

Genworth Mortgage Insurance Australia Limited First Half 2022 Results

3 August 2022 – Genworth Mortgage Insurance Australia Limited (Genworth or the Company) (ASX: GMA) today reported its financial results for the half year ended 30 June 2022 (1H22)¹.

The Company reported a Statutory net profit after tax (NPAT) of \$18.9 million. Underlying NPAT² was \$134.3 million, which included an underwriting result of \$172.5 million. Statutory NPAT was materially lower than Underlying NPAT as a result of unrealised mark to market investment losses of \$162.1 million.

The Genworth Board has declared a fully franked interim ordinary dividend of 12.0 cps to shareholders registered as at 17 August 2022, payable on 31 August 2022.

1H22 highlights	1H21	1H22	1H22 v 1H21 (%)
Gross written premium (GWP) (\$m)	289.7	188.6	(34.9)
Net earned premium (NEP) (\$m)	170.9	216.5	26.7
Underwriting result (\$m)	87.7	172.5	96.7
Insurance profit (\$m)	71.5	79.5	11.2
Statutory net profit after tax (NPAT) (\$m)	59.4	18.9	(68.2)
Underlying net profit after tax (\$m)	76.4	134.3	75.8
Statutory diluted earnings per share (cps)	14.4	4.7	(67.4)
Underlying diluted earnings per share (cps)	18.5	33.6	81.5
Ordinary dividend per share (cps)	5.0	12.0	N.M. ³

Genworth Chief Executive Officer and Managing Director, Ms. Pauline Blight-Johnston, said “We are pleased to be delivering another strong underlying financial performance, and that Genworth remains well-positioned to continue to support Australians through the changing economic environment ahead. The momentum we are building with customers to find new ways to help Australians into homes is reinforcing our value in the market and is helping us to accelerate financial wellbeing through home ownership, now and for the future.

Underlying NPAT was well up on the prior period, driven by a strong underwriting result due to higher earned premium and negative net claims incurred. Whilst rising bond yields have caused short term mark to market investment losses, increased bond yields are positive for future profitability.”

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 Underlying NPAT excludes the GFI separation costs, the 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.

³ N.M. Not Meaningful (increases / decreases >100%).

Operating Environment

After a very favourable period for the past 18 months, the economic environment is beginning to change.

Inflation has risen significantly and in response the Reserve Bank of Australia has embarked on a normalisation of monetary policy, increasing the official cash rate by 175 basis points since 4 May 2022 to 1.85%, with further increases expected. This in turn is leading to higher mortgage interest rates for borrowers and modest falls in house prices in some markets, with potential for further declines ahead. On the positive side the unemployment rate of 3.5% is at its lowest level since 1974 and the participation rate is at an all-time high of 66.8%.

As we head into this changed environment, the Company's in-force portfolio has a strong starting point:

- Underwriting settings have been progressively tightened since 2014, including adjustments over the course of 2021 and 2022.
- The portfolio is well seasoned and there are substantial dwelling value buffers, with only 1.5 percent of policies estimated to have an effective LVR⁴ above 90 percent.
- Closing delinquencies of 5,228 are at their lowest level since 2014 and new delinquencies are also historically low, benefiting from the very low levels of unemployment.
- Outstanding claims and premium liability reserves are set on a long-term basis and contain allowances for a potential economic downturn.

\$100 million on-market share buy-back

Genworth is today announcing an on-market share buy-back for shares up to a maximum aggregate value of \$100 million, commencing in August 2022.

Based on Genworth's closing share price of \$2.88 on 2 August 2022, this would represent 9.2 percent of the Company's issued share capital or around 34.7 million shares. The total number of shares to be purchased by Genworth under the on-market share buy-back will depend on business and market conditions, the prevailing share price, market volumes and other considerations. Genworth recently received shareholder approval to buy back up to 60 million shares at the 2022 AGM, subject to regulatory approvals.

Genworth reserves the right to vary, suspend or terminate the buy-back at any time and there is no guarantee that the Company will purchase any or all of the shares referred to above.

Progress on strategy

Genworth continues to make progress on delivering its strategy, as demonstrated by recent customer wins, new product innovations and complimentary offerings with partners.

The Company has had a 100 percent success rate in retaining all existing customers over the past 18 months. We are pleased to announce that the Company has recently been selected as the exclusive provider of lenders mortgage insurance (LMI) to Bendigo and Adelaide Bank, a relationship previously

⁴ Calculated on an estimated house price adjusted effective Loan to Value Ratio, using the CoreLogic Home Price Index and assumes 30-year principal and interest amortising loan, with the mortgage rate remaining unchanged through the period. Effective LVR is not adjusted for prepayments, redraws or non-amortising residential mortgage loans insured.

shared with another provider. This follows on from our recent exclusive renewal with BOQ now incorporating the ME Bank business which was previously not insured with Genworth.

Our new products continue to differentiate Genworth amongst lender customers and brokers. Genworth was recently announced as a winner of the Australian Broker Magazine 2022 5-Star Mortgage Innovator award for the Monthly Premium and Family Assistance products. We have a pipeline of further initiatives across existing and new products to benefit both our lender customers and their borrowers.

We have also made progress on our partnership with OSQO, a pre-revenue technology start-up built on blockchain technology. We are currently jointly developing a deposit gap loan product for homebuyers without a full 20 percent deposit which supports co-funding by friend and family investors, and we expect to have a product in market within 12 months.

Genworth continues to work on delivering a digital strategy, modernising our technology with an increased use of cloud services. In 1H22 we implemented a new cloud-based loss management platform and extended modern application technology interfaces to four additional lender customers.

Completion of separation from Genworth Financial Inc. (GFI)

Separation from GFI provided services was completed in 1Q22 as planned. To date the cumulative cost of \$11.1 million remains below the \$15 to \$19 million range outlined at 1H21.

The remaining work relates to phase 2 enhancements of the Finance and Human resources systems as well as rebranding, which is expected to occur in 4Q22.

1H22 Overview

1H22 key financial measures	1H21	1H22	1H22 v 1H21 (%)
New insurance written (NIW) (\$b)	15.5	11.2	(27.7)
Loss ratio (%)	28.9	(1.4)	N.M.
Closing delinquencies (number)	6,853	5,228	(23.7)
Delinquency rate (%)	0.60	0.51	(9bps)
PCA coverage ratio (times) ⁵	1.74	2.11	37bps
Net Tangible Assets Per Share (\$)	3.47	3.63	4.6
Underlying annualised return on equity (ROE) (%)	11.0	17.5	650 bps

Moderation of new business volumes, but NEP still strong

NIW fell 27.7% as affordability constraints were reflected in lower industry new loan commitments for owner occupied loans, including a large fall in the number of First Home Buyers. Increased serviceability requirements and tighter underwriting standards also saw a fall in industry loans funded over 90% LVR.

⁵ Pro-forma PCA ratio of 1.94 times (allowing for payment of 1H22 dividends and completion of \$100 million on-market buy-back).

GWP fell by 34.9%, reflecting the reduced NIW as well as a change in business mix with fewer loans over 90% LVR.

Despite the slowdown in GWP, there was a 26.7% increase in NEP, reflecting strong new business growth in recent periods and a continuation of high levels of cancellations from refinancing. These cancellations brought forward the recognition of approximately \$60 million of additional premium revenue compared to 1H21, which exceeded the impact of the reduction in NEP from the 2021 earnings curve review.

Unusually low claims environment

Net claims incurred were negative \$3.0 million⁶ in 1H22, equating to a Loss Ratio of (1.4%) as the claims environment continued to be unusually favourable.

New delinquencies remained well below historical levels reflecting the strength in borrower finances that have been assisted by high savings, the strong labour market and record low interest rates. These conditions contributed to a 23.7% fall in closing delinquencies and a 9 basis point improvement in the delinquency rate compared to 1H21.

Net ageing (cures less ageing) improved from 1H21 levels but was stable half on half and remains below historical levels, benefitting from an extended period of low interest rates, low unemployment, and house price appreciation. This favourable trend was also seen in the number and size of paid claims.

Claims reserving assumptions were largely stable in 1H22 with a modest increase of \$11.2 million, largely due to an allowance for potential future house price depreciation.

Investment markets drive unrealised losses

Cash and Investments fell 8.7% to \$3.4 billion at 1H22. Net investment income was a loss of \$142.2 million in 1H22, driven by unrealised mark to market losses on the investment portfolio of \$162.1 million, mainly on the bond portfolio. Net interest and dividend income was in line with 1H21 and rising reinvestment rates have improved the running yield on cash and investments at 1H22 by 200bps to 3.0%.

Regulatory capital above targeted range

At 30 June 2022, Genworth's capital position was 2.11 times APRA's Prescribed Capital Amount (PCA) on a Group (Level 2) basis. The proposed dividends and the full completion of the announced buy-back are expected to reduce the pro forma PCA ratio to 1.94 times.

The Company remains committed to the efficient management of capital and will continue to seek opportunities to bring the capital position within the Board's target range of 1.4 - 1.6 times PCA over a 2 year period.

⁶ Net claims incurred for 1H22 were negative, driven by a release of reserves.

Outlook and FY22 guidance

Genworth expects FY22 GWP to remain below 2021 levels as industry New Loan Commitments slow, particularly for First Home Buyers and other higher LVR lending.

Despite slowing GWP, FY22 NEP is expected to remain strong, reflecting the high level of cancellations in 1H22 which are expected to reduce to longer term averages in 2H22. As a result, FY22 NEP is expected to be within a range of \$375 million to \$435 million, an increase from the previous guidance range of \$315 million to \$375 million provided at FY21.

Whilst net incurred claims are expected to begin to normalise, it will take some time for changes in the economy to flow through to delinquencies, which combined with the low starting point at 1H22 is likely to result in 2H22 claims remaining below historical averages. As a result, FY22 net incurred claims are expected to be within a range of \$0 million to \$50 million.

The extent of any further unrealised investment gains or losses will primarily depend on movements in bond rates which remain uncertain in the current environment. Higher bond rates are expected to benefit 2H22 interest income and are positive for future profitability.

GMA 1H22 Financial Performance Summary

(\$ millions)	1H21	2H21	FY21	1H22	1H22 v 1H21 (%)
Gross written premium	289.7	259.9	549.6	188.6	(34.9%)
Movement in unearned premium	(84.6)	(26.0)	(110.6)	59.7	N.M.
Gross earned premium	205.1	233.9	439.0	248.3	21.1%
Outwards reinsurance expense	(34.2)	(34.2)	(68.5)	(31.8)	7.0%
Net earned premium	170.9	199.6	370.5	216.5	26.7%
Net claims (incurred)/ written back	(49.3)	57.6	8.3	3.0	N.M.
Acquisition costs	(3.5)	(7.3)	(10.8)	(10.9)	N.M.
Other underwriting expenses	(29.5)	(34.3)	(63.8)	(33.4)	(13.2%)
Separation costs	(0.8)	(7.6)	(8.4)	(2.7)	N.M.
Underwriting result	87.7	208.0	295.8	172.5	96.7%
Investment income on technical funds	(16.2)	(17.8)	(34.0)	(93.0)	N.M.
Insurance profit	71.5	190.2	261.8	79.5	11.2%
Net investment income on shareholder funds	17.3	6.2	23.4	(49.2)	N.M.
Financing costs	(5.1)	(5.2)	(10.3)	(5.1)	0.0%
Profit before income tax	83.7	191.3	274.9	25.2	(69.9%)
Income tax expense	(24.3)	(57.8)	(82.1)	(6.3)	74.1%
Statutory net profit after tax	59.4	133.5	192.8	18.9	(68.2%)
Underlying net profit after tax	76.4	161.4	237.8	134.3	75.8%
Underlying diluted earnings per share	18.5 cps	39.1 cps	57.6 cps	33.6cps	81.5%

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

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Updated conference call details

A conference call for analysts, institutional investors and media will be held at 10:00am (Sydney time) on Wednesday, 3 August 2022 to discuss these results. Details of the conference call are:

Conference name: Genworth Australia First Half 2022 Financial Results

Conference ID: 10023448

Pre-registration link: <https://s1.c-conf.com/diamondpass/10023448-sadfm22.html>

Australia dial-in details:

1800 809 971 (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 8811 339	New Zealand	0800 453 055
China	4001 200 659	Singapore	800 101 2785
Hong Kong	800 966 806	United Kingdom	0800 051 8245
India	0008 0010 08443	United States	1855 8811 339
Japan	0053 116 1281		

Replay:

A replay of the conference call will be available on our website <http://investor.genworth.com.au> 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.