

## Genworth third quarter 2019 (3Q19) earnings

- Statutory net profit after tax (NPAT) in 3Q19 of \$25.1 million<sup>1</sup> (3Q18: \$19.6 million) and Underlying NPAT<sup>2</sup> of \$26.5 million (3Q18: \$20.4 million)
- New Insurance Written (NIW) up 26.4% (3Q19: \$6.4 billion versus 3Q18: \$5.1 billion) – reflecting growth in Genworth’s traditional LMI flow business
- Net Earned Premium (NEP) in 3Q19 of \$76.2 million up 11.9% from 3Q18 and YTD 30 Sep-19 NEP of \$223.8 million, up 5.8% from YTD 30 Sep-18 – 3Q19 and YTD 30 Sep-19 performance above FY19 guidance
- Loss ratio in 3Q19 of 52.9% reflects positive portfolio seasonality offset by weakness in non-mining areas in Western Australia and Queensland. 3Q19 and YTD 30 Sep-19 loss ratio (53.7%) in FY19 guidance range
- Unfranked special dividend of 24.2 cents per share declared
- Following the payment of the \$100 million unfranked special dividend in November 2019, Genworth will have returned \$1.8 billion to shareholders since listing on the ASX in 2014, including distribution of 100% of after-tax profits
- Unearned Premium Reserve of \$1.2 billion as at 30 September 2019
- Regulatory solvency ratio 1.98 times the Prescribed Capital Amount (on a level 2 basis) as at 30 September 2019
- Strong capital position – Net Tangible Assets of \$3.89 per share as at 30 September 2019 (31 December 2018: \$3.94)

**(SYDNEY) 30 October 2019** – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) today reported its results for the quarter ended 30 September 2019. Statutory<sup>3</sup> net profit after tax (NPAT) for 3Q19 was \$25.1 million and Underlying NPAT was \$26.5 million.

The Genworth Board has declared an unfranked special dividend of 24.2 cents per share payable on 28 November 2019 to shareholders registered as at 14 November 2019.

Ms. Georgette Nicholas, Genworth Chief Executive Officer and Managing Director said, “Our 3Q19 financial performance was solid with gross written premium up 24.4% from growth in our traditional lenders mortgage insurance (LMI), driven by increasing volumes in high loan to value lending by our lender customers. Our net earned premium for the year-to-date is trending above expectations from our policy cancellation initiatives and the business continuing to execute the strategic program of work to enhance our product suite and the way we interact with our lender customers.

“We are beginning to see signs of stability across metro Sydney, Melbourne and Brisbane with more favourable market conditions acting as a catalyst for greater activity in the housing market. Pleasingly, this translated into our best quarter by gross written premium in four years for our flow LMI business.”

<sup>1</sup> 3Q19 Statutory NPAT includes an after-tax unrealised loss of \$0.6 million on the investment portfolio (3Q18: \$0.8 million).

<sup>2</sup> Underlying NPAT excludes the after-tax impact of mark-to-market losses of \$0.6 million (3Q18: \$0.8 million) on the investment portfolio, and the after-tax impact of foreign exchange rates (net of hedge) on Genworth’s investment portfolio (\$0.9 million loss). The bulk of these foreign exchange exposures are hedged.

<sup>3</sup> 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, which are consistent with those under International Financial Reporting Standards (IFRS).

Financial performance measures (A\$ million)						
	3Q18	3Q19	(3Q18 vs. 3Q19)	YTD 30 Sep-18	YTD 30 Sep-19	(YTD 30 Sep-18 vs. YTD 30 Sep-19)
New Insurance Written <sup>4</sup>	5,077.8	6,419.1	26.4%	15,420.1	18,899.0	22.6%
Gross Written Premium	92.1	114.6	24.4%	358.9 <sup>5</sup>	298.7	(16.8%)
Net Earned Premium	68.1	76.2	11.9%	211.5	223.8	5.8%
Reported NPAT	19.6	25.1	28.1%	61.5	113.2	84.1%
Underlying NPAT	20.4	26.5	29.9%	70.7 <sup>6</sup>	69.6 <sup>6</sup>	(1.6%)
Reported loss ratio	52.6%	52.9%	30bps	53.0%	53.7%	70bps
Total portfolio delinquencies	7,350	7,713	4.9%	7,350	7,713	4.9%
Portfolio delinquency rate	0.55%	0.60%	5bps	0.55%	0.60%	5bps

## STRATEGIC UPDATE

The Company's strategic vision is to position Genworth as the leading provider of customer-focused risk and capital management solutions in the Australian residential mortgage market. This has involved launching new offerings such as regular (monthly) premium LMI in July 2019 which complements the current upfront single premium product as well as leveraging technology and data to deliver risk management insights and operational efficiencies to its customers.

Ms. Nicholas said, "We are encouraged by the positive feedback received from lender customers as we advance our discussions with specific partners looking to implement a solution for borrowers to offer regular monthly premiums. In addition, we have received strong support from brokers we have spoken to who are attracted by the flexible payment arrangement and the reduced deposit required which will facilitate access to the market for potential home buyers, especially where affordability has been a challenge."

## FINANCIAL PERFORMANCE

**New Insurance Written (NIW)** increased 26.4% to \$6.4 billion in 3Q19 compared to \$5.1 billion in 3Q18. A small amount of \$2.1 million in bulk portfolio business was recorded in 3Q19 (3Q18: Nil).

**Gross Written Premium (GWP)** increased 24.4% to \$114.6 million in 3Q19 (3Q18: \$92.1 million). This increase reflects the strong performance in traditional LMI flow business across Genworth lender customers as property prices started to stabilise in major capital cities such as Sydney and Melbourne. This has led to improved sentiment in these markets.

**Net Earned Premium (NEP)** increased 11.9% from \$68.1 million in 3Q18 to \$76.2 million in 3Q19. The strong growth is attributable to the seasoning of FY17 and FY18 book years and policy cancellation initiatives.

Genworth's **Unearned Premium Reserve** as at 30 September 2019 was \$1.2 billion.

The **Delinquency Rate**<sup>7</sup> increased from 0.55% in 3Q18 to 0.60% in 3Q19. This was driven primarily by an increase in delinquency rates across most states (particularly in Western Australia, New South Wales and Queensland). The increase also reflects the continued extended ageing of delinquencies due to slower loss management processing

<sup>4</sup> Excludes excess of loss insurance and new business written via Genworth's Bermudian entity.

<sup>5</sup> Includes GWP written in 1Q18 pursuant to a customer contract entered by Genworth's Bermudian insurance entity. Excluding this transaction, GWP increased 12.6% in YTD 30 Sep-19.

<sup>6</sup> YTD 30 Sep-19 Underlying NPAT excludes the after-tax impact of mark-to-market gains of \$44.8 million (YTD 30 Sep-18: after-tax losses of \$9.2 million) on the investment portfolio, and the after-tax impact of foreign exchange rates (net of hedge) on Genworth's investment portfolio (\$1.2 million loss). The bulk of these foreign exchange exposures are hedged.

<sup>7</sup> Delinquency rate is the number of delinquencies divided by policies in force but excluding excess of loss insurance.

by lenders first called out in FY18. Encouragingly, signs of faster processing by some lenders has emerged this quarter. The Delinquency Rate remained flat between 2Q19 and 3Q19.

**New Delinquencies** was down slightly (3Q19: 2,622 versus 3Q18: 2,742) and in line with favourable trends usually experienced in the third quarter as new delinquencies reduced from 2,853 in 2Q19. **Cures** improved from 2,378 in 3Q18 to 2,439 in 3Q19 as lender customers started to emphasise remediation of aging delinquencies.

The number of **Paid Claims** was up (3Q19: 361 versus 3Q18: 320) although the average paid per claim decreased from \$115,700 in 3Q18 to \$97,900 in 3Q19. This decrease is a result of the stabilisation of mining regions. However, the average paid per claim remains elevated as challenging market conditions remain across areas such as Perth and its specific sub-regions.

**Net Claims Incurred** in 3Q19 was \$40.3 million (3Q18: \$35.8 million). The increase is mainly attributable to additional reserving of \$4.9 million for 3Q19 from pressure emerging in Perth in response to continued house price depreciation. **Claims Paid** of \$35.3 million in 3Q19 was down \$1.7 million (3Q18: \$37.0 million).

The 3Q19 **Loss Ratio** was 52.9% (3Q18: 52.6%) and in line with the Company's FY19 guidance range of 45%-55%.

**Investment Income** in 3Q19 was \$29.5 million (3Q18: \$21.5 million) and included an unrealised loss of \$0.9 million<sup>8</sup> or \$0.6 million after-tax (3Q18: \$1.2 million or \$0.8 million after-tax). In addition, investment income included a realised gain of \$12.7 million or \$8.9 million after-tax (3Q18: \$0.6 million or \$0.4 million after-tax). The realised gain in 3Q19 is predominantly due to the transition of the equity portfolio to a new external manager and to a lesser extent, some portfolio rebalancing of fixed interest securities.

As at 30 September 2019, the value of Genworth's investment portfolio was \$3.2 billion, 82% of which continues to be held in cash and fixed interest securities with a rating of 'A-' or better. The Company also had \$83.2 million invested in equities and \$587.0 million invested in non-AUD income securities<sup>9</sup>.

## CAPITAL MANAGEMENT

Genworth's regulatory solvency ratio was 1.98 times the **Prescribed Capital Amount (PCA)** on a level 2 basis as at 30 September 2019. This ratio continues to be above the Board's target capital range of 1.32 to 1.44 times.

The Company has undertaken various capital management activities during FY19 including:

- an on-market share buy-back with 25.0 million shares acquired for a consideration of \$63.9 million;
- \$36.1 million paid as part of the unfranked special dividend of 21.9 cents per share which represents the remainder of the targeted \$100.0 million on-market share buy-back commenced on 21 February 2019; and
- \$37.1 million paid for the interim ordinary dividend of 9.0 cents per share fully franked.

Today, the Company announced a further capital management initiative via a special unfranked dividend of 24.2 cents per share to be paid on 28 November 2019 and represents a \$100 million distribution.

Following the payment of the \$100 million unfranked special dividend, Genworth will have returned \$1.8 billion to shareholders since listing on the ASX in 2014, including distribution of 100% of after-tax profits.

Ms Nicholas said, "We remain focused on optimising our capital structure as demonstrated by the announcement today of an unfranked special dividend of 24.2 cents per share. Since the beginning of 2019, Genworth has distributed over \$330.5 million to shareholders through a combination of special and ordinary dividends and an on-market buy-back. In addition, we continue to proactively evaluate potential uses for the excess capital."

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<sup>8</sup> This reflects unrealised gains predominantly from the fixed income portfolio due to reducing interest rates which was offset by the realisation of gains in the equity portfolio. This amount excludes foreign exchange gains/losses and has been excluded from Underlying NPAT.

<sup>9</sup> Includes cash to be invested. The non-AUD investment was held in collateralised loan obligations denominated in USD (rated 'A' or better) and predominantly investment grade credits denominated in USD and EUR. The foreign exchange (FX) exposures of the non-AUD investments are hedged through FX forward contracts.

## **ECONOMIC OVERVIEW**

Economic growth continued to slow through 3Q19, driven by subdued household consumption and ongoing slow growth in household income coupled with cost of living pressures and continued subdued business investment.

While unemployment levels have remained reasonably stable through 2019, excess capacity in the labour market continues to impact wages growth which remains low.

National house price falls in 1H19 abated with Sydney, Melbourne and Brisbane all recording growth over 3Q19. The Perth market continues to experience challenging market conditions with house price depreciation during 2019 reflecting the ongoing impact of the end of the mining boom and demand and supply dynamics in some sub-regions of Perth.

Looking ahead, Australian economic fundamentals remain sound with the effect of stimuli on multiple fronts including a historically low cash rate, tax cuts and continued infrastructure investment at a state and federal level providing positive momentum into 4Q19 which is expected to extend through 2020. Strong export growth of commodities and liquefied natural gas supported by a weaker Australian dollar and continued stability of commodity prices is also providing foundational support for the economy. This has contributed to a strong Australian trade surplus each month since the beginning of 2018. Counterbalancing these positive factors is the continued geopolitical uncertainty and the impact of trade tensions between the United States and China which have the potential to impact global economic growth over the remainder of the year.

Genworth expects house price stability in 4Q19 across metro Sydney, Melbourne and Brisbane followed by a slow-paced recovery into 2020. The exception to this is Perth where the challenging market conditions are expected to continue into 1H20 with some non-mining sub-regions of Perth remaining challenged throughout 2020.

## **2019 OUTLOOK FOR GENWORTH**

The guidance provided by the Company in its FY18 results announcement remains unchanged with FY19 NEP anticipated to be at the top end of the range of -5% to +5% of FY18 NEP and the full year loss ratio expected to be between 45% and 55%.

Genworth continues to target an ordinary dividend payout ratio range of 50% to 80% of Underlying NPAT.

The full year outlook is subject to market conditions (including volatility in investment markets) as well as unforeseen circumstances or economic events.

Ms. Nicholas said, "The strategic program of work undertaken since 2017 to redefine our core business model has created a strong platform to continue delivering solid profits and attractive shareholder returns. Combined with a property market showing increasing signs of stability, Genworth is well placed to take advantage of any potential recovery."

**ENDS**

## Conference call

A conference call for analysts, institutional investors and media will be held at 10:00am (Sydney time) on Wednesday, 30 October 2019 to discuss these results. Details of the conference call are:

**Conference name: Genworth Australia Third Quarter 2019 Financial Results**

**Conference ID: 10002295**

### Australia dial-in details

1800 870 643 (toll free)

+61 2 9007 3187 (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 dialed.

Canada	1855 881 1339	New Zealand	0800 453 055
China	4001 200 659	Singapore	800 1012 785
Hong Kong	800 966 806	United Kingdom	0800 051 8245
India	000 8001 008 443	United States	1855 881 1339
Japan	005 3116 1281		

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## 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 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.