ASX Release
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Australia

Genworth

Genworth Third Quarter 2018 Earnings

Moderating market and subdued cures drive updated loss ratio guidance to 50% - 55%

Strong capital position – $100 million share buy-back completed – Net Tangible Assets of $3.91 per share

On-going strategic progress in product innovation and implementing technology initiatives

(SYDNEY) 31 October 2018 – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) today reported statutory[1] net profit after tax (NPAT) of $19.6 million and underlying[2] NPAT of $20.4 million for the third quarter ended 30 September 2018 (3Q18).

Ms. Georgette Nicholas, Chief Executive Officer and Managing Director of Genworth, said, "Our 3Q18 result reflects the continued trends of softening cure rates from a moderating housing market, tightening credit standards and increases in mortgage interest rates. This has resulted in a more subdued seasonal uplift than has historically been experienced by our business.

"We also continued to see the impact of our 2017 annual premium earnings pattern review (2017 Earnings Curve Review) on our results and to make progress in implementing strategic initiatives designed to redefine our core business model (Strategic Program of Work). Of note was the successful launch of our new auto decision platform earlier this month.

"Gross Written Premium increased in 3Q18 reflecting growth in our traditional Lenders Mortgage Insurance (LMI) flow business. This was pleasing given the market environment and the tighter credit conditions. Throughout the quarter, we remained focused on ensuring we have an optimal capital structure by completing a $100 million on-market share buy-back. We continue to actively manage our capital position and evaluate uses for our excess capital."

Financial performance measures (A$ million)

	Quarterly						Year-to-Date (as at 30 Sept)		
	3Q17	**4Q17**	**1Q18**	**2Q18**	**3Q18**	**Change (3Q17 vs. 3Q18)**	**2017**	**2018**	**Change (YTD17 vs. YTD18)**
New Insurance Written[3] (A$bn)	5.5	5.4	4.3	6.0	5.1	(7.3%)	18.5	15.4	(16.8%)
Gross Written Premium	88.9	97.7	174.1	92.7	92.1	3.6%	271.2	358.9[4]	32.3%[4]
Net Earned Premium	100.1	58.8	67.4	76.0	68.1	(32.0%)	311.6	211.5	(32.1%)
Reported NPAT	32.1	28.4	8.4	33.5	19.6	(38.9%)	120.7	61.5	(49.1%)
Underlying NPAT	40.5	17.1	19.9	30.4	20.4	(49.6%)	154.0	70.7	(54.1%)
Reported loss ratio	37.0%	53.1%	55.9%	50.9%	52.6%	(15.6 bps)	35.5%	53.0%	17.5 bps
Total portfolio delinquencies[3]	7,146	6,696	6,958	7,306	7,350	204	7,146	7,350	204
Portfolio delinquency rate[3]	0.50%	0.47%	0.49%	0.54%	0.55%	5 bps	0.50%	0.55%	5 bps

[1] The financial result of Genworth and its subsidiary companies (the Group) prepared in accordance with recognition, measurement and classification aspects of all applicable Australian Accounting Standards (AAS) adopted by the Australian Accounting Standards Board, which are consistent with those under International Financial Reporting Standards (IFRS). The financial result does not include all disclosure requirements of all AAS and IFRS.
[2] Underlying NPAT excludes the after-tax impact of unrealised gains/(losses) on the investment portfolio.
[3] Excludes excess of loss insurance
[4] Includes GWP written pursuant to a customer contract entered into 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.

STRATEGIC UPDATE

Genworth continued to implement its Strategic Program of Work throughout 3Q18. In addition to the product enhancement and innovation announced earlier this year, the Company has focused on utilising technology to deliver operational efficiencies and greater underwriting risk management insights. In early October, Genworth successfully launched its new automated underwriting decision platform and a new data-only submission channel (eLMI portal) which will enable LMI approval decisions to be made in real time.

3Q18 FINANCIAL PERFORMANCE

New business volume (excluding excess of loss insurance), as measured by **New Insurance Written (NIW)**, decreased 7.3% to $5.1 billion in 3Q18 compared with $5.5 billion in 3Q17. NIW in 3Q17 included $0.8 billion of bulk portfolio business versus no bulk portfolio business in 3Q18. Excluding the bulk portfolio business written in 3Q17, flow business NIW increased 8.5% in 3Q18.

Gross Written Premium (GWP) increased 3.6% to $92.1 million in 3Q18 (3Q17: $88.9 million). This does not include any excess of loss business written by Genworth's Bermudan entity and reflects the greater proportion of traditional LMI flow business written by Genworth lender-customers.

Net Earned Premium (NEP) decreased 32.0% from $100.1 million in 3Q17 to $68.1 million in 3Q18. This includes the adverse $24.8 million impact of the 2017 Earnings Curve Review, and lower earned premium from current and prior book years. Excluding the 2017 Earnings Curve Review impact, NEP would have declined 7.2% in 3Q18.

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. Importantly, 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 30 September 2018 was $1.2 billion.

The **Delinquency Rate** (number of delinquencies divided by policies in force but excluding excess of loss insurance) increased from 0.50% in 3Q17 to 0.55% in 3Q18 (1H18: 0.54%). This was driven by two factors. Firstly, there was a decrease in policies in force following completion of the lapsed policy initiative undertaken by the Company in 2Q18. The second factor was the increase in delinquency rates year-on-year across all States (in particular Western Australia, New South Wales and to a lesser extent South Australia). In terms of number of delinquencies, Western Australia and New South Wales experienced the largest increase with Queensland and Victoria experiencing a decrease in number of delinquencies.

New delinquencies were down in the quarter (3Q18: 2,742 versus 3Q17: 2,887) with mining regions showing signs of improvement. In non-mining regions, the softening in cure rates experienced in 1Q18 and 2Q18 continued in 3Q18 with the traditional seasonal uplift in the third quarter being more subdued than prior years.

Net Claims Incurred for the quarter were down 3.2% (3Q18: $35.8 million versus 3Q17: $37.0 million). The **Loss Ratio** in 3Q18 was 52.6% up from 37.0% in 3Q17, reflecting the impact of lower NEP due to the 2017 Earnings Curve Review. Excluding the impact of the 2017 Earnings Curve Review the loss ratio would have been 38.6%.

The **Expense Ratio** in 3Q18 was 32.5% compared with 29.7% in 3Q17, reflecting the lower NEP.

Investment Income of $21.5 million in 3Q18 was up 38% on the prior corresponding period (3Q17: $15.6 million). The 3Q18 Investment Income included a pre-tax mark-to-market unrealised loss of $1.2 million ($0.8 million after-tax) versus a pre-tax mark-to-market unrealised loss of $12.0 million ($8.4 million after-tax) in 3Q17.

As at 30 September 2018 the value of Genworth's investment portfolio was $3.2 billion, more than 90% of which is held in cash and highly rated fixed interest securities and $169 million of which is invested in Australian equities in line with the Company's low volatility strategy. After adjusting for mark-to-market movements the 3Q18 investment return was 2.80% p.a. marginally down from 2.88% in 3Q17.

CAPITAL MANAGEMENT

Genworth's regulatory solvency ratio of 1.85 times as at 30 September 2018 continues to be above the Board's target capital range of 1.32 to 1.44 times the **Prescribed Capital Amount (PCA)** on a level 2 basis.

The Company has implemented various capital management initiatives throughout the year, including the completion of two on-market share buy-backs and payment in August of an 8 cent per share fully franked ordinary dividend and a fully franked special dividend of 4 cents per share.

2018 ECONOMIC OVERVIEW

Overall, the Australian economy has been stable, with solid Gross Domestic Product growth driven by a lift in public infrastructure and dwelling investment coupled with a rebound in household spending. The labour market has continued to deliver ongoing employment growth (particularly in full time jobs) and underemployment levels have started to reduce from the elevated levels experienced over the past few years. Despite this stable performance, uncertainty remains within the household sector due to weak wage growth, high debt levels and lower growth in household wealth.

The economic outlook for the remainder of 2018 remains positive. This should lead to continued growth in employment although this is not expected to be significant enough to drive wage growth and inflation. Within this environment, the official cash rate is likely to remain on hold throughout 4Q18. Despite the expectation that the official cash rate will remain on hold, lending institutions are anticipated to continue to implement "out-of-cycle" interest rate increases as they face higher funding costs.

The housing market moderation experienced in 2Q18 continued in 3Q18, driven by falls in house prices and volumes in Sydney, Melbourne, Perth and Darwin. Genworth expects the moderating trend in housing market conditions to continue for the remainder of the year reflecting pressure on lending due to tighter credit conditions, macro-prudential measures 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.

OUTLOOK FOR GENWORTH

In terms of guidance for the remainder of 2018, Genworth expects GWP to increase in FY18 reflecting the premium written pursuant to the Company's new product offerings. FY18 NEP guidance remains unchanged with a decline of approximately 25% to 30% expected, reflecting the impact of the 2017 Earnings Curve Review and market conditions. The lower NEP will impact the full year loss ratio, as will the continued softening in cure rates driven by a moderating housing market, increases in mortgage interest rates and tightening credit standards resulting in a more muted seasonal uplift than usually experienced in the second half of the year. Given these factors, the Company's 2018 full year loss ratio is expected to be between 50% to 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 actively managing our capital position. Our Company is well capitalised and has a solid balance sheet with net tangible assets of approximately $3.91 per share as at 30 September 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 today at 9.00am (Sydney time) to discuss these results. Details of the conference call dial-in numbers are as follows:

Conference name: Genworth Australia Third Quarter 2018 Financial Results

Conference ID: 9789387

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 3010 6141	United States	1855 293 1544
Japan	0120 994 669		

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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.