ASX Release

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Genworth

Genworth Australia delivers solid First Half 2015 Earnings

- **Reported NPAT of $113.0 million – down 25 per cent on the pcp due to mark-to-market losses;** [1]
- **Delivered steady Underlying NPAT of $132.9 million versus $133.1 million in the pcp;** [2]
- **Fully franked interim ordinary dividend of 12.5 cents per share represents increased payout ratio;**
- **Fully franked special dividend of 18.5 cents per share as part of capital management initiatives;**
- **Full year 2015 guidance reaffirmed;**
- **Continue to engage with key stakeholders, from regulators to lenders and borrowers, about the role Genworth plays in supporting the quality of the Australian mortgage market.**

(SYDNEY) 5 August 2015 – Genworth Mortgage Insurance Australia Limited (GMA) reported statutory net profit after tax (NPAT) of $113 million for the half year ended 30 June 2015, a 25.4 per cent decrease on the previous corresponding period (pcp). Underlying NPAT for the half of $132.9 million was steady on the pcp.

The GMA Board declared a fully franked interim ordinary dividend of 12.5 cents per share and a fully franked special dividend of 18.5 cents per share, both payable on 4 September 2015 to shareholders registered on 21 August 2015. The ordinary dividend represents a payout ratio of 61.2 per cent, up from 55.5 per cent in the pcp and 57.7 per cent in 2H14.

Ellie Comerford, Chief Executive Officer and Managing Director of GMA, said, “The business delivered a solid first half performance in line with the prior period demonstrating the continued resilience of the business in the face of a dynamic economic environment and mortgage market.

“The business is responding to these dynamics by focusing on risk management and the execution of our strategic priorities to deliver long term returns to shareholders. We continue to enjoy a strong capital position and have been executing on our active capital management program. The fully franked interim dividend and special dividend declared today highlight the Board’s focus on creating shareholder value.

“The loss experience in the first half is in line with our full year 2015 guidance and favourable by historic standards. However, it was elevated relative to the pcp, with higher losses in parts of Queensland and Western Australia as the economy continues to transition away from resources sector-led growth.

“We remain committed to working with our customers and other stakeholders during a period of heightened regulatory focus on the Australian mortgage market and lending standards. Additionally, following the recent announcement by APRA regarding mortgage risk weights we would encourage them to adopt the FSI recommendation and recognise LMI where appropriate for the IRB banks.

“We believe that a strong and stable mortgage insurance business such as ours greatly benefits the risk management framework of the Australian banking system. Genworth continues to play a vital role in supporting the home ownership aspirations of Australian families by enabling creditworthy borrowers to purchase a property sooner and with a smaller deposit.”

[1] Except where otherwise stated, all figures relate to the half year ended 30 June 2015. The term “previous corresponding period” refers to the half year ended 30 June 2014, while the term “prior half” refers to the half year ended 31 December 2014. Unless otherwise indicated, all comparisons are to “previous corresponding period”. The results for the previous corresponding period (pcp) are pro forma and were prepared on the same basis as the financial information 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.

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

The following table details the key financial performance measures for 1H15.

Financial summary (A$ million)			
	Half Year		
	Pro forma 1H14	1H15	vs. pcp
Total New Insurance Written ($ billions)	17.3	17.7	2.3%
Gross Written Premium	313.6	285.4	(9.0%)
Net Earned Premium	218.4	225.7	3.3%
Reported NPAT	151.4	113.0	(25.4%)
Underlying NPAT	133.1	132.9	(0.2%)
Loss ratio	19.6%	22.1%	2.5%
Total portfolio delinquencies	5,405	5,900	495
Portfolio delinquency rate	0.36%	0.40%	0.04%
Return on Equity (ROE)	11.9%	11.9%	0.0%
Underlying ROE	12.0%	12.0%	0.0%
Ordinary Dividend per share	2.8 cents	12.5 cents	n/a
Special Dividend per share	n/a	18.5 cents	n/a

Note: The ordinary dividend in respect of earnings in the first half 2014 was on a pro rata basis for the number of days in the first half of the financial year from completion of the initial public offering, i.e. 21 May 2014.

Detailed Discussion of Financial Performance for 1H15

Sales and Revenue

New business volume, as measured by New Insurance Written (NIW), rose by 2.3 per cent over the pcp from $17.3 billion to $17.7 billion. This increase included $2.2 billion of portfolio transactions for a customer seeking risk mitigation on a previously uninsured mortgage portfolio.

The mix of business continued the recent trend towards lower average Loan to Value Ratio (LVR) business. The proportion of 90-95 per cent LVR business decreased resulting in the average premium rate declining to 1.77 per cent from 1.82 per cent in the pcp.

Gross Written Premium (GWP) decreased 9 per cent to $285.4 million in 1H15. The decline in GWP reflects the continued reduction in mortgage originations above 90 per cent LVR.

Net Earned Premium (NEP) increased 3.3 per cent to $225.7 million in 1H15. NEP for 1H15 is in line with guidance for the full year of up to 5 per cent increase over the pcp.

Net Incurred Claims

The loss ratio rose to 22.1[3] per cent from 19.6 per cent, primarily due to an increase in the number of delinquent loans. The prior first half was positively impacted by a higher than expected number of borrower sales and a lower number of loan arrears converting to claim. Regionally, New South Wales and Victoria continue to perform well and the Group continues to monitor the performance of other states, such as Queensland and Western Australia, where economic conditions are not as strong.

Expenses

The expense ratio in 1H15 was 26.7 per cent versus 26.6 per cent in the pcp. GMA has taken various expense reduction actions in the period to continue to manage to an expense ratio of 26 – 28 per cent in the future.

[3] Excluding the $9.6 million accrual booked in Q1 for an increased level of expected recoveries relating to paid claims, the 1H15 loss ratio would be 26.0%.

Investment Income

Investment income of $51.2 million in 1H15 included a pre-tax unrealised mark-to-market loss of $28.4 million. After adjusting for the mark-to-market movements, the investment return for 1H15 was 3.7 per cent per annum, down from 4.1 per cent in the pcp, reflecting the lower interest rate environment.

Capital and Reinsurance

GMA maintains a sound balance sheet and has $1.38 billion of unearned premium reserves providing a high level of revenue visibility. As at 30 June 2015, GMA had a $4.1 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 30 June 2015 regulatory solvency ratio of 1.64 times the Prescribed Capital Amount (PCA) on a Level 2 basis.

In early July 2015, the Group issued $200 million subordinated notes that qualify as Tier 2 Capital under the Australian Prudential Regulation Authority's (APRA) capital adequacy framework. Concurrent with that transaction, GMA redeemed $90.3 million of its existing $140 million Tier 2 subordinated notes issued in 2011.

After adjusting for the $200 million subordinated notes issue, the $90 million early redemption of existing notes and the payment of the ordinary and special dividends, the adjusted regulatory solvency ratio would be 1.62 times the PCA on a Level 2 basis.

GMA's level of qualifying reinsurance increased to $915 million as at 1 January 2015 from $815 million as at 31 December 2014. During 1H15, the Group remained engaged with existing consortium reinsurance partners regarding its reinsurance program.

The Board declared a fully franked interim ordinary dividend of 12.5 cents per share and a fully franked special dividend of 18.5 cents per share payable on 4 September 2015. The interim ordinary dividend represents a payout ratio of 61.2 per cent of the 1H15 Underlying NPAT.

Customer Relationships

GMA has commercial relationships with over 100 lender customers across Australia and has Supply and Service Contracts with 10 of its key customers. The top three customers accounted for approximately 51 per cent of GMA's NIW and 65 per cent of GWP in 1H15. The largest customer accounted for 32 per cent of NIW and 41 per cent of GWP in 1H15. The Group estimates that it had approximately 41 per cent of the Australian LMI market by NIW for the six months ended 30 June 2015.[4]

On 4 June 2015, GMA announced that it had renewed its contract with National Australia Bank for the provision of LMI for NAB Broker business. The term of the new contract is for two years, to 20 November 2017.

Full year 2015 outlook

The Australian economy has been resilient in the first half of 2015. While GDP growth remains below trend, with lacklustre business investment more than offsetting a stronger household sector, unemployment remains around 6.0 per cent and record-low interest rates are supporting a strong housing market. GMA continues to be cautious about areas of the economy affected by the slowdown in the mining sector and associated industries.

GMA reaffirms its full year 2015 guidance, 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.

GMA's regulatory solvency ratio continues to be above the Board's target capital range of 1.32 to 1.44 times the PCA.

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[4] Market share is Genworth Australia's estimate based on the market for LMI provided by external LMI Providers and LMI Subsidiaries and includes the estimated 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.

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About Genworth Australia

GMA, through its subsidiary companies Genworth Financial Mortgage Insurance Pty Ltd and Genworth Financial Mortgage Indemnity Ltd (GMA Group or the Group), 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 50 years since Housing Loans Insurance Corporation 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. The Genworth Financial Group's current ownership interest in GMA is approximately 52.0% of the issued shares in GMA.