

Genworth Australia announces \$202 million capital reduction

(SYDNEY) 31 March 2016 – Genworth Mortgage Insurance Australia Limited (GMA) today proposed to undertake a capital management initiative for shareholders.

Capital Reduction and Share Consolidation

The capital management initiative involves the distribution of 34 cents per share to shareholders, representing a total payment of approximately \$202 million. The initiative is designed to return a portion of surplus capital equitably to all shareholders and ensure Genworth Australia maintains an efficient capital structure.

The cash distribution will be combined with a related share consolidation, which will provide shareholders an earnings per share outcome similar to a share buy-back. The capital reduction and related share consolidation are subject to shareholder approval at Genworth Australia's Annual General Meeting (AGM) on 5 May 2016. The Company has obtained approval from the Australian Prudential Regulation Authority (APRA) for the capital reduction. The Company has sought a Class Ruling from the Australian Taxation Office (ATO) to confirm the Company's understanding of the income tax consequences for shareholders who are tax residents of Australia. The ATO has been asked to confirm that no portion of the proceeds payable to shareholders will be a dividend for Australia income tax purposes.

The share consolidation will be implemented in a manner which ensures that each shareholder's proportionate interest in Genworth Australia remains unchanged following the distribution, subject to the rounding of fractional entitlements to the nearest whole number of shares.

The ratio to apply to the share consolidation is the 20 trading day volume weighted average sale price (VWAP) of GMA shares on ASX and Chi-X over the 20 consecutive trading days up to and including 24 March 2016, less the amount of the capital reduction, as a proportion of the VWAP. Based on this calculation, the consolidation ratio is 0.8555 and, if approved, will reduce the number of shares on issue by approximately 14.5 per cent.

The capital reduction and share consolidation will not apply to Share Rights granted to participants under the Genworth Australia Share Rights Plan. Genworth Financial, Inc. has indicated that it intends to vote in favour of both the capital reduction and share consolidation resolutions at the AGM.

Genworth Australia's Chief Executive Officer, Ms Georgette Nicholas, said "This capital management initiative represents another important step in our ongoing journey to manage our capital base at a level which balances our objectives of meeting our policyholder obligations, delivering long-term shareholder returns and having the flexibility to grow the business in the future.

"Our decision to return surplus capital to shareholders reflects our continued confidence in the business and confidence in achieving strong levels of profitability. Our 2016 guidance remains unchanged."

As disclosed in the Company's Full Year 2015 Financial Results presentation on 5 February 2016, the Company had a pro forma regulatory capital solvency ratio of 1.59 times the Prescribed Capital Amount (PCA) on a Level 2 basis as at 31 December 2015, above the Board's target range of 1.32 times to 1.44 times the PCA. This pro forma calculation took into account the payment of \$114.9 million of dividends with respect to the second half 2015 earnings and \$950 million in allowable reinsurance. After further adjusting for the

proposed \$202 million capital reduction, the pro forma solvency ratio as at 31 December 2015 would be 1.46 times the PCA.

Possible on-market share buy-back

As part of the Company's strategy to optimise its capital base, the Board is also considering putting in place additional capital management flexibility by way of a possible on-market share buy-back.

The Company intends to put an ordinary resolution to shareholders at the upcoming AGM which would allow the Company to buy back up to a maximum of 150 million ordinary shares.

The maximum size of the buy-back takes into account a situation where the capital reduction and share consolidation resolutions are not passed for any reason (e.g. because the resolutions are withdrawn or are not passed by shareholders). In this scenario, the Board may consider seeking to buy back up to \$250 million of ordinary shares on-market.

If the capital reduction and share consolidation resolutions proceed, then the Board may consider seeking to buy back up to \$48 million of ordinary shares on-market. When combined with the proposed \$202 million capital reduction, the total amount would also be up to \$250 million. Shareholders should note that, regardless of the \$202 million capital reduction, the resolution proposed to shareholders is to permit the Company to seek to buy back shares up to a maximum of 150 million ordinary shares in aggregate over 12 months from the date of the 2016 AGM.

Shareholders should also note that even if the Board of the Company decides to buy back shares, it will require GFI's consent and, depending on the size of the proposed buy-back, may require APRA's approval. If all relevant consents and approvals are not received, the proposed buy-back may not proceed or the intended amount of shares may not be bought back.

There is no guarantee that the Company will buy back the full number of shares and the Company reserves the right to suspend or terminate the buy-back at any time, and to buy back fewer than 150 million ordinary shares, or no shares at all. The implementation and timing of the on-market share buy-back and the actual number of shares acquired will depend on market conditions.

Some frequently asked questions are set out below:¹

1. How does the capital management initiative work?

If the proposed capital management initiative is approved by shareholders at the Annual General Meeting, for shares held on the register as at 7.00pm (Sydney time) on 25 May 2016, Genworth Australia shareholders will receive 34 cents per share as a cash distribution and have their shares consolidated. The proposed share consolidation will ensure that each shareholder's proportionate interest in Genworth Australia remains unchanged following the payment of the 34 cents per share capital reduction. The share consolidation will result in a reduction in the number of GMA shares on issue from 595.4 million to approximately 509.4 million (representing a 14.5 per cent reduction in the number of shares on issue). The capital management initiative will be funded by Genworth Australia's surplus capital and will reduce Genworth Australia's cash balance by the aggregate amount of capital returned (approximately \$202 million). The capital reduction and the share consolidation both form part of Genworth Australia's capital management initiative and are connected. As such, each item is conditional on the approval of the other item and one will not occur without the other. The capital reduction and share consolidation will not apply to Share Rights granted to participants under the Genworth Australia Share Rights Plan.

2. What is the effect of the capital management initiative on Genworth Australia?

The capital management initiative will be funded by Genworth Australia's surplus capital and will reduce Genworth Australia's cash balance by the aggregate amount of capital returned (approximately \$202 million). In determining whether to propose the capital management initiative, the directors reviewed Genworth Australia's assets, liabilities and expected cash flows and satisfied themselves as to Genworth Australia's solvency and ability to pay its creditors following the capital management initiative. In the Board's view, the capital management initiative:

- is fair and reasonable to shareholders as a whole; and
- will not materially impact key credit metrics Genworth Australia targets as part of the Group's broader financial and capital allocation framework; and
- does not materially prejudice Genworth Australia's ability to pay its creditors.

No adverse tax consequences are expected to arise for Genworth Australia.

3. Why is Genworth Australia returning capital this way, compared to other options?

Genworth Australia evaluated various options for returning excess capital to shareholders and determined that a capital reduction, combined with a share consolidation, was the optimal mechanism because:

- a capital reduction is immediate;
- a capital reduction preserves flexibility for distributions in the future; and
- a capital reduction applies to all shareholders equally and shareholders' interests in the company remain unchanged (subject to rounding).

4. How will the capital reduction work?

The terms of the proposed capital reduction will be the same for all shareholders (with all shareholders receiving 34 cents per share), so the proposal will be an "equal reduction" of share capital and may be passed by an ordinary resolution of shareholders at a general meeting. If Genworth Australia shareholders approve the proposed capital management initiative (being both the capital reduction and the share consolidation) at the 2016 Annual General Meeting on 5 May 2016, eligible Genworth Australia shareholders will receive 34 cents

¹ Note: The information contained in these frequently asked questions is not personal advice. Genworth Australia advises that it is not licensed to provide financial product advice in relation to GMA shares.

per share as a cash distribution (collectively totalling approximately \$202 million) on 1 June 2016. Eligible shareholders are the registered holders of Genworth Australia shares as at the Record Date (being 7.00pm Sydney time on 25 May 2016). The proposed capital reduction amounts will be calculated on a pre-consolidated basis. A full list of key dates for the capital reduction process is provided below and more details will be provided in the Notice of Meeting for the 2016 Annual General Meeting, to be sent to shareholders by 5 April 2016.

5. How will the share consolidation work?

As part of the proposed capital management initiative, Genworth Australia proposes to consolidate its share capital through the conversion of every one Genworth Australia share into 0.8555 shares, reflecting the size of the proposed capital reduction to shareholders.

If approved by shareholders, the proposed share consolidation will:

- ensure that each shareholder's proportionate interest in Genworth Australia remains unchanged following the payment of the capital reduction, subject to rounding of fractional entitlements to the next whole number of shares; and
- reduce the number of Genworth Australia shares on issue from approximately 595.4 million to approximately 509.4 million (representing a 14.5 per cent reduction in the number of shares on issue).

The share consolidation ratio of 0.8555 was calculated by referencing the amount of the capital reduction as a proportion of the volume weighted average sale price of Genworth Australia shares traded on the ASX over the consecutive 20 day trading period up to and including 24 March 2016, being \$2.3522, as follows:

$$(\$2.3522 - \$0.34) / \$2.3522 = 0.8555$$

If approved by shareholders (together with approval of the capital reduction) by ordinary resolution at the 2016 AGM on 5 May 2016, the share consolidation will take effect in relation to those shares registered on 25 May 2016. A full list of key dates for the share consolidation process is provided below. More details will be provided in the Notice of Meeting for the 2016 Annual General Meeting, to be sent to shareholders by 5 April 2016.

6. What is the expected effect of the capital management initiative on Genworth Australia's share price?

The proposed capital reduction and the share consolidation both form part of Genworth Australia's capital management initiative and are connected. As such, each item will be conditional on the approval of the other item and one will not occur without the other. Shares may trade at a lower price from the 'post capital reduction' date than they otherwise may have done if the capital reduction was not approved. This would be due to the outflow of funds to shareholders. However, all else being equal, the share consolidation is expected to neutralise the effect of the capital reduction on forward earnings per share (EPS) expectations and, therefore, similarly neutralise any reduction in the share price specifically relating to the capital reduction. The combination of the capital reduction and share consolidation will enable Genworth Australia to provide an EPS outcome relating to the capital reduction similar to that which would result from a share buy-back, while also ensuring that all shareholders receive an equal cash distribution per share.

7. What are the tax implications of the proposed capital management initiative?

No adverse tax consequences are expected to arise for Genworth Australia. The following information set out below is general in nature and should not be relied on as advice.

Tax implications for individual shareholders will depend on the circumstances of the particular shareholder. All shareholders should therefore seek their own professional advice in relation to their tax position. Neither Genworth Australia nor any of its officers, employees or advisers assumes any liability or responsibility for advising shareholders about the tax consequences of the capital reduction and/or share consolidation.

The Company has sought a Class Ruling from the Australian Taxation Office (ATO) to confirm the Company's understanding of the income tax consequences for shareholders who are tax residents of Australia. The ATO has been asked to confirm that no portion of the proceeds payable to shareholders will be a dividend for Australia income tax purposes. If that is the case, there should be no immediate tax liability in relation to the capital reduction for most shareholders who are tax residents of Australia who hold their shares on capital account. Instead, the tax base of shares will be reduced and will defer tax payable by shareholders until they dispose of the shares (unless the proceeds exceed the cost base of the shares, in which case the cost base will be reduced to nil and the excess cash receipt will be a capital gain).

Shareholders who are not tax residents of Australia should seek specific advice in relation to the tax consequences arising from the capital reduction and/or share consolidation.

Additional information will be provided in the Notice of Meeting for the 2016 Annual General Meeting to be sent to shareholders by 5 April 2016.

8. What is the expected timeline for the proposed capital management initiative?

The following timetable is indicative only at this time, and Genworth Australia reserves the right to vary it. Any variation to the timetable set out above will be publicly announced and posted on Genworth Australia's website and on the ASX. The timetable will also be included in the Notice of Meeting for the 2016 Annual General Meeting to be sent to shareholders by 5 April 2016.

31 March 2016	Capital Reduction and Share Consolidation announced.
By 5 April 2016	Despatch of the Notice of Meeting for the 2016 Annual General Meeting ("AGM") is completed, including proposed resolutions and explanatory notes on the Capital Reduction and Share Consolidation.
5 May 2016	AGM, at which shareholders vote on the Capital Reduction and Share Consolidation.
23 May 2016	Last day for trading in pre-Share Consolidation shares and on a pre-Capital Reduction basis.
24 May 2016	Commencement of trading in post-Share Consolidation shares on a deferred settlement basis. Commencement of trading on a post-Capital Reduction basis.
25 May 2016	Record date for determining entitlements to participate in the Capital Reduction (entitlements calculated by reference to pre-Share Consolidation capital). Last day to register transfers of shares on a pre-Share Consolidation basis and a pre-Capital Reduction basis.
1 June 2016	Last day for updating the share register. Payment date for the Capital Reduction and notices issued to shareholders confirming the number of post-Share Consolidation shares held.
2 June 2016	Normal trading resumes.
6 June 2016	Settlement of trades conducted on a T+2 basis and the settlement of on-market trades conducted on a deferred settlement basis.

ASX Trade Note: As the record date for the Share Consolidation and the Capital Reduction is the same date, ASX is not able to disseminate corporate action messages in relation to the Capital Reduction, and therefore trading on ASX Trade will not be tagged XC (ex-capital reduction).

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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 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.