

Genworth Mortgage Insurance Australia Limited First Quarter 2021 Results

SYDNEY 30 April 2021 – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) today reported its financial results for the quarter ending 31 March 2021 (1Q21)¹.

1Q21 highlights	1Q20	1Q21	1Q21 v 1Q20 (%)
Gross written premium (GWP) (\$m)	114.1	142.7	25.1
Underwriting result (\$m)	(167.9)	34.8	N.M ²
Insurance profit/(loss) (\$m)	(134.6)	7.3	N.M
Statutory net profit/(loss) after tax (NPAT) (\$m)	(125.6)	3.4	N.M
Underlying net profit/(loss) after tax (\$m) ³	(103.2)	30.3	N.M
Underlying diluted earnings per share (cps)	(24.9)	7.3	N.M

Comments by Chief Executive Officer and Managing Director, Pauline Blight-Johnston:

“Genworth’s first quarter results reflect the ongoing momentum in topline volume growth and strong house price appreciation improving the outlook for claims. New business volumes and claims experience have been supported by the low interest rate environment, rising national dwelling values and stronger consumer sentiment. The more positive economic outlook also resulted in increasing bond rates, generating mark to market investment losses that impacted the statutory net profit result over the quarter.

“The business delivered a pleasing underwriting profit of \$34.8 million. Throughout the quarter, reported delinquencies continued to be affected by the ongoing government and lender support programmes, and we have compensated for these impacts with increased reserving for incurred but not reported (IBNR) claims.

“With these support programmes now concluded, we are working very closely with our lender customers to understand the performance of loans that were previously on repayment deferral. Over coming periods, it will become increasingly evident how many insured loans may continue to experience difficulty.

“It is pleasing that the COVID-19 health outcomes and economic outlook are improving with the vaccine rollout, and this has had a positive impact on our business over the quarter. We note, of course, that the impacts of the winding back of support programmes are yet to flow through the economy and therefore we will remain vigilant to the signals arising from economic indicators and loan delinquency data.

“We look forward to a clearer picture of the ultimate impact of COVID-19 on Genworth’s business emerging over the course of the year. Our priority is to work very closely with our lender customers to support borrowers through Australia’s economic recovery.

“In this new operating environment, Genworth is well placed to navigate the challenges ahead. Importantly, Genworth’s capital strength, along with our operational flexibility, enables us to manage a wide range of future claims outcomes as well as deliver our sustainable growth strategy.

“We remain focused on operational excellence and 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 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.

1Q21 Overview

Key financial measures	1Q20	1Q21	1Q21 v 1Q20 (%)
New insurance written (NIW) (\$b)	6.4	7.5	17.2
Net earned premium (NEP) (\$m)	75.4	85.9	13.9
Loss ratio (%)	47.1	41.8	(530 bps)
Closing delinquencies (number)	7,274	6,879	(5.4)
Delinquency rate (%)	0.57	0.58	1 bp
Prescribed capital (PCA) coverage ratio (times)	1.78	1.63	(15 bps)

Ongoing LMI volume growth

Genworth delivered strong Lenders Mortgage Insurance (LMI) flow growth over 1Q21. New insurance written (NIW) increased 17% over 1Q20 as Owner Occupiers and First Home Buyers continued to underpin a rising national housing market. Higher LMI flow volumes were the main driver of Gross written premium (GWP) growth, with small contributions from mix and rate. New business underwriting quality has remained strong.

The 1Q21 increase in Net earned premium (NEP) of 14% over 1Q20 reflects strong GWP since the second quarter of 2020, in line with earnings curve premium recognition.

Support measures continue to subdue claims

Since the start of the pandemic, government support packages and home loan repayment deferrals have interrupted the typical incidence patterns of delinquencies and claims experience. Genworth has increased IBNR reserves by \$22.1 million during the quarter to compensate for these impacts. Other actuarial adjustments include reserving to compensate for the continued lag effects of COVID-19 moratoriums on possessions, as well as the potential impact of the NSW and south east Queensland storms and floods. The total 1Q21 increase in reserves is \$24.9 million, including the associated risk margin that remains at 18%.

Whilst recent economic indicators are improving, uncertainty regarding claims outcomes remains as the lender and government support programmes have only recently expired. As at 31 December 2020, Genworth had over 8,100 active repayment deferrals from lender customers. As at 31 March 2021, these arrangements have effectively terminated, with arrears reset or loans restructured. Genworth is working closely with lender customers to understand their loan restructuring in detail and determine the most appropriate hardship solutions to mitigate potential losses.

The reported 1Q21 Loss Ratio of 41.8% reflects the benefit of strong house price appreciation over the quarter and improving economic conditions, offset by the additional reserving described above.

Strong capital position maintained

As at 31 March 2021, the PCA ratio was 1.63 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 \$200.9 million above the top end of the range. The Company's cash and investment portfolio market value was \$3.5 billion.

Genworth had \$190.0 million of 2030 10 non-call 5-year Tier 2 subordinated notes on issue as at 31 March 2021 and an \$800.0 million reinsurance programme that was renewed on 1 January 2021.

During the quarter, ratings agencies confirmed the insurer financial strength (IFS) rating of the Company's operating subsidiary GFMI. Genworth's rating by Standard & Poor's is 'A', with the outlook 'negative'. Fitch's rating is 'A' (Strong) with the outlook 'negative'.

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. Consequently, GFI no longer owns any shares in the issued capital of the Company.

The sale has no impact on Genworth's capital strength, employees, customer contracts or local service offerings. Key service agreements between GFI and Genworth will terminate over time and both companies will transition the relevant services in-house or to local service providers.

Further to the GFI sell-down, the Company advises that it intends to adjust its market reporting cycle from quarterly to semi-annual reporting, commencing with the financial results for the half year ending 30 June 2021.

Positioning the business for the future

During the quarter, the Company progressed the development of a business strategy that repositions Genworth's customer value proposition to maintain market leadership in LMI. Genworth's strategy for sustained growth will Enhance the current business by improving its efficiency and competitiveness; and Evolve its LMI offering by refreshing it for a new generation of homebuyers. The Company is also exploring opportunities to Extend its core LMI capabilities over time in ways that support its goal of increasing home ownership in Australia.

GMA 1Q21 Financial Performance Summary

(\$ millions)	1Q20	2Q20	3Q20	4Q20	FY20	1Q21	1Q21 v 1Q20 (%)
Gross written premium	114.1	125.3	143.8	178.7	561.7	142.7	25.1%
Movement in unearned premium	(21.4)	(32.6)	(46.7)	(79.7)	(180.4)	(39.7)	(85.5%)
Gross earned premium	92.7	92.7	97.1	99.0	381.3	103.0	11.1%
Outwards reinsurance expense	(17.2)	(17.3)	(17.3)	(17.5)	(69.3)	(17.1)	0.6%
Net earned premium	75.4	75.4	79.7	81.5	312.0	85.9	13.9%
Net claims incurred	(35.5)	(65.5)	(50.6)	(138.2)	(289.8)	(35.9)	(1.1%)
Acquisition costs	(12.3)	(0.4)	(0.6)	(1.1)	(14.4)	(1.4)	88.6%
Deferred acquisition costs write-down	(181.8)	-	-	-	(181.8)	-	N.M.
Other underwriting expenses	(13.7)	(14.9)	(15.0)	(16.4)	(60.0)	(13.8)	(0.7%)
Underwriting result	(167.9)	(5.4)	13.5	(74.2)	(234.0)	34.8	N.M.
Investment income on technical funds	33.3	12.0	11.6	3.1	59.9	(27.5)	N.M.
Insurance profit / (loss)	(134.6)	6.6	25.1	(71.1)	(174.1)	7.3	N.M.
Net investment income on shareholder funds	(42.2)	46.6	12.3	13.2	30.0	(0.3)	99.3%
Financing costs	(2.6)	(2.3)	(3.1)	(2.6)	(10.7)	(2.5)	3.8%
Profit / (loss) before income tax	(179.4)	50.9	34.3	(60.5)	(154.8)	4.5	N.M.
Income tax expense / (benefit)	53.8	(15.2)	(9.6)	18.2	47.2	(1.1)	N.M.
Statutory net profit / (loss) after tax	(125.6)	35.6	24.6	(42.2)	(107.6)	3.4	N.M.
Underlying net profit / (loss) after tax	(103.2)	17.7	27.4	(46.1)	(104.3)	30.3	N.M.
Underlying diluted earnings per share	(24.9 cps)	4.3 cps	6.6 cps	(11.2 cps)	(25.2 cps)	7.3 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 at 10:00am (Sydney time), to discuss these results. Details of the conference call are:

Conference name: Genworth Australia First Quarter 2021 Financial Results

Conference ID: 4547365

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/investor-centre/> 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.