

Genworth full year 2018 earnings

- Statutory net profit after tax (NPAT) in FY18 of \$75.7 million (FY17: \$149.2 million) and Underlying NPAT of \$93.9 million (FY17: \$171.1 million)
- 2018 earnings in line with guidance (NEP down 24.1%; Loss Ratio 51.9%) – reflecting timing of revenue recognition from seasoning of books¹ and moderating housing market conditions
- Good progress in redefining core business model through strategic program of work:
 - GWP up primarily due to business written from new product offerings
 - Excess of loss contracts entered into with a number of customers, resulting in commercial arrangements now in place with Australia's five largest banks
- Two on-market share buy-backs completed in FY18 (\$149.1 million) – new share buy-back announced today (up to a value of \$100 million)
- Since ASX listing in 2014, Genworth has returned more than \$1 billion to shareholders, including distribution of all after tax profits.
- Fully franked final ordinary dividend of 9.0 cps – total FY18 dividends of 21.0 cps (fully franked) – yield of ~9.6% (based on share price of \$2.19 as at 31 December 2018)
- Unearned Premium Reserve of \$1.2 billion as at 31 December 2018
- Strong capital position – Net Tangible Assets of \$3.94 per share as at 31 December 2018.

(SYDNEY) 6 February 2019 – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) today reported its 2018 full year (FY18) financial results. Statutory² net profit after tax (NPAT) for the year ended 31 December 2018 was \$75.7 million and Underlying³ NPAT was \$93.9 million.

The Genworth Board declared a fully franked final ordinary dividend of 9.0 cents per share (cps) payable on 18 March 2019 to shareholders registered on 4 March 2019. The total dividend for 2018 was 21.0 cps fully franked (17.0 cps total ordinary dividend and 4.0 cps special dividend). This represents a payout ratio of 80.0%, up from 70.3% in 2017.

Genworth Chief Executive Officer and Managing Director, Ms. Georgette Nicholas, said, “Our FY18 financial performance is in line with our guidance and our expectation of a transitional year for Genworth. Our result reflects the 12 month impact of the 2017 Earnings Curve Review (versus a three month impact in fourth quarter FY17) as well as moderating housing market conditions, tightening credit standards and increases in mortgage interest rates during the year.

¹ In October 2017 as part of its annual earnings curve review, the Company adjusted the way in which it recognises premium revenue with the effect of lengthening the time-period over which premium is earned (2017 Earnings Curve Review). The earning pattern was reviewed again in 2018 as part of the Company's annual review process and no changes were made.

² The financial result of Genworth and its subsidiary companies (the Group) prepared in accordance with Australian Accounting Standards (AAS) adopted by the Australian Accounting Standards Board, which are consistent with those under International Financial Reporting Standards (IFRS).

³ Underlying NPAT excludes the after-tax impact of mark-to-market gains/(losses) 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 fully hedged.

“We have made good progress in implementing initiatives designed to redefine our core business model. These strategic initiatives contributed to the growth of Gross Written Premium (GWP) in FY18 and delivered underwriting and operating efficiencies.

“We also remain focused on capital management initiatives, having completed two on-market buy-backs to the value of \$149.1 million in 2018 and announcing a new on-market share buy-back today, up to a value of \$100 million.”

Financial performance measures (A\$ million)

	Quarterly		Full Year			Change (4Q17 vs. 4Q18)	2017	2018	Change (FY17 vs. FY18)
	4Q17	1Q18	2Q18	3Q18	4Q18				
New Insurance Written ⁴ (A\$bn)	5.4	4.3	6.0	5.1	6.8	25.9%	23.9	22.2	(7.1%)
Gross Written Premium	97.7	174.1	92.7	92.1	101.3	3.7%	369.0	460.2 ⁵	24.7%
Net Earned Premium	58.8	67.4	76.0	68.1	69.9	18.9%	370.5	281.3	(24.1%)
Reported NPAT	28.4	8.4	33.5	19.6	14.2	(50.0%)	149.2	75.7	(49.3%)
Underlying NPAT	17.1	19.9	30.4	20.4	23.3	36.3%	171.1	93.9	(45.1%)
Reported loss ratio	53.1%	55.9%	50.9%	52.6%	48.2%	(4.9pts)	38.3%	51.9%	13.6pts
Total portfolio delinquencies ⁴	6,696	6,958	7,306	7,350	7,145	6.7%	6,696	7,145	6.7%
Portfolio delinquency rate ⁴	0.47%	0.49%	0.54%	0.55%	0.54%	7bps	0.47%	0.54%	7bps

STRATEGIC UPDATE

Ms. Nicholas said, “We are operating in a dynamic market subject to technological, regulatory and competitive changes. Within this environment, lender and customer expectations are evolving. To address these expectations and to enable us to compete effectively, we commenced a strategic program of work in 2017 (Strategic Program of Work).

“Our Strategic Program of Work is designed to leverage our existing core competencies in managing credit default risk and position Genworth as the leading provider of risk and capital management solutions in the Australian residential mortgage market.”

Key deliverables pursuant to the Strategic Program of Work in FY18 include:

Product enhancement: Diversifying the Company’s revenue streams through product innovation and enhancement. This has included the launch of a new bespoke risk management offering utilising a Bermudan insurance entity (established by Genworth in 2017) which is a complementary risk management tool to traditional LMI cover. Other new product offerings include a new risk management solution for borrower-paid LMI in the less than 80% LVR segment on a micro markets basis (Micro Markets LMI) and excess of loss insurance agreements with a number of customers resulting in commercial arrangements now in place with all five of Australia’s largest banks.

Underwriting efficiencies: Delivering greater underwriting risk management insights and operating efficiencies through investment in technology. This investment has included the development and launch of a new automated

⁴ Excludes excess of loss insurance.

⁵ Includes GWP written pursuant to a customer contract entered by Genworth’s Bermudan insurance entity. This transaction includes a consortium of reinsurers therefore only a portion of GWP written will flow through to NEP.

underwriting decision platform and data-only submission channel (eLMI portal), which enable LMI approval decisions to be made in real time and provide data that facilitates more insightful underwriting risk assessment.

Leveraging data and partnerships: A key focus of the business has been on identifying innovative ways to access new distribution channels for LMI. This has resulted in a small equity stake in Tictoc Online Pty Limited (Tic:Toc), a fintech in the online origination space, which operates as a direct-to-consumer and partner platform. Genworth has also been appointed as Tic:Toc's exclusive LMI provider.

The Company continues to progress its Strategic Program of Work and in the year ahead will focus on leveraging technology and its extensive high LVR expertise and data to add value across the mortgage value chain.

2018 FINANCIAL PERFORMANCE

New Insurance Written (NIW) decreased 7.1% to \$22.2 billion in FY18 compared with \$23.9 billion in FY17. NIW excludes the Company's excess of loss insurance and the new business written through Genworth's Bermudan entity.

Strong growth in LMI flow business in 4Q18 partially offset the end of an agreement in April 2017 with Genworth's then second largest customer which represented \$2.5 billion of NIW in FY17.

Gross Written Premium (GWP) increased 24.7% to \$460.2 million in FY18 (FY17: \$369.0 million). This includes business written as part of the Company's new product offerings (including business written by Genworth's Bermudan entity, excess of loss insurance and Micro Markets LMI).

In relation to the Bermudan transaction, 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 8.4% in FY18, largely due to this transaction. For reporting purposes this risk is not reflected in NIW.

In the traditional LMI business, GWP attributable to bulk portfolio transactions was down 15.9% (FY18: \$6.9 million versus FY17: \$8.2 million). GWP resulting from flow LMI was slightly up (FY18: \$362.6 million versus FY17: \$360.6 million) despite FY17 including flow business written under a contract with Genworth's then second largest customer which ended in April 2017.

Net Earned Premium (NEP) decreased 24.1% from \$370.5 million in FY17 to \$281.3 million in FY18. This is in line with guidance and reflects the 12-month adverse impact of the 2017 Earnings Curve Review compared to the three-month adverse impact in FY17 (FY18: \$108.9 million versus FY17: \$37.3 million).

Also, impacting FY18 NEP was the release of \$8.2 million of unearned premium following implementation of a new lapsed policy initiative in 2Q18 (Lapsed Policy Initiative). This initiative utilised newly available data to more promptly identify loans that had been refinanced or discharged.

Excluding the 2017 Earnings Curve Review impact, NEP declined 4.3% in FY18. The adverse impact on NEP of the 2017 Earnings Curve Review has been reducing quarter on quarter since it took effect on 1 October 2017. Whilst the 2017 Earnings Curve Review has the effect of lengthening the time period over which premium is earned, it does not affect the quantum of revenue that will be earned. Genworth's **Unearned Premium Reserve** as at 31 December 2018 was \$1.2 billion.

The **Delinquency Rate** (number of delinquencies divided by policies in force but excluding excess of loss insurance) increased 7 basis points (bps) from 0.47% in FY17 to 0.54% in FY18. This was driven primarily by two factors:

- A decrease in the policies-in-force following completion of the Lapsed Policy Initiative (2bps impact); and
- An increase in delinquency rates year-on-year across all States (particularly in Western Australia, New South Wales and South Australia).

Western Australia and New South Wales experienced the largest increase in the number of delinquencies, with Queensland and Victoria experiencing a decrease.

New delinquencies were down for the year (FY18: 10,697 versus FY17: 11,347) with mining regions showing signs of improvement. In non-mining regions, the softening in **Cures** experienced in 1H18 continued in 2H18 with the traditional seasonal uplift in the second half of the year being more subdued than prior years.

The number of **Paid Claims** was down (FY18: 1,311 vs. FY17: 1,472), and the quantum paid per claim was flat.

Net Claims Incurred for the year was \$145.9 million (FY17: \$141.8 million). In FY17, the Company reviewed its non-reinsurance recoveries on paid claims. The result of this review was an improvement in its recovery process with a favourable impact of \$9.1 million in FY17 and \$1.4 million in FY18. Excluding these favourable non-reinsurance recoveries Net Claims Incurred decreased in FY18.

The FY18 **Loss Ratio** was 51.9% (versus 38.3% in FY17), in line with the Company's guidance range of 50%-55%. This reflects the impact of lower NEP due to the 2017 Earnings Curve Review. Excluding the impact of the 2017 Earnings Curve Review, the loss ratio was 37.4% in FY18 (FY17: 34.8%).

The **Expense Ratio** in FY18 was 33.6% compared with 29.3% in FY17, reflecting the lower NEP.

Investment Income in FY18 was \$77.9 million (FY17: \$103.3 million) and included a pre-tax realised gain of \$17.4 million⁶ (\$12.2 million after tax) versus a pre-tax realised gain of \$36.4 million (\$25.5 million after tax) in FY17.

The FY18 Investment Income also included a mark-to-market⁷ loss of \$26.1 million (\$18.3 million after-tax).

After adjusting for realised and unrealised gains and losses, the FY18 investment return was 2.60% per annum, (FY17: 2.82% per annum) reflecting the fact that returns are being pressured by the low interest environment.

As at 31 December 2018, the value of Genworth's investment portfolio was \$3.2 billion, more than 82% of which continues to be held in cash and highly rated fixed interest securities. As at year end the Company had \$122.8 million invested in Australian equities and diversified its assets with \$535.0 million invested in non-AUD income securities⁸.

CAPITAL MANAGEMENT

Genworth's regulatory solvency ratio of 1.94 times (as at 31 December 2018) was above the Board's target capital range of 1.32 to 1.44 times the **Prescribed Capital Amount (PCA)** on a level 2 basis.

In FY18 the Company embarked on various capital management initiatives designed to bring its solvency ratio more in line with the Board's current target range, including:

- The Board declaring a fully franked special dividend of 4.0 cps and fully franked ordinary dividends (interim and final) totalling 17.0cps for FY18. These dividends equate to a yield of 9.6% based on the share price of \$2.19 as at 31 December 2018; and
- Completion of two on-market share buy-backs to the value of \$149.1 million.

Since listing on the Australian Securities Exchange (ASX) in 2014, Genworth has returned more than \$1 billion to shareholders, including distribution of all after tax profits.

The Company today announced a new on-market share buy-back (up to a value of \$100 million). The purchase of 38.6 million shares pursuant to this buy-back is covered by the shareholder approval obtained at the 2018 Annual General Meeting (AGM). The remaining shares to be acquired pursuant to this buy-back will be subject to shareholder approval at the AGM on 9 May 2019.

⁶ Excludes foreign exchange gains/losses. This amount has been excluded from Underlying NPAT.

⁷ Unrealised gains / losses (exclusive of foreign exchange).

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 fully hedged through FX forward contracts.

Based on Genworth's closing share price of \$2.26 on 5 February 2019, the on-market buy-back would represent 10.1% of the Company's issued share capital or around 44.2 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.

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.

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 to maintain its approximately 52% 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 was lodged with the ASX today. 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 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.

The Company will continue to 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. The Company's top three customers accounted for approximately 72.9% of GWP in 2018⁹. Genworth estimates that it had approximately 30% of the Australian HLVR LMI market by NIW¹⁰ in 2018.

On 21 November 2018, the Company announced that it had renewed its Supply and Service Contract with National Australia Bank (NAB) for the provision of LMI for NAB's broker business. The new contract is for a term of two years and meets Genworth's return on equity profile and risk appetite.

In 4Q18 the Company also entered a contract with a new customer for the provision of excess of loss insurance coverage. This transaction has resulted in Genworth now having commercial relationships with Australia's five largest banks.

ECONOMIC OVERVIEW

The Australian economy remained on a stable trajectory throughout 2018. The economic growth experienced during the year benefitted the labour market with strong employment levels (particularly in full time jobs) and a reduction in underemployment from historic, elevated levels. Despite the solid economic performance, uncertainty remained within the household sector due to weak wage growth, high debt levels and lower growth in household wealth.

The economic outlook for 2019 remains positive. Continued investment in infrastructure and non-mining sectors combined with anticipated increases in gas production and exports are expected to support ongoing growth. This should promote continued employment growth in 2019, albeit at a slightly slower pace than 2018, resulting in a modest increase in wages and benign inflation growth. Within this environment, the official cash rate is likely to

⁹ Excludes excess of loss insurance.

¹⁰ Estimates based on flow market.

remain on hold throughout 2019 but lending institutions are expected to continue implementing “out-of-cycle” interest rate increases due to higher funding costs.

Housing market moderation continued in 4Q18, closing out 2018 with 14 consecutive months of abating house prices. The downward pressure on national dwelling values was largely confined to Sydney and Melbourne with Perth continuing to experience challenging market conditions following the end of the mining boom. Genworth expects the moderating trend in housing market conditions to continue for most of 2019, reflecting pressure on lending due to tightened credit conditions, weak wage growth and increased levels of new housing supply. Metropolitan housing markets in Sydney and Melbourne are predicted to lead the trend, whilst the rate of decline in regions linked to the mining resource industry (in Queensland and Western Australia) is expected to stabilise.

2019 OUTLOOK FOR GENWORTH

Genworth expects its financial performance in FY19 to continue to be impacted by the timing of recognising revenue as the books season, as well as ongoing housing market moderation, increases in mortgage interest rates, softening cure rates and tightening credit standards. As a result, NEP is expected to be within the range of -5% to +5% of FY18 NEP and the full year loss ratio is 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 and implementing initiatives that grow our GWP and diversify our revenue streams. We also remain committed to actively managing our capital position. Our Company is well capitalised and has a solid balance sheet with net tangible assets of approximately \$3.94 per share as at 31 December 2018. We have a track record of delivering solid profits and strong capital returns to shareholders which we are committed to continuing.”

ENDS

Conference Call

A conference call for analysts, institutional investors and media will be held at 11:00 am (Sydney time) on Wednesday 6 February 2019 to discuss these results. Details of the conference call are:

Conference name: Genworth Australia Full Year 2018 Financial Results

Conference ID: 5129107

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 advises that, in accordance with ASX Listing Rule 3.13.1, its Annual General Meeting will be held on Thursday, 9 May 2019 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 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.