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Australia

Genworth

2018 Annual General Meeting
CEO's Address

(SYDNEY) 10 May 2018 – Thank you Ian. Good morning ladies and gentlemen.

Genworth is a business that is focused on the strategic needs of its customers. Our business is operating in a competitive and dynamic market where expectations of consumers and lenders are changing as technology develops and information becomes more available. Added to this, risk appetites and regulatory capital requirements continue to evolve, resulting in lenders regularly evaluating a range of solutions, both old and new.

STRATEGIC PROGRAM OF WORK

To enable us to effectively compete in this environment, we are undertaking a strategic program of work designed to redefine our core business model and position Genworth as a leading provider of customer-focused capital and risk management solutions (Strategic Program of Work).

Our Strategic Program of Work is divided into two stages. The first stage relates to initiatives ear-marked for implementation over the next two years. The second stage involves longer term initiatives which we will implement from 2019 onwards, building on our core capabilities.

During the year we made considerable progress in implementing initiatives related to the first stage of work. These initiatives have focused on enhancing our product offerings, improving our underwriting and operating efficiency and leveraging our data and partnerships along the mortgage value chain.

One such initiative has involved the establishment of an offshore insurance entity based in Bermuda. This entity provides us with the capability to structure bespoke risk management solutions for portfolio cover across both high and low loan-to-value ratio loans. In the first quarter of this year we entered into our first agreement with a customer to provide a bespoke solution to manage mortgage default risk via our Bermudan entity and along with a consortium of global reinsurers.

Another initiative we have implemented is the creation of a risk management solution on a micro-markets basis (Micro Markets LMI).

We have also entered into an agreement to provide excess of loss cover with a customer whose traditional LMI contract expired in April 2017.

All of these initiatives demonstrate our ability to broaden our suite of customer focused capital and risk management solutions in ways that are complementary to our traditional LMI product, by leveraging:

- our extensive local experience in managing mortgage credit default risk;
- our global expertise; and
- our strong relationships with international risk and capital markets.

Given the market, lenders are looking for opportunities to grow their business. We have been working proactively, and will continue over the course of 2018, to work with our customers to help identify areas of growth. Our strategic program of work is designed to identify and capitalise on such opportunities. We will also actively pursue new traditional LMI agreements that meet our risk and return appetite.

Financial Performance

2017

Turning now to our financial performance in 2017. We reported underlying Net Profit After Tax (NPAT) (excluding mark-to-market movements in the investment portfolio) of $171.1 million, down 19.4% in 2017 compared to 2016.

Market dynamics continued to be challenging during the year with high loan-to-value lending at approximately 21% of market originations. In these conditions, New Insurance Written (NIW) declined 10.2% to $23.9 billion and Gross Written Premium (GWP) was down 3.4% at $369.0 million. This decline reflected changes in our customer portfolio, changes in our business mix and the impact of the premium rate actions we took in 2016.

Total revenue, as measured by Net Earned Premium (NEP) fell 18.2% to $370.5 million in 2017. Our NEP result was impacted by our annual premium earning pattern review which took effect from 1 October 2017 (2017 Earnings Curve Review). Excluding the $37.3 million impact of the 2017 Earnings Curve Review our NEP would have declined 10.0%.

It is important to note that our 2017 Earnings Curve Review does not affect the total amount of revenue expected to be earned over time from premiums already written. It does however lengthen the period over which we recognise our revenue by approximately 12 months. We expect the main impact of the 2017 Earnings Curve Review to be felt in the 2018 financial year and to a lesser extent the 2019 financial year.

Our loss ratio in 2017 was 38.3%, up from 35.1% in 2016, again reflecting the impact of the 2017 Earnings Curve Review. Excluding this impact our 2017 loss ratio would have been 34.8%.

1Q18

Looking forward we expect 2018 to be a transitional year, impacted by the change in the earnings curve and the start of seeing some benefits from our Strategic Program of Work.

Underlying NPAT for the first quarter of 2018 was $19.9 million reflecting:

- the impact of our 2017 Earnings Curve Review;
- initiatives we have rolled-out pursuant to our Strategic Program of Work; and
- a mark-to-market loss on our equity portfolio.

Our 1Q17 underlying NPAT included a $20.8 million after tax realised gain resulting from a rebalancing of our investment portfolio.

Our GWP in 1Q18 was up 97.4% to $174.1 million. This included business written by our newly established Bermudan entity and our new Micro Markets LMI offering. We have retained $170.2 million of risk under our Bermudan transaction and placed the remainder with a consortium of global reinsurers. Net of the premium to the consortium of global reinsurers our GWP increased 26.5% as a result of this transaction.

The increase in GWP that our strategic initiatives have delivered demonstrate the opportunities that exist for us to grow our business by broadening our suite of capital and risk management solutions.

Our NEP in 1Q18 decreased 37.5% from $107.9 million in 1Q17 to $67.4 million. This reflects the $32.3 million impact of our 2017 earnings curve change and lower earned premium from current and prior book years. Excluding the earnings curve change impact, NEP would have declined 7.6%. Our unearned premium reserve as at 31 March 2018 was $1.2 billion.

Our loss ratio in the first quarter was 55.9% reflecting the impact of the earnings curve change. If you excluded the impact of the earnings curve change, the 1Q18 loss ratio would have been 37.8%.

We finished the quarter with a strong capital position at 1.84 times PCA, and after expiration of a reinsurance treaty on April 1, at approximately 1.70 times PCA.

Customer Base

In terms of our customer base, Genworth has commercial relationships with over 100 lender customers across Australia. We estimate we had approximately 25% of the Australian LMI market by NIW in 2017, with our top three customers accounting for approximately 60% of our total NIW and 73% of our GWP.

Capital Management

Since listing, a key focus for us has been ensuring we have an optimal capital structure – this continues to be a priority and an integral component of our Strategic Program of Work.

Our capital management philosophy has not changed. It is about ensuring that we have options available to us, and the capital flexibility to respond to a dynamic environment.

As noted by our Chairman, since our IPO in 2014 we have paid out all after tax profits to shareholders and returned more than $1 billion, or $2 per share, to shareholders via ordinary and special dividends and other capital management initiatives such as buybacks and capital reductions.

We are conscious of the fact that our regulatory solvency ratio is above the Board's target of 1.32 to 1.44 times the Prescribed Capital Amount (PCA) and have undertaken recent action and announced initiatives that will bring it closer to this target.

For example, at the start of this year our new reinsurance program took effect following a successful renewal and restructuring of our excess of loss reinsurance arrangements in the fourth quarter of 2018. As a result of this restructure, we have reduced our reinsurance purchased in 2018 compared to 2017 by $150 million to $800 million as of 1 April 2018. This new level reflects our reduced Probable Maximum Loss and our objective of maintaining an appropriate and flexible level of reinsurance under the APRA guidelines.

We will continue to evaluate our overall level of reinsurance coverage in light of our reducing Probable Maximum Loss keeping in mind that the board, in setting its target capital range, considers the level of reinsurance in various areas including:

- setting risk limits;
- stress testing;
- setting of buffers; and
- capital structures.

Another recent capital management initiative that we have announced is an on-market share buy-back up to a value of $100 million, subject to shareholder approval at today's AGM.

Looking ahead, we will continue to actively manage our capital position. Whilst our first port of call for capital will be to deploy it for profitable business opportunities, we will always assess and ensure that our capital appropriately balances our objectives of meeting policyholder obligations, having flexibility to grow the business in the future and delivering long-term shareholder returns.

Regulatory Environment

We are operating in an environment of increased scrutiny on financial service providers by both regulators and policymakers. A key focus is on upholding sound residential mortgage lending standards and ensuring appropriate capital requirements.

We are committed to continuing to work with our customers, regulators and policy leaders to promote a stronger and more sustainable housing market in Australia. We believe that we can make a valuable contribution in this regard through the risk and capital management solutions we provide and are leading efforts to educate various stakeholders about the importance of our offerings as loss absorption and capital strengthening tools.

For over 50 years Genworth has provided risk and capital tools to lenders that enable borrowers, in particular first homebuyers, to enter the Australian property market sooner and in a safe way. We are committed to continuing to support the Australian housing market not only in good times but also in periods of stress.

Corporate Social Responsibility

We believe that Genworth can make a meaningful contribution to the communities in which we operate. We make it a priority to contribute to causes that are aligned to our mission of supporting the dream of home ownership, by helping Australians get into their home sooner and keeping them there.

In 2017 Genworth donated $150,000 to its three community partners: St Vincent de Paul Society, The Forsight Foundation and Habitat for Humanity Australia. Genworth also continued its "Milestone Anniversary Donation" program throughout the year. Pursuant to this program our Company makes a $1,000 donation to a registered charity selected by an employee celebrating their 10,15 or 20-year anniversary with Genworth.

In addition to our corporate charitable donations we have also established a number of staff volunteering and donation programs for our employees. These include "Workplace Giving", "Make-a-Difference Day" and a new addition in 2017, "Employee Sponsored Donations". During the year more than 50% of our employees participated in volunteering programs with our community partners, contributing 780 hours to programs such as Habitat for Humanity's "Brush with Kindness", the Forsight Foundation's "Backyard Blitz" and programs run by St. Vincent de Paul for the homeless.

Diversity & Inclusion

Our commitment to corporate social responsibility extends to diversity and inclusion in the workplace. We recognise that people are at the heart of what we do and accordingly they should reflect the diversity of our customers and the communities we serve.

We value the contribution that people with different backgrounds, experience and perspectives bring to our organisation. This is reflected in our strong support of flexible and inclusive work practices. As mentioned by our Chairman we are delighted to report that earlier this year Genworth was awarded an Employer of Choice for Gender Equality citation for the third consecutive year by Workplace Gender Equality Agency (WGEA). I continue in my role as CEO to advocate for pay equality between men and women as a WGEA Pay Equity Ambassador.

Another achievement for our organisation was being recognised by Human Resources Director magazine as an employer of choice in the category of leadership. The Senior Leadership Team and other leaders across our business have invested significantly in their own leadership development and is helping to evolve the culture of our organisation.

Our leadership development focus has been on building a culture of transparency and strong accountability and making our organisation more adaptable to the dynamic environment in which we operate.

We will continue to focus on our ongoing corporate social responsibility in the year ahead.

Outlook

Turning now to the economic outlook for the year ahead. We have seen the Australian economy perform well and expect that to continue in 2018 given unemployment levels, low interest rates and strong infrastructure investment.

Labour market growth is expected to continue in 2018, although the lack of wage growth is a continued risk. Underemployment levels are still elevated and being watched.

Official cash rates are expected to remain on hold throughout most of the year with the possibility the RBA will start to raise rates in early 2019.

In terms of housing we expect housing price growth to ease further in 2018. The potential for additional regulatory measures tightening credit availability could impact overall credit growth.

The guidance we provided for 2018 remains unchanged. We have noted some signs of a softening in cure rates that emerged in 1Q18 and continue to monitor these potential developments.

Conclusion

To conclude my address today I would like to reiterate Genworth's commitment to supporting Australians in realising their dream of home ownership by being the partner of choice in the provision of capital and risk management solutions to mortgage lenders.

2018 will be a transitional year for our business.

We are making good progress in redefining our core business model. The increase in GWP that we reported in the first quarter of this year is indicative of the opportunities we have to grow our business by offering customers a broader suite of complementary capital and risk management solutions.

We remain committed to actively managing our capital position. Our Company is well capitalised, we have a solid balance sheet with net tangible assets of approximately $3.83 per share as at 31 March 2018. We have a good track record of delivering solid profits and attractive shareholder returns. This continues to be an integral part of our strategy going forward.

I would like to take this opportunity to thank the Chairman and my fellow Directors for their commitment to the Company and their ongoing support to management. I would also like to thank the Senior Leadership Team for their resilience and support. To all our people at Genworth, thank you for your dedication and commitment to our business. You continually focus on our customers and provide the solid foundation for our business to continue to build on long term. I look forward to leading the team in the coming year as we continue to execute on our strategic objectives.

To our customers and other partners, thank you for your ongoing support and I look forward to continuing these strong relationships. Finally, I would like to thank you our shareholders for your loyalty and investment in Genworth.

Thank you

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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.