

## Update on reserving review and premium earnings pattern

**(SYDNEY) 18 December 2020** – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) today announced that it has completed its annual review of the premium earning pattern (also known as the “earnings curve”). In tandem with this review, it has considered the appropriate timing of recognition and reserving for claims, given the changes to claims occurrence patterns arising from the COVID-19 borrower support packages (reserving review).

The pre-tax net earnings impact of the reserving review for the quarter ending 31 December 2020 (4Q20) is expected to be a reduction of approximately \$110 million. Based on the advice of the Appointed Actuary, the Company has concluded that taking into consideration the outcome of the reserving review, no earnings curve change is required.

### Reserving review

The Company has undertaken an assessment of the potential impact of changes to delinquency behaviours and home loan repayment deferrals on the timing of claims incidence and associated reserving as part of its annual earnings curve review conducted by the Appointed Actuary.

Under the current reserving methodology, the Company considers that a claim has been incurred when the underlying loan is one month in arrears, recognised either through a case reserve when the delinquency reaches three months in arrears, or through an incurred but not yet reported (IBNR) reserve between one and three months in arrears. The IBNR reserve also includes an allowance for the risk of re-delinquency in respect of delinquencies that have cured (i.e. where a loan previously in arrears becomes current again) in the last six months.

The introduction of repayment deferrals in response to the pandemic has interrupted the usual pattern of claim occurrence, notification and cure. The review process considered pre-COVID-19 re-delinquency experience and an assessment of the elevated risk of COVID-19 related delinquencies becoming re-delinquent. From this work, the Company has concluded that it is appropriate to refine its reserving methodology to continue to hold re-delinquency claims reserves for all policies that have at any point experienced delinquency, up until the associated policy is cancelled or a case reserve is established. The update will apply to all policies currently cured and in-force and any new policies becoming delinquent from 4Q20 onwards.

The refined reserving methodology results in the potential liability for losses being recognised earlier on average. It has the effect of increasing the IBNR component of the outstanding claims, correspondingly increasing net claims incurred in the Income Statement, and increasing the liability adequacy test (LAT) surplus.

The pre-tax impact for the year ending 31 December 2020 (FY20) of the updated reserving methodology is expected to result in an increase in net claims incurred by \$110 million. Consequently, the Company expects the 4Q20 net claims incurred to be in the range of \$135 million – \$150 million. The 4Q20 net claims incurred is subject to year-end audit and claims experience over the remainder of the year.

### Annual earnings curve review

The Company completed the reserving review in tandem with the annual review of the premium earning pattern (also known as the “earnings curve”). Based on the advice of the Appointed Actuary, the

Company has concluded that taking into consideration the outcome of the reserving review, no earnings curve change is required.

Given this announcement, the Company is unlikely to report a statutory profit for FY20 and the Board is unlikely to be in a position to declare a dividend in respect of FY20.

Genworth Chief Executive Officer and Managing Director, Ms. Pauline Blight-Johnston said, “Genworth’s refinement to our reserving methodology is in response to the unusual circumstances created by the repayment deferrals and changes to delinquency behaviours. After allowing for the anticipated effect of this reserving update, the business remains in a strong capital position.”

Genworth’s regulatory solvency ratio (proforma following the reserving refinement and excluding the since redeemed 2015 Tier 2 subordinated notes, as at 30 September 2020) is 1.62 times the Prescribed Capital Amount (PCA) ratio on a Level 2 basis which remains comfortably above the Board’s target range of 1.32 to 1.44 times.

### Conference call

A conference call for analysts, institutional investors and media will be held today at 11:00 am (Sydney time) to discuss this announcement. Details of the conference call are:

**Conference name:** Genworth Australia Update

**Conference ID:** 9768685

A replay of the conference call will be available in the Investor Centre of [genworth.com.au](http://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

### ENDS

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The release of this announcement was authorised by the Board.

## **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.

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