

## Genworth Australia delivers solid Full Year 2015 Earnings 2015 performance metrics ahead of guidance

- **Reported NPAT of \$228.0 million – down 29.7 per cent on the pcp due to mark-to-market losses;<sup>1</sup>**
- **Underlying NPAT of \$264.7 million – down 5.3 per cent on the pcp;<sup>2</sup>**
- **Fully franked final ordinary dividend of 14.0 cents per share represents an increased payout ratio;**
- **Fully franked special dividend of 5.3 cents per share as part of capital management initiatives;**
- **2016 guidance metrics:**
  - **Net Earned Premium expected to decline by as much as 5 per cent,**
  - **Full year loss ratio expected to be between 25 per cent and 35 per cent**
  - **Ordinary dividend payout ratio in the range of 50 per cent to 80 per cent;**

**(SYDNEY) 5 February 2016** – Genworth Mortgage Insurance Australia Limited (GMA) reported statutory net profit after tax (NPAT) of \$228.0 million for the full year ended 31 December 2015, a 29.7 per cent decrease on the previous corresponding period (pcp). Underlying NPAT for the year of \$264.7 million declined 5.3 per cent on the pcp.

The GMA Board declared a fully franked final ordinary dividend of 14.0 cents per share and a fully franked special dividend of 5.3 cents per share, both payable on 4 March 2016 to shareholders registered on 19 February 2016. The ordinary dividend represents a payout ratio of 63.2 per cent, up from 57.7 per cent in the pcp and 61.2 per cent in 1H15.

Georgette Nicholas, Chief Executive Officer of GMA, said, “The full year 2015 financial results demonstrate the resilience of our business model in the face of a dynamic economic environment and mortgage market.

“High loan-to-value ratio lending as a proportion of total mortgage originations has reduced recently in response to tightened lender risk appetite. We expect this to lead to a lower level of new insurance written in 2016. Yet, this business is expected to be lower risk and less capital-intensive. Our focus is on maintaining our risk discipline in this changing market.

“Our strategic priority remains delivering long-term value to all shareholders. We expect to continue to evaluate a range of capital management initiatives in 2016 and continue our ongoing journey of right-sizing our capital base at a level which balances our objectives of long-term shareholder returns and flexibility to grow the business in the future.

“Genworth remains committed to playing a vital role in supporting the home ownership aspirations of Australian families. We do this by mitigating risk for our lender customers and thereby helping creditworthy borrowers to purchase a property sooner and with a smaller deposit.”

<sup>1</sup> Except where otherwise stated, all figures relate to the full year ended 31 December 2015. The terms “previous corresponding period” and “prior period” refer to the full 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.

<sup>2</sup> 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 FY15.

<b>Financial summary (A\$ million)</b>	<b>Full Year</b>		
	<b>2014</b>	<b>2015</b>	<b>vs. pcp</b>
Total New Insurance Written (\$ billions)	36.2	32.6	(9.9%)
Gross Written Premium	634.2	507.6	(20.0%)
Net Earned Premium	445.8	469.9	5.4%
Reported NPAT	324.1	228.0	(29.7%)
Underlying NPAT	279.4	264.7	(5.3%)
Loss ratio	19.0%	24.0%	5.0%
Total portfolio delinquencies	4,953	5,552	599
Portfolio delinquency rate	0.33%	0.38%	5 bps
Return on Equity (ROE)	13.8%	9.7%	(410 bps)
Underlying ROE	12.2%	11.6%	(60 bps)
Total Ordinary Dividends per share	15.9 cents	26.5 cents	66.7%
Total Special Dividends per share	11.5 cents	23.8 cents	107.0%

## **Detailed Discussion of Financial Performance for FY15**

### ***Sales and Revenue***

New business volume, as measured by New Insurance Written (NIW), declined 9.9 per cent over the pcp from \$36.2 billion to \$32.6 billion. 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 1.65 per cent from 1.82 per cent in the pcp.

Gross Written Premium (GWP) decreased 20.0 per cent to \$507.6 million in FY15. The decline in GWP is consistent with the broader industry trend of a reduction in the proportion of mortgage originations above 90 per cent LVR. The result also reflects changes in the customer portfolio during the year.

Net Earned Premium (NEP) increased 5.4 per cent to \$469.9 million in FY15. NEP for FY15 is slightly ahead of guidance for the full year of up to 5 per cent increase over the pcp.

In December 2015, the Group announced an increase in premium rates that will come into effect on 1 March 2016. The premium rate changes are designed to maintain appropriate risk-adjusted returns for the business.

### ***Net Incurred Claims***

The loss ratio rose to 24.0 per cent in FY15 from 19.0 per cent in the pcp. The FY15 loss ratio was better than management's expectation of between 25.0-30.0 per cent. The increase from the prior year largely reflects the high number of borrower sales and low number of loan arrears converting to claim in FY14. Regionally, New South Wales and Victoria continue to perform well. Economic conditions in Queensland and Western Australia have not been as strong, however, these states showed modest signs of improvement in the final quarter of 2015. The Group will continue to monitor closely the performance of these regions.

### ***Expenses***

The expense ratio in FY15 declined to 26.2 per cent versus 26.5 per cent in the pcp. During the year, GMA implemented various expense reduction actions. Management continues to target an expense ratio of 26 – 28 per cent in the future and will continue to proactively manage expenses to achieve this outcome.

### ***Investment Income***

As at 31 December 2015, GMA had a \$4.0 billion investment portfolio of cash and highly rated fixed interest securities. Investment income of \$107.9 million in FY15 included a pre-tax unrealised mark-to-market loss of \$52.4 million. After adjusting for the mark-to-market movements, the investment return for FY15 was 3.69 per cent per annum, down from 4.03 per cent in the pcp, reflecting the lower interest rate environment.

### ***Capital and Reinsurance***

GMA maintains a sound balance sheet with \$2.22 billion in net assets and has \$1.32 billion of unearned premium reserves providing a high level of revenue visibility.

The favourable business performance, coupled with a lower LVR mix of new business, has contributed to an improved capital position with the Group reporting a regulatory solvency ratio of 1.59 times the Prescribed Capital Amount (PCA) on a Level 2 basis as at 31 December 2015. GMA's regulatory solvency ratio continues to be above the Board's target capital range of 1.32 to 1.44 times the PCA.

During the year, the Group undertook a number of capital management actions as part of the ongoing strategy to optimise the capital position. These included the issuance of \$200 million Tier 2 securities, fully franked special dividends, a \$150 million on-market share buy-back and a restructuring of the reinsurance program.

In 4Q15, the Group completed an on-market share buy-back program. Under the program, 54.6 million shares were bought back and cancelled for a total consideration of \$150 million. As at 10 December 2015, the total shares on issue were 595.4 million.

GMA's level of qualifying reinsurance increased to \$950 million as at 1 January 2016 from \$875 million as at 31 December 2015. On a pro forma basis as at 1 January 2016 (net of new reinsurance program and payment of ordinary and special dividends due in March 2016), GMA's regulatory solvency ratio would be 1.59 times the PCA.

The Board declared a fully franked final ordinary dividend of 14.0 cents per share and a fully franked special dividend of 5.3 cents per share payable on 4 March 2016. The final ordinary dividend represents a payout ratio of 63.2 per cent of the 2H15 Underlying NPAT.

The Group is continuing to evaluate further capital management initiatives that could be implemented in 2016 which would be subject to necessary regulatory and shareholder approvals.

### **2016 outlook**

GMA continues to focus on the strategic needs of our customers, especially during this period of heightened regulatory focus on the Australian mortgage market and lending standards.

The outlook for the Australian residential mortgage market remains strong, supported by sound fundamentals including low unemployment, record-low interest rates and a continued focus by regulators on lending standards. GMA expects house price appreciation to moderate in 2016.

The high LVR market continues to be constrained in 2016 and GMA expects GWP to decline by approximately 20 per cent due to these market conditions.

GMA expects 2016 NEP to decline by approximately 5 per cent and for the full year loss ratio to be between 25.0 and 35.0 per cent. The Board will target an ordinary dividend payout ratio range of 50 to 80 per cent.

The full year outlook is subject to market conditions and unforeseen circumstances or economic events.

## **Results Briefing and Conference Call Details**

A results briefing for analysts, institutional investors and media will be held at Level 2, Museum of Sydney, corner of Bridge and Phillip Streets, at 10.30am today.

This briefing will be accessible via teleconference and will be webcast through the company's website <http://investor.genworth.com.au/Investor-Centre>.

A replay of the webcast will also be made available following the briefing on the company's website.

Details of the conference call dial-in numbers are as follows:

### **Conference name: Genworth Australia Full Year 2015 Financial Results**

**Conference ID: 2560 2242**

#### **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

## **2016 Annual General Meeting**

GMA advises that, in accordance with ASX Listing Rule 3.13.1, its Annual General Meeting will be held at 11.00am (Sydney time) on Thursday, 5 May 2016 at The Mint, 10 Macquarie St, Sydney NSW 2000. A Notice of Meeting will be lodged with the ASX closer to the date.

For more information:

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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% of the issued shares in GMA.