 Macquarie St, Sydney NSW 2000. A Notice of Meeting will be lodged with the ASX closer to the date.

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 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.