

## Genworth Full Year 2019 (FY19) Earnings

- Statutory net profit after tax (NPAT) in FY19 of \$120.1 million<sup>1</sup> (FY18: \$75.7 million) and Underlying NPAT<sup>2</sup> of \$97.0 million (FY18: \$93.9 million).
- New Insurance Written (NIW) in FY19 of \$26.7 billion up 20.3% (FY18: \$22.2 billion).
- FY19 Net Earned Premium (NEP) up 6.0% on FY18 NEP, above guidance of -5% to +5%.
- FY19 Loss Ratio of 50.6% within guidance of between 45% and 55%.
- Fully franked final ordinary dividend of 7.5 cents per share (cps) – total FY19 dividends of 62.6 cps (16.5 cps of which were fully franked). FY19 dividend payout ratio of 70.2% within guidance of between 50% and 80%.
- Unearned Premium Reserve of \$1.3 billion as at 31 December 2019 (31 December 2018: \$1.2 billion).
- Regulatory solvency ratio 1.91 times the Prescribed Capital Amount (on a level 2 basis) as at 31 December 2019.

**(SYDNEY) 5 February 2020:** Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) today reported its full year 2019 (FY19) financial results. Statutory<sup>3</sup> net profit after tax (NPAT) for FY19 was \$120.1 million and Underlying NPAT was \$97.0 million.

The Genworth Board declared a fully franked final ordinary dividend of 7.5 cps payable on 19 March 2020 to shareholders registered as at 5 March 2020.

Mr. Duncan West, Acting Chief Executive Officer and Director said, “Our FY19 financial performance reflects that our core business continues to perform well and in line with our full year guidance. Our result reflects more favourable market conditions providing an impetus to housing market activity especially in 2H19 with gross written premium increasing 28.9% compared with 2H18. We also continued to see a recovery in consumer confidence in the housing market across all major capital cities except Perth. Our net earned premium was above full year guidance, driven by our policy cancellation initiatives, above market growth by some of our lender customers and growth of the business due to continued delivery on the strategic program of work to enhance our product suite for all our customers.”

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<sup>1</sup> FY19 Statutory NPAT includes an after-tax unrealised gain of \$24.6 million on the investment portfolio (FY18: loss of \$18.3 million).

<sup>2</sup> Underlying NPAT excludes the after-tax impact of mark-to-market gain of \$24.6 million (FY18: loss of \$18.3 million) on the investment portfolio, and the after-tax impact of foreign exchange rates (net of hedge) on the investment portfolio (\$1.6 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 the International Financial Reporting Standards (IFRS).

**Financial performance measures (A\$ million unless otherwise stated)**

	Quarterly						Full Year		
	4Q18	1Q19	2Q19	3Q19	4Q19	(4Q18 vs 4Q19)	FY18	FY19	(FY18 vs FY19)
New Insurance Written <sup>4</sup> (A\$ bn)	6.8	5.4	7.1	6.4	7.8	14.7%	22.2	26.7	20.3%
Gross Written Premium	101.3	86.3	97.8	114.6	134.5	32.8%	460.2 <sup>5</sup>	433.2	(5.9%)
Net Earned Premium	69.9	72.9	74.7	76.2	74.4	6.4%	281.3	298.2	6.0%
Statutory NPAT	14.2	47.8	40.3	25.1	6.9	(51.4%)	75.7	120.1	58.7%
Underlying NPAT <sup>6</sup>	23.3	22.3	20.8	26.5	27.4	17.6%	93.9	97.0	3.3%
Reported loss ratio (%)	48.2	55.3	53.0	52.9	41.4	(6.8pts)	51.9	50.6	(1.3pts)
Total portfolio delinquencies (#)	7,145	7,490	7,891	7,713	7,221	1.1%	7,145	7,221	1.1%
Portfolio delinquency rate (%)	0.54	0.57	0.60	0.60	0.56	2bps	0.54	0.56	2bps

**STRATEGIC UPDATE**

The Company's strategic vision is to position itself as the leading provider of customer-focused capital and risk management solutions in the Australian residential mortgage market. In 2019 we launched our new regular (monthly) premium Lenders Mortgage Insurance (LMI) offering, onboarded new and existing customers onto our automated underwriting decision platform and data-only submission channel (eLMI portal), and continued to leverage data and technology capabilities to deliver risk management insights and operational efficiencies to our customers. Through executing our strategic program of work, Genworth is better able to meet customer needs in a dynamic environment whilst pricing at our target return on equity (ROE).

**FINANCIAL PERFORMANCE**

**New Insurance Written (NIW)** increased 20.3% to \$26.7 billion in FY19 compared to \$22.2 billion in FY18.

**Gross Written Premium (GWP)** decreased 5.9% to \$433.2 million in FY19 (FY18: \$460.2 million). FY18 GWP includes GWP written in 1Q18 pursuant to a customer contract entered into by Genworth's Bermudian insurance entity. Excluding this transaction, GWP for FY19 increased 17.1%.

This result reflects the higher volume growth in traditional LMI flow business across Genworth lender customers as property prices continued to rebound over the last quarter of 2019. The December month was our highest monthly GWP result for FY19, reflecting improved home buyer confidence and affordability particularly in Sydney and Melbourne.

<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 into by Genworth's Bermudian insurance entity. Excluding this transaction, GWP increased 17.1% in FY19.

<sup>6</sup> Underlying NPAT excludes the after-tax impact of mark-to-market gains of \$24.6 million (FY18: after-tax losses of \$18.3 million) on the investment portfolio, and the after-tax impact of foreign exchange rates (net of hedge) on the investment portfolio (\$1.6 million loss). The bulk of these foreign exchange exposures are hedged.

**Net Earned Premium (NEP)** increased 6.0% from \$281.3 million in FY18 to \$298.2 million in FY19. This result is slightly above full year guidance and a result of the continued seasoning of FY17 and FY18 book years and policy cancellation initiatives in FY19.

Genworth's **Unearned Premium Reserve** as at 31 December 2019 was \$1.3 billion.

The **Delinquency Rate**<sup>7</sup> increased by 2 basis points (bps) from 0.54% as at 31 December 2018 to 0.56% as at 31 December 2019. This was driven by growth in delinquencies in the Sydney and Melbourne housing markets and the continued extended ageing of delinquencies due to slower loss management processing by lenders first called out in FY18. Encouragingly, signs of faster processing by some lenders in 3Q19 continued into 4Q19.

**New Delinquencies** were down 2.6% (FY19: 10,414 versus FY18: 10,697) as we continued to see signs of improvement in mining regions. **Cures** increased slightly from 8,937 in FY18 to 8,986 in FY19 as lender customers have gained traction on remediation of ageing delinquencies and the fall in interest rates has been felt by borrowers.

The number of **Paid Claims** was up 3.2% (FY19: 1,352 versus FY18: 1,311) although the average paid per claim declined from \$112,800 in FY18 to \$96,500 in FY19. This decrease in the average paid per claim is a result of the stabilisation of mining regions.

**Net Claims Incurred** for the year were \$150.9 million (FY18: \$145.9 million). The increase is mainly attributable to additional reserving from pressure emerging in Perth in response to continued house price depreciation over FY19, notwithstanding the market is now showing early signs of house price stabilisation in Perth.

The FY19 **Loss Ratio** was 50.6% (versus 51.9% in FY18) and in line with the Company's FY19 guidance range of between 45% and 55%. FY19 losses were impacted by reduced cure activity which was offset by increased earned premium from cancellations activities.

**Investment Income** in FY19 was \$139.1 million (FY18: \$77.9 million), with \$28.7 million in unrealised losses in 4Q19 as a result of the movement in market yields partially offsetting strong performance for the year.

FY19 Investment Income included an unrealised gain of \$35.2 million or \$24.6 million after-tax (FY18: unrealised loss of \$26.1 million or \$18.3 million after-tax). The after-tax realised gain of \$20.1 million in FY19 was up 64.8% on the FY18 realised gain of \$12.2 million predominantly due to the transition of the equity portfolio to a new external manager in 3Q19 and rebalancing within the fixed interest securities portfolio.

After adjusting for realised and unrealised gains and losses, the FY19 investment return was 2.4% per annum, (FY18: 2.6% per annum) reflecting the fact that returns continue to be pressured by the low interest rate environment.

As at 31 December 2019, the value of Genworth's investment portfolio was \$3.1 billion, of which 81% continues to be held in cash and fixed interest securities with a rating of 'A-' or better. The Company had \$83 million invested in equities and \$572 million invested in non-AUD income securities<sup>8</sup>.

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

<sup>8</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.

## **CAPITAL MANAGEMENT**

Genworth's regulatory solvency ratio was 1.91 times the **Prescribed Capital Amount (PCA)** on a level 2 basis as at 31 December 2019. This ratio continues to be above the Board's target capital range of 1.32 to 1.44 times PCA.

The Company has undertaken various capital management activities in relation to FY19 including:

- \$63.9 million returned to shareholders through an on-market share buy-back;
- \$61.8 million distributed through fully franked ordinary dividends (interim and final) totalling 16.5 cps for FY19 (including the ordinary dividend declared today);
- \$190.2 million distributed through unfranked special dividends totalling 46.1 cps for FY19; and
- \$800 million reinsurance program renewed.

The Board today has declared a fully franked final ordinary dividend of 7.5 cps. The ordinary and special dividends for FY19 totalling 62.6 cps equate to a yield of 17.2% based on the Genworth share price of \$3.65 as at 31 December 2019.

Mr. West said, "We remain focused on optimising our capital structure, having distributed over \$330.5 million to shareholders through a combination of special and ordinary dividends and an on-market share buy-back during 2019. In addition, we are committed to continually evaluating potential uses for excess capital."

## **CUSTOMERS**

Genworth has commercial relationships with over 100 lender customers across Australia with a majority of its mortgage insurance business concentrated in a small number of key customers.

As announced in 4Q19, the Company renewed its Supply and Service Contract with Commonwealth Bank (CBA) for the provision of LMI for three years with effect from 1 January 2020.

Mr. West said, "We take pride in our strong and long-standing relationships with the major and regional banks, building societies, credit unions and non-bank mortgage originators. Our strategic focus of expanding our product suite and enhancing our technological capability is driven by the desire to provide a better experience for our customers."

The bushfires that occurred during 4Q19 and that continued into early 2020 have had a devastating impact on communities. In partnership with its lender customers, the Company is providing support to those individuals impacted by the bushfires. The effect of bushfires in affected regions and the potential temporary disruption to those regional economies is still emerging but within this environment, Genworth's commitment to assisting lenders and borrowers remains strong.

At this time, the Company believes there will be insignificant impact to the business, as our exposure would most likely be limited to any economic downturn that may occur in the impacted regions. We could see a temporary uptick in delinquencies in the coming months, followed by a higher rate of cures as we have seen following past natural disaster events.

## **KEY MANAGEMENT CHANGE**

On 24 January 2020, the Board of Directors announced the appointment of Ms. Pauline Blight-Johnston as Chief Executive Officer and Managing Director of Genworth commencing on 2 March 2020. Ms. Blight-Johnston has over 25 years' experience in life insurance and wealth management, at a range

of professional and financial services firms and brings a strong financial and actuarial acumen as well as proven capabilities driving strategy and leading people.

Mr. Duncan West who has been serving as Acting CEO following the retirement of Ms. Georgette Nicholas on 31 December 2019 will continue to serve as an independent non-executive Director of Genworth following Ms Blight-Johnston's appointment.

## **ECONOMIC OVERVIEW**

Economic growth continued to moderate throughout 2019, driven by lower household consumption and coupled with cost of living pressures and lower business investment confidence.

Unemployment levels remained reasonably stable through the year, although excess capacity in the labour market continues to impact wages growth which remains low with some signs of improvement compared to 2018.

National house prices continued to recover during 4Q19 led by the metropolitan centres with Sydney and Melbourne recording strong growth, which Genworth expects to see continue in 2020. The Perth market, which has experienced challenging market conditions since mid-2014, is showing early indication that prices have begun to stabilise into 2020, aided by a gradual recovery of the Western Australian economy.

As we look ahead to 2020, Australian economic fundamentals remain sound with the effect of stimuli on multiple fronts including a historically low cash rate, tax cuts, continued infrastructure investment, recovering housing markets, and a generally brighter outlook for the resources sector providing positive momentum in 2020. Strong export growth in commodities combined with steady growth in service and manufactured exports supported by a weaker Australian dollar are also providing foundational support for the economy. Australia's terms of trade remain strong with a strong Australian trade surplus recorded each month since the beginning of 2018. Counterbalancing these positive factors is geopolitical uncertainty and the impact of trade tensions between the United States and China which may weigh on global economic growth over 2020.

The economic impact on GDP over 2020 from the severe ongoing drought, recent bushfires in late 2019 and early 2020 across Australia, and the novel coronavirus, is uncertain.

## **2020 OUTLOOK FOR GENWORTH**

Whilst the current economic environment remains sound, Genworth expects its financial performance in FY20, to be influenced by a number of factors including:

- housing market appreciation, particularly in Sydney, Melbourne and Perth;
- unemployment and labour market capacity, and the effect on household income growth and the level of consumer confidence;
- variations in mortgage interest rates and credit standards as we expect lenders to look for opportunities to grow their business by attracting borrowers;
- increase in regulatory compliance and corporate insurance costs as a result of general market conditions;
- the impact of the Australian Government First Home Loan Deposit Scheme; and
- the effect of the recent bushfires on delinquencies in affected regions and the potential temporary disruption to those regional economies and declines in property values of surrounding areas.

Accordingly, FY20 NEP is expected to be within the range of -5% to +5% of FY19 NEP and the FY20 loss ratio is expected to be between 45% and 55%. Genworth continues to target a FY20 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 the impact of unforeseen circumstances such as the recent bushfires and global and economic events including health emergencies such as the outbreak of novel coronavirus.

Mr. West said, "We are committed to maintaining the momentum of our Strategic Program of Work leveraging data and technology to add value across the mortgage value chain. We also remain focused on working with our customers to implement our monthly premium LMI offering as a complement to our upfront single premium product, as well as other initiatives that grow our GWP and diversify our revenue streams. Our Company is well capitalised and has a solid balance sheet with net tangible assets of approximately \$3.66 per share as at 31 December 2019 and remains committed to actively managing our capital position to continue delivering solid profits and attractive returns for our shareholders."

**ENDS**

## CONFERENCE CALL

A conference call for analysts, institutional investors and media will be held at 10:00am (Sydney time) on Wednesday, 5 February 2020 to discuss these results. Details of the conference call are:

**Conference name:** Genworth Australia Full Year 2019 Financial Results

**Conference ID:** 10003498

### 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 dialled.

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		

## 2020 ANNUAL GENERAL MEETING

Genworth advises that, in accordance with ASX Listing Rule 3.13.1, its Annual General Meeting will be held on Thursday, 7 May 2020 at The Mint, 10 Macquarie St, Sydney NSW 2000, and the closing date for the receipt of nominations from persons wishing to be considered for election as a director at that meeting is Tuesday, 3 March 2020. A Notice of Meeting will be lodged with the ASX closer to the date.

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

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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.