

Genworth Australia Third Quarter 2015 Earnings

Steady 3Q result and FY15 guidance reaffirmed
\$150 million on-market share buy-back announced

(SYDNEY) 30 October 2015 – Genworth Mortgage Insurance Australia Limited (ASX: GMA) reported statutory¹ net profit after tax (NPAT) of \$65.5 million and Underlying² NPAT of \$58.7 million for the quarter ended 30 September 2015.

Georgette Nicholas, Acting Chief Executive Officer of GMA, said, “The business performed in line with our expectations in the third quarter and we are on track to achieve our full year 2015 guidance. Our financial results demonstrate our resilience and strength in the face of a dynamic economy and mortgage market.

The Group continues to actively manage its capital position to ensure an efficient capital structure and delivered improved returns to shareholders. As part of our ongoing capital management strategy, I am pleased to announce our intention to commence an on-market share buy-back for shares up to a maximum aggregate amount of \$150 million.”

The following table details the key financial performance measures for the third quarter 2015 and year-to-date performance.

	Financial performance measures (A\$ million)					
	Quarterly			Year to Date (as at 30 Sep)		
	3Q14	3Q15	Change	2014	2015	Change
New Insurance Written (A\$bn)	9.8	8.5	(13.3%)	27.0	26.2	(3.0%)
Gross Written Premium	157.5	124.7	(20.8%)	471.1	410.0	(13.0%)
Net Earned Premium	112.0	123.9	10.6%	330.3	349.6	5.8%
Reported NPAT	64.0	65.5	2.3%	215.4	178.5	(17.1%)
Underlying NPAT	70.2	58.7	(16.4%)	203.3	191.6	(5.7%)
Reported loss ratio	21.4%	33.5%	12.1%	20.3%	26.1%	5.8%
Normalised loss ratio ³	21.4%	26.0%	4.6%	20.3%	26.2%	5.9%
Total portfolio delinquencies	5,300	5,804	504	5,300	5,804	504
Portfolio delinquency rate	0.36%	0.39%	0.03%	0.36%	0.39%	0.03%

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)).

² Underlying NPAT excludes the after tax impact of unrealised gains/(losses) on the investment portfolio. See Note 1 of this release for a reconciliation of the pro forma NPAT and Underlying pro forma NPAT for the three months ended 30 Sep 2015.

³ See Note 2 of this release for a reconciliation of the reported and normalised loss ratios.

Financial Performance for 3Q15

New business volume, as measured by New Insurance Written (NIW), of \$8.5 billion in 3Q15, decreased 13.3 per cent compared with the previous corresponding period (pcp). Year-to-date NIW of \$26.2 billion is down 3.0 per cent on the pcp.

Gross Written Premium (GWP) decreased 20.8 per cent to \$124.7 million in 3Q15. Year-to-date GWP is 13.0 per cent lower than the pcp.

During the quarter, the Company completed a data enhancement project in order to refine its assessment of risk emergence and to better inform both reserving practices and premium earning patterns. This analysis has had minor implications for both Net Earned Premium (NEP), as well as the level of reserves held for Incurred But Not Reported (IBNR) claims.

Firstly, NEP increased 10.6 per cent to \$123.9 million in 3Q15 and included an \$11.2m benefit of an actuarial revision to the premium earning pattern stemming from the data enhancement project. Year-to-date NEP is up 5.8 per cent on the pcp.

Secondly, the reported loss ratio for the quarter of 33.5 per cent was negatively impacted by a \$12.2 million increase to the IBNR component of the outstanding claims reserve.

The normalised loss ratio, excluding this IBNR adjustment, rose to 26.0 per cent in 3Q15 from 21.4 per cent in the pcp, reflecting an increased number of delinquent loans relative to a year ago. Year-to-date the normalised loss ratio is 26.2 per cent, up from 20.3 per cent in the pcp.

The overall portfolio is generally performing in line with expectations, with New South Wales and Victoria performing strongly.

The delinquency rate in the portfolio improved sequentially in 3Q versus the prior quarter. This is in line with a typical seasonal improvement in delinquencies in the third quarter of each calendar year. The decline in delinquencies was particularly noticeable in Queensland and Western Australia.

The normalised expense ratio in 3Q15 was 26.6 per cent compared with 26.3 per cent in the pcp. GMA continues to manage the business with a target expense ratio of 26-28 per cent in the future.

Investment income of \$50.4 million in 3Q15 included a pre-tax mark-to-market gain of \$9.8 million. As at 30 September 2015, the value of GMA's investment portfolio was \$4.1 billion, all of which continues to be held in cash and highly rated fixed interest securities. During the quarter, the Group made the decision to invest up to \$200 million in Australian equities. Investment in this asset class is expected to commence in 4Q15.

After adjusting for the mark-to-market movements, the 2015 year-to-date investment return was 3.70 per cent per annum, down from 4.03 per cent in the pcp.

Capital optimisation initiatives

The Company announced its intention to commence an on-market share buy-back program for shares up to a maximum aggregate amount of \$150 million.

Based on GMA's closing share price of \$2.65 on 29 October 2015, this would represent 8.7 per cent of GMA's issued share capital or around 56.6 million ordinary shares. The total number of shares to be purchased by GMA under the program will depend on business and market conditions, the prevailing share price, market volumes and other considerations.

The proposed on-market share buy-back program is a continuation of the capital management actions that are designed to bring GMA's solvency ratio more in line with the Board's target capital range of 1.32 to 1.44 times the Prescribed Capital Amount (PCA) on a Level 2 basis. GMA has received the necessary regulatory approvals and consent from its majority shareholder, Genworth Financial, Inc. (Genworth Financial), under the arrangements entered into as part of GMA's IPO, to commence the on-market share buy-back.

GMA's regulatory solvency ratio of 1.67 times continues to be above the Board's target capital range of 1.32 to 1.44 times the PCA.

GMA is continuing to evaluate further capital management initiatives that could be implemented in 1H 2016, which would be subject to necessary regulatory and shareholder approvals. Additionally, GMA continues to investigate opportunities with its reinsurance counterparties to adjust its reinsurance program to further support the capital objectives of the business.

2015 Outlook

The low interest rate environment continues to support generally strong housing market conditions. Unemployment is largely unchanged over the past 12 months at 6.2 per cent, despite below trend GDP growth.

GMA reaffirms its full year 2015 guidance. 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. Guidance is subject to business conditions and unforeseen economic events.

Conference Call

A conference call for analysts, institutional investors and media will be held today at 11.00am (Sydney time) to discuss these results. Details of the conference call dial-in numbers are as follows:

Conference name: Genworth Australia Third Quarter 2015 Earnings Release

Conference ID: 6318 4357

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

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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), 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. Genworth Financial, Inc's current ownership interest in GMA is approximately 52% of the issued shares in GMA.

NOTE 1: Reconciliation of statutory NPAT to Underlying NPAT for the three months ended 30 Sep 2015

Reconciliation of Statutory NPAT to Underlying NPAT for the three months ended 30 Sep 2015 (A\$ million)	
	30 Sep 15
Statutory NPAT for the three months to 30 Sep 15	65.5
Adjustment for change in unrealised (gains)/losses	9.8
Adjustment for tax on change in unrealised (gains)/losses	3.0
Underlying NPAT for the three months to 30 Sep 15	58.7

NOTE 2: Reconciliation of Reported to Normalised Loss Ratio

Reconciliation of Reported to Normalised Loss Ratio (A\$ million)								
	Q1'14	Q2'14	Q3'14	Q1'15	Q2'15	Q3'15	YTD'14	YTD'15
Reported Net Earned Premium	108.2	110.1	112.0	110.8	114.9	123.9	330.3	349.6
Reported net claims incurred	17.3	25.6	24.0	18.4	31.5	41.5	66.9	91.4
Reported loss ratio	15.9%	23.2%	21.4%	16.6%	27.4%	33.5%	20.3%	26.1%
NEP earnings curve adjustment	-	-	-	-	-	(11.2)	-	(11.2)
Adjusted NEP	108.2	110.1	112.0	110.8	114.9	112.7	330.3	338.4
Borrower recovery accrual	-	-	-	9.6	-	-	-	9.6
IBNR adjustment	-	-	-	-	-	(12.2)	-	(12.2)
Normalised net claims incurred	17.3	25.6	24.0	28.0	31.5	29.3	66.9	88.8
Normalised loss ratio	15.9%	23.2%	21.4%	25.3%	27.4%	26.0%	20.3%	26.2%