ASX Release
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Genworth

Update on Annual Review of Premium Earning Pattern & FY17 Guidance

(SYDNEY) 15 December 2017 – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) today advised that it has finalised its annual review of the premium earning pattern (also known as the "earnings curve").

The review process included a detailed evaluation and recommendation by the appointed actuary and supporting work and recommendation by independent reviewers.

The modified premium earning pattern reflects an expectation of the future emergence of risk based on a consideration of all identified relevant factors, but principally:

- losses from mining related regions, which form the majority of the incurred cost of the last 2 years, continuing to occur at late durations; and
- improvements in underwriting quality in response to regulatory actions, along with continued lower interest rates, extending the average time to first delinquency, while continuing to be beneficial to overall loss levels.

The change will have the effect, in aggregate, of lengthening the average duration of the period over which Genworth recognises its revenue by approximately 12 months. It also has the effect of introducing a third separate earnings curve for business written in 2015 and later. The change however does not affect the total amount of revenue expected to be earned over time from premiums already written.

The two earnings curves that comprise the previous premium earning pattern were first introduced in 2012. The last time the Board approved a change to the premium earning pattern was in September 2015, with this change applied to the financial statements in the third quarter of 2015. The Company conducted an annual review of the earnings curve in 2016 but no change was made to the curve based on the information at that time.

The modified premium earning pattern will be applied to the recognition of revenue in the income statement for the fourth quarter of 2017 and in subsequent reporting periods. The Company's Unearned Premium Reserve (UPR) balance of $1,087 million as at 30 September 2017 remains unchanged. As was highlighted in the half year (2 August 2017) and third quarter (3 November 2017) results announcements, any change to the premium earning pattern has the potential to change the Company's 2017 full year guidance.

The change to the premium earning pattern will negatively impact Net Earned Premium (NEP) by approximately $40 million, and as a result 2017 NEP is expected to be approximately 17 - 19 per cent lower than 2016, instead of the previous guidance of a 10 to 15 per cent reduction.

Based on preliminary estimates, the Company expects the full year loss ratio to remain between 35 and 40 per cent as the NEP reduction is expected to be partially offset by the fourth quarter incurred loss expectations, and preliminary estimates of the Outstanding Claims Reserves as at 31 December 2017 which currently reflect more favourable recent incurred loss experience.

The change to the premium earning pattern is expected to have minimal impact on Genworth's regulatory solvency ratio which is expected to remain above the Board's target capital range of 1.32 to 1.44 times the Prescribed Capital Amount as at 31 December 2017. The Company has completed an on-market share buy-back to a value of approximately $50 million and following this announcement intends to continue the buy-back for shares 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 Board continues to target an ordinary dividend payout ratio range of 50 to 80 percent of underlying NPAT and will continue to evaluate other capital management opportunities.

The Company notes that this full year outlook is based on preliminary expectations and recommendations that remain subject to completion of the year end process, including the external audit, market conditions and unforeseen circumstances or economic events. The Company expects it will be in a position to provide guidance for the 2018 financial year at the time of announcement of its 2017 full year financial year results.

Genworth notes that it has had discussions with ASIC about the premium earning pattern. The modification to the premium earning pattern announced today was determined following the outcome of Genworth's annual review. In particular, Genworth believes that the premium recognition pattern as applied to prior released financial statements was the correct pattern to apply in respect of those financial statements. Genworth does not intend to restate financial statements already released to the market.

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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.