ASX Release
Level 26, 101 Miller Street
North Sydney NSW 2060
Australia

Genworth

Genworth Mortgage Insurance Australia Limited
Third Quarter 2020 (3Q20) Earnings Update

Key Points:

- Statutory net profit after tax (NPAT) of $24.6 million (3Q19: $25.1 million); YTD Statutory NPAT of $65.4 million loss (YTD 3Q19: $113.2 million profit). 3Q20 result incorporates reserving for anticipated future claims expected to emerge as repayment deferrals and other borrower support programs expire.
- Underlying NPAT[1]: $27.4 million profit (3Q19: $26.5 million); YTD Underlying NPAT of $58.1 million loss (YTD 3Q19: $69.6 million profit).
- New insurance written (NIW) increased 22.2% to $7.8 billion (3Q19: $6.4 billion) reflecting strong lender customer performance and ongoing low interest rates.
- Net earned premium (NEP) increased 4.6% to $79.7 million (3Q19: $76.2 million) due to continued seasoning and GWP growth.
- Loss ratio of 63.5% (3Q19: 52.9%), lower than 2Q20 reflecting lower incurred losses offset by a $47.1 million increase in loss reserving due to COVID-19 related timing impacts on delinquencies.
- Strong liquidity and capital position, with a solvency ratio of 1.79 times Prescribed Capital Amount (PCA), above the Board's target capital range of 1.32 to 1.44 times on a Level 2 basis and representing proforma surplus capital of $255 million above the top of the range.

SYDNEY 5 November 2020 – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) today reported its financial results for the third quarter ending 30 September 2020 (3Q20)[2].

Genworth Chief Executive Officer and Managing Director, Ms. Pauline Blight-Johnston said, "Genworth continues to work closely with our lender customers to support Australian borrowers in these challenging times. Since the onset of the pandemic, our people have consistently demonstrated their resilience and adaptability, responding quickly to process home loan repayment deferrals and high volumes of new business.

"The ongoing growth in new business volume over the quarter is pleasing, particularly given the increased scrutiny of credit quality during the COVID-19 pandemic.

"We continue to support the repayment deferral programs, government job support packages and legal moratoriums that are assisting Australians at this time of need. These programs are beneficial for the economy and Genworth's business. They are delaying the development and progression of delinquencies and claims, providing Australians with some respite and time to recover. They do, however, reduce our visibility of anticipated future claims outcomes.

"These unusual circumstances, together with the expected uneven economic recovery, are creating an operating environment where there is a higher degree of uncertainty about the timing and extent of future anticipated claims.

"In response to the claims delays and the uncertainty, we have strengthened reserving by $47.1 million in the quarter. This includes adjustments to compensate for the delayed anticipated claims, as well as an increase in the outstanding claims risk margin to reflect the elevated uncertainty.

"Importantly, Genworth remains in a strong capital position and able to withstand a wide range of volatility in claims outcomes."

[1] Underlying NPAT is based on Statutory NPAT but excludes the after tax effect of (a) unrealised loss of $2.7 million on the investment portfolio (3Q19: $0.6 million loss); and (b) foreign exchange (net of hedge) loss on Genworth's investment portfolio (3Q20: $0.1 million; 3Q19: $0.9 million).

[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 the International Financial Reporting Standards (IFRS).

3Q20 EXPERIENCE IMPACTED BY COVID-19

As at 30 September 2020, Genworth had over 31,000 active repayment deferrals from lender customers. These repayment deferrals, ongoing legal moratoriums and limited loss management activities have changed the normal behavioural patterns of delinquency development and progression. This has led to lower than anticipated claims activity in 3Q20 from fewer new delinquencies and reduced ageing of existing delinquencies. Over coming periods, it will become increasingly evident how many insured loans may be expected to experience difficulty following the end of the repayment deferral programs.

Genworth has increased reserving by $47.1 million in the third quarter, resulting in a loss ratio of 63.5%. The reserving includes actuarial adjustments of $33.9 million to compensate for claims delays; and $13.2 million for an increase in the risk margin from 14% to 18% to reflect the elevated level of uncertainty about future anticipated claims. The Company continues to assess the impact of repayment deferrals and changes to delinquency behaviours on the timing of claims incidence and associated reserving. This work is occurring in tandem with the annual review of the premium earning pattern (also known as the "earnings curve") that will be conducted in 4Q20.

Key Financial Performance Measures (A$ million)

	3Q19	3Q20	Change		YTD 30 Sep-19	YTD 30 Sep-20	YTD Change
New insurance written[3]	6,419.1	7,843.8	22.2%		18,899.0	21,331.5	12.9%
Gross written premium	114.6	143.8	25.5%		298.7	383.1	28.3%
Net earned premium	76.2	79.7	4.6%		223.8	230.5	3.0%
Statutory net profit/(loss) after tax	25.1	24.6	(2.0%)		113.2	(65.4)	(N.M.)[4]
Underlying net profit/(loss) after tax	26.5	27.4	3.4%		69.6	(58.1)	(N.M.)
Loss ratio (%)	52.9%	63.5%	10.6%		53.7%	65.8%	12.1%
Total portfolio delinquencies (#)	7,713	7,422	(3.8%)		7,713	7,422	(3.8%)
Portfolio delinquency rate (%)	0.60%	0.62%	2bps		0.60%	0.62%	2bps

New insurance written (NIW) increased 22.2% to $7.8 billion (3Q19: $6.4 billion). **Gross written premium (GWP)** increased 25.5% to $143.8 million (3Q19: $114.6 million). The NIW and GWP YTD growth reflected strong Lenders Mortgage Insurance (LMI) flow performance across lender customers supported by a low interest rate environment.

Net earned premium (NEP) increased 4.6% to $79.7 million (3Q19: $76.2 million) due to continued seasoning and higher GWP flow. Genworth's **Unearned premium** was $1.4 billion (3Q19: $1.2 billion).

Statutory NPAT of $24.6 million (3Q19: $25.1 million) largely attributable to higher net claims incurred and lower investment income partially offset by higher net earned premium and lower deferred acquisition costs (DAC) amortisation. YTD Statutory NPAT of $65.4 million loss (YTD 3Q19: $113.2 million profit).

Underlying NPAT of $27.4 million (3Q19: $26.5 million), excludes the unrealised loss of $2.7 million (after-tax) on the investment portfolio and the after-tax loss on foreign exchange rates (net of hedge) on Genworth's investment portfolio ($0.1 million). YTD Underlying NPAT of $58.1 million loss (YTD 3Q19: $69.6 million profit).

New delinquencies were down 2.7% to 2,552 (3Q19: 2,622) and **cures** were down 1.1% to 2,412 (3Q19: 2,439); both impacted by COVID-19 restrictions, and government and lender programs supporting borrowers.

[3] Excludes excess of loss insurance.
[4] N.M. Not Meaningful (increases / decreases > 200%).

The **delinquency rate**[5] increased to 0.62% (3Q19: 0.60%) despite the number of delinquencies being 291 fewer than 3Q19, due to lower insured loans in-force. The number of **paid claims** was down 8.0% to 332 (3Q19:361) due to legal moratoriums and repayment deferrals. The $99,400 average paid per claim was comparable to the same period last year (3Q19: $97,900).

Net claims incurred of $50.6 million (3Q19: $40.3 million). The **loss ratio** was 63.5% (3Q19: 52.9%) reflecting COVID-19 related impacts that led to an increase in loss reserving, offset by lower ageing and fewer new delinquencies.

The **expense ratio,** excluding the net impact of the DAC write-down[6], was 35.5% (3Q19: 35.7%), due primarily to higher net earned premium.

Investment income was $23.9 million (3Q19: $29.5 million) mainly due to tightening credit spreads and a rally in fixed income asset values. Net interest and dividend income declined to $10.2 million (3Q19: $18.9 million) due to the low interest rate environment. During the quarter, $17.7 million of realised gains (3Q19: $12.7 million) and $4.0 million of unrealised losses and foreign exchange (net of hedge) loss (3Q19: $2.1 million) resulted from declining interest rates and tightening credit spreads.

The 3Q20 annualised investment return[7] was 1.2% p.a. (3Q19: 2.3% p.a.) with returns continuing to be pressured by the low interest rate environment. The value of Genworth's cash and investment portfolio was $3.3 billion as at 30 September 2020, of which 81% was held in cash and fixed interest securities with a rating of 'A-' or better.

STRONG CAPITAL POSITION WITH EXCESS CAPITAL

Genworth's regulatory solvency ratio was 1.79 times the Prescribed Capital Amount (PCA) ratio on a Level 2 basis as at 30 September 2020 (proforma excluding the since redeemed 2015 Tier 2 subordinated notes, 1.73 times PCA). This is above the Board's target range of 1.32 to 1.44 times representing proforma surplus capital of $255 million above the top of the target range.

At 30 September 2020, the Company had $800 million of excess of loss reinsurance cover with a well-diversified panel of over 20 reinsurers with a minimum rating of 'A-'. The program, renewed on 1 January 2020, providing a one-year cover with an option to extend to a full term (6-10 years depending on the layer).

Genworth had $238.4 million of Tier 2 subordinated notes on issue at 30 September 2020. This comprised $190.0 million of 2020 10 non-call 5 year Tier 2 subordinated notes and $48.4 million of 2015 Tier 2 subordinated notes. Genworth redeemed the 2015 Tier 2 subordinated notes on 6 October 2020. Genworth now has $190.0 million of Tier 2 subordinated notes on issue.

ECONOMIC ENVIRONMENT GRADUALLY IMPROVING

During the third quarter there have been slightly improved published forecasts for GDP, an anticipated lower and earlier peak in unemployment, and a milder than expected deterioration in the national housing market, notwithstanding Victoria.

Labour market conditions improved slightly over the quarter, although the labour market remains pressured particularly for casual workers and those in industries directly and indirectly impacted by the pandemic. The resource reliant states (QLD, WA, NT) and NSW all reported a strong recovery in employment over 3Q20, albeit employment is still well below pre COVID-19 levels. Job creation measures announced in the Federal Budget offer support for the economic recovery as the JobKeeper scheme tapers off and terminates in 1Q21. Notwithstanding this support, wages and inflation pressures remain soft and improvement in the labour market is still expected to be uneven and slow.

---

[5] Delinquency rate is the number of delinquencies divided by policies in force, excluding excess of loss insurance.

[6] $181.8m DAC write-down in 1Q20, less associated 3Q20 DAC amortisation benefit of $12.7m.

[7] Investment return is net interest and dividend income / average of opening and closing total cash and investments for the period.

The national housing market has been relatively resilient, with the short term outlook supported by very low housing stock levels, and repayment deferrals and loan restructuring that is helping borrowers. Victorian housing markets may take longer to normalise following the extended lock down in that state. Volumes of new investment home loans remain low as investors adopt a more cautionary stance in the light of high metropolitan vacancy rates in Sydney and Melbourne. Low house price appreciation is expected to persist throughout 2021.

The economic assumptions of Genworth's Central Estimate have moved only within narrow bounds since March 2020 and are tracking broadly in line with economic indicators. Reported unemployment is currently better than the Central Estimate peak assumption of 9.1%[8], due to government support measures.

House price depreciation to date is better than Genworth's Central Estimate peak to trough assumption of (8.3) %, although some markets such as Melbourne are expected to experience greater price depreciation than others over coming months. While economic indicators are encouraging, considerable uncertainty remains.

MAINTAINING CUSTOMER SERVICE LEVELS

Genworth delivered ongoing volume growth in the quarter, reflecting the high conversion rates arising from lender customer campaigns, accompanied by ongoing low interest rates. New business underwriting quality remains strong, as Genworth and its lender customers apply greater scrutiny in the uncertain economic environment. The continuing business growth from lender customers will to some extent offset the impact of the NAB contract expiring in November 2020.

As at 30 September 2020, Genworth had over 31,000 repayment deferrals from lender customers, representing circa 3.0% of insured loans-in-force[9]. This reduction from the peak of over 50,000 active repayment deferrals in May 2020 reflects significantly lower new repayment deferrals over the third quarter, and further closures and opt-outs of existing repayment deferrals arising from lender customers' increased scrutiny of individual borrower circumstances.

Genworth is working closely with lender customers to implement loss management strategies to support these borrowers whilst prudently managing portfolio risk. For those borrowers not able to recommence repayments by the end of September, lender customers have been completing serviceability assessments to determine the most appropriate solutions including, in some cases, extensions.

APRA's recent guidance to allow loans to be restructured without being treated as in arrears, is enabling those eligible borrowers experiencing hardship to move to an interest-only loan, loan consolidation or an extension of the loan term. Genworth will continue to meet frequently with lender customers regarding the progress of their repayment deferrals, and to obtain regularly updated datasets.

MEETING THE CHALLENGES AHEAD

Ms. Blight-Johnston provided concluding remarks on the 3Q20 result, "Genworth entered the pandemic with a strong capital base and a capital buffer that means we remain well positioned to navigate the challenges and opportunities ahead.

"We understand how important it is for us to play our part in the nation's rebuilding program, by continuing to support our customers, their borrowers and the broader community.

"Our people have worked tirelessly to process the high volumes of new business and ongoing updates to repayment deferrals. Their passion and commitment to our lender customers and Australian borrowers is demonstrated by the high levels of customer service we have maintained throughout the pandemic.

---

[8] Takes account of Genworth's lower portfolio concentration in some occupations and industries impacted by COVID-19 (such as casual employees) and adjusted to remove the effect of government income assistance

[9] Excludes inward reinsurance, excess of loss insurance, NZ and Genworth Financial Mortgage Indemnity Limited.

"COVID-19 restrictions and government and lender support packages are reducing the visibility of anticipated future claims. Whilst there are initial signs of economic recovery, the lockdown in Victoria and continuing border closures in some states demonstrate that the impact of the pandemic still has a while to play out, so there remains considerable uncertainty about the ultimate impact on Australian borrowers and on Genworth's claims outcomes.

"We will continue to assess the appropriateness of our reserving methodology as we obtain more data on repayment deferrals, and the nature of the economic recovery becomes more apparent, increasing the visibility on the future anticipated incidence of claims in our book.

"We will keep working together with our lender customers through this difficult and uncertain period, and beyond, to support Australian borrowers, helping as many people as possible to realise the dream of home ownership and stay in their home wherever possible."

ENDS

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

Investors:
Paul O'Sullivan
Head of Investor Relations
M: +61 499 088 640

Media:
Iwona Falkiner
Head of Corporate Affairs
M: +61 428 059 965

Conference Call
Date: Thursday 5 November 2020 – 10.00am (Sydney time)
Conference name: Genworth Australia Third Quarter 2020 Financial Results
Conference ID: 5899303
A replay of the conference call will be available in the Investor Centre on genworth.com.au within 24 hours.

Australia dial-in details: 1800 123 296 (toll free) or +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 dialled.

Canada	1855 5616 766	New Zealand	0800 452 782
China	4001 203 085	Singapore	800 616 2288
Hong Kong	30082034	United Kingdom	0808 234 0757
Japan	0120 994 669	United States	1855 293 1544

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.