ASX Release
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Australia

Genworth Mortgage Insurance Australia Limited
First Quarter 2020 (1Q20) Earnings and COVID-19 Impacts

Key Points:

- Strong performance over the first quarter (pre COVID-19): New insurance written (NIW) up 18.5% to $6.4 billion, loss ratio 47.1%, reflecting housing market recovery and low interest rates.
- Statutory net profit after tax (NPAT) in 1Q20: $125.6 million loss (1Q19: $47.8 million profit) and Underlying NPAT[1]: $103.2 million loss (1Q19: $22.3 million profit), due to COVID-19 impacts.
- 1Q20 result affected by an anticipated increase in future claims likely to occur from the economic impacts of COVID-19, that has led to a write-down of Deferred acquisition costs (DAC) of $181.8 million.
- Excluding COVID-19 impact, Underlying NPAT: $24.1 million (1Q19: $22.3 million).
- Net earned premium (NEP) increased 3.4% to $75.4 million (1Q19: $72.9 million), in line with seasoning of current and prior book years.
- Key customer three-year contract renewals.
- Strong liquidity and capital settings, with a solvency ratio of 1.78 times Prescribed Capital Amount (PCA), well above the Board's target capital range of 1.32 to 1.44 times on a Level 2 basis.
- Loss ratio 47.1% (1Q19: 55.3%) reflecting lower Net claims incurred due to the housing market recovery (pre COVID-19).
- Net tangible assets of $3.28 per share (1Q19: $4.00).

SYDNEY 6 May 2020 – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) today reported its first quarter financial results for the period ending 31 March 2020 (1Q20)[2].

Genworth Chief Executive Officer and Managing Director, Ms. Pauline Blight-Johnston said, "We are now operating in a new environment created by the COVID-19 pandemic and our priority is the well-being of our people, customers and the stakeholders we interact with. Genworth entered these uncertain times with a strong capital base and leading market position, and we are working closely with our lender customers to support their borrowers. The fundamentals of our business are solid, reflected in the first quarter performance prior to the impacts of COVID-19."

Genworth's business performed well during the quarter with higher volume growth in its core Lenders Mortgage Insurance (LMI) business and improved claims experience particularly in Western Australia and Queensland. Business volumes and claims benefited from ongoing recovery in housing markets and low interest rates, resulting in an 18.5% growth in New insurance written (NIW) and a Loss ratio of 47.1% (1Q19: 55.3%). Loss experience also benefited from favourable ageing of delinquencies due to rising house prices.

During the quarter, the COVID-19 pandemic created volatility in the global investment markets resulting in mark-to-market unrealised losses in Genworth's investment portfolio. Since the end of March, economic activity has significantly reduced, changing the outlook for future claims, which are now expected to increase towards the end of 2020. The extent of this increase in claims is very difficult to predict at the current time and will depend on the length and depth of the economic downturn in Australia, as well as the influence of government stimulus and lender initiatives.

[1] Underlying NPAT is based on Statutory NPAT but excludes the after tax effect of (a) mark-to-market losses of $20.3 million on the investment portfolio (1Q19: gain of $25.5 million); and (b) foreign exchange rates (net of hedge) on Genworth's investment portfolio (1Q20: $2.1 million loss; 1Q19: $Nil). The bulk of these foreign exchange exposures are hedged.
[2] The financial result of Genworth and its subsidiary companies (the Group) is prepared in accordance with the Australian Accounting Standards (AAS) adopted by the Australian Accounting Standards Board (AASB), which are consistent with those under the International Financial Reporting Standards (IFRS).

Genworth has made allowance in its 1Q20 financial results for its current central scenario estimate of the increase in future claims (including an appropriate risk margin), with a write-down of Deferred acquisition costs (DAC) of $181.8 million. A wide range of future claims outcomes is possible, and the ultimate impact may be materially greater or less than Genworth's current central scenario estimate.

After allowing for the DAC write-down, Genworth remains well capitalised with the Prescribed Capital Amount (PCA) ratio on a Level 2 basis at 1.78 times, comfortably above the Board's target range of 1.32 to 1.44 times.

1Q20 FINANCIAL PERFORMANCE

Quarterly financial performance measures (A$ million unless otherwise stated)

	1Q19	1Q20	Change
New insurance written[3]	5,393.5	6,391.0	18.5%
Gross written premium	86.3	114.1	32.2%
Net earned premium	72.9	75.4	3.4%
Statutory NPAT	47.8	(125.6)	(N.M.)[4]
Underlying NPAT	22.3	(103.2)	(N.M.)
Loss ratio (%)	55.3%	47.1%	(820bps)
Total portfolio delinquencies (#)	7,490	7,274	(2.9%)
Portfolio delinquency rate (%)	0.57%	0.57%	Nil bps

New insurance written (NIW) increased 18.5% to $6.4 billion in 1Q20 (1Q19: $5.4 billion) due to the housing market recovery over the last two quarters and low interest rates, attracting buyers back into the market.

Gross written premium (GWP) increased 32.2% to $114.1 million in 1Q20 (1Q19: $86.3 million) reflecting higher growth in lending across Genworth's lender customers as property prices increased in the major capital cities particularly Sydney and Melbourne.

Net earned premium (NEP) increased 3.4% to $75.4 million (1Q19: $72.9 million) from continued seasoning of prior book years and NIW momentum. Genworth's **Unearned premium** at 31 March 2020 was $1.3 billion.

Statutory NPAT of ($125.6) million loss includes the DAC write-down of $127.3 million (after tax) and $6.2 million after-tax investment income loss.

Underlying NPAT of ($103.2) million loss excludes the unrealised mark-to-market losses of $20.3 million (after tax) on the investment portfolio and the after-tax impact of foreign exchange rates (net of hedge) on Genworth's investment portfolio ($2.1 million loss). Excluding the effect of the DAC write-down, Underlying NPAT increased by 8.1% to $24.1 million (1Q19: $22.3 million).

The **Delinquency rate[5]** was unchanged at 0.57% compared to 1Q19 and increased by 1bp over 4Q19 (0.56%). **New delinquencies** were down 12.6% (1Q20: 2,326 versus 1Q19: 2,662) as mining regions improved during the first quarter.

[3] Excludes excess of loss insurance.
[4] N.M. - Not Meaningful (increases or decreases greater than 200%).
[5] Delinquency rate is the number of delinquencies divided by policies in force, excluding excess of loss insurance.

The number of **Paid claims** was up 4.4% to 333 (1Q19: 319) while the average amount paid per claim declined to $92,700 (1Q19: $94,200) largely reflecting the lower number of paid claims from mining regions. Total cures of 1,940, were down slightly on 1Q19 (1,998), with slightly lower cure rates in New South Wales, Victoria and Western Australia. Cure rates are typically lowest in 1Q before rising through the year.

Net claims incurred in 1Q20 was $35.5 million (1Q19: $40.3 million). The 1Q20 **Loss ratio** was 47.1% (1Q19: 55.3%). 1Q20 net claims incurred reflected a favourable ageing of delinquencies from both mining and non-mining regions.

The **Expense ratio** in 1Q20 of 34.5% (excluding the DAC write-down) slightly increased (1Q19:34.0%) reflecting higher acquisition costs, largely offset by higher NEP.

Investment income before tax in 1Q20 was an $8.9 million loss (1Q19: $63.1 million profit). Unrealised investment losses of $20.3 million after-tax reduced 1Q20 profit as investment markets reacted to the economic impacts of COVID-19 throughout March. Investment income on technical funds was $33.3 million (1Q19: $33.0 million), benefiting from lower interest rates producing gains on government and semi-government bonds. Net investment income on shareholder funds was a $42.2 million loss (1Q19: $30.1 million profit) predominantly due to widening credit spreads on the corporate bond portfolio, which have narrowed since 31 March 2020, and an $10.8 million unrealised loss on equities. Net interest and dividend income decreased to $14.9 million (1Q19: $21.8 million).

The 1Q20 annualised investment return[6] was 1.9% per annum (1Q19: 2.7% p.a.) and continued to be pressured by the low interest rate environment.

As at 31 March 2020, the value of Genworth's cash and investment portfolio was $3.1 billion, of which 83% is held in cash and fixed interest securities with a rating of 'A-' or better. The Company also had $72.0 million invested in equities. $633.4 million of the investment portfolio is invested in non-AUD income securities[7].

CHANGE IN OPERATING ENVIRONMENT DUE TO COVID-19

Since February 2020, there has been a significant change to Genworth's operating environment due to the economic disruption caused by COVID-19. The Federal and state governments and Reserve Bank of Australia have announced welcome and timely stimulus packages to support jobs and businesses through this period of economic uncertainty. Some state governments have started to loosen social distancing and travel restrictions, however reopening the economy depends upon successful and ongoing management of COVID-19 related health outcomes.

Genworth is regularly engaging with its lender customers to understand how they are responding to the current circumstances, and to ensure we are appropriately supporting borrowers and adapting new business processes to continue to prudently manage underwriting risk. Many lender customers have announced supportive initiatives and advised home loan repayment deferrals will not be treated as delinquent loans and not reported as arrears. Genworth has expanded its hardship policy to enable lenders to provide further support to borrowers due to COVID-19.

The government stimulus packages and lender initiatives will help to cushion the effect of COVID-19 on Genworth's claims experience. Genworth's ultimate COVID-19-related claims will depend on the pace of the ensuing economic recovery, that will influence loss experience following the lender home loan repayment deferrals.

[6] Investment return is net interest and dividend income / average of opening and closing total cash and investments for the period.
[7] The foreign exchange (FX) exposures of the non-AUD investments are hedged through forward FX derivative contracts.

PREMIUM LIABILITIES AND LIABILITY ADEQUACY TEST (LAT)

AASB1023 General Insurance Contracts requires that net insurance liabilities recognised on balance sheet are sufficient to pay all expected future claims from business already written (including an appropriate risk margin) and to cover the future amortisation of DAC, taking into account future premiums to be earned on the policies. This requirement is known as the Liability Adequacy Test (LAT). If the net insurance liabilities are not expected to be sufficient, then a LAT deficiency exists, requiring the DAC asset on balance sheet to be immediately written down to the extent of the deficiency. An unexpired risk liability will also be required where the LAT deficiency exceeds the DAC available to be written down.

Expected future claims are inherently uncertain, particularly in the current environment as the economic effects of COVID-19 are still emerging. Genworth has projected future claims from COVID-19 based on a range of possible economic scenarios and has adopted a central scenario estimate for the liability valuation incorporating a median view of economic forecasts. This includes unemployment reaching 8.2% (for our portfolio) and house price depreciation reaching 5.8% in 3Q20.

As unemployment is largely concentrated in demographics (such as casual employees) who have lower representation in home ownership, we have set the unemployment assumption for our portfolio approximately 1% below our expectation of aggregate unemployment to reflect the lower unemployment rate we expect to be attributable to our portfolio.

Under Genworth's central scenario estimate, expected future claims (including an appropriate risk margin) exceeded the net insurance liabilities, creating a LAT deficiency of $181.8 million. This relates to older book years, as newer book years have benefitted from higher pricing and tighter underwriting standards and are expected to remain profitable. This LAT deficiency resulted in the write-down of $181.8 million of the DAC asset as at 31 March 2020, which is a non-cash accounting item. As a result of the DAC write-down, future earnings will no longer be impacted by the amortisation expense of prior years' DAC (DAC amortisation – 1Q19: $11.0 million; FY19: $46.9 million).

STRONG CAPITAL POSITION, PROVIDING FLEXIBILITY TO RESPOND TO CHANGING CONDITIONS

Genworth remains in a well-capitalised position. The impacts of COVID-19 reduced Genworth's regulatory solvency ratio on a Level 2 basis from 1.90 times to 1.78 times at 31 March 2020, which is comfortably above the top end of the Board's target range of 1.32 to 1.44 times and represents surplus capital of $267 million. Genworth's capital position is within or above the Board's target range across all the future economic scenarios considered in the Company's scenario testing process, including those significantly worse than the central scenario estimate.

As at 31 March 2020, the Company had $800 million of excess of loss reinsurance cover with a well-diversified panel of over 20 reinsurers participating across the program with a minimum rating of 'A-'. The program was renewed on 1 January 2020 and provides a one-year cover with an option to extend to a full term (varying between 6-10 years depending on the layer).

Genworth's wholly owned subsidiary, Genworth Financial Mortgage Insurance Pty Limited (GFMI), has $200 million of Tier 2 subordinated notes that were issued in July 2015 and have a first call date of 3 July 2020, with additional call dates at each subsequent quarterly coupon date. Genworth has APRA's approval, valid to 30 September 2020, to call the notes, subject to issuing the same amount of new Tier 2 debt. Genworth continues to monitor the market for an appropriate opportunity to issue new Tier 2 debt and if it is unable to call the notes, it will continue to receive full Regulatory Capital credit for these notes until 2 July 2021, subsequently reducing by 20% ($40m) annually until maturity on 3 July 2025.

Genworth's Board will make a decision regarding payment of an interim dividend at the time the Company releases its 1H20 results, when more information about the impacts of COVID-19 will be available. Any dividend would be subject to retaining a strong capital buffer and obtaining APRA approval for a reduction in the Company's capital base.

Ms. Blight-Johnston said, "Genworth's solvency ratio along with the flexibility we have built with our reinsurance programs, positions the business well in this COVID-19 environment. Given the current economic uncertainty and APRA guidance encouraging insurers to seriously consider deferring decisions on dividends and capital returns until the outlook is clearer, we believe it is sensible to preserve capital at this time to sustain our strong capital position."

CUSTOMER GROWTH ALIGNED WITH STRATEGY

Genworth has commercial relationships with over 100 lender customers across Australia, including major and regional banks, building societies, credit unions and non-bank mortgage originators.

In 2019 Genworth announced that its major customer, Commonwealth Bank of Australia, renewed its Supply and Service Contract for a further three years, effective 1 January 2020. During 1Q20, the Company also secured other customer renewals including an exclusive LMI relationship with a non-major bank, renewed for three years from April 2020; as well as extending its relationship with a mutual lender, for the first time on an exclusive basis, for a three-year period from April 2020.

The contract renewals reflect Genworth's long-standing relationships with lender customers and the benefits of the Company's strategic program of work to provide digitally focused solutions, value-adding product expertise and insightful risk and capital management solutions that strengthen customer partnerships and grow the business.

Ms. Blight-Johnston said, "Since COVID-19 was declared a pandemic in March, our people have adapted quickly to a new way of operating the business and are maintaining service levels to our lender customers. I have been deeply impressed with the resilience of the Genworth business and employees.

"We continue to respond with appropriate loss mitigation activities to work in tandem with the various stimulus packages, income support and home loan repayment deferrals, to ensure that the Company is able to support lenders and borrowers both at this time of need and over the longer term.

"Genworth entered this crisis with a strong capital base, leading market position, robust operational processes and an experienced team. We are well positioned to work together with our lender customers to support Australian borrowers, helping as many people as possible through this crisis and beyond to realise their dream of home ownership."

ENDS

For more information, analysts, investors and other interested parties should contact:

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Conference Call

A conference call for analysts, institutional investors and media will be held at 10:00am (Sydney time) on Wednesday, 6 May 2020 to discuss these results. Participants will need to pre-register at the following link to obtain a unique code: **https://s1.c-conf.com/DiamondPass/10005432-invite.html**

Conference name: Genworth Australia First Quarter 2020 Financial Results
Conference ID: 10005432

2020 Annual General Meeting

Genworth's AGM will be a Virtual Meeting at 11am (Sydney time) Thursday, 7 May 2020.

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.

The release of this announcement was authorised by the Board.