

Genworth Mortgage Insurance Australia

1Q 2017 Financial Results Presentation

3 May 2017



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Introduction

Georgette Nicholas, CEO

1Q 2017 financial results summary

(A\$ millions)	1Q16	1Q17	Change %
Gross written premium	85.0	88.2	3.8%
Net earned premium	113.5	107.9	(4.9%)
Reported net profit after tax	67.3	52.2	(22.4%)
Underlying net profit after tax	61.7	68.3	10.7%

1Q result in line with expectations

- GWP reflects impact of \$1.3 billion bulk portfolio transactions and premium rate actions taken in 2016.
- Reported NPAT includes after-tax mark-to-market loss of \$16.1 million on the investment portfolio.
- Underlying NPAT includes \$21.0 million after-tax realised gain following the rebalancing of the investment portfolio.
- 2017 guidance metrics unchanged.

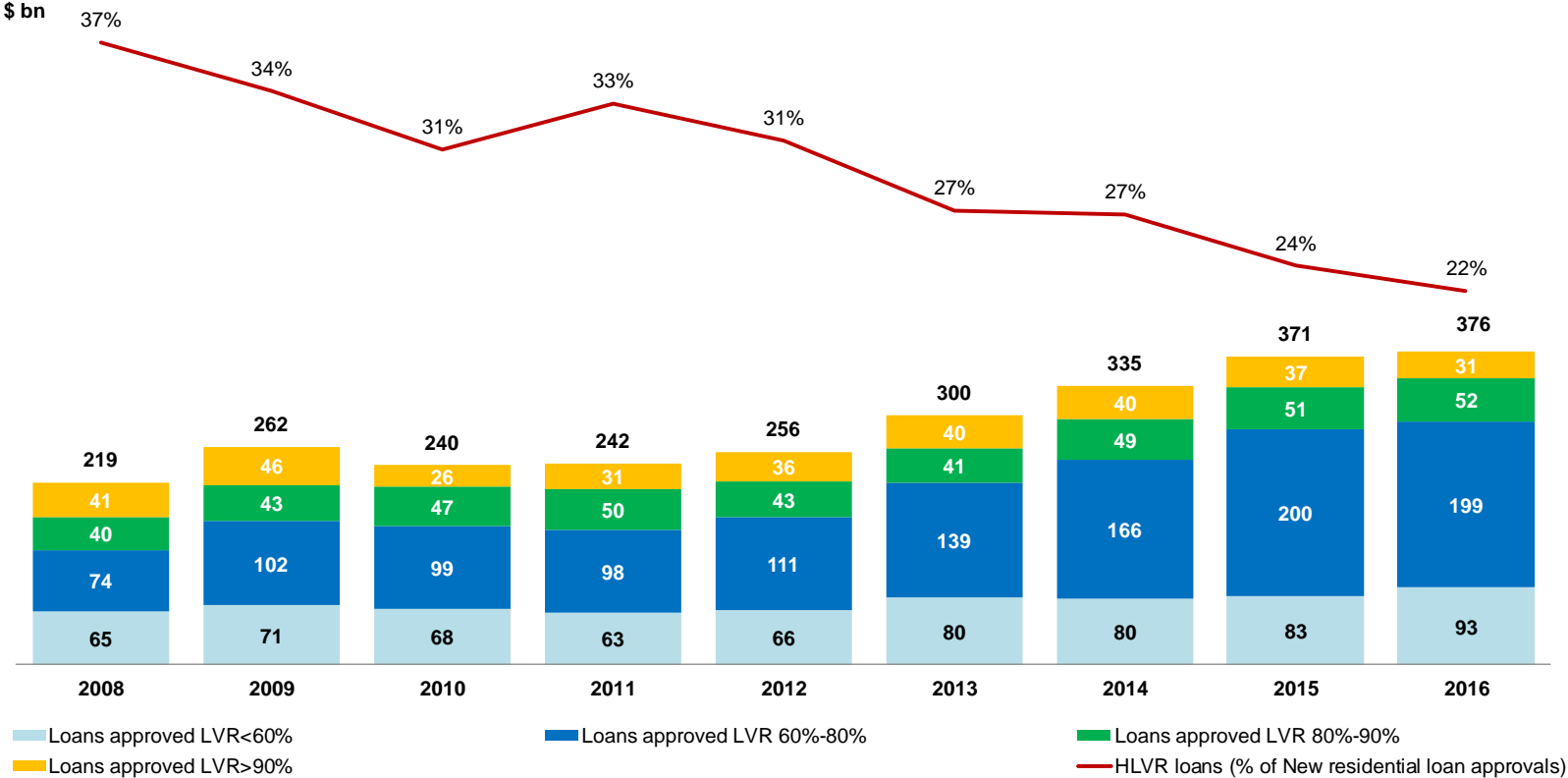
Risk management

- Continued pressure from mining regions on delinquency development and claims experience.
- Focus on maintaining risk management discipline in a changing market.

Key financial measure	FY17 guidance	1Q17 actual	
NEP growth	Down 10-15 per cent	(4.9%)	✓
Full year loss ratio	40 to 50 per cent	34.8%	✓

Residential mortgage lending market

Originations and HLVR penetration¹



Note: Totals may not sum due to rounding. Total new residential loans approved in 2016 was \$376.0 billion, up 1.4% on the previous corresponding period.

1. Prior periods have been restated in line with market updates.

Sources: APRA Quarterly ADI property exposures statistics (ADI's new housing loan approvals), December 2016.

Macroeconomic conditions

Delinquency rates by geography

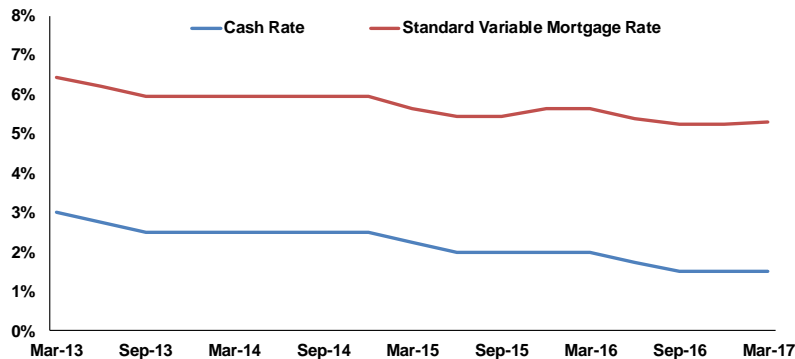
State	Mar 16	Mar 17	Change (basis points)
New South Wales	0.29%	0.31%	2 bps
Victoria	0.35%	0.38%	3 bps
Queensland	0.55%	0.68%	13 bps
Western Australia	0.53%	0.78%	25 bps
South Australia	0.52%	0.66%	14 bps
Group	0.40%	0.48%	8 bps

Unemployment rates (seasonally adjusted)

State	Mar 16	Mar 17	Change (basis points)
New South Wales	5.2%	5.1%	(10 bps)
Victoria	5.6%	6.1%	50 bps
Queensland	6.2%	6.3%	10 bps
Western Australia	5.5%	6.5%	100 bps
South Australia	6.9%	7.0%	10 bps
National	5.7%	5.9%	20 bps

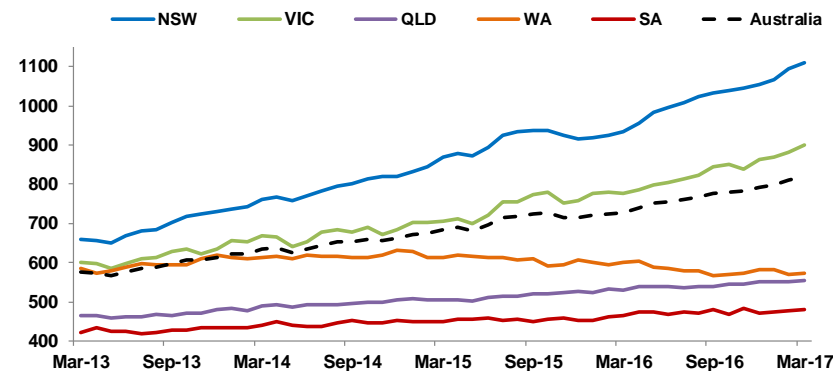
Source: Australian Bureau of Statistics

Interest rates



Source: Reserve Bank of Australia

House prices – Capital city dwellings (\$000)



Source: CoreLogic



Detailed financial performance

Luke Oxenham, CFO

1Q 2017 income statement

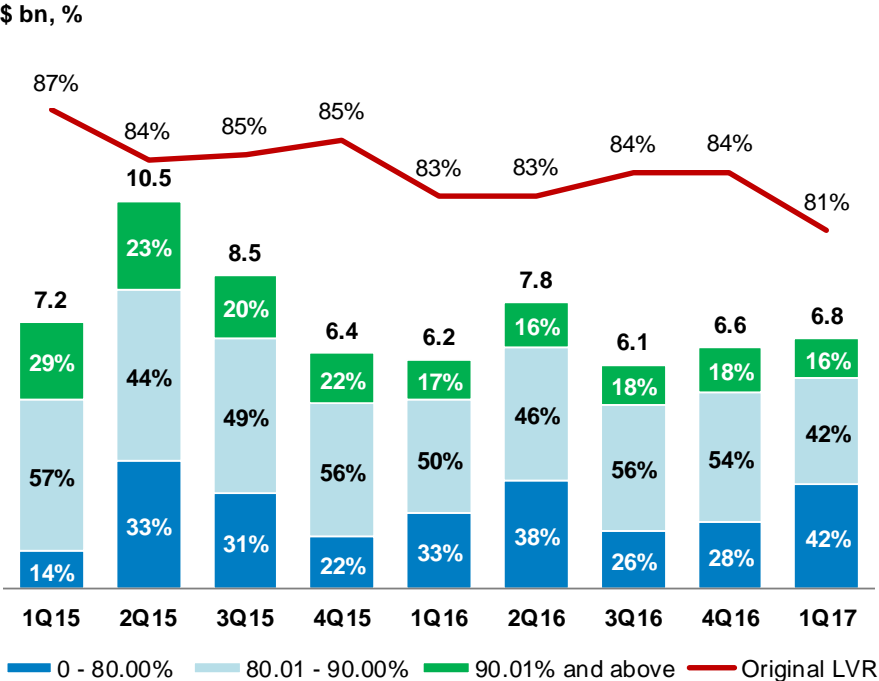
(A\$ millions)	1Q16	1Q17	Change
Gross written premium	85.0	88.2	3.8%
Movement in unearned premium	47.0	36.7	(21.9%)
Gross earned premium	132.0	124.9	(5.4%)
Outwards reinsurance expense	(18.5)	(17.0)	(8.1%)
Net earned premium	113.5	107.9	(4.9%)
Net claims incurred	(30.7)	(37.6)	22.5%
Acquisition costs	(12.1)	(13.7)	13.2%
Other underwriting expenses	(14.5)	(13.5)	(6.9%)
Underwriting result	56.2	43.1	(23.3%)
Investment income on technical funds ¹	20.6	12.7	(38.3%)
Insurance profit	76.8	55.8	(27.3%)
Investment income on shareholder funds ¹	22.9	21.6	(5.7%)
Financing costs	(4.1)	(2.8)	(31.7%)
Profit before income tax	95.5	74.6	(21.9%)
Income tax expense	(28.2)	(22.5)	(20.2%)
Net profit after tax	67.3	52.2	(22.4%)
Underlying net profit after tax	61.7	68.3	10.7%

Note: Totals may not sum due to rounding.

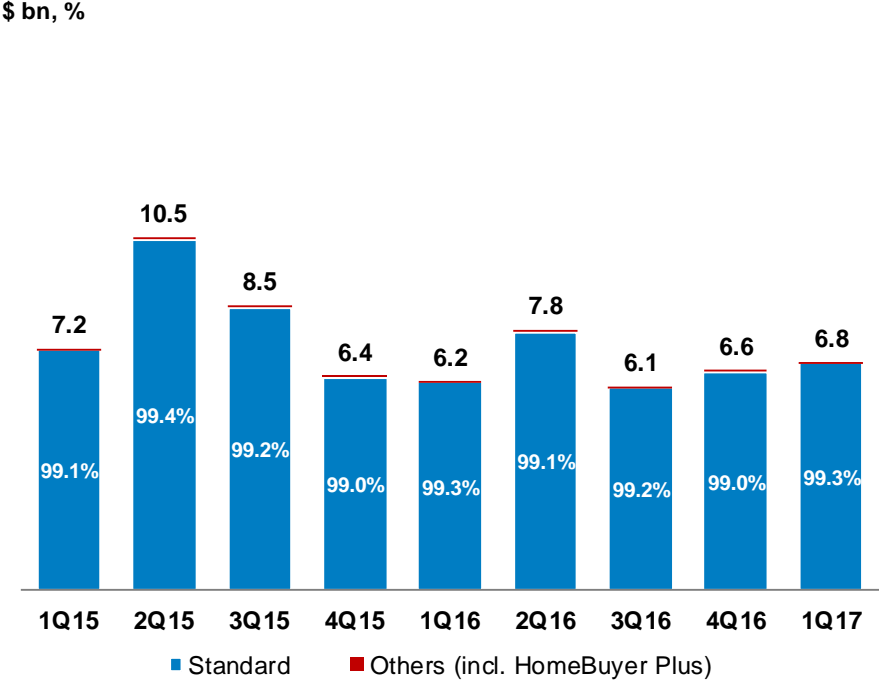
1. Investment income on technical funds and shareholder funds include the before-tax effect of realised and unrealised gains/(losses) on the investment portfolio.

New insurance written

NIW¹ by original LVR² band



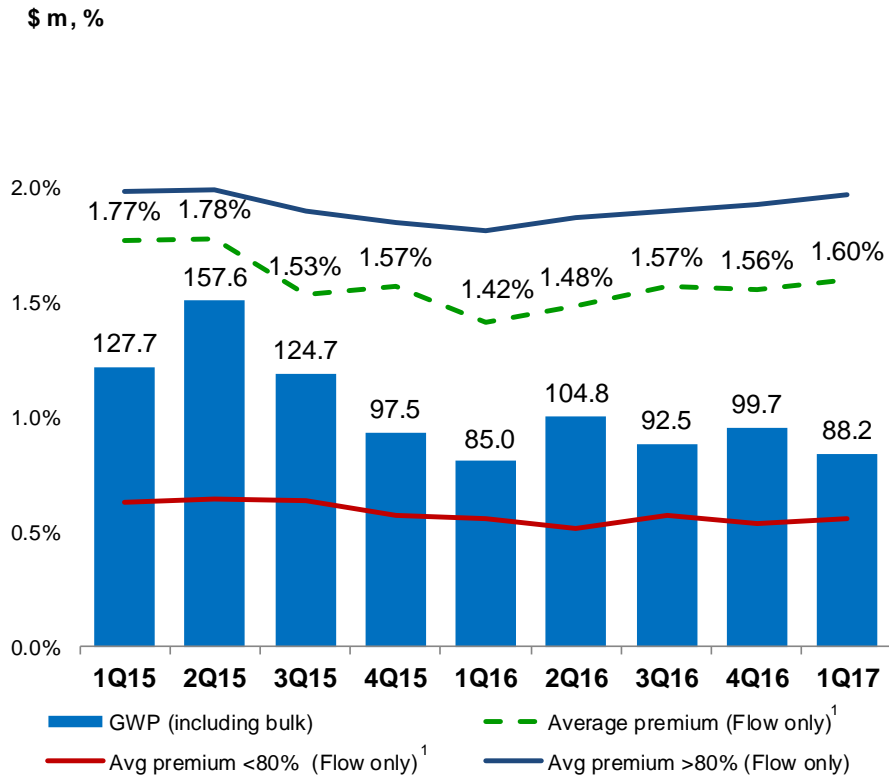
NIW¹ by product type



1. NIW includes capitalised premium.
 2. Original LVR excludes capitalised premium.

Gross written premium

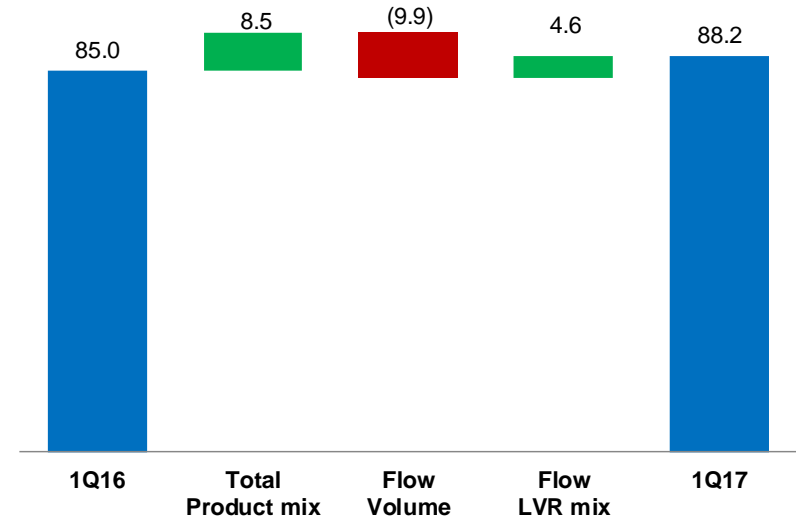
GWP and average price of flow business



1. Historical NIW has been adjusted in the average premium calculation to reflect a risk sharing arrangement.

GWP walk

\$ m



Net incurred claims

(A\$ millions unless otherwise stated)	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17
Number of paid claims (#)	280	288	325	291	280	286	321	312	356
Average paid claim ¹ (\$'000)	62.5	66.9	65.9	71.0	65.8	79.2	73.3	65.0	92.5
Claims paid¹	17.5	19.3	21.4	20.6	18.4	22.7	23.5	21.3	32.9
Movement in borrower recovery receivable on paid claims	(9.6)	0.7	0.5	(3.4)	0.1	-	-	(1.0)	-
Movement in reserves	10.5	11.5	19.6	4.1	12.2	22.0	28.9	10.7	4.6
Net claims incurred	18.4	31.5	41.5	21.3	30.7	44.7	52.5	30.9	37.6
Reported loss ratio (%)	16.6%	27.4%	33.5%	17.8%	27.0%	38.8%	45.3%	28.6%	34.8%
Borrower recovery receivable establishment	9.6	-	-	-	-	-	-	-	-
Incurred but not reported (IBNR) adjustment	-	-	(12.2)	(5.4)	-	-	-	-	-
Normalised net claims incurred	28.0	31.5	29.3	16.0	30.7	44.7	52.5	30.9	37.6
Net earned premium	110.8	114.9	123.9	120.3	113.5	115.3	115.9	108.1	107.9
Net earned premium earnings curve adjustment	-	-	(11.2)	-	-	-	-	-	-
Adjusted net earned premium	110.8	114.9	112.7	120.3	113.5	115.3	115.9	108.1	107.9
Normalised loss ratio (%)	25.3%	27.4%	26.0%	13.3%	27.0%	38.8%	45.3%	28.6%	34.8%

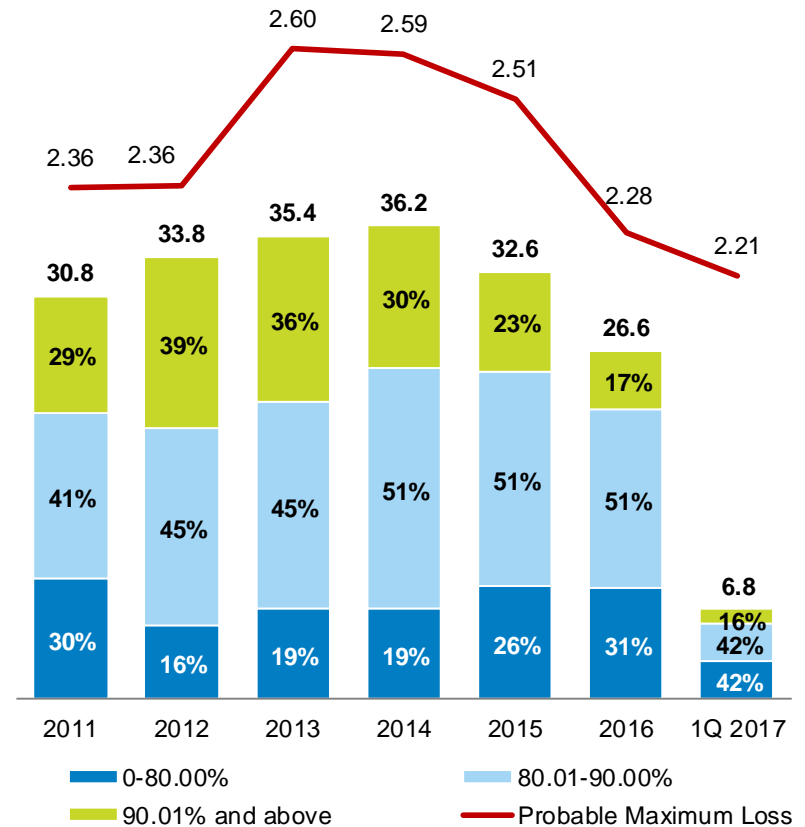
Note: Totals may not sum due to rounding.

1. Movement in borrower recovery receivable on paid claims is excluded from average paid claim calculation and claims paid.

1Q 2017 regulatory capital position

(A\$ in millions)	31 Dec 16	31 Mar 17
Capital Base		
Common Equity Tier 1 Capital	2,012.8	1,976.7
Tier 2 Capital	200.0	200.0
Regulatory Capital Base	2,212.8	2,176.7
Capital Requirement		
Probable Maximum Loss (PML)	2,284.6	2,212.2
Net premiums liability deduction	(288.8)	(281.6)
Allowable reinsurance	(900.5)	(950.5)
LMI Concentration Risk Charge (LMICRC)	1,095.3	980.2
Asset risk charge	111.0	110.3
Asset concentration risk charge	-	-
Insurance risk charge	229.8	210.9
Operational risk charge	30.0	26.7
Aggregation benefit	(52.2)	(51.5)
Prescribed Capital Amount (PCA)	1,413.9	1,276.5
PCA Coverage ratio (times)	1.57 x	1.71 x

NIW by original LVR band and Probable Maximum Loss \$ bn



Note: Totals may not sum due to rounding.



Summary and conclusion

Georgette Nicholas, CEO

2017 outlook

- Australian economic conditions have moderated recently as the economy continues to transition away from the mining investment boom.
- The unemployment rate has moved up slightly to 5.9 per cent and key labour market indicators remain mixed. Under-employment remains near-record highs, implying a greater degree of spare capacity in the economy than indicated by the unemployment rate alone. These dynamics are increasing mortgage stress in certain regional economies and Genworth expects elevated delinquencies in these regions in 2017.
- House price growth is likely to moderate in 2017 following regulatory measures to slow the growth in investor lending and limit the flow of new interest-only lending. Recent mortgage interest rate increases, particularly for investor loans, may also impact price growth this year.
- The Company continues to actively manage its capital position and is continually evaluating its excess capital and potential uses.

Key financial measures - FY17 Guidance

Net earned premium growth	Down 10 to 15 per cent
Full year loss ratio	40 to 50 per cent
Ordinary dividend payout ratio	50 to 80 per cent of underlying NPAT

Full year outlook is subject to market conditions and unforeseen circumstances or economic events



Questions

Georgette Nicholas, CEO

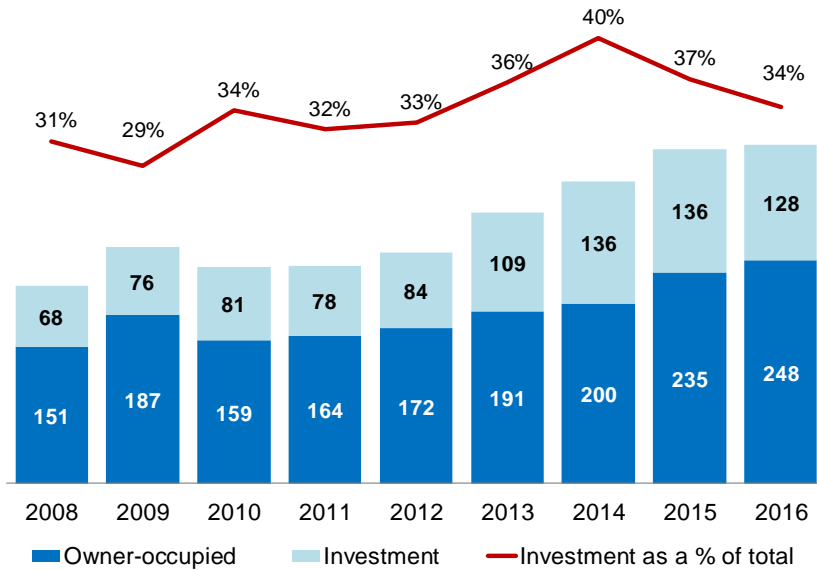
Luke Oxenham, CFO



Supplementary slides

Residential mortgage lending market

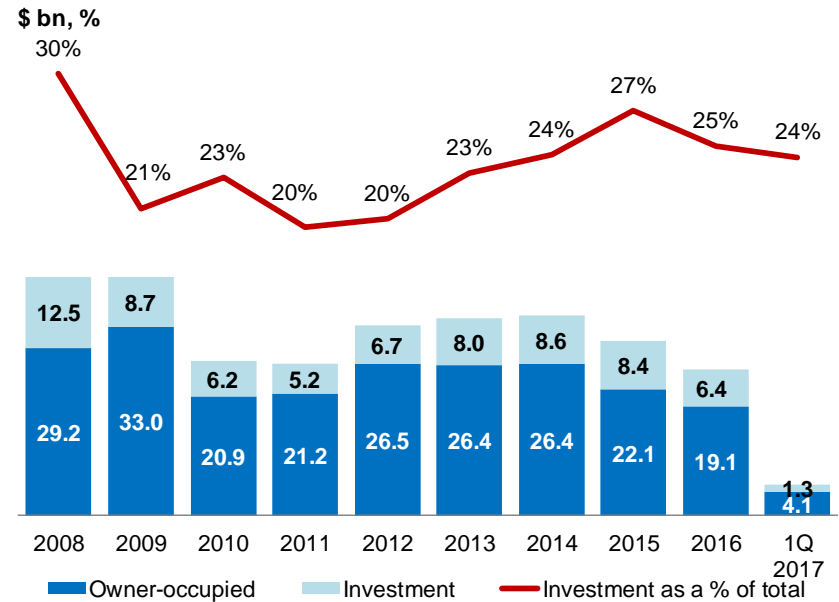
Investment vs. owner-occupied (APRA statistics)¹



- Investment property lending represented 34% of originations for the period ended 31 December 2016.

1. Prior periods have been restated in line with market updates.
Sources: APRA Quarterly ADI property exposures statistics (ADIs new housing loan approvals), December 2016. Statistics only show ADIs mortgage portfolios above \$1 billion, thereby excluding small lenders and non-banks.

Investment vs. owner-occupied² (Genworth)

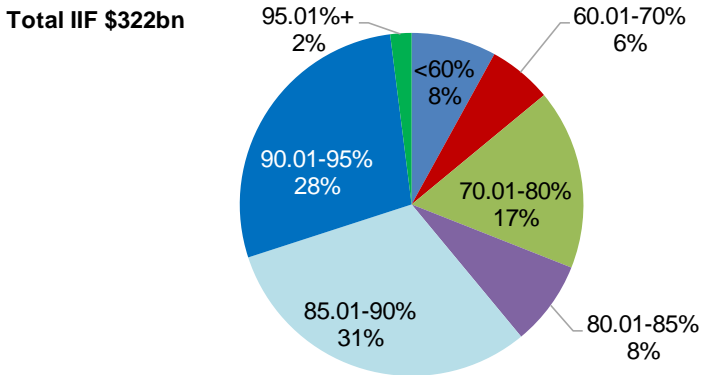


- Investment property lending represented 24% of Genworth's portfolio for the period ended 31 March 2017.

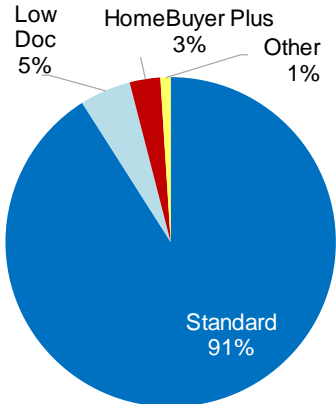
2. Flow NIW only. Owner occupied includes loans for owner occupied and other types.

Insurance in force and New insurance written

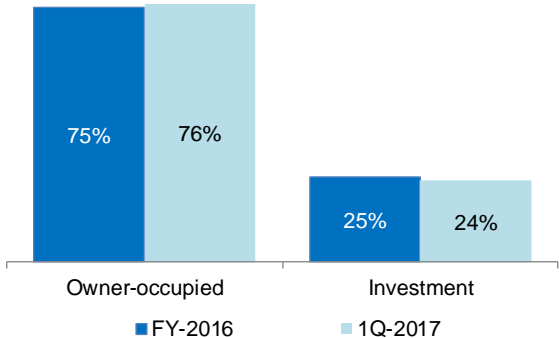
Insurance in force (IIF)¹ by original LVR² band, as at 31 March 2017



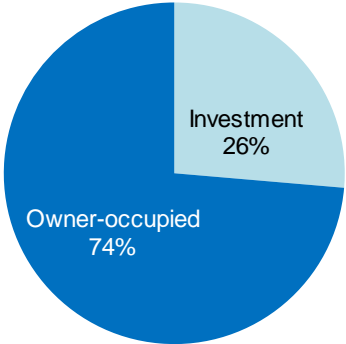
IIF¹ by product type, as at 31 March 2017



Flow NIW¹ by loan type



IIF¹ by loan type, as at 31 March 2017



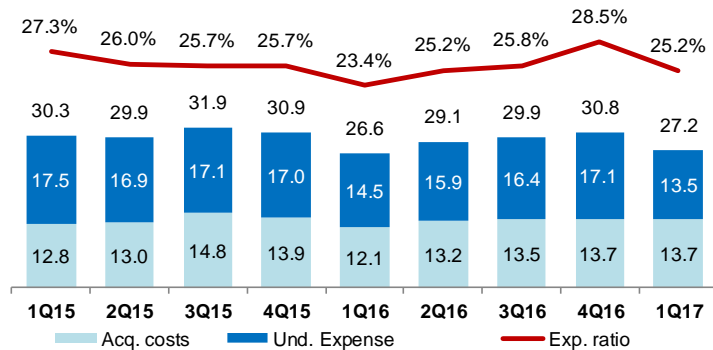
1. NIW and IIF includes capitalised premium.
 2. Original LVR excludes capitalised premium.



Insurance ratio analysis

Expenses

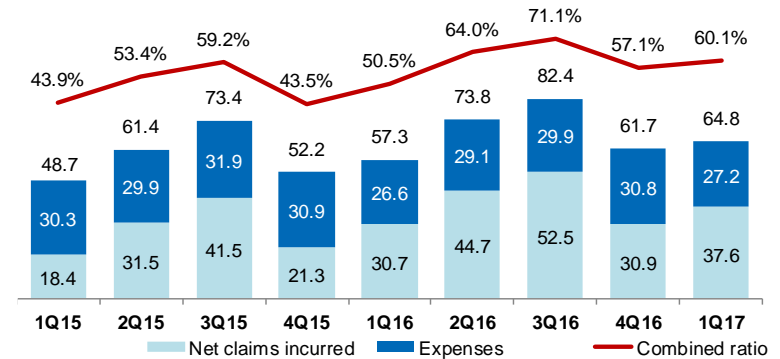
\$ m, %



The expense ratio is calculated by dividing the sum of the acquisition costs and the other underwriting expenses by the net earned premium.

Combined ratio

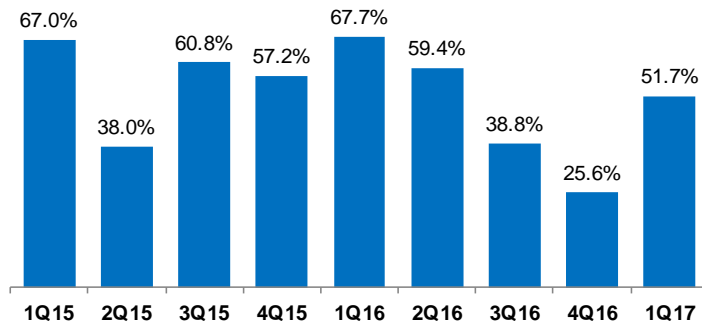
\$ m, %



The combined ratio is the sum of the loss ratio and the expense ratio.

Insurance margin

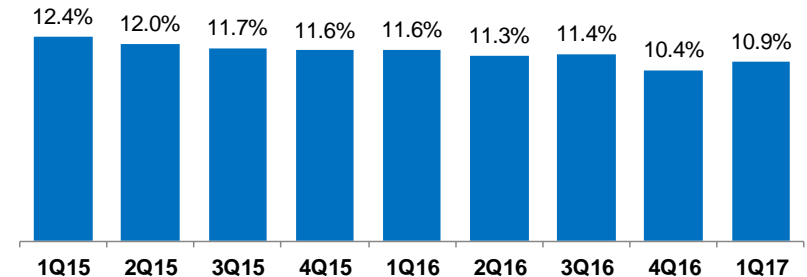
%



The insurance margin is calculated by dividing the profit from underwriting and interest income on technical funds (including realised and unrealised gains or losses) by the net earned premium.

Trailing 12-month underlying ROE

%



The trailing twelve months underlying ROE is calculated by dividing underlying NPAT of the past 12 months by the average of the opening and closing underlying equity balance for the past 12 months.

Delinquency development

Quarterly delinquency roll and delinquency composition

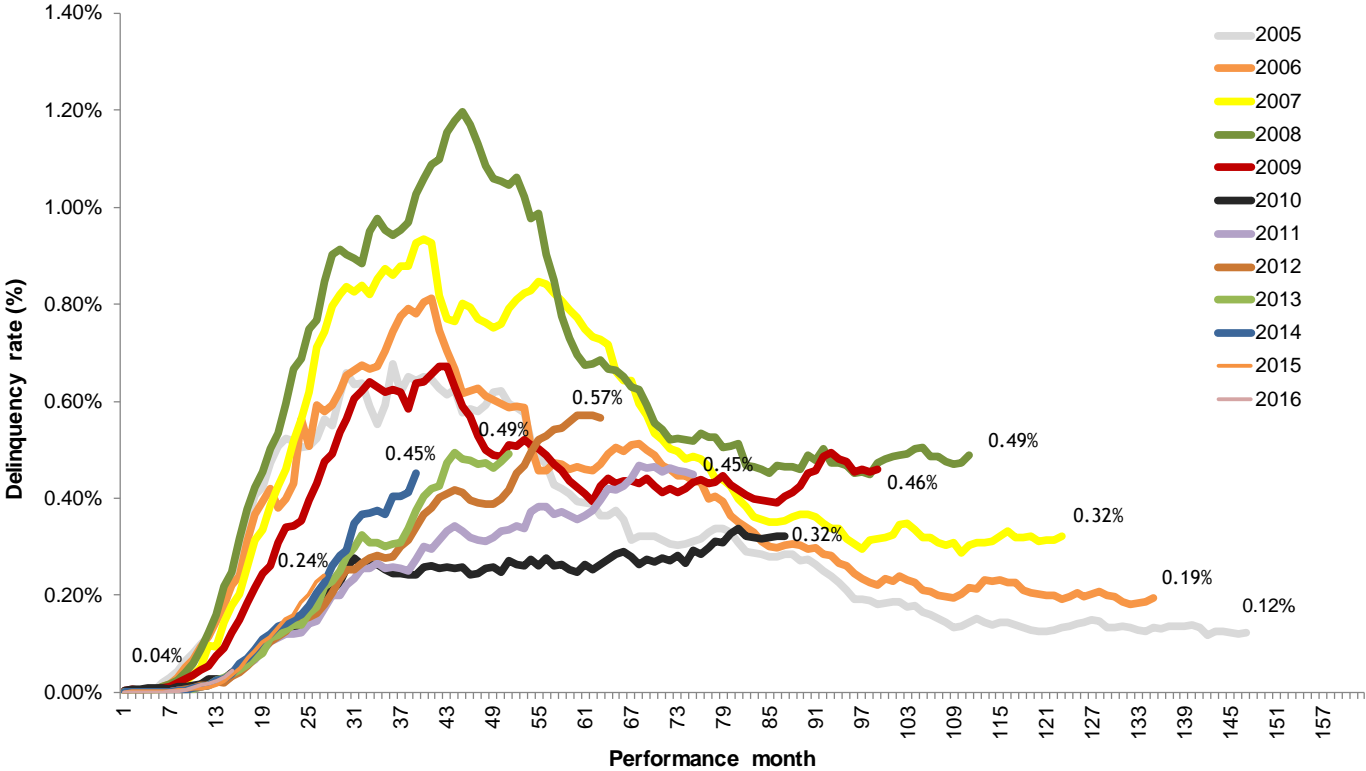
Delinquency roll	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17
Opening balance	4,953	5,378	5,900	5,804	5,552	5,889	6,413	6,844	6,731
New delinquencies	2,679	3,103	2,782	2,401	2,697	3,215	3,214	2,786	2,852
Cures	(1,974)	(2,293)	(2,553)	(2,362)	(2,080)	(2,405)	(2,462)	(2,587)	(2,301)
Paid claims	(280)	(288)	(325)	(291)	(280)	(286)	(321)	(312)	(356)
Closing delinquencies	5,378	5,900	5,804	5,552	5,889	6,413	6,844	6,731	6,926
Delinquency rate	0.36%	0.40%	0.39%	0.38%	0.40%	0.43%	0.47%	0.46%	0.48%
Average reserve per delinquency (\$'000)	45.0	43.1	47.4	49.9	49.2	48.8	50.2	52.8	52.1

Delinquencies by book year	Mar 16	Mar 17	
2007 and prior	2,055	2,080	0.31%
2008	880	875	1.07%
2009	795	929	0.95%
2010	419	436	0.60%
2011	391	457	0.69%
2012	520	682	0.79%
2013	475	594	0.66%
2014	295	583	0.58%
2015	59	250	0.28%
2016	-	40	0.05%
2017	-	-	0.00%
TOTAL	5,889	6,926	0.48%

Delinquencies by geography	Mar 16	Mar 17	
New South Wales	1,106	1,139	0.31%
Victoria	1,273	1,375	0.38%
Queensland	1,758	2,151	0.68%
Western Australia	870	1,267	0.78%
South Australia	543	660	0.66%
Australian Capital Territory	62	64	0.19%
Tasmania	188	174	0.36%
Northern Territory	33	66	0.42%
New Zealand	56	30	0.07%
	5,889	6,926	0.48%

Delinquency development

Favourable performance post 2009



- The 2008 Book Year was affected by the economic downturn experienced across Australia and heightened stress experienced among self-employed borrowers, particularly in Queensland, which was exacerbated by the floods in 2011.
- Post-GFC book years seasoning at lower levels as a result of credit tightening however accelerated increases for 2012-14 books have been predominantly driven by regional parts of QLD and WA which are currently facing challenges as a result of the downturn in the mining sector.

Balance sheet and unearned premium reserve

Strong balance sheet with \$3.5bn in cash and investments and \$1.1bn in UPR

Balance sheet as at 31 March 2017

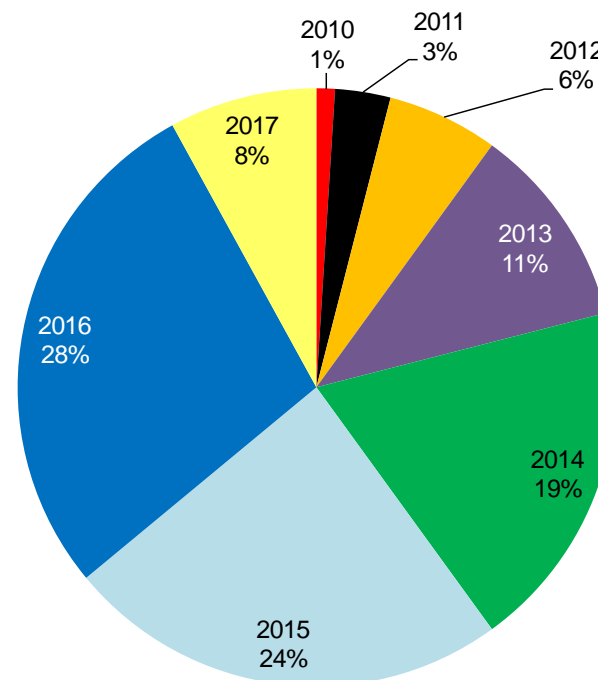
(A\$ in millions)	31 Dec 16	31 Mar 17
Assets		
Cash and cash equivalents	57.6	29.0
Accrued investment income	28.8	24.0
Investments	3,465.0	3,441.0
Deferred reinsurance expense	80.2	196.2
Non-reinsurance recoveries	34.4	34.8
Deferred acquisition costs	142.0	142.3
Deferred tax assets	10.0	10.4
Goodwill and Intangibles	11.1	11.0
Other assets ¹	4.4	4.9
Total assets	3,833.4	3,893.7
Liabilities		
Payables ²	130.3	241.4
Outstanding claims	355.5	360.5
Unearned premiums	1,177.8	1,141.1
Interest bearing liabilities	196.0	196.2
Employee provisions	6.4	6.5
Total liabilities	1,866.0	1,945.8
Net assets	1,967.4	1,948.0

Note: Totals may not sum due to rounding.

1. Includes trade receivables, prepayments and plant and equipment.
2. Includes reinsurance payables.

Unearned premium by year as at 31 March 2017

Total UPR \$1.1bn



Income statement reconciliation

Reconciling to the US GAAP figures reported by Genworth Financial, Inc.

Walk from US GAAP AUS segment results to AIFRS Genworth Consolidated Income Statement for period ended 31 Mar 2017	Quarterly supplement	Less non-controlling interest	Quarterly supplement	AUD equivalent quarterly supplement	Adjustments						Total adjustments	Genworth group
					(a)	(b)	(c)	(d)	(e)	(f)		
	US\$M	US\$M	US\$M	A\$M	A\$M	A\$M	A\$M	A\$M	A\$M	A\$M	A\$M	A\$M
Premiums	81		81	108						0	0	108
Interest Income	21		21	27	0						0	28
Realised investment gains/losses	20		20	27			3				3	30
Unrealised gains/losses	-		-	-			(23)				(23)	(23)
Other income	(0)		(0)	(0)							0	0
Total revenue	122	0	122	162	0	0	(20)	0		0	(20)	142
Net claims incurred	28		28	37				1			1	38
Other underwriting expenses	23		23	30	(4)	(10)			(3)	(0)	(17)	13
Amortization of Intangibles	0		0	0							0	0
Acquisition costs (DAC amortisation)	4		4	5		9					9	14
Interest expenses/ financing related costs	2		2	3	(0)					0	(0)	3
Total expenses	57	0	57	76	(4)	(1)	0	1	(3)	(0)	(8)	69
Total pre-tax income	65	0	65	87	4	1	(20)	(1)	3	0	(12)	75
Total tax expense	22		22	29	(2)	0	(6)	(0)	1	0	(7)	22
Net income	43	0	43	57	6	1	(14)	(0)	2	0	(5)	52
Less: net income attributable to non-controlling interests	23	(23)	0	0							0	0
Net income available to Genworth common stockholders	20	23	43	57	6	1	(14)	(0)	2	0	(5)	52

Note: Totals may not sum due to rounding.

- Investment Income and FX measurement adjustment for U.S. entities outside Genworth Group but included as part of USGAAP Aus Segment results, Corporate Overhead allocation and U.S. shareholder tax impact.
- Differing treatment of DAC, with AIFRS seeing a higher level of deferral and amortisation.
- Under AIFRS unrealised gains/(losses) on investments are recognised in the income statement.
- AIFRS requires reserves to be held with a risk margin and an adjustment to the level of reserves for the non-reinsurance recoveries.
- Differing treatment of amortisation of mutually beneficial initiatives.
- Additional local share based payments and other miscellaneous expense differences.