ASX Release
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Genworth

Genworth Australia Third Quarter 2014 Earnings

Strong loss performance and solid capital position offset by mix impacts on new business

(SYDNEY) 6 November, 2014 – Genworth Mortgage Insurance Australia Limited (GMA) has reported a statutory[1] net profit after tax (NPAT) of $64.0 million and an Underlying NPAT[3] of $70.2 million for the quarter ended 30 September 2014. This result compares favourably to a pro forma NPAT of $56.2 million for the prior corresponding period (pcp) and is an increase of 20.0 percent on a pro forma[2] Underlying NPAT basis.

On an equivalent basis to the financial information contained in the Prospectus, the pro forma[2] Underlying NPAT[3] for the year to 30 September 2014 is $203.3 million, which is an 32.8 percent increase compared to the same period in 2013.

The following table details the key financial performance measures for the third quarter 2014 and year to date performance.

Pro forma[2] financial performance measures (A$ million)

	Quarterly			Year to Date (as at 30 Sep)		
	3Q13	**3Q14**	**Change**	**2013**	**2014**	**Change**
New Insurance Written (A$bn)	8.8	9.8	11.4%	25.8	27.0	4.7%
Gross Written Premium	149.6	157.5	5.3%	422.7	471.2	11.5%
Net Earned Premium	102.3	112.0	9.5%	294.5	330.4	12.2%
Pro forma NPAT	56.2	64.0	13.9%	121.9	215.4	76.7%
Underlying pro forma NPAT	58.5	70.2	20.0%	153.1	203.3	32.8%
Claims ratio	27.4%	21.4%	(6.0 pts)	37.1%	20.2%	(16.9 pts)
Total portfolio delinquencies	5,454	5,300	(154)	5,454	5,300	(154)
Portfolio delinquency rate	0.37%	0.36%	(1 pt)	0.37%	0.36%	(0.01 pts)

Throughout the third quarter, the continuation of stable economic conditions, low interest rates and the solid fundamentals of the Australian housing market have supported improvements in the GMA performance when compared to the same period in 2013.

The loss performance in the third quarter has been characterized by an ongoing lower volume of loan arrears converting to claim resulting in a significant decline in the number of claims at 350 for 3Q14, compared to 510 in the pcp, and a continuation of the overall lower average claim amount that was observed in the first half driven by continued home price appreciation and higher than expected levels of borrower sales.

The claims ratio of 21.4 percent for the quarter has improved 6.0 percentage points over pcp, and the year to date (YTD) claims ratio of 20.2 percent is 16.9 percentage points lower when compared to the same period in 2013.

[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] The pro forma results have been prepared on the same basis as the financial information (including financial forecasts) 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.

[3] 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 2014.

New business volumes have been relatively stable with 3Q14 New Insurance Written (NIW) of $9.8 billion including a portfolio (or 'bulk') Lenders Mortgage Insurance (LMI) transaction for $1.1 billion.

Gross Written Premium (GWP) of $157.5 million for Q314 is 5.3 percent higher than the pcp, and is up 11.5 percent YTD, reflecting both increased volume and a 5.8 percent increase in average premium rate when compared to the same period in 2013.

The average premium rate of 1.82 percentage points has not increased to the level anticipated as the business continues to experience a lower average Loan to Value Ratio (LVR) mix in the NIW as a consequence of a greater than expected volume of sub 80% LVR business being written in the year to date.

During the 3Q14, a number of contractual discussions with some lender customers were concluded, including discussions regarding the inwards reinsurance business that GMA writes. As a consequence of these discussions GMA has extended one existing contract for a further two years and has amended one contract of another lender customer such that they will no longer maintain a risk retention program for new mortgage originations.

In respect to the inwards reinsurance treaty, which represents less than 2% of GWP, GMA was unsuccessful in being considered for participation in any new arrangement, and consequently, new inward reinsurance business under this treaty has ceased with effect from 30 September 2014.

The net impact on NIW and GWP of these contractual changes is expected to be minimal in 2014 and marginally positive in future years.

GMA continues to operate from a sound capital and balance sheet position with $1.3 billion of unearned premium reserves providing a high level of revenue visibility. The company has maintained a solid capital position with a regulatory solvency ratio of 156.4 percent of the Prescribed Capital Amount (PCA) on a Level 2 basis[4] as at 30 September 2014.

In 3Q14 GMA completed the commercial negotiation, and has subsequently renewed an existing $125 million Excess of Loss (XOL) reinsurance treaty which expired on 29 October 2014. GMA has successfully negotiated a reduction in the rate on line of 100bps representing as anticipated $1.25M per annum saving.

Investment income of $32.3 million for the 3Q14 included a pre-tax mark to market unrealised loss $8.9 million. The YTD investment income of $136.3 million reflects the YTD pre-tax mark to market unrealised gain of $17.2 million. As at 30 September 2014 the value of GMA's investment portfolio has increased to $4.0 billion, all of which continues to be held in cash and highly rated fixed interest securities.

Regulatory Update

Throughout the third quarter there have been a number of key developments in the regulatory landscape including the final submissions to the Financial System Inquiry (FSI) and the release of the semi-annual Financial Stability Report (FSR) by the Reserve Bank of Australia (RBA).

As a fundamental facilitator of home ownership in Australia since 1965, and as a key contributor to the stability of the Australian financial system, GMA has made a second submission to the FSI that contained a number of policy recommendations designed to promote both competition and financial stability in the residential mortgage market. These suggestions included but were not limited to the recognition for LMI in Advance Internal Ratings Based (AIRB) bank models, and an increased capital requirement for high LVR loans for AIRB banks.

In addition to the FSI, GMA also notes the comments of the RBA in its recent FSR that the low interest rate environment and, more recently, strong price competition among lenders have translated into the composition of housing and mortgage market becoming unbalanced, and that in conjunction with APRA,

[4] Level 2 solvency ratio is only required to be calculated and submitted to APRA on a semi-annual basis. Quarterly estimates have not been audited.

and other members of the Council of Financial Regulators, they are considering additional steps that might be taken to reinforce sound lending practices, particularly for lending to investors.

In response, GMA concurs with the RBA that there is currently little evidence of lending standards deteriorating. GMA continues to work with its Lender customers to support sound lending practices across the industry and in so doing promote the ongoing stability of the mortgage market. GMA supports the recent supervisory actions of the regulator, including the sound lending practices set out in the final Prudential Practice Guide for housing lending (APG223) as the most practical and tangible approach to maintaining the stability of the mortgage market.

Full year 2014 Outlook

With nine months of the year complete, and based on the YTD performance of the company, GMA has further updated its financial forecasts as set out in the Prospectus and now anticipates:

- GWP between $640.0 million and $650.0 million which will represent an average premium rate of between 1.80 – 1.85 percent, driven by a lower than anticipated average LVR mix in the NIW;
- A full year claims ratio between 20.0 and 25.0 percent; and
- A full year Underlying NPAT in a range of between $250.0 million and $270.0 million.

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, is the leading provider of Lenders Mortgage Insurance (LMI) in the Australian residential mortgage market. Genworth Australia has been part of the Australian residential mortgage lending market for almost 50 years since Housing Loans Insurance Corporation (HLIC) was founded by the Australian Government in 1965 to provide LMI in Australia. Genworth Australia is currently a subsidiary of Genworth Financial, Inc. and part of the Genworth Financial Group. The Genworth Financial Group's current ownership interest in GMA is 66.2% of the issued shares in GMA.

NOTE 1: Reconciliation of pro forma NPAT to Underlying pro forma NPAT for the three months ended 30 Sep 2014

Reconciliation of pro forma to Underlying pro forma NPAT for the three months ended 30 Sep 2014 (A$ million)	
	30 Sep 14
Pro forma NPAT the three months to 30 Sep 14	64.0
Adjustment for change in unrealised (gains)/losses	8.9
Adjustment for tax on change in unrealised (gains)/losses	(2.6)
Pro forma Underlying NPAT for the three months to 30 Sep 14	**70.2**