Genworth Mortgage Insurance Australia

3Q 2017 Financial Results Presentation

3 November 2017

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Introduction

Georgette Nicholas, CEO

3Q 2017 and YTD financial results summary

(A$ millions)	3Q16	3Q17	Change %
Gross written premium	92.5	88.9	(3.9%)
Net earned premium	115.9	100.1	(13.6%)
Reported net profit after tax	46.7	32.1	(31.3%)
Underlying net profit after tax	47.4	40.5	(14.6%)

(A$ millions)	YTD16	YTD17	Change %
Gross written premium	282.2	271.2	(3.9%)
Net earned premium	344.8	311.6	(9.6%)
Reported net profit after tax	182.6	120.7	(33.9%)
Underlying net profit after tax	160.3	154.0	(3.9%)

Key financial measure	FY17 guidance	YTD17 actual	
NEP growth	Down 10 to 15 per cent	(9.6%)	✓
Full year loss ratio	35 to 40 per cent	35.5%	✓
Dividend payout ratio	50 to 80 per cent	53.9%	✓

3Q result in line with expectations

- GWP lower on changes in the customer portfolio and reflects the impact of $0.8 billion of NIW in bulk portfolio transactions
- Reported NPAT includes after-tax mark-to-market loss of $8.4 million on the investment portfolio.

Risk management

- Continued pressure from mining regions on delinquency development and claims experience
- Focus on maintaining risk management discipline in a changing market.

Updated guidance

- FY17 full year loss ratio updated to 35-40 per cent.

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Macroeconomic conditions

Delinquency rates by geography

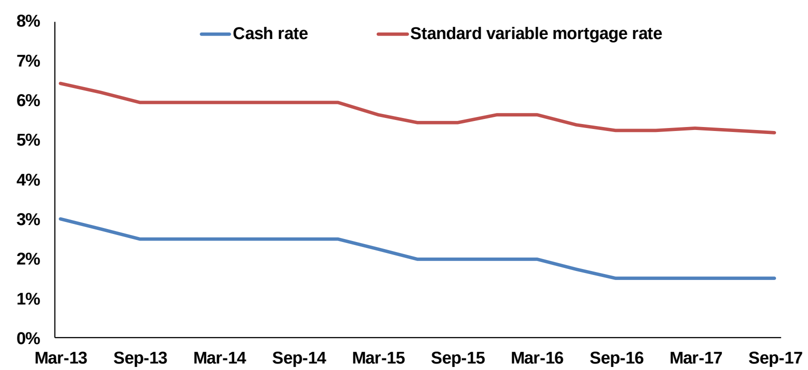
State	Sep 16	Sep 17	Change (basis points)
New South Wales	0.32%	0.31%	(1) bps
Victoria	0.39%	0.39%	-
Queensland	0.67%	0.72%	5 bps
Western Australia	0.69%	0.88%	19 bps
South Australia	0.62%	0.65%	3 bps
Group	**0.47%**	**0.50%**	**3 bps**

Unemployment rates (seasonally adjusted)

State	Sep 16	Sep 17	Change (basis points)
New South Wales	4.9%	4.6%	(30) bps
Victoria	5.8%	6.0%	20 bps
Queensland	6.3%	5.9%	(40) bps
Western Australia	6.0%	5.7%	(30) bps
South Australia	6.8%	5.8%	(100) bps
National	**5.7%**	**5.5%**	(20) bps

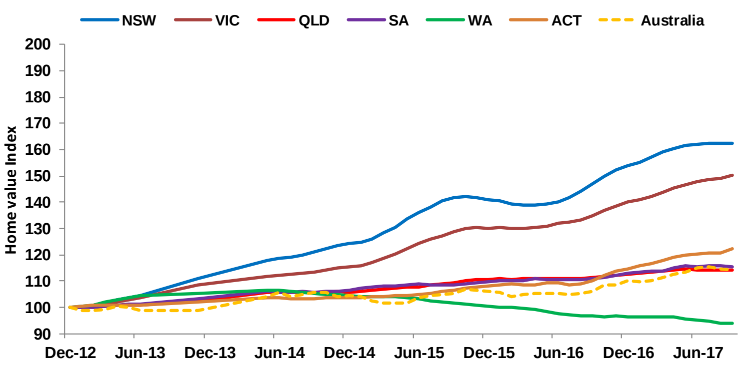
Source: Australian Bureau of Statistics

Interest rates



Source: Reserve Bank of Australia

House values – Capital city dwellings



Source: CoreLogic

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Detailed financial performance

Luke Oxenham, CFO

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3Q 2017 income statement

(A$ millions)	3Q16	3Q17	Change 3Q16 v 3Q17	YTD16	YTD17	Change YTD16 v YTD17
Gross written premium	92.5	88.9	(3.9%)	282.2	271.2	(3.9%)
Movement in unearned premium	40.7	28.1	(31.0%)	116.7	91.2	(21.9%)
Gross earned premium	**133.2**	**117.0**	**(12.2%)**	**398.9**	**362.4**	**(9.2%)**
Outwards reinsurance expense	(17.3)	(16.9)	(2.3%)	(54.2)	(50.8)	(6.3%)
Net earned premium	**115.9**	**100.1**	**(13.6%)**	**344.8**	**311.6**	**(9.6%)**
Net claims incurred	(52.5)	(37.0)	(29.5%)	(127.9)	(110.5)	(13.6%)
Acquisition costs	(13.5)	(13.7)	1.5%	(38.8)	(40.9)	5.4%
Other underwriting expenses	(16.4)	(16.0)	(2.4%)	(46.9)	(43.5)	(7.2%)
Underwriting result	**33.5**	**33.4**	**(0.3%)**	**131.2**	**116.7**	**(11.1%)**
Investment income on technical funds[1]	11.5	1.2	(89.6%)	59.1	19.7	(66.7%)
Insurance profit	**45.0**	**34.6**	**(23.1%)**	**190.3**	**136.4**	**(28.3%)**
Investment income on shareholder funds[1]	24.8	14.4	(41.9%)	81.1	45.0	(44.5%)
Financing costs	(3.1)	(2.9)	(6.5%)	(11.3)	(8.6)	(23.9%)
Profit before income tax	**66.8**	**46.1**	**(31.0%)**	**260.0**	**172.7**	**(33.6%)**
Income tax expense	(20.0)	(14.0)	(30.0%)	(77.5)	(52.0)	(32.9%)
Net profit after tax	**46.7**	**32.1**	**(31.3%)**	**182.6**	**120.7**	**(33.9%)**
Underlying net profit after tax	**47.4**	**40.5**	**(14.6%)**	**160.3**	**154.0**	**(3.9%)**

Note: Totals may not sum due to rounding.

1. Investment income on technical funds and shareholder funds include the before-tax effect of realised and unrealised gains/(losses) on the investment portfolio.

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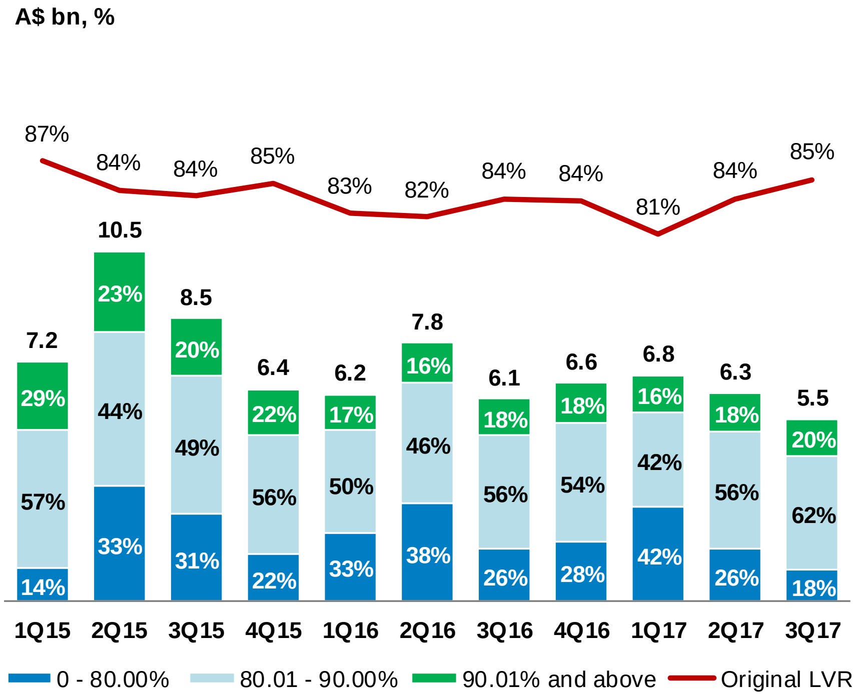
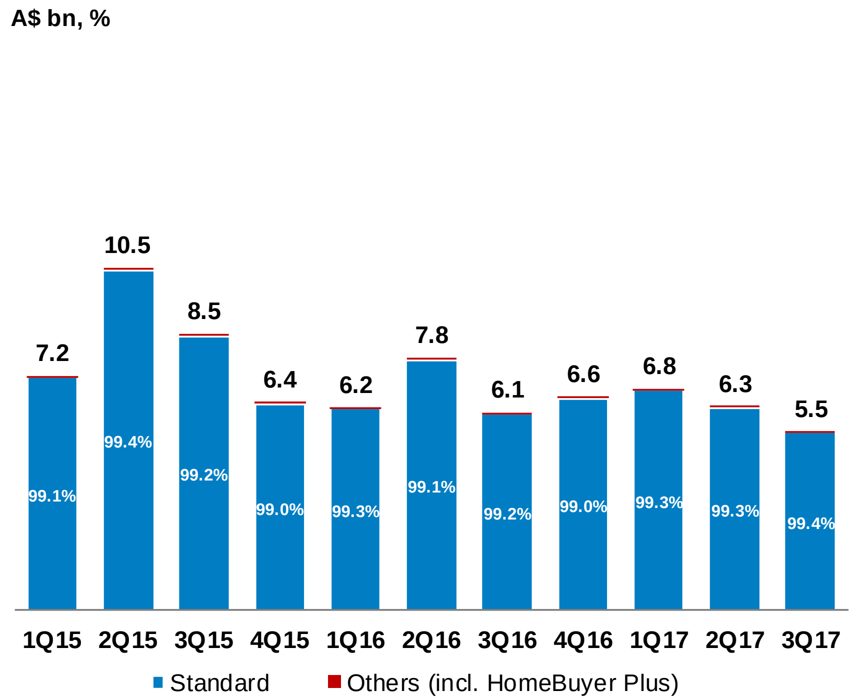
New insurance written

NIW[1] by original LVR[2] band



NIW[1] by product type



1. NIW includes capitalised premium. NIW excludes excess of loss reinsurance.
2. Original LVR excludes capitalised premium.

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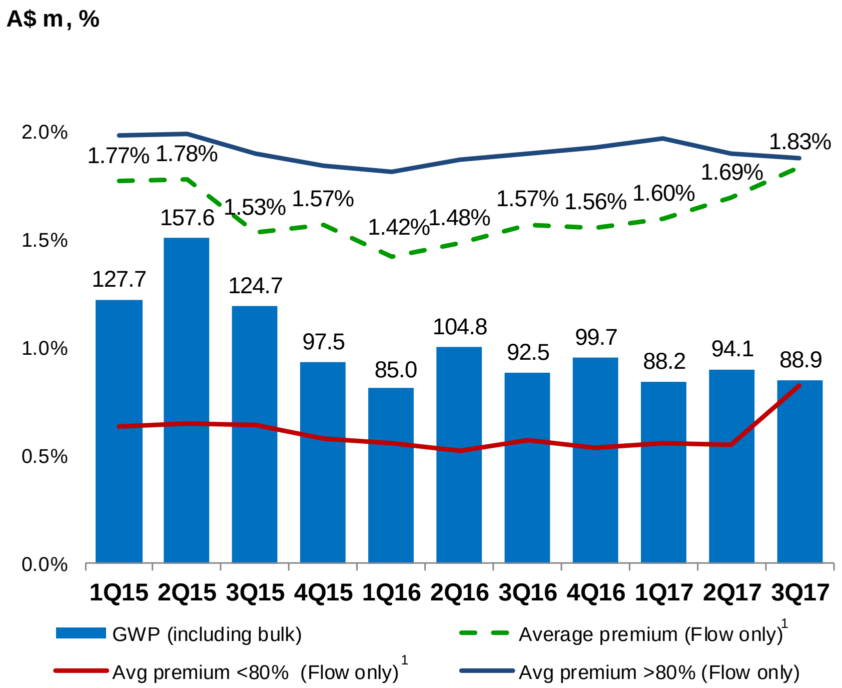
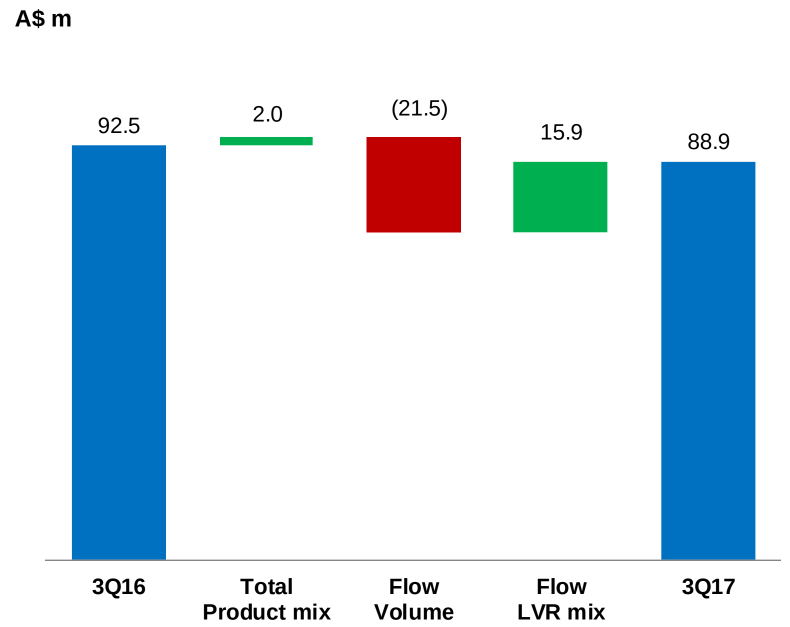
Gross written premium

GWP and average price of flow business



1. Historical NIW has been adjusted in the average premium calculation to reflect a risk sharing arrangement.

GWP walk



Net incurred claims

(A$ millions unless otherwise stated)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Number of paid claims (#)	**280**	**286**	**321**	**312**	**356**	**355**	**376**
Average paid claim[1] ($'000)	65.8	79.2	73.3	65.0	92.5	112.2	110.6
Claims paid[1]	**18.4**	**22.7**	**23.5**	**21.3**	**32.9**	**39.8**	**41.6**
Movement in non-reinsurance recoveries on paid claims	0.1	-	-	(1.0)	-	(8.2)	-
Movement in reserves	12.2	22.0	28.9	10.6	4.6	4.4	(4.6)
Net claims incurred	**30.7**	**44.7**	**52.5**	**30.9**	**37.6**	**36.0**	**37.0**
Reported loss ratio (%)	**27.0%**	**38.8%**	**45.3%**	**28.6%**	**34.8%**	**34.7%**	**37.0%**
Movement in non-reinsurance recoveries on paid claims	(0.1)	-	-	1.0	-	8.2	-
Normalised net claims incurred	**30.6**	**44.7**	**52.5**	**31.9**	**37.6**	**44.2**	**37.0**
Net earned premium	**113.5**	**115.3**	**115.9**	**108.1**	**107.9**	**103.7**	**100.1**
Normalised loss ratio (%)	**27.0%**	**38.8%**	**45.3%**	**29.5%**	**34.8%**	**42.6%**	**37.0%**

Note: Totals may not sum due to rounding.
1. Movement in non-reinsurance recoveries on paid claims is excluded from average paid claim calculation and claims paid.

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Loss development

Quarterly delinquency roll and incurred loss drivers

Delinquency roll	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Opening balance	**5,552**	**5,889**	**6,413**	**6,844**	**6,731**	**6,926**	**7,285**
New delinquencies	2,697	3,215	3,214	2,786	2,852	3,145	2,887
Cures	(2,080)	(2,405)	(2,462)	(2,587)	(2,301)	(2,431)	(2,650)
Paid claims	(280)	(286)	(321)	(312)	(356)	(355)	(376)
Closing delinquencies	**5,889**	**6,413**	**6,844**	**6,731**	**6,926**	**7,285**	**7,146**
Delinquency rate	0.40%	0.43%	0.47%	0.46%	0.48%	0.51%	0.50%
Average reserve per delinquency ($'000)	49.2	48.8	50.2	52.8	52.1	49.5	50.4

Net Claims Incurred (A$ in millions)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
New delinquencies	35	45	46	45	45	46	50
Cures	(37)	(39)	(39)	(44)	(38)	(38)	(48)
Ageing[1]	29	35	43	31	30	38	38
Non-reinsurance recoveries on paid claims	-	-	-	(1)	-	(8)	-
Other Adjustments	4	4	2	-	1	(2)	(3)
Net Claims Incurred	**31**	**45**	**52**	**31**	**38**	**36**	**37**

1. Ageing relates to reserve movements on delinquencies that remain delinquent from prior periods

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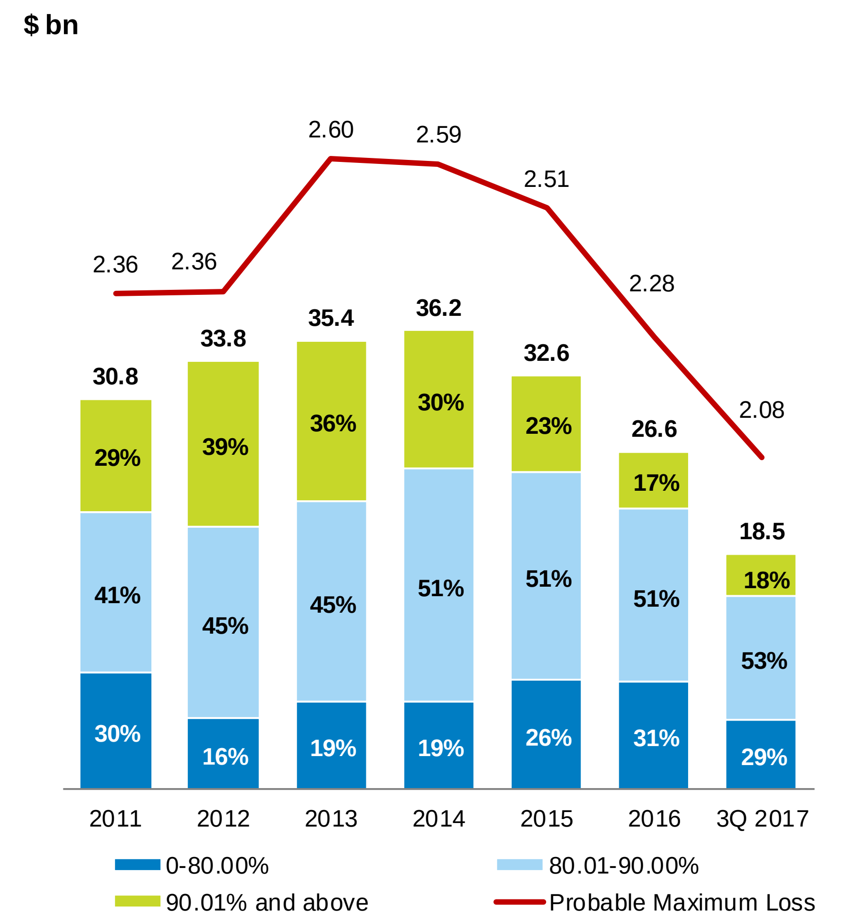
3Q 2017 regulatory capital position

(A$ in millions)	31 Dec 16	30 Sep 17
Capital Base		
Common Equity Tier 1 Capital	2,012.8	1,922.2
Tier 2 Capital	200.0	200.0
Regulatory Capital Base	**2,212.8**	**2,122.2**
Capital Requirement		
Probable Maximum Loss (PML)	2,284.6	2,076.2
Net premiums liability deduction	(288.8)	(269.3)
Allowable reinsurance	(900.5)	(950.5)
LMI Concentration Risk Charge (LMICRC)	**1,095.3**	**856.5**
Asset risk charge	111.0	121.5
Asset concentration risk charge	-	-
Insurance risk charge	229.8	207.0
Operational risk charge	30.0	26.3
Aggregation benefit	(52.2)	(55.8)
Prescribed Capital Amount (PCA)	**1,413.9**	**1,155.4**
PCA Coverage ratio (times)	**1.57 x**	**1.84 x**

Note: Totals may not sum due to rounding.

NIW by original LVR band and Probable Maximum Loss



Balance sheet and unearned premium reserve

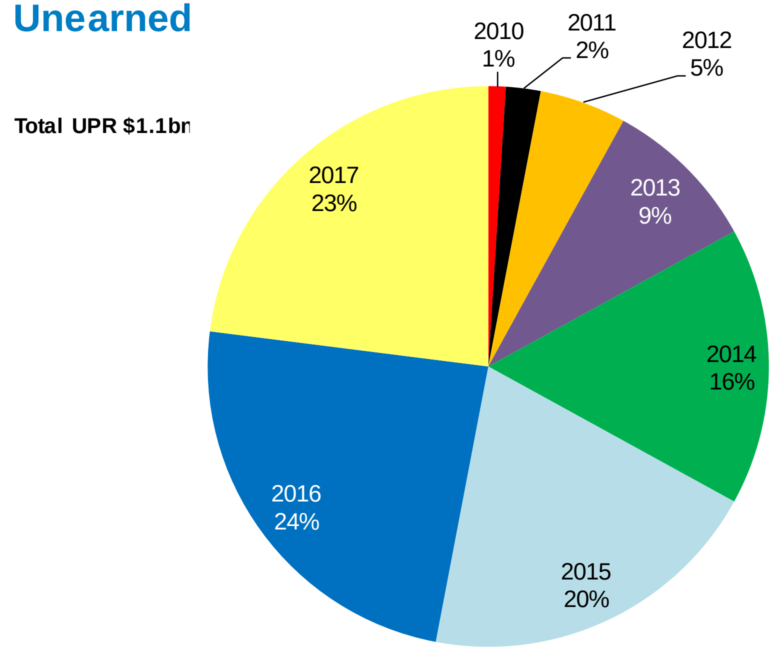
Strong balance sheet with $3.4bn in cash and investments and $1.1bn in UPR

Balance sheet as at 30 Sep 2017

(A$ in millions)	31 Dec 16	30 Sep 17
Assets		
Cash and cash equivalents	57.6	42.4
Accrued investment income	28.8	23.8
Investments	3,465.0	3,356.3
Deferred reinsurance expense	80.2	162.4
Non-reinsurance recoveries	34.4	27.2
Deferred acquisition costs	142.0	135.7
Deferred tax assets	10.0	10.2
Goodwill and Intangibles	11.1	10.2
Other assets[1]	4.4	5.8
Total assets	**3,833.4**	**3,774.0**
Liabilities		
Payables[2]	130.3	223.9
Outstanding claims	355.5	360.2
Unearned premiums	1,177.8	1,086.6
Interest bearing liabilities	196.0	196.8
Employee provisions	6.4	6.9
Total liabilities	**1,866.0**	**1,874.3**
Net assets	**1,967.4**	**1,899.6**

Note: Totals may not sum due to rounding.
1. Includes trade receivables, prepayments and plant and equipment.
2. Includes reinsurance payables.

Unearned



- Before the end of this financial year, Genworth will complete its annual review of the premium earning pattern.

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Summary and conclusion

Georgette Nicholas, CEO

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2017 outlook

- Australian economic conditions have moderated recently as the economy continues to transition away from the mining investment boom.
- The unemployment rate posted modest improvement since year end but key labour market indicators remain mixed. Under-employment remains elevated, implying a spare capacity in the economy, particularly in certain regional economies and is elevating delinquencies in these regions.
- 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.
- The Company continues to actively manage its capital position and is continually evaluating its excess capital and potential uses.
- Any change to the premium earning pattern may result in a change to guidance.

Key financial measures - FY17 Guidance Updated

Net earned premium growth	Down 10 to 15 per cent
Full year loss ratio	35 to 40 per cent
Ordinary dividend payout ratio	50 to 80 per cent

Full year outlook is subject to market conditions and unforeseen circumstances or economic events

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Questions

Georgette Nicholas, CEO

Luke Oxenham, CFO

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Supplementary slides

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Genworth value proposition

Innovation and technology will underpin Genworth's value proposition

Market & regulatory changes

- Changing credit cycle
- New and refined bank capital requirements
- Tighter liquidity measures
- Increased threat of competition
- Cost pressures

Genworth value proposition

- Customer focused
- Risk management partner
- Mortgage market insights
- Regulatory advocacy
- Technology driven, lean and agile

Genworth remains focused on the strategic needs of its customers and on delivering a sustainable return on equity for its shareholders.

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Genworth's Strategic Objectives

A refined strategic plan to re-ignite profitable growth over the medium term

Mission: We support Australians in realising their dream of homeownership through the provision of capital and risk management solutions to mortgage lenders

Vision: To be the leading provider of customer-focused capital and risk management solutions in residential mortgage markets

Immediate and Ongoing Initiatives (2017-2018)

1. Redefine Core Business Model

- Cost Efficiency
- Underwriting Efficiency
- Product Enhancement
- Leverage Data and Partnerships
- Regulator and Policy Maker Advocacy

Longer Term Initiatives (2019+)

2. Leverage Data and Technology to Add Value Across the Mortgage Value Chain

- Product Innovation
- Loss Management Solutions
- Leverage HLVR Experience and Expertise

Strategic Enablers

- People, Organisation and Cultural Change
- Data and Analytics
- Technology
- Stakeholder Management

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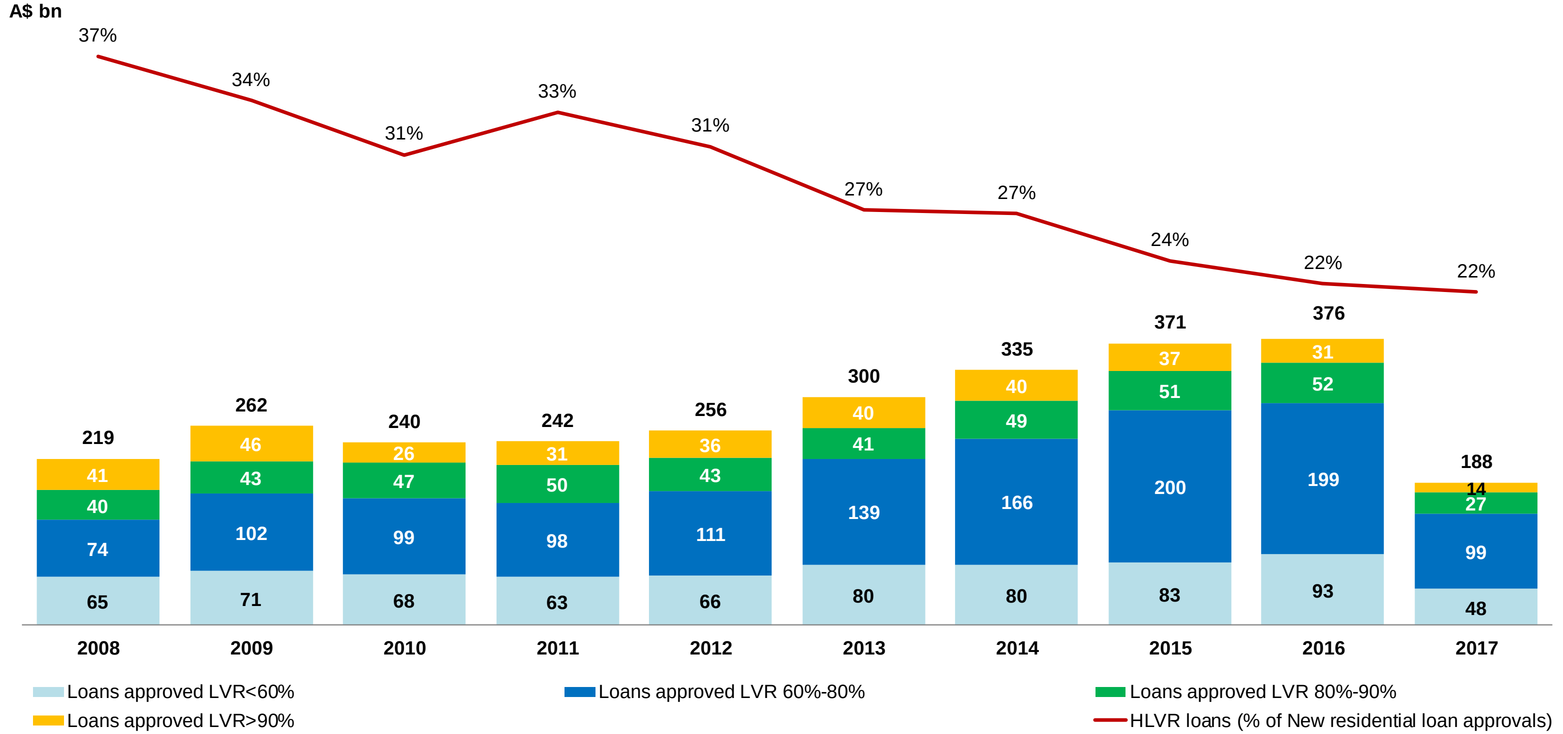
Residential mortgage lending market

Originations and HLVR penetration[1]



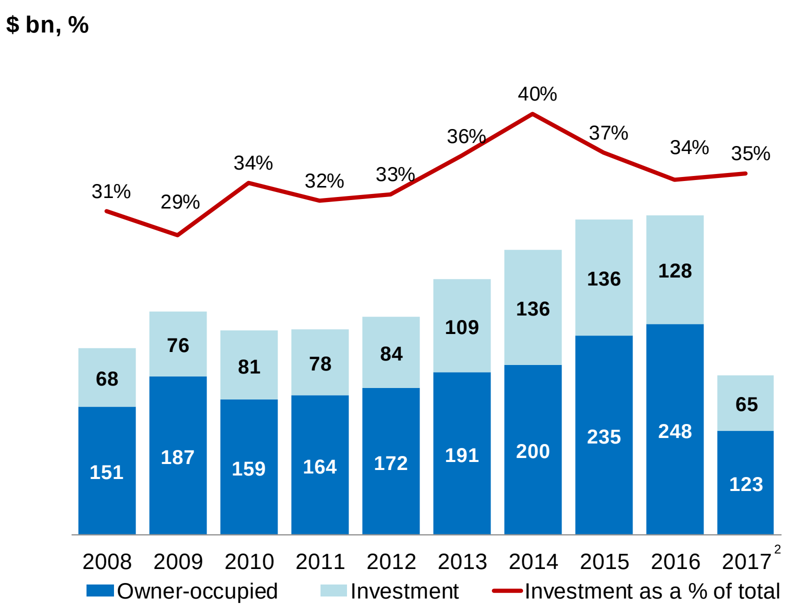
Note: Totals may not sum due to rounding. Total new residential loans approved in the 6 months to 30 June 2017 were $187.9 billion, up 4.5% on the previous corresponding period.

1. Prior periods have been restated in line with market updates.

Sources: APRA Quarterly ADI property exposures statistics (ADI's new housing loan approvals), June 2017.

Residential mortgage lending market

Investment vs. owner-occupied (APRA statistics)[1]

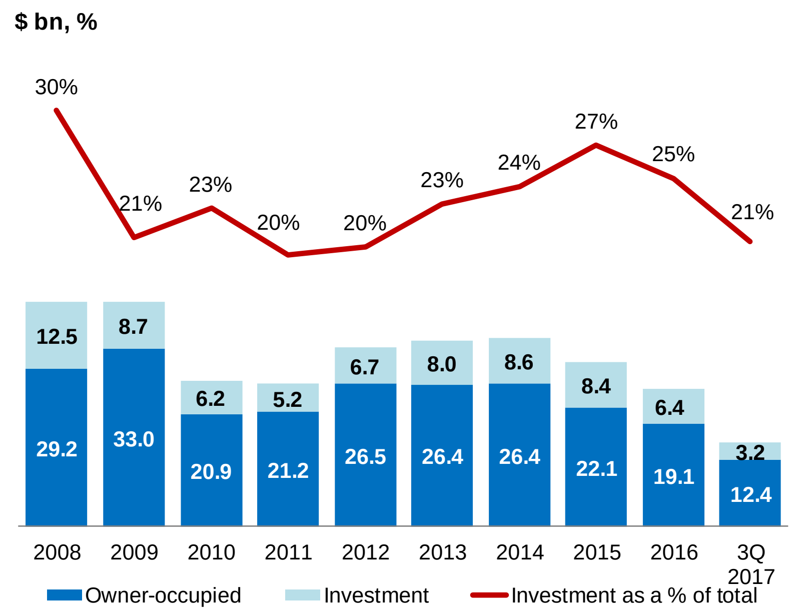


- Investment property lending represented 35% of originations for the period ended 30 June 2017.

1. Prior periods have been restated in line with market updates.
2. 2017 data is for 6 months to June 2017 only.

Sources: APRA Quarterly ADI property exposures statistics (ADIs new housing loan approvals), June 2017. Statistics only show ADIs mortgage portfolios above $1 billion, thereby excluding small lenders and non-banks.

Investment vs. owner-occupied[3] (Genworth)

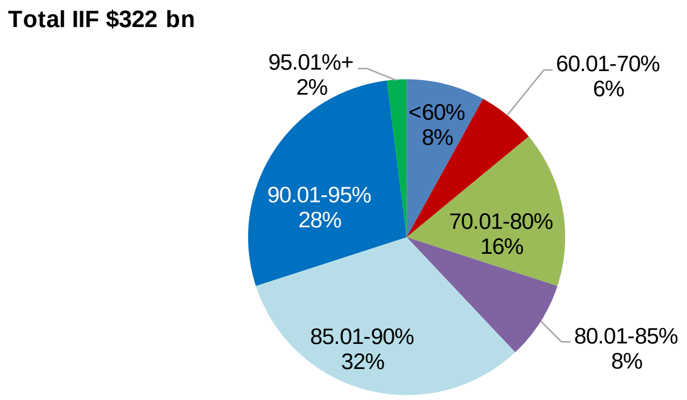


- Investment property lending represented 21% of Genworth's portfolio for the period ended 30 September 2017.

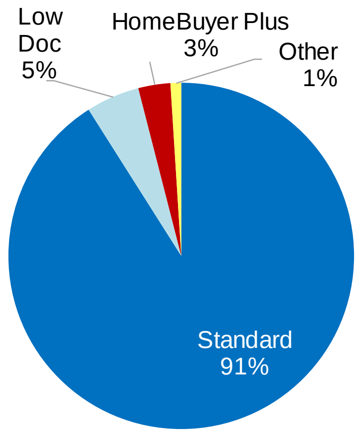
3. Flow NIW only. Owner occupied includes loans for owner occupied and other types.

Insurance in force and New insurance written

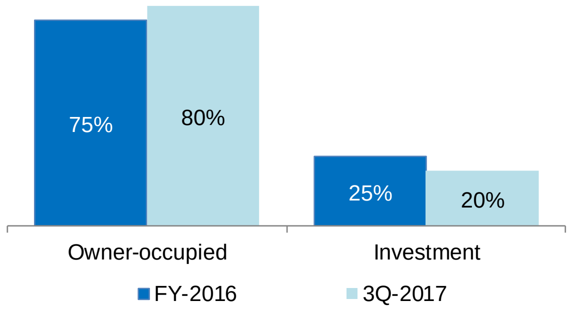
Insurance in force (IIF)[1] by original LVR[2] band, as at 30 Sep 2017



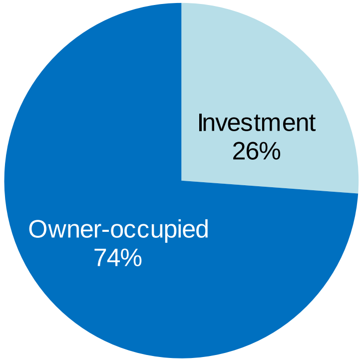
IIF[1] by product type, as at 30 Sep 2017



Flow NIW[1] by loan type



IIF[1] by loan type, as at 30 Sep 2017



1. NIW and IIF includes capitalised premium. NIW excludes excess of loss reinsurance.
2. Original LVR excludes capitalised premium.

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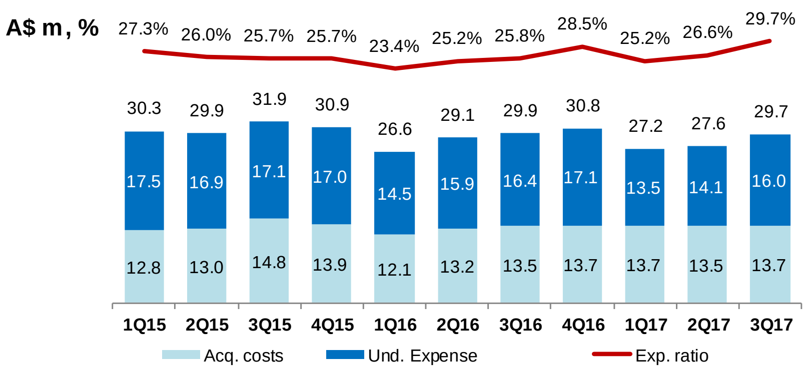
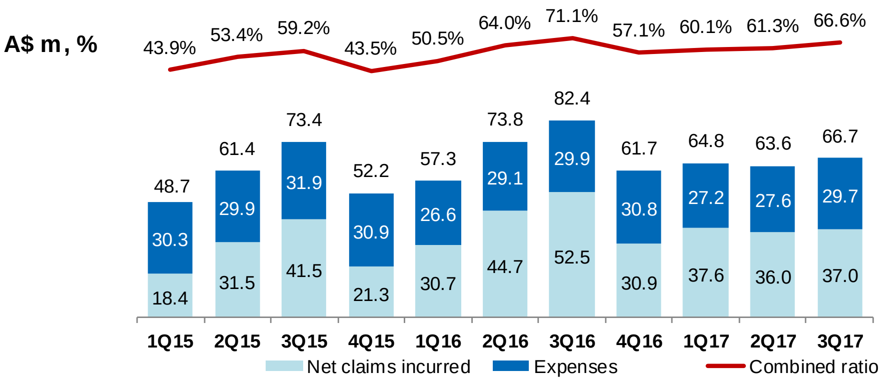
Insurance ratio analysis

Expenses



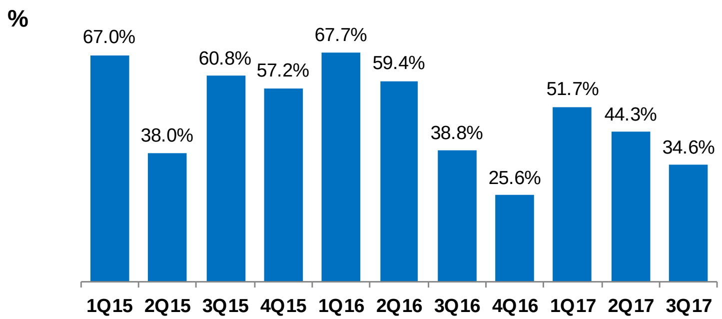
The expense ratio is calculated by dividing the sum of the acquisition costs and the other underwriting expenses by the net earned premium.

Combined ratio



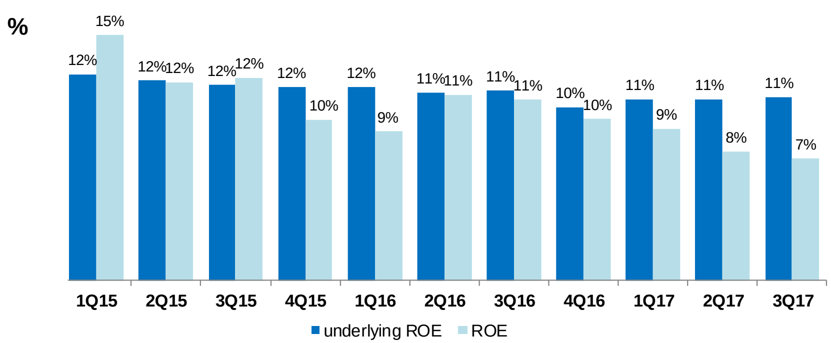
The combined ratio is the sum of the loss ratio and the expense ratio.

Insurance margin



The insurance margin is calculated by dividing the profit from underwriting and interest income on technical funds (including realised and unrealised gains or losses) by the net earned premium.

Trailing 12-month ROE and underlying ROE



The trailing twelve months underlying ROE is calculated by dividing underlying NPAT of the past 12 months by the average of the opening and closing underlying equity balance for the past 12 months. The trailing twelve months ROE is calculated by dividing NPAT of the past 12 months by the average of the opening and closing equity balance for the past 12 months.

Delinquency development

Quarterly delinquency composition

Delinquencies by book year	Dec 16	Sep 17	
2008 and prior	2,928	2,912	0.40%
2009	882	931	1.01%
2010	430	383	0.56%
2011	470	439	0.70%
2012	710	688	0.86%
2013	563	652	0.77%
2014	528	632	0.66%
2015	199	372	0.44%
2016	21	132	0.18%
2017	-	5	0.01%
TOTAL	**6,731**	**7,146**	**0.50%**

Delinquencies by geography	Dec 16	Sep 17	
New South Wales	1,106	1,126	0.31%
Victoria	1,378	1,368	0.39%
Queensland	2,102	2,255	0.72%
Western Australia	1,203	1,413	0.88%
South Australia	623	640	0.65%
Australian Capital Territory	59	62	0.19%
Tasmania	175	180	0.38%
Northern Territory	56	78	0.50%
New Zealand	29	24	0.06%
TOTAL	**6,731**	**7,146**	**0.50%**

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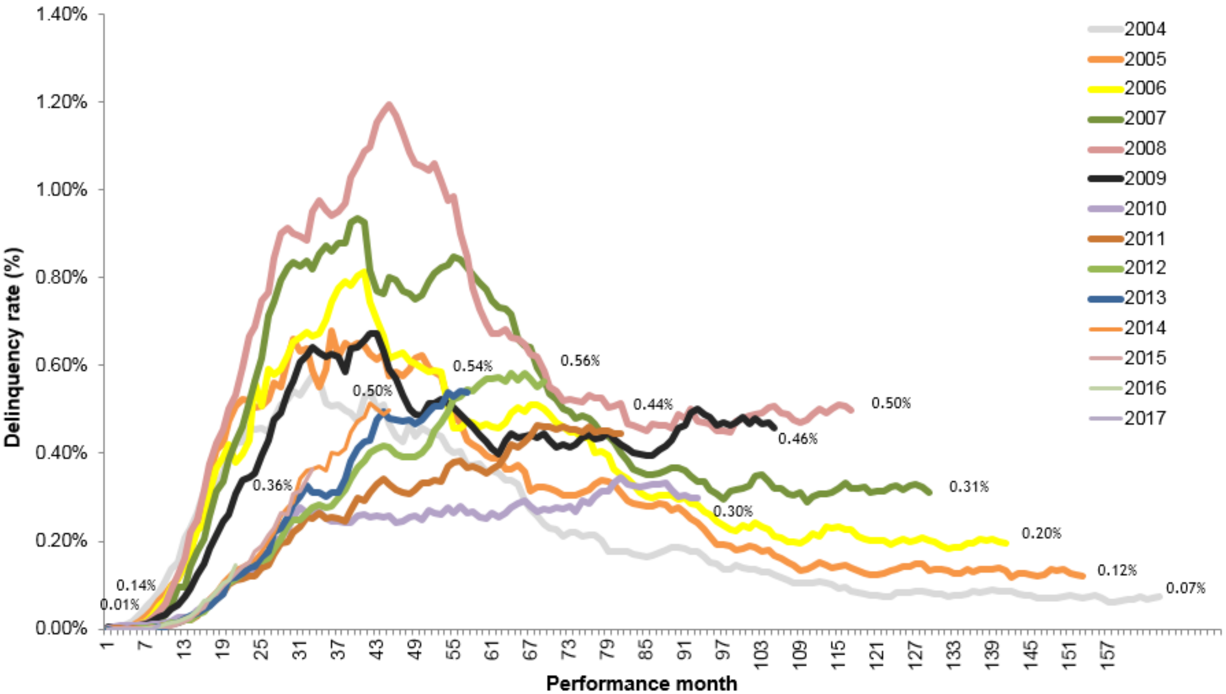
Delinquency development[1]

Favourable performance post 2009



- 2008 book year was affected by the economic downturn experienced across Australia and heightened stress experienced among self-employed borrowers, particularly in Queensland, which was exacerbated by the floods in 2011.
- Post-GFC book years seasoning at lower levels as a result of credit tightening.
- Underperformance for 2012-14 books have been predominantly driven by resource reliant states of QLD and WA following the mining sector downturn however has started to show signs of stabilising over recent months.

Income statement reconciliation

Reconciling to the US GAAP figures reported by Genworth Financial, Inc.

Walk from US GAAP AUS segment results to AIFRS Genworth Consolidated Income Statement for year ended 30 Sep 2017	Quarterly supplement	Less non - controlling interest	Quarterly supplement	AUD equivalent quarterly supplement	Adjustments						Total adjustments	Genworth group
					(a)	(b)	(c)	(d)	(e)	(f)		
	U$M	U$M	U$M	A$M	A$M	A$M	A$M	A$M	A$M	A$M	A$M	A$M
Premiums	237		237	312						(0)	(0)	312
Interest Income	57		57	75	0						0	75
Realised investment gains/losses	23		23	31			6				6	37
Unrealised gains/losses	-		0	-			(48)				(48)	(48)
Other income	(0)		(0)	(0)							0	0
Total revenue	**317**	**0**	**317**	**417**	**0**	**0**	**(41)**	**0**		**(0)**	**(41)**	**376**
Net claims incurred	84		84	110				1			1	111
Other underwriting expenses	50		50	66	(11)	(30)			18	(1)	(24)	43
Amortization of Intangibles	21		21	28					(28)		(28)	1
Acquisition costs (DAC amortisation)	10		10	13		28					28	41
Interest expenses/ financing related costs	7		7	9	(0)					0	(0)	9
Total expenses	**172**	**0**	**172**	**227**	**(11)**	**(1)**	**0**	**1**	**(9)**	**(1)**	**(22)**	**204**
Total pre-tax income	145	0	145	191	11	1	(41)	(1)	9	1	(19)	173
Total tax expense	48		48	64	(3)	0	(12)	(0)	3	0	(12)	52
Net income	**97**	**0**	**97**	**127**	**15**	**1**	**(29)**	**(0)**	**7**	**1**	**(7)**	**121**
Less: net income attributable to non-controlling interests	52	(52)	0	0							0	0
Net income available to Genworth common stockholders	**45**	**52**	**97**	**127**	**15**	**1**	**(29)**	**(0)**	**7**	**1**	**(7)**	**121**

Note: Totals may not sum due to rounding.

a) Corporate overhead allocation and U.S. Shareholder tax impact for U.S. entities outside Genworth Australia Group but included as part of USGAAP Aus Segment results.
b) Differing treatment of DAC, with AIFRS seeing a higher level of deferral and amortisation.
c) Under AIFRS mark to market movements for all investments including derivatives are recognised as unrealised gains/losses in the income statement. Under the USGAAP, the mark to market movements for derivatives and impairment on certain equity investment assets are recognised as realised. .
d) AIFRS requires reserves to be held with a risk margin and an adjustment to the level of reserves for the non-reinsurance recoveries.
e) Under USGAAP the mutually beneficial initiatives are treated as intangible assets and amortised evenly over the contract period whereas under AIFRS, the contract fees are expensed on an incurred basis in Other Underwriting Expenses.
f) Additional local share based payments and other miscellaneous expense differences.

Genworth