ASX Release
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Genworth

Genworth Australia Full Year 2014 Earnings

Solid financial performance for 2014

- **Statutory[1] Net Profit After Tax (NPAT) for six months ended 31 December of $172.7 million and a full year 2014 pro forma[1] NPAT of $324.1 million**
- **Underlying NPAT[2], excluding mark-to-market investment gains, of $146.3 million for the six months ended 31 December and $279.4 million for the full year 2014 on a pro forma basis**
- **Gross Written Premium (GWP) increased 6.3 per cent compared to the full year 2013**
- **Net Earned Premium (NEP) increased 12.0 per cent compared to the full year 2013**
- **Full year loss ratio of 19.0 per cent is down from 32.1 per cent for the full year 2013**
- **Underlying Return on Equity (ROE) of 12.2 per cent**
- **Regulatory solvency ratio of 159.3 per cent of the Prescribed Capital Amount (PCA Level 2)**
- **Fully franked final ordinary dividend of 13.1 cents per share**
- **Fully franked special dividend of 11.5 cents per share**

(SYDNEY) 11 February, 2015 – Genworth Mortgage Insurance Australia Limited (GMA) has reported a statutory[1] NPAT of $172.7 million for the six months ended 31 December 2014, and a statutory[1] NPAT of $215.2 million relating to the financial period post the Initial Public Offering (IPO), being from 19 May 2014 to 31 December 2014.

On an equivalent basis to the financial information contained in the Prospectus, the pro forma[1] Underlying NPAT[2] was $146.3 million for the six months ended 31 December 2014, and $279.4 million for the full year 2014.

The GMA Board has declared a fully franked final ordinary dividend of 13.1 cents per share and a fully franked special dividend of 11.5 cents per share, both payable on 6 March 2015 to shareholders registered on 20 February 2015.

Ellie Comerford, Chief Executive Officer and Managing Director of GMA said, “I am very pleased with the performance of the business in our first annual reporting period as an ASX listed company. The underlying performance is ahead of our expectations and we have made excellent progress on our strategic agenda in 2014.

“We have ended the year with a sound capital position, having successfully renewed and expanded our external reinsurance program in addition to increasing hard capital. Both the final ordinary and special dividend declared today demonstrate the strength of the business fundamentals.

“In 2014 we have continued to work with our lender customers and other key stakeholders to reinforce the benefits that a strong, stable mortgage insurance business such as ours can provide to the mortgage market, and the financial system more broadly. I am particularly encouraged by the recognition of this in the final report

[1] The financial result of GMA and its subsidiary companies prepared under statutory basis (prepared in accordance with Australian accounting standards which comply with International Financial Reporting Standards (IFRS)) represent the financial result for the period of 19 May 2014 to 31 December 2014. The pro forma results represent the financial performance from 1 January 2014 to 31 December 2014 have been prepared on the same basis as the financial information (including financial forecasts) disclosed in the prospectus lodged by GMA with the Australian Securities and Investments Commission on 23 April 2014 (Prospectus), which reflected the post re-organisation structure of May 2014.

[2] Underlying NPAT excludes the after tax impact of unrealised gains/(losses) on the investment portfolio.

of the Financial System Inquiry and am equally pleased to see this acknowledged through the continuing support of key lender customers.

"Looking ahead to 2015, there is room for caution in respect of the Australian macroeconomic environment and in particular the uncertain unemployment outlook. Whilst interest rates have now been lowered to add some further support to the economy, we continue to focus on our role in ensuring sound lending practices across the mortgage industry."

The following table details the key financial performance measures for 2H14 and the full year 2014.

Pro forma[1] financial performance measures (A$ million)

	Half Year			Full Year	
	2H13	**2H14**	**vs. pcp**	**2014**	**vs. pcp**
Gross Written Premium	323.5	320.6	(0.9%)	634.2	6.3%
Net Earned Premium	205.8	227.4	10.5%	445.8	12.0%
Pro forma NPAT	113.7	172.7	51.9%	324.1	80.7%
Underlying pro forma NPAT	126.3	146.3	15.8%	279.4	26.5%
Loss ratio	22.6%	18.4%	(4.2) pts	19.0%	(13.1) pts
Total portfolio delinquencies	4,980	4,953	(27)	4,953	(27)
Portfolio delinquency rate	0.34%	0.33%	(0.01) pts	0.33%	(0.01) pts
Return on Equity (ROE)	10.5%	14.3%	3.8 pts	13.8%	5.6 pts
Underlying ROE	12.0%	12.5%	0.5 pts	12.2%	1.8 pts
Ordinary Dividend per share	n/a	13.1 cents	n/a	13.1 cents	n/a
Special Dividend	n/a	11.5 cents	n/a	11.5 cents	n/a

Detailed Discussion of Financial Performance for 2014

Sales and Revenue

New business volumes of $18.9 billion of New Insurance Written (NIW) for 2H14 have increased 3.3 per cent compared to 2H13, and NIW of $36.2 billion for the full year was up 2.3 per cent.

This growth was however characterized by an ongoing trend toward lower average Loan to Value Ratio (LVR) mix, with a lower volume of 90-95 per cent LVR business and greater proportion of below 90 per cent LVR business being written in the year. This average flow premium rate was 1.80 percentage points.

Gross Written Premium of $634.2 million for the full year 2014 increased 6.3 per cent compared to 2013 and is marginally lower than estimates provided at the end of Q314. This growth was a combination of both price increases and volume growth, offset by the observed change in LVR mix.

Net Earned Premium for 2H14 was $227.4 million, an increase of 10.5 per cent compared to the prior corresponding period (pcp), while NEP for the full year of $445.8 million is an increase of 12.0 per cent compared to the full year 2013.

Net Incurred Claims

The overall performance of the business has been supported by favourable loss experience in the portfolio throughout the year. During the second half, the loss ratio of 18.4 per cent (down from 22.6 per cent in the pcp) continued to reflect a strong housing market which resulted in lower levels of delinquent loans, fewer delinquent loans converting to claim, and an overall lower average claim amount. For the full year, the loss ratio of 19.0 per cent is down from 32.1 per cent in 2013.

Expenses

On a full year basis, the expense ratio of 26.5 per cent is lower than the 27.4 per cent in 2013 as a consequence of lower growth in expenses compared to NEP growth.

Investment Income

Investment income of $122.9 million in 2H14 included a pre-tax mark to market gain of $37.7 million. For the full year 2014, investment income was $226.9 million, inclusive of a pre-tax mark to market gain of $63.8 million. After adjusting for the mark to market impact, the investment return for the 2H14 period and the full year was 4.0 per cent per annum.

Capital and Reinsurance

GMA continues to operate from a sound balance sheet position and has $1.36 billion of unearned premium reserves providing a high level of revenue visibility. As at 31 December 2014, GMA had a $4.2 billion investment portfolio of cash and highly rated fixed interest securities.

The favourable business performance, coupled with the lower than anticipated LVR mix of new business has contributed to an improved capital position with the company reporting a 31 December 2014 regulatory solvency ratio of 159.3 percent of the Prescribed Capital Amount (PCA) on a Level 2 basis.

After adjusting for the additional reinsurance and the payment of the ordinary and special dividends, the adjusted regulatory solvency ratio of GMA would be 159.2 percent of the PCA on a Level 2 basis.

One of GMA's key strategic initiatives is to optimise its capital position and enhance the ROE. As part of this initiative, GMA successfully renegotiated a number of existing reinsurance contracts in 2014, as well as binding coverage for a new Excess of Loss (XOL) reinsurance treaty. As a result, GMA's level of qualifying reinsurance has increased from $844m as at 31 December 2013 to $915 million as at 1 January 2015.

The Board has declared a fully franked final ordinary dividend of 13.1 cents per share and a fully franked special dividend of 11.5 cents per share payable on 6 March 2015. The final ordinary dividend represents a payout ratio of approximately 58 per cent of the 2H14 Underlying NPAT.

Customer Relationships

GMA has commercial relationships with over 100 lender customers across Australia, including three of the four major Australian banks, and estimates that it has approximately 44 per cent of the Australian LMI market[3] by NIW for the year ended 31 December 2014. GMA has a contractual relationship with 11 of its key lender customers, which in 2014 accounted for 86 per cent of GWP.

During 2014 GMA extended a number of existing contracts and in line with the contract expiry has ceased writing new inwards reinsurance business with effect from 30 September 2014.

Ratings

Ratings actions can act as a catalyst for lender customers to evaluate their relationship with GMA as an LMI provider.

On 20 May 2014, Moody's reaffirmed the insurer financial strength rating[4] of both Genworth Financial Mortgage Insurance Pty Ltd (GFMI) and Genworth Financial Mortgage Indemnity Limited (GFMIL), GMA's wholly-owned insurance subsidiaries, at 'A3' Stable.

On 17 December 2014, GMA initiated a formal Insurer Financial Strength (IFS) Rating of GFMI, the GMA operating subsidiary by Fitch Ratings (Fitch) which assigned an 'A+' rating with a stable outlook.

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[3] Market share is GMA's estimate based on the market for LMI provided by external LMI Providers and LMI Subsidiaries and includes the retention of risk by Lenders and other forms of risk mitigation or risk transfer by Lenders in relation to the credit risk of residential mortgage loans.

[4] Any financial strength or credit ratings provided in this release are determined by ratings agencies. They do not, and are not intended to, constitute the provision of financial product advice by any member of the GMA group of companies (GMA Group) in relation to any financial product including, without limitation, any securities of, or other financial products issued by, any member of the Group. The ratings are subject to change from time to time. You should seek your own professional advice before relying on any ratings referred to in this release.

On 7 November 2014, Standard & Poor's Ratings Services (S&P) revised the GFMI financial strength and issuer credit rating from 'AA-' with a stable outlook to 'A+' with a negative outlook as a consequence of action taken by S&P relating to the Genworth Financial, Inc. group of companies' core US life insurance company rating. On 6 February 2015, S&P issued a revised credit opinion on these entities reflecting these changes.

This S&P action triggered clauses in customer contracts that allowed certain customers to exercise termination rights within a period of time. These customers represented between 12 per cent and 13 per cent of 2014 GWP. The largest of these customers, representing approximately 11 per cent of GWP, confirmed that it will be taking no action at this time.

GMA continues to work closely with all its lender customers to support their business and to ensure the ongoing understanding and recognition of GMA's stand-alone earnings profile and capital strength.

Full year 2015 outlook

GMA believes that there is room for caution in respect of the Australian macroeconomic environment and in particular the uncertain unemployment outlook. However, the recent reduction in interest rates is likely to underpin the housing market and support steady growth in both originations and house prices.

GMA's current forecast for the Australian economy is for growth to stay below trend, with GDP growing at 2.9 per cent and unemployment remaining above 6.0 per cent for 2015. House price appreciation is expected to continue, albeit at a slower pace, decreasing to around 3.5 per cent annually reflecting wage growth.

Subject to business conditions and unforeseen economic events, GMA expects 2015 NEP growth of up to 5 per cent, and a full year loss ratio between 25.0 and 30.0 per cent.

The ordinary dividend for 2015 is expected to be within the Board's approved dividend policy of between 50 and 70 per cent of Underlying NPAT.

GMA's regulatory solvency ratio remains above the Board's target capital range of 132 to 144 per cent of the PCA and, throughout the course of 2015, GMA will continue to evaluate the potential for further capital management initiatives. This will include consideration of additional reinsurance, additional regulatory compliant capital instruments and other capital return mechanisms that would continue to support overall Return on Equity (ROE) progression over the medium term.

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About Genworth Australia

GMA, through its subsidiary companies Genworth Financial Mortgage Insurance Pty Ltd and Genworth Financial Mortgage Indemnity Ltd, is the leading provider of Lenders Mortgage Insurance (LMI) in the Australian residential mortgage market. The GMA Group has been part of the Australian residential mortgage lending market for almost 50 years since Housing Loans Insurance Corporation (HLIC) was founded by the Australian Government in 1965 to provide LMI in Australia. GMA is currently a subsidiary of Genworth Financial, Inc. and part of the Genworth Financial, Inc. group of companies. Genworth Financial, Inc.'s current ownership interest in GMA is approximately 66.2% of the issued shares in GMA.