

Genworth first half 2019 (1H19) earnings

- Statutory net profit after tax (NPAT) in 1H19 of \$88.1 million¹ (1H18: \$41.9 million) and Underlying NPAT² of \$43.1 million (1H18: \$50.3 million)
- New Insurance Written (NIW) up 20.7% (1H19: \$12.5 billion versus 1H18: \$10.3 billion) – reflecting growth in Genworth’s traditional LMI flow and bulk business
- 1H19 earnings in line with full year guidance (NEP up 3.0%; Loss Ratio 54.1%) – the loss ratio reflects the traditional seasonal uptick in delinquencies historically experienced in the first half of the year by the business
- Strategic initiatives progressing well – new regular (monthly) premium LMI announced today as an alternative option to upfront single premium LMI offering
- \$100 million on-market share buy-back commenced on 21 February 2019. As at 30 June 2019, 25.0 million shares to the value of \$63.9 million acquired as part of this capital management initiative
- Fully franked interim ordinary dividend of 9.0 cents per share and unfranked special dividend of 21.9 cents per share
- Since listing on the ASX in 2014, Genworth has returned more than \$1.7 billion to shareholders, including distribution of 100% of after-tax profits
- Unearned Premium Reserve of \$1.2 billion as at 30 June 2019
- Regulatory solvency ratio 2.08 times the Prescribed Capital Amount (on a level 2 basis) as at 30 June 2019
- Strong capital position – Net Tangible Assets of \$4.14 per share as at 30 June 2019 (31 December 2018: \$3.94)

(SYDNEY) 31 July 2019 – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) today reported its half year results for the six months ended 30 June 2019. Statutory³ net profit after tax (NPAT) for 1H19 was \$88.1 million and Underlying NPAT was \$43.1 million.

The Genworth Board has declared a fully franked interim ordinary dividend of 9.0 cents per share and an unfranked special dividend of 21.9 cents per share both payable on 28 August 2019 to shareholders registered as at 14 August 2019.

Genworth Chief Executive Officer and Managing Director, Ms. Georgette Nicholas said, “Our 1H19 financial performance is in line with our full year guidance. Over this period we have maintained the momentum of our strategic program of work, particularly around product innovation and enhancement and have delivered growth in our traditional lenders mortgage insurance (LMI) business despite the prevailing tight credit and moderating market conditions.

¹ 1H19 Statutory NPAT includes an after tax unrealised gain of \$45.4 million on the investment portfolio compared to an unrealised after tax loss of \$8.4 million in 1H18.

² Underlying NPAT excludes the after-tax impact of mark-to-market gains/(losses) of \$45.4 million on the investment portfolio, and the after tax impact of foreign exchange rates on Genworth’s investment portfolio (\$0.4 million loss). The bulk of these foreign exchange exposures are hedged.

³ 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).

“We have also remained vigilant in actively managing our capital position. On 21 February 2019 we commenced a \$100 million on-market share buy-back and as at 30 June 2019 had acquired 25 million shares for a consideration of \$63.9 million.

“Given the time taken to complete the buy-back, the Board has declared the remaining \$36.1 million as part of the unfranked special dividend announced today. We remain committed to continuing to evaluate uses for our excess capital and to returning excess capital to shareholders in the most effective and timely manner.”

Financial performance measures (A\$ million)			
	1H18	1H19	(1H18 vs. 1H19)
New Insurance Written ⁴	10,342.0	12,480.0	20.7%
Gross Written Premium	266.8 ⁵	184.1	(31.0%)
Net Earned Premium	143.3	147.6	3.0%
Reported NPAT	41.9	88.1	110.3%
Underlying NPAT	50.3	43.1	(14.3%)
Reported loss ratio	53.3%	54.1%	80bps
Total portfolio delinquencies	7,306	7,891	8.0%
Portfolio delinquency rate	0.54%	0.60%	6bps

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 that complement Genworth’s traditional LMI business as well as leveraging technology and data to deliver risk management insights and operational efficiencies to its customers.

Ms Nicholas said, “In addition to developing new product offerings we have made significant progress in enhancing our existing LMI offering to provide greater flexibility for lenders and borrowers.

“We have today announced that we are introducing the option of regular (monthly) premium LMI to lenders, as an alternative to the current upfront single premium. This offering, forms part of our broader suite of capital and risk management solutions, which now include:

- Bespoke risk management solutions (written through our Bermudian insurance entity);
- Micro Markets LMI targeting the 70-80% LVR loan segments not covered by traditional LMI;
- Limited term LMI cover (fixed term cover and fixed LVR cover);
- Risk share cover (top cover and quota share); and
- Excess of loss cover.

“The introduction of regular (monthly) premium LMI offers borrowers flexibility in how they pay for LMI while continuing to support a reduction in the deposit they need to purchase a home.

“It provides borrowers with the option of not capitalising the premium into the loan, as many do today, or paying the entire LMI premium upfront. Instead, they can pay the LMI premium in instalments over time. This means a greater portion of their loan can be utilised to support the purchase of the property.

“Importantly, our new monthly premium LMI provides borrowers with the flexibility to refinance at a later date, (without the need for a refund of LMI premium) and lenders with the option of structuring this offering to enable borrowers to cease paying the LMI premium when their loan achieves a certain LVR.”

⁴ Excludes excess of loss insurance and new business written via Genworth’s Bermudian entity.

⁵ Includes GWP written in 1H18 pursuant to a customer contract entered by Genworth’s Bermudian insurance entity. Genworth has retained \$170.2 million of risk as part of this transaction and placed the remainder with a consortium of global reinsurers. Net of the premium to the consortium of global reinsurers Genworth’s 1H18 GWP increased 12.0% as a result of this transaction.

FINANCIAL PERFORMANCE

New Insurance Written (NIW) increased 20.7% to \$12.5 billion in 1H19 compared to \$10.3 billion in 1H18. NIW excludes the Company's excess of loss insurance and the business written via Genworth's Bermudian entity in 1H18.

The increase in NIW in 1H19 compared to 1H18 is the result of sustained growth in the Company's:

- bulk portfolio business (\$2.4 billion of NIW attributable to bulk transactions in 1H19 versus \$1.1 billion in 1H18); and
- LMI flow business (1H19: \$10.1 billion; 1H18: \$9.2 billion) reflecting the greater proportion of LMI business written by Genworth lender customers.

Gross Written Premium (GWP) decreased 31.0% to \$184.1 million in 1H19 (1H18: \$266.8 million). This decline reflects the fact that 1H18 GWP included a bespoke transaction written through Genworth's Bermudian insurance entity⁶. Excluding this transaction, GWP increased 6.4% in 1H19 versus 1H18.

Net Earned Premium (NEP) increased 3.0% from \$143.3 million in 1H18 to \$147.6 million in 1H19. This includes the release of \$4.5 million of unearned premium in 1H19 (versus \$8.2 million in 1H18) as part of the Company's lapsed policy initiative. This initiative has involved the Company securing new data sources which have been used to identify refinanced or discharged loans more promptly (Lapsed Policy Initiative). Excluding the impact of the Lapsed Policy Initiative in both 1H18 and 1H19, NEP was up 5.9%. These new data sources have been incorporated into Genworth's "business as usual" processes.

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

The **Delinquency Rate**⁷ (increased from 0.54% in 1H18 to 0.60% in 1H19). This increase reflects the continued extended ageing of delinquencies due to slower loss management processing by lenders over the past 12-18 months and to a lesser extent the reduction in the number of policies in force as a result of the Lapsed Policy Initiative.

New Delinquencies were down slightly (1H19: 5,515 versus 1H18: 5,565) and broadly in line with seasonal expectations. However, the trend of softening cure rates (first identified in 2018) continued in 1H19 with the number of **Cures** decreasing from 4,289 in 1H18 to 4,154 in 1H19.

The number of **Paid Claims** was also down (1H19: 615 vs. 1H18: 666) as was the average quantum paid per claim which decreased from \$116,700 in 1H18 to \$94,200 in 1H19. The payment of higher than average paid claims in 2018, reflected the impact of house price depreciation in mining areas. As mining regions have stabilised the average paid claim amount is returning to a more historical norm.

Net Claims Incurred in 1H19 was \$79.8 million (1H18: \$76.4 million). This reflects the \$21.9 million increase in reserves in 1H19 versus the release of \$0.4 million of reserves in 1H18 offset by the reduction in Claims Paid from \$77.7 million in 1H18 to \$57.9 million in 1H19.

The 1H19 **Loss Ratio** was 54.1% (1H18: 53.3%). Excluding NEP relating to the Lapsed Policy Initiative the Loss Ratio would be 55.8%. This is in line with the Company's FY19 guidance range of 45%-55% after factoring in the seasonal increase in delinquencies traditionally experienced by Genworth in the first half of each year.

Investment Income in 1H19 was \$114.9 million (1H18: \$44.5 million) and included an unrealised gain of \$64.9 million⁸ (\$45.4 million after tax) compared to an unrealised loss of \$12.0 million (\$8.4 million after tax) in 1H18. This reflects unrealised gains on the fixed interest portfolio given declining interest rates and unrealised gains on the equity portfolio.

⁶ The Bermudian bespoke transaction reported in 1H18 was structured utilising a consortium of global reinsurers. Genworth retained \$170.2 million of risk and placed the remainder with the reinsurers. The 1H18 GWP figure includes premium that was ceded to these reinsurers.

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

⁸ This reflects unrealised gains predominantly from the fixed income portfolio due to reducing interest rates. This amount excludes foreign exchange gains/losses and has been excluded from Underlying NPAT.

Investment Income in 1H19 also includes a realised gain of \$8.2 million in 1H19 (\$5.8 million after tax) versus a realised gain of \$12.9 million (\$9.1 million after tax) in 1H18. Realised gains in 1H19 and 1H18 were largely due to the Company reducing its equity exposure. The realised gains are included in the Underlying NPAT for both halves.

As at 30 June 2019, the value of Genworth's investment portfolio was \$3.3 billion, more than 83% of which continues to be held in cash and fixed interest securities with a rating of 'A-' or better. The Company also had \$84.1 million invested in Australian equities and \$577.0 million invested in non-AUD income securities⁹.

CAPITAL MANAGEMENT

Genworth's regulatory solvency ratio was 2.08 times the **Prescribed Capital Amount (PCA)** on a level 2 basis as at 30 June 2019. This ratio continues to be comfortably above the Board's target capital range of 1.32 to 1.44 times.

The Company has maintained its focus on actively managing its capital position and on 21 February 2019 commenced an on-market share buy-back (up to a value of \$100 million). As at 30 June 2019, 25.0 million shares were acquired as part of this initiative, for a consideration of \$63.9 million¹⁰. In light of the time taken to reach the targeted \$100 million capital return pursuant to the buy-back, the Board has declared the remaining \$36.1 million as part of the unfranked special dividend of 21.9 cents per share.

The Board has also declared a 1H19 fully franked interim ordinary dividend of 9.0 cents per share. The interim dividend represents a payout ratio of 86.2% of 1H19 Underlying NPAT.

Ms. Nicholas said, "Our strategic focus is on ensuring we deliver ongoing sustainable returns for shareholders and accordingly our priority for excess capital is to deploy it towards profitable business opportunities. We are however equally focused and committed to ensuring we have an optimal capital structure. This means we will continue to actively manage our capital position and to evaluate a range of capital management initiatives to ensure that excess capital is returned to shareholders in a timely manner."

Since listing on the Australian Securities Exchange in 2014, Genworth has returned more than \$1.7 billion to shareholders, including the distribution of 100% of after tax profits.

CUSTOMER RELATIONSHIPS

Genworth has commercial relationships with over 100 lender customers across Australia. The Company's top three customers in terms of GWP¹¹ accounted for approximately 71% in 1H19 (1H18: 82%). These three customers also accounted for 61% of NIW¹² in 1H19 (1H18: 65%).

The Company's largest customer accounted for 45% of NIW (1H18: 46%) and 53% of GWP in 1H19 (1H18: 68%).

Genworth estimates that it had approximately 31% of the Australian high loan-to-value ratio (HLVR) mortgage origination market¹³ by NIW for the six-month period ended 30 June 2019 (1H18: 27%).

Based on publicly disclosed APRA data the Company estimates that it had an approximate 47% share of the Australian LMI market by GWP¹⁴ for the six-month period ended 30 June 2019 up from 42% in 1H18.

⁹ 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.

¹⁰ These amounts are inclusive of 401,560 shares bought back on 27 June 2019 for a purchase consideration of \$1.1 million which were cancelled on 1 July 2019.

¹¹ GWP includes excess of loss insurance written by Genworth.

¹² NIW excludes excess of loss insurance written by Genworth.

¹³ The Australian HLVR mortgage origination market by NIW includes risk retained by lenders (e.g. low deposit premium loans) and waived LMI loans. It excludes bulk portfolio loans and loans covered via excess of loss insurance.

¹⁴ The Australian LMI market by GWP does not include retained risk and waived LMI loans. It does however include bulk portfolio loans and loans covered by excess of loss insurance.

RATINGS

On 18 June 2019 Fitch reaffirmed Genworth Financial Mortgage Insurance Pty Limited's financial strength rating at 'A+' however revised its outlook from 'stable' to 'negative'.

On 31 May 2019 Standard & Poor's Ratings Services (S&P) reaffirmed Genworth Financial Mortgage Insurance Pty Limited's financial strength rating at 'A+' and outlook as 'negative'. S&P subsequently, on 1 July 2019, published revised criteria for rating insurance companies. On 25 July 2019 S&P announced that due to revisions to its ratings criteria it has changed Genworth Financial Mortgage Insurance Pty Limited's financial strength rating to 'A' with a 'stable' outlook.

ECONOMIC OVERVIEW

Economic growth in 1H19 continued to slow, weighed down by subdued household consumption, tight credit conditions, ongoing slow growth in household income coupled with cost of living pressures and heightened uncertainty in the lead up to the federal election in May 2019.

Whilst unemployment levels remained reasonably stable throughout 1H19, there has been sustained excess capacity in the labour market. House price moderation continued in all of the major capital cities (albeit at a slower rate) throughout the first half of the year.

Looking ahead the effect of stimuli on multiple fronts notably RBA cash rate cuts, APRA changes to serviceability, Government tax cuts and continued infrastructure investment at a state and federal level, will provide foundational support to the economy. An increase in commodity exports throughout 2019 is also expected to positively impact the economy, supported by a lower exchange rate. Counter-balancing these positive factors, is the continued geo-political uncertainty and the impact of escalating trade tensions which have the potential to impact global economic growth over the remainder of the year.

Genworth expects the moderating trend in metropolitan housing markets to slow in the second half of the year (particularly in Sydney and Melbourne) with increased stability in house prices heading into the latter part of the year. The exception to this is Perth where challenging market conditions are expected to continue throughout the year, reflecting the ongoing impact of the end of the mining boom.

2019 OUTLOOK FOR GENWORTH

The guidance provided by the Company in its FY18 results announcement remains unchanged with FY19 NEP expected to be within 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, "Our Company is well capitalised, with a solid balance sheet and net tangible assets of approximately \$4.14 per share as at 30 June 2019. We have a track record of delivering solid profits and attractive shareholder returns which we are well placed to continue through our strategic program of work and the implementation of capital management initiatives that return excess capital to shareholders in a timely manner."

ENDS

Conference call

A conference call for analysts, institutional investors and media will be held at 10.00 am (Sydney time) on Wednesday 31 July 2019 to discuss these results. Details of the conference call are:

Conference name: Genworth Australia First Half 2019 Financial Results

Conference ID: 10001041

Australia dial-in details

1800 558 698 (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 336 4664	New Zealand	800 480 392
China	4001 200 641	Singapore	800 852 3140
Hong Kong	800 906 986	United Kingdom	0808 168 3761
India	0008 0010 08069	United States	1855 336 4664
Japan	005 3116 1306		

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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.