ASX Release
101 Miller Street
North Sydney NSW 2060
Australia

Genworth

Genworth First Half 2018 Earnings

Strong momentum in implementing strategic initiatives & redefining core business model

Guidance for 2018 unchanged

(SYDNEY) 1 August 2018 – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) today reported statutory[1] net profit after tax (NPAT) of $41.9 million and underlying[2] NPAT of $50.3 million for the half year ended 30 June 2018 (1H18).

The Genworth Board has declared a fully franked interim ordinary dividend of 8 cents per share and a fully franked special dividend of 4 cents per share both payable on 30 August 2018 to shareholders registered on 16 August 2018.

Ms. Georgette Nicholas, Chief Executive Officer and Managing Director of Genworth, said, "Our 1H18 results are in line with our guidance and reflect the fact that 2018 will be a transitional year as:

- the impact of our 2017 annual premium earning pattern review is felt (2017 Earnings Curve Review); and
- we continue to implement strategic initiatives designed to redefine our core business model and diversify our revenue streams (Strategic Program of Work).

"I am pleased we have continued to build on the momentum for our Strategic Program of Work. We have implemented a number of new initiatives that complement our traditional LMI offering and are designed to position Genworth as the leading provider of customer focused capital and risk management solutions.

"Over this period, we have also maintained our focus on ensuring we have an optimal capital structure by completing a $100 million on-market share buy-back in February 2018 (that commenced in late 2017) and commencing a new on-market share buy-back up to a value of $100 million in May 2018."

Financial performance measures (A$ million)

					Half Year
	1H17	**1Q18**	**2Q18**	**1H18**	**Change (1H17 vs. 1H18)**
New Insurance Written (A$bn)	13.1	4.3	6.0	10.3[3]	(21.4%)
Gross Written Premium	182.3	174.1	92.7	266.8[4]	46.4%[5]
Net Earned Premium	211.6	67.4	76.0	143.3	(32.3%)
Reported NPAT	88.7	8.4	33.4	41.9	(52.8%)
Underlying NPAT	113.5[6]	19.9	30.4	50.3	(55.7%)
Reported loss ratio	34.8%	55.9%	50.9%	53.3%	18.5%
Total portfolio delinquencies[7]	7,285	6,958	7,306	7,306	0.3%
Portfolio delinquency rate[8]	0.51%	0.49%	0.54%	0.54%	0.03%

[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 (excess of loss insurance includes business written by Genworth's new Bermuda entity)
[4] Includes GWP written pursuant to a customer contract entered into by Genworth's recently established Bermudan insurance entity. This transaction includes a consortium of reinsurers therefore only a portion of GWP written will flow through to NEP
[5] As per footnote 4
[6] 1Q17 Underlying NPAT included a $20.8 million after tax realised gain
[7] Excludes excess of loss insurance
[8] As per footnote 7

STRATEGIC UPDATE

In early 2017 Genworth commenced a Strategic Program of Work designed to enable it to effectively compete in a market of evolving borrower and lender expectations, resulting from technological advances and regulatory change.

As part of its Strategic Program of Work the Company announced in 1Q18 that it had entered into agreements with lender customers to provide new product offerings that are complementary to its traditional lenders mortgage insurance (LMI). These new offerings included a bespoke risk management solution via a newly established Bermudan insurance entity, micro markets LMI and excess of loss cover.

In 2Q18 the Company continued the momentum of its Strategic Program of Work. Over the past 12 months Genworth has worked with a technology partner to develop a new automated underwriting decision engine (Auto Decision Engine) which will be launched later this year. This initiative will deliver operational efficiencies and provide the business with greater underwriting risk management insights.

Also of note is Genworth's investment in Tictoc Online Pty Limited (Tic:Toc). Tic:Toc is a fintech in the online origination space. In addition to a small equity stake in Tic:Toc, Genworth has been appointed the exclusive provider of LMI on Tic:Toc's digital loan platform. Tic:Toc's digital loan platform operates both as a direct-to-consumer platform and as a partner platform.

Ms Nicholas said, "Our investment in Tic:Toc is the result of us looking for innovative ways to access new distribution channels for LMI.

"More broadly, all of the initiatives we have announced to date in 2018 are evidence of our ability to execute on our strategy of delivering sustainable shareholder returns by enhancing our product offerings, improving our underwriting efficiency and where appropriate leveraging our data and partnerships along the mortgage value chain. Over the remainder of FY18 we will continue to roll-out further initiatives pursuant to our Strategic Program of Work and will provide updates of our progress as part of our quarterly results announcements."

1H18 FINANCIAL PERFORMANCE

New business volume, as measured by **New Insurance Written (NIW)**, decreased 21.4% to $10.3 billion in 1H18 compared with $13.1 billion in 1H17. NIW in 1H18 included $1.1 billion of bulk portfolio business versus $2.1 billion of bulk portfolio business in 1H17. NIW excludes the Company's excess of loss reinsurance and the new business written via Genworth's Bermudan entity.

The decline in NIW in 1H18 compared to 1H17 reflects the $1.0 billion reduction in bulk portfolio business and the fact that 1H17 included business written pursuant to an agreement with the Company's then second largest customer. This agreement terminated in April 2017 and represented $2.5 billion of NIW in 1H17.

Gross Written Premium (GWP) increased 46.4% to $266.8 million in 1H18 (1H17: $182.3 million). This includes the new business written via Genworth's Bermudan entity and the new Micro Markets LMI business. As disclosed at the time of the Company's 1Q18 Results announcement Genworth has retained $170.2 million of risk and placed the remainder with a consortium of global reinsurers through its Bermudan entity. Net of the premium to the consortium of global reinsurers, Genworth's GWP increased 12.0% in 1H18 as a result of this transaction. For reporting purposes this risk is not reflected in NIW. In terms of the traditional LMI business, volumes were down 6% from 1H17 following termination of the Company's then second largest customer contract in April 2017. This was partially offset by a higher LVR mix which resulted in a higher average price for written premiums.

Net Earned Premium (NEP) decreased 32.3% from $211.6 million in 1H17 to $143.3 million in 1H18. This reflects the $60.9 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 3.5%. The 2017 Earnings Curve Review took effect from 1 October 2017 and has the effect of lengthening the period of time over which premium is earned. It does not however affect the quantum of revenue that will be earned over time. The unearned premium reserve as at 30 June 2018 was $1.2 billion. Also of note this half, was the release of $8.2 million of unearned premium as part of a lapsed policy initiative commenced by the Company in May (Lapsed Policy Initiative). This initiative has utilized newly available data to more promptly identify loans that have been refinanced or discharged.

The **Delinquency Rate** (number of delinquencies divided by policies in force but excluding excess of loss insurance) increased from 0.51% in 1H17 to 0.54% in 1H18. This was driven by two factors. Firstly, there was a decrease in the policies in force following completion of the Lapsed Policy Initiative. The second (lesser) factor impacting the delinquency rate has been an increase in the number of delinquencies in Western Australia, New South Wales and to a lesser extent South Australia. This was partially offset by a decrease in delinquencies in Victoria and Queensland. **New delinquencies** were down in the half (1H18: 5,565 versus 1H17: 5,997). Delinquencies in mining areas are showing signs of improving. In non-mining regions there are indications of a softening in cure rates. These are being closely monitored to ascertain any developing adverse trends.

Net Claims Incurred for the half was $76.4 million (1H17: $73.6 million). In 2Q17, the Company undertook a review of its non-reinsurance recoverables on paid claims. The result of this review was an improvement in its recovery process and a favourable impact of $8.2 million. Excluding the $8.2 million in favourable non-reinsurance recoveries on paid claims in 1H17 and the $0.9 million in 1H18, Net Claims Incurred decreased $4.5 million in 1H18. The **Loss Ratio** in 1H18 was 53.3%, up from 34.8% in 1H17, reflecting the impact of lower NEP due to the 2017 Earnings Curve Review. Excluding the impact of the 2017 Earnings Curve Review the 1H18 loss ratio would have been 37.4%.

The **Expense Ratio** in 1H18 was 32.9% compared with 25.9% in 1H17, reflecting the lower NEP.

Investment Income of $44.5 million in 1H18 included a pre-tax mark-to-market unrealised loss of $12.0 million ($8.4 million after-tax) versus a pre-tax mark-to-market unrealised loss of $35.5 million ($24 9 million after-tax) in 1H17. It also included pre-tax realised gains of $12.9 million ($9.1 million after tax) in 1H18 versus $33.7 million of pre-tax realised gains ($23.6 million after-tax) in 1H17. The pre-tax realised gain in 1H18 was largely due to the Company reducing its equity exposure in line with its strategic asset allocation target level. The pre-tax realised gains are included in the **Underlying NPAT** for both halves.

As at 30 June 2018 the value of Genworth's investment portfolio was $3,278.6 million, more than 89% of which is held in cash and highly rated fixed interest securities and $160 million of which is invested in Australian equities in line with the Company's low volatility strategy.

CAPITAL MANAGEMENT

Genworth's regulatory solvency ratio was 1.90 times the **Prescribed Capital Amount (PCA)** on a level 2 basis as at 30 June 2018. This continues to be above the Board's target of 1.32 to 1.44 times.

Throughout 1H18 the Company embarked on a number of capital management initiatives. In February 2018 the Company completed a $100 million on-market share buy-back that had been commenced in late 2017.

On 17 May 2018 the Company commenced a new on-market share buyback up to a maximum value of $100 million. As at 30 June 2018 shares to the value of $35.3 million had been acquired as part of this initiative. Genworth intends to recommence its buy-back following the announcement of its 1H18 Results, subject to business and market conditions, the prevailing share price, market volumes and other considerations.

The Board has declared a 1H18 fully franked interim ordinary dividend of 8 cents per share and a fully franked special dividend of 4 cents per share. The interim ordinary dividend represents a payout ratio of 73.2% of 1H18 Underlying NPAT.

Ms. Nicholas said, "Given our strategic focus is on ensuring we can deliver ongoing sustainable returns for shareholders, our first call for excess capital is to deploy it toward profitable business opportunities. We are however equally focused on ensuring we have an optimal capital structure.

“This means we continue to actively manage our capital position and to evaluate uses for our excess capital. Since listing on the Australian Securities Exchange in 2014, we have distributed all after-tax profits by way of dividends to shareholders.”

2018 ECONOMIC OUTLOOK

The Australian domestic economy remained resilient in 1H18 with a rebound in annual Gross Domestic Product growth driven by higher levels of public infrastructure investment and a rise in export growth. Despite this growth, household consumption remained weak and a source of uncertainty. From an individual state and territory perspective, Victoria and New South Wales were the strongest performers however there has been some easing in their growth rates. Western Australia continues to face challenging conditions post the mining downturn although some signs of recovery are starting to emerge.

Whilst the latest employment figures indicate a strong labour market with ongoing solid employment, underemployment remains at elevated levels and continues to hold back wage growth.

The economic outlook for the remainder of 2018 remains positive (albeit below long-term trend). 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 Reserve Bank of Australia (RBA) is likely to keep the official cash rate on hold through the second half of 2018. Despite the expectation that the RBA will leave interest rates on hold, lending institutions are anticipated to continue to implement “out-of-cycle” interest rate increases as they face higher funding costs.

In terms of housing market conditions, the moderation experienced in 1Q18 continued in 2Q18 with Sydney and Melbourne continuing to lead the decline. The exception to this has been Hobart which continues to show positive gains. Perth dwelling values have seen an improvement on the rate of decline however recovery is likely to still take some time.

Genworth expects the moderating trend in housing market conditions to continue in the second half of the year reflecting pressure on lending as a result of macro-prudential measures, tightening credit standards and record levels of new housing supply coming onto the market. 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 stabilize.

OUTLOOK FOR GENWORTH

The Company’s guidance provided at the time of its FY17 results announcement remains unchanged. It is noted that the signs of a softening in cure rates which emerged in 1Q18 continued in 2Q18 and as a result it is expected that the full year loss ratio will be at the higher end of the guidance range. The Company will continue to monitor this for potential development.

GWP is expected to increase in FY18 reflecting the premium written pursuant to the Company’s new Bermudan entity and the Micro Markets LMI agreement announced earlier this year.

NEP and the full year loss ratio are expected to be adversely impacted by the 2017 Earnings Curve Review in FY18 (and to a lesser extent in FY19). In FY18, NEP is expected to decline by approximately 25% to 30%. Despite an expectation that Net Incurred Claims will be lower in 2018 than in 2017, the lower NEP means the full year loss ratio is expected to be between 40% and 50%.

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 as well as unforeseen circumstances or economic events.

Ms Nicholas said, “We reiterate that 2018 will be a transitionary year for our business given the impact of the 2017 Earnings Curve Review and the fact that we are in the process of implementing a number of strategic initiatives designed to redefine our core business model and diversify our revenue streams.

“To date this financial year, we have grown our GWP by offering customers a broader suite of capital and risk management solutions that complement our traditional LMI offering. We have also made considerable progress developing technology, leveraging partnerships and investing in opportunities that give us access to new distribution channels, enhance our loan origination and performance data and deliver operational efficiencies.

“We continue to work on a range of further strategic initiatives and are focused on maintaining the momentum in rolling these out. We also remain committed to actively managing our capital position. Our Company is well capitalised and has a solid balance sheet with net tangible assets of approximately $3.93 per share as at 30 June 2018. We have a track record of delivering solid profits and attractive shareholder returns which we are committed to continuing.”

ENDS

Conference Call

A conference call for analysts, institutional investors and media will be held today at 10.30am (Sydney time) to discuss these results. Details of the conference call dial-in numbers are as follows:

Conference name: Genworth Australia First Half 2018 Financial Results
Conference ID: 1788 696

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		

For more information:

Analysts and Investors should contact:

Helen Karlis
Head of Corporate Affairs & Investor Relations
T: +61 428 059 965

Media should contact:

Mark Westfield
M: +61 457 805 838

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.