ASX Release
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Australia

Genworth

2017 Annual General Meeting
CEO's Address

(SYDNEY) 11 May 2017 – Thank you Ian. Good morning ladies and gentlemen and thank you for joining us here this morning.

Genworth is a business that is focused on the strategic needs of our customers and on delivering a sustainable return on equity for you, our shareholders. Today, I will cover the performance of the business, our strategic direction and the important role of people and diversity in our Company.

Company Performance

I am pleased to report that in 2016 we delivered another year of strong financial performance which met key financial guidance for the year. Our profitability is strong in a dynamic market, our business model is resilient and we are strongly capitalised.

Underlying Net Profit After Tax (excluding mark-to-market movements in the investment portfolio) was $212.2 million in 2016, down 19.8 per cent compared to 2015. Current market dynamics continue to be challenging with reduced high loan-to-value ratio (LVR) lending as a proportion of total mortgage originations. In response to these trends, New Insurance Written (NIW) declined 18.4 per cent to $26.6 billion and Gross Written Premium (GWP) was down 24.8 per cent at $381.9 million. Total revenue, as measured by Net Earned Premium (NEP), fell 3.6 per cent to $452.9 million, reflecting the pattern of revenue recognition from prior book years.

Genworth has commercial relationships with over 100 lender customers across Australia. Our top three customers accounted for approximately 78 per cent of our total NIW and 71 per cent of GWP in 2016. We estimate we had approximately 34 per cent of the Australian LMI market by NIW in 2016.

In November 2016, we were pleased to announce we renewed our contract with our largest customer, the Commonwealth Bank of Australia, for the provision of LMI for a further 3 years through to 31 December 2019. This contract represented 47 per cent of GWP in 2016.

In 2016, the loss ratio rose to 35.1 per cent from 24.0 per cent in 2015 and was in line with our expectations. New South Wales and Victoria performed strongly. However, the higher loss ratio reflects a rise in mortgage delinquencies and the expectation of higher average paid claim amounts in resources-exposed regional economies, particularly in Queensland and Western Australia.

In 2016, we actively managed our capital position and undertook a number of capital management initiatives to ensure our capital base is at a level that balances our objectives of meeting our policyholder obligations, delivering long-term shareholder returns and having flexibility for the business in the future. These initiatives included:

- A fully franked special dividend of 12.5 cents per share;
- A $202.4 million (or 34 cents per share) distribution to shareholders and associated share consolidation; and

- Restructure of the reinsurance program with qualifying reinsurance of $950 million as at 1 January 2017.

The Board also declared fully franked ordinary dividends totalling 28 cents per share. This resulted in a total equivalent dividend yield of more than 20 per cent for 2016. Looking ahead, we will continue to actively manage our capital position and evaluate our excess capital position and potential uses in 2017 to manage to the Board target range of 1.32 to 1.44 times PCA.

Our first quarter 2017 results were released to the market last week reporting overall net profit after tax of $52.2 million and underlying net profit after tax of $68.3 million. The results were in line with our expectations and show that, despite challenging market conditions, we are very profitable and our business model is resilient.

As we look at the broader backdrop, Australian economic conditions have moderated as the economy continues to transition away from mining. There is also 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 has increased slightly recently and key labour market indicators remain mixed. Employment growth is being primarily driven by an increase in part-time employment. The under-employment rate remains elevated and at near-record highs, 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 increasing the instance of mortgage stress in certain regional economies and we expect these trends to drive elevated mortgage delinquencies in these regions in 2017.

House price growth is likely to moderate in 2017 following regulatory measures to slow the growth in investor lending and limit the flow of new interest-only lending. Recent mortgage interest rate increases, particularly for investor loans, may also impact price growth this year.

Overall, we expect 2017 NEP to decline by approximately 10 to 15 per cent and for the full year loss ratio to be between 40 and 50 per cent. The Board continues to target an ordinary dividend payout ratio range of 50 to 80 per cent of underlying NPAT. The full year outlook is subject to market conditions as well as unforeseen circumstances or economic events.

Strategy

The business is operating in a competitive and dynamic market where expectations of consumers and lenders are evolving as technology develops and information becomes more available. Bank capital requirements continue to change, requiring lenders to evaluate various solutions, both old and new, to address the increased requirements and cost pressures. As we continue to compete in this environment, we are working to be the leading provider of customer-focused capital and risk management solutions.

We are redefining our core business model, to address our customers' needs further and to deliver a sustainable return on equity for shareholders. In particular, we are focused on improving our underwriting efficiency, enhancing our product offerings and where appropriate, leveraging our data and partnerships along the mortgage value chain. We will also continue to work with regulators to ensure our role in supporting stability in the housing market remains strong, especially in maintaining prudent underwriting standards.

Throughout 2016 and continuing into 2017, Australian regulators have maintained a focus on upholding sound residential mortgage lending standards and ensuring appropriate capital requirements in the residential mortgage industry. We remain engaged with regulators and other industry participants to promote legislative and regulatory policies that support home ownership and continued responsible credit growth. We are working to develop solutions with policy makers and regulators that reinforce the importance of LMI to the Australian mortgage market and stability of the wider financial system, especially its value helping first time home buyers.

Genworth is supportive of regulatory measures that promote prudent residential mortgage lending standards. The challenge is that all markets are not the same and there is not one solution for all. With housing affordability a focus for many, first time homebuyers still struggle to save a deposit and are looking for ways to enter the housing market sooner.

Genworth has provided LMI as a way for borrowers to enter the market in a safe way for over 50 years. We are committed to supporting the Australian housing market in both good times and in periods of stress. Our goal is to continue to help borrowers obtain a home, by providing risk and capital solutions to our lenders, and ensure through our loss mitigation services, that we help borrowers stay in their homes during periods of stress.

People

This year we launched our new Company values, an important step forward as we continue to evolve who we are and the value we bring to customers. I believe our values will help us to do more of the things that make us effective. They are being incorporated into everything we do, into our conversations and our language to ensure they are understood and lived every day. Importantly, we will all be held to account for our behaviour in relation to our values. They're what help us be a 'smart partner', a company committed to the success of our customers.

Genworth seeks to make a meaningful contribution to the communities in which we operate. We make it a priority to contribute to causes that are aligned to our mission and vision of supporting the dream of home ownership by helping Australians get into their home sooner and keeping them there.

In 2016, 38 per cent of our employees dedicated time to volunteering programs with our community partners, above the sector benchmark of 10 per cent. The enthusiasm and the impact of our employee's efforts continues to be truly remarkable as they offer their time, energy, creativity and expertise to help our community partners and the clients they serve. In addition to a variety of volunteer opportunities, Genworth offers a number of programs including milestone anniversary donations, *Make-A-Difference* day and, new in 2017, employee-sponsored donations that allow employees to support a community partner of their choice. As an organisation we will continue to focus on our ongoing social responsibility in the year ahead.

Diversity in the form of gender, thought and experience is foundational to our culture. As Ian mentioned, we have held a WGEA citation for the past two years now and I am a pay gender equality ambassador. We have sponsored a number of mentoring events to promote the development of young women and have an internship program.

In conclusion, we remain committed to supporting Australians in realising their dream of home ownership by being the partner of choice in the provision of capital and risk management solutions to mortgage lenders.

I would like to thank the Chairman and my fellow Directors for their commitment to the Company and their support to management during 2016. I would also like to thank the Senior Leadership Team for their resilience and support. To all our Genworth people, thank you for your dedication and commitment to our business throughout this year of change. You continually put our customers first in everything you do and that provides the solid foundation for our business. I look forward to leading the team in the coming year as we execute on our strategic objectives.

To our customers and other partners, thank you for your ongoing support and I look forward to continuing these strong relationships. Finally, I would like to thank you our shareholders for your loyalty and investment in Genworth.

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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.