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Genworth

Genworth Mortgage Insurance Australia Limited
First Half 2021 Results

SYDNEY 4 August 2021 – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) today reported its financial results for the half year ending 30 June 2021 (1H21)[1].

The Company reported an Underlying net profit after tax (NPAT) of $76.4 million, underpinned by a strong underwriting result of $87.7 million. Genworth's Statutory NPAT of $59.4 million reflects this strong underwriting result, partially offset by unrealised mark to market investment losses from a rise in Government bond rates.

The Genworth Board has declared an unfranked interim ordinary dividend of 5.0 cps payable on 31 August 2021 to shareholders registered as at 18 August 2021.

1H21 highlights	1H20	1H21	1H21 v 1H20 (%)
Gross written premium (GWP) ($m)	239.3	289.7	21.1%
Underwriting result ($m)	(173.4)	87.7	N.M[2]
Insurance profit/(loss) ($m)	(128.1)	71.5	N.M
Statutory net profit/(loss) after tax (NPAT) ($m)	(90.0)	59.4	N.M
Underlying net profit/(loss) after tax ($m)[3]	(85.5)	76.4	N.M
Underlying diluted earnings per share (cps)	(20.7)	18.5	N.M
Dividend per share (cps)	0.0	5.0	N.M

Genworth Chief Executive Officer and Managing Director, Ms. Pauline Blight-Johnston, said, "Genworth has delivered a pleasing first half result, with a return to profit, ongoing topline volume growth and consistent customer service delivery, alongside a benign claims experience.

"The result reflects the improved economy, housing market appreciation and low interest rates experienced during the half. Performance was also supported by operational initiatives implemented last year in response to the new operating environment created by COVID-19.

"Genworth's 1H21 claims experience continues to be impacted by the government and lender support programmes that were in place through to the end of March 2021. To date, we have seen low levels of reported delinquencies, and the ongoing moratoriums on owner occupied foreclosures, as well as the strong economic recovery, have led to lower than usual paid claims.

"The stronger economy over the first half has provided good momentum for the Company, however, the recent COVID-19 restrictions in some states will affect the ongoing economic recovery and have created renewed uncertainty. The latest round of borrower support programmes will extend the duration of the subdued delinquency behaviour we have been experiencing, pushing out the timeframe over which we will obtain increased clarity regarding ultimate claims outcomes. We will keep working closely with our lender customers to understand the attributes and emerging performance of their portfolios during this time.

"Importantly, Genworth remains in a strong capital position and is able to withstand a wide range of future claims outcomes. We have the capacity to respond to changing circumstances and opportunities, and will continue to invest in operational excellence and customer focused strategic initiatives that support more Australians to build financial security through home ownership."

[1] The financial result of Genworth and its subsidiary companies (the Group) is prepared in accordance with Australian Accounting Standards (AAS) adopted by the Australian Accounting Standards Board (AASB), consistent with International Financial Reporting Standards (IFRS).
[2] N.M. Not Meaningful (increases / decreases > 100%).
[3] Underlying NPAT excludes the GFI. separation costs, the after-tax impact of unrealised gains/(losses) on the investment portfolio, and the impact of foreign exchange rates on Genworth's investment portfolio. The bulk of these foreign exchange exposures are hedged.

1H21 Overview

Key financial measures	1H20	1H21	1H21 v 1H20 (%)
New insurance written (NIW) ($b)	13.5	15.5	14.7
Net earned premium (NEP) ($m)	150.8	170.9	13.3
Loss ratio (%)	67.0	28.9	N.M
Closing delinquencies (number)	7,614	6,853	(10.0)
Delinquency rate (%)	0.62	0.60	(2 bps)
Prescribed capital (PCA) coverage ratio (times)	1.77	1.74	(3 bps)
Net Tangible Assets Per Share ($)	3.37	3.47	3.0

Ongoing LMI volume growth

Genworth delivered sustained Lenders Mortgage Insurance (LMI) flow growth throughout 1H21, with continued strong underwriting quality. New insurance written (NIW) increased 14.7% to $15.5 billion, reflecting improved home buyer confidence and affordability as Owner-Occupiers and First Home Buyers took advantage of low interest rates. The higher business flows will underpin earnings growth over future years.

Gross written premium (GWP) increased by 21.1% to $289.7 million, driven by higher NIW volumes and a small positive contribution from rate. The High Loan to Value mortgage origination market remains strong and our key lender customers continued to grow above system. The 1H21 Net earned premium (NEP) increase of 13.3% to $170.9 million, reflects this new business growth over recent periods.

In 2Q21, the Company undertook a review of the pattern of premium recognition (the "Earnings curve") to incorporate the more favourable loss experience and economic outlook than had been anticipated at the time of the last annual review in December 2020. Based on the advice of the Appointed Actuary, the Earnings curve has been adjusted to improve alignment of premium recognition with net claims incurred, by lengthening the average duration of the period of revenue recognition. This adjustment is effective 1 April 2021, and results in a reduction in 1H21 NEP of $12 million.

Subdued claims experience

Net claims incurred in 1H21 were down 51.2% on 1H20 to $49.3 million, with lower levels of new delinquencies and ageing as well as higher levels of cures. The reported 1H21 Loss Ratio of 28.9% reflects these trends, and an increase in Incurred but not reported (IBNR) reserves of $22.6 million in 1Q21 to compensate for the claims-delaying impact of the repayment deferrals and customer repossession moratoriums.

The moratoriums continued to constrain the number of mortgages in possession and claims paid. Average paid claim amounts remain below historic levels due to borrower sales and house price appreciation. Cures remain strong, reflecting the stronger economy, house price appreciation and support programmes. Whilst there has been lower than anticipated incurred claims to date, the Company expects higher delinquencies to emerge post the expiry of the latest repayment deferrals and moratoriums.

The economy has rebounded strongly in the first half, however recent COVID-19 restrictions have created renewed uncertainty about the speed and shape of the economic recovery. Genworth welcomes the latest Federal and State government initiatives and APRA guidance regarding loan support to assist impacted borrowers. These initiatives, which will support the economy and borrowers, are expected to have a positive impact on Genworth's ultimate claims experience, which will also be further delayed as a result. Genworth continues to work closely with lender customers to understand their portfolio trends and determine the most appropriate hardship solutions to assist borrowers to mitigate potential losses.

Strong capital position with excess capital

As at 30 June 2021, the Company's PCA ratio was 1.74 times on a Group (Level 2) basis, comfortably above the Board's target range of 1.32 to 1.44 times and representing surplus capital of $320.4 million above the top end of the range. The Company's cash and investment portfolio market value was $3.6 billion.

Genworth had a Tier 1 ratio of 1.56 times, significantly above the minimum 0.8 times regulatory requirement, and $190.0 million of 2030 10 non-call 5-year Tier 2 subordinated notes on issue as at 30 June 2021.

The Board decision to pay an interim unfranked ordinary dividend of 5.0 cps reflects the growth in the Company's earnings and the strength of its capital base. Genworth remains focused on optimising its capital structure and continually evaluating possible capital needs and potential uses for any excess capital, taking into consideration the evolving environment.

Genworth Financial, Inc. transition update

On 3 March 2021, Genworth Financial, Inc. (GFI) (through certain wholly owned subsidiaries) sold its entire holding of shares in the Company, with key service agreements between GFI and Genworth set to terminate over time.

The separation process has provided an opportunity to review and simplify some service areas, such as accounting and human resources information systems. Most key transition activities for separation are expected to complete by 31 March 2022, with some actions relating to branding to continue further into 2022. One-off separation costs are expected to be in the range of $15 million to $19 million with the bulk incurred in FY21, including $0.8 million in 1H21.

Evolving customer value proposition

Genworth has relationships with over 50 lender customers including banks, building societies, credit unions and non-bank mortgage originators.

In 1H21, Genworth successfully renewed its contract with a large non-major bank customer for the provision of LMI on an exclusive basis for a further three-year period to 2024. The Company was also advised by the Commonwealth Bank of Australia (CBA), that it intends to issue a Request for Proposal following the expiry of its LMI exclusivity arrangement with Genworth on 31 December 2022. Genworth welcomes the opportunity to submit a proposal to CBA to extend its agreement for the supply of LMI beyond 2022, building on the strong foundations of a long-standing relationship.

Genworth continues to progress its customer-centric sustained growth strategy to improve the efficiency and competitiveness of LMI through the pillars of Enhance, Evolve and Extend. The Company has now completed in depth research on borrowers, lenders and brokers that is informing the Human Centred Design process to evolve the LMI proposition, working with lender customers to better meet the changing needs of today's homebuyers.

GMA 1H21 Financial Performance Summary

($ millions)	1H20	2H20	FY20	1Q21	2Q21	1H21	1H21 v 1H20 (%)
Gross written premium	239.3	322.4	561.7	142.7	147.0	289.7	21.1%
Movement in unearned premium	(54.0)	(126.4)	(180.4)	(39.7)	(44.9)	(84.6)	(56.7%)
Gross earned premium	**185.3**	**196.0**	**381.3**	**103.0**	**102.1**	**205.1**	**10.7%**
Outwards reinsurance expense	(34.5)	(34.8)	(69.3)	(17.1)	(17.1)	(34.2)	0.9%
Net earned premium	**150.8**	**161.2**	**312.0**	**85.9**	**85.0**	**170.9**	**13.3%**
Net claims incurred	(101.1)	(188.8)	(289.8)	(35.9)	(13.5)	(49.3)	51.2%
Acquisition costs	(12.7)	(1.7)	(14.4)	(1.4)	(2.1)	(3.5)	72.5%
Deferred acquisition costs write-down	(181.8)	-	(181.8)	-	-	-	N.M.
Other underwriting expenses	(28.6)	(31.4)	(60.0)	(13.8)	(16.5)	(30.3)	(5.9%)
Underwriting result	**(173.4)**	**(60.7)**	**(234.0)**	**34.8**	**52.9**	**87.7**	**N.M.**
Investment income on technical funds	45.3	14.7	59.9	(27.5)	11.3	(16.2)	N.M.
Insurance profit / (loss)	**(128.1)**	**(46.0)**	**(174.1)**	**7.3**	**64.2**	**71.5**	**N.M.**
Net investment income on shareholder funds	4.5	25.5	30.0	(0.3)	17.5	17.3	N.M.
Financing costs	(5.0)	(5.7)	(10.7)	(2.5)	(2.6)	(5.1)	(2.0%)
Profit / (loss) before income tax	**(128.6)**	**(26.2)**	**(154.8)**	**4.5**	**79.2**	**83.7**	**N.M.**
Income tax (expense) / benefit	38.6	8.6	47.2	(1.1)	(23.2)	(24.3)	N.M.
Statutory net profit / (loss) after tax	**(90.0)**	**(17.6)**	**(107.6)**	**3.4**	**56.0**	**59.4**	**N.M.**
Underlying net profit / (loss) after tax	**(85.5)**	**(18.7)**	**(104.3)**	**30.3**	**46.1**	**76.4**	**N.M.**
Underlying diluted earnings per share	(20.7 cps)	(4.5 cps)	(25.2 cps)	7.3 cps	11.2 cps	18.5 cps	N.M.

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 on Wednesday, 4 August 2021 at 10:00am (Sydney time), to discuss these results. Details of the conference call are:

Conference name: **Genworth Australia First Half 2021 Financial Results**

Conference ID: **3092769**

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 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
India	1800 2666 836	United States	1855 293 1544
Japan	0120 994 669		

Replay:
A replay of the conference call will be available on our website http://investor.genworth.com.au within 24 hours.

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.

The release of this announcement was authorised by the Board.