Genworth Mortgage Insurance Australia Limited

ABN 72 154 890 730

Half Year Financial Report
30 June 2018

Appendix 4D

Contents

1) Company details

Genworth Mortgage Insurance Australia Limited
ABN 72 154 890 730
Reporting period: 1 January 2018 to 30 June 2018
Previous corresponding reporting period: 1 January 2017 to 30 June 2017

2) Results for announcement to the market

	Up/ down	% change	Half year ended 30 June 2018 $'000	Half year ended 30 June 2017 $'000
Revenue from ordinary activities	Down	22.7%	229,260	296,503
Profit from ordinary activities after income tax attributable to shareholders	Down	52.7%	41,903	88,663
Net profit for the period attributable to shareholders	Down	52.7%	41,903	88,663

Dividends	Amount per security (cents)	Franked amount per security (cents)
Interim dividend	8.0	8.0
Special dividend	4.0	4.0

The record date of the interim dividend is 16 August 2018.

Brief explanation of any figures reported above

Please refer to the commentary in the review of operations and activities section of the directors' report and the half year results announcement accompanying this half year report.

3) Net tangible assets per security

	Half year ended 30 June 2018 $	Half year ended 30 June 2017 $
Net tangible assets per security	3.93	3.87

Net tangible assets per ordinary share has been determined by using the net assets on the balance sheet adjusted for intangible assets and goodwill.

4) Entities over which control has been gained or lost during the period

None

5) Dividends

Refer to note 3.1 in the half year financial report attached.

6) Dividend reinvestment plan

Not applicable

7) Details of associates and joint venture entities

Not applicable

8) For foreign entities, which set of accounting standards is used in compiling the report

International Financial Accounting Standards

9) Audit dispute or qualification

Not applicable

Attachment A

Genworth Mortgage Insurance Australia Limited

Half Year Financial Report

30 June 2018

Genworth Mortgage Insurance Australia Limited

ABN 72 154 890 730

Half Year Financial Report 30 June 2018

Contents

Directors' report

The directors present their report together with the financial statements of the Group comprising Genworth Mortgage Insurance Australia Limited ("the Company") and its controlled entities ("the Group") for the half year ended 30 June 2018 and the auditor's review report thereon.

Directors

The directors of the Company at any time during or since the end of the half year are as follows:

David Foster
Anthony (Tony) Gill
Ian MacDonald
Gai McGrath
Georgette Nicholas
Leon Roday
Stuart Take
Gayle Tollifson
Jerome Upton

Principal activity

The principal activity of the Group during the reporting period was the provision of lenders mortgage insurance ("LMI") under authorisation from APRA. In Australia, LMI facilitates residential mortgage lending by transferring risk from lenders to LMI providers, predominately for high loan to value ratio residential mortgage loans.

Review and results of operations

Operating results for the reporting period

The Group reported a 2018 statutory interim net profit after tax of $41.9 million, down 52.7% from $88.7 million in the prior corresponding period mainly driven by the adverse impact from the change in earnings curve conducted in 2017 which resulted lower earned premium.

The expense ratio increased to 32.9% from 25.9% in the prior corresponding period mainly reflecting lower net earned premium in the current period.

The reported loss ratio increased from 34.8% at 30 June 2017 to 53.3% at 30 June 2018 reflecting primarily lower net earned premium in the current period.

Review of financial condition

Consolidated total assets were $3.7 billion as at 30 June 2018 and consolidated liabilities were $1.9 billion.

Cash flow

Cash flow from operating activities for the reporting period was $32.3 million.

Regulatory capital

The Group's regulatory capital at 30 June 2018 was 1.90 times the Prescribed Capital Amount ("PCA") and the Common Equity Tier 1 ("CET1") ratio was 1.71. Regulatory capital exceeds the Group's targets and reflected a strong capital position.

Corporate structure

The Company is incorporated and domiciled in Australia. The majority shareholders of the Group is Genworth Financial International Holdings, Genworth Financial Australia Holdings, LLC ("LLC") and Genworth Holdings, Inc. (as partners of the Genworth Australian General Partnership ("AGP") representing 51.95% ownership. The ultimate parent entity of AGP is Genworth Financial, Inc ("GFI") which is incorporated in Delaware, United States of America.

In October 2016, GFI and China Oceanwide announced that they had entered into a definitive agreement under which China Oceanwide agreed to acquire all of the outstanding shares of GFI, subject to approval by GFI stockholders as well as other closing conditions. Upon completion of the transaction GFI will be a standalone subsidiary of China Oceanwide. The closing of the merger remains subject to the receipt of required regulatory approvals in the U.S., China, and other international jurisdictions and other closing conditions. Genworth Financial and China Oceanwide also continue to be actively engaged with the other relevant regulators regarding the pending applications.

Market capitalisation

The market capitalisation of the Company as at 30 June 2018 was $1.2 billion based on the closing share price of $2.57.

Events subsequent to reporting date

Detail of matters subsequent to the end of the financial year is set out below and in the events subsequent to reporting date note within the financial statements.

On 1 August 2018, the Directors declared a 100% ordinary franked dividend of 8.0 cents per share totalling $36,817,000 and a 100% franked special dividend for 4.0 cents per share totalling $18,409,000.

Likely developments

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Rounding off

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that Class Order, amounts in the consolidated financial statements and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 6 and forms part of the Directors' report.

Signed in accordance with a resolution of the Directors:

Ian MacDonald

Chairman

Dated: 1 August 2018

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Genworth Mortgage Insurance Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Genworth Mortgage Insurance Australia Limited for the half-year ended 30 June 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

David Kells
Partner
Sydney
1 August 2018

Financial Statements

Contents

Consolidated statement of comprehensive income

For the half year ended 30 June 2018

	Note	30 June 2018 $'000	30 June 2017 $'000
Gross written premium		266,760	182,310
Movement in unearned premium		(83,900)	63,137
Outward reinsurance premium expense		(39,515)	(33,885)
Net earned premium		143,345	211,562
Net claims incurred		(76,375)	(73,578)
Acquisition costs		(19,935)	(27,207)
Other underwriting expenses		(27,191)	(27,514)
Underwriting result		19,844	83,263
Investment income on assets backing insurance liabilities		14,785	18,523
Insurance profit		34,629	101,786
Investment income on equity holders' funds		31,615	32,533
Investment expenses on equity holders' funds		(1,922)	(1,954)
Financing costs		(5,922)	(5,687)
Profit before income tax		58,400	126,678
Income tax expense		(16,497)	(38,015)
Profit for the period		41,903	88,663
Total comprehensive income for the period		41,903	88,663
Earnings per share			
Basic earnings per share (cents per share)	3.2	8.9	17.4
Diluted earnings per share (cents per share)	3.2	8.9	17.4

The consolidated statement of comprehensive income is to be read in conjunction with notes to the financial statements.

Consolidated statement of financial position

As at 30 June 2018

	Note	30 June 2018 $'000	31 December 2017 $'000
Assets			
Cash		57,281	43,025
Accrued investment income		19,509	17,777
Investments	2.1	3,221,356	3,348,547
Trade and other receivables		94,746	12,521
Prepayments		2,671	2,450
Deferred reinsurance expense		80,356	145,425
Non-reinsurance recoveries	4.2	21,814	23,552
Deferred acquisition costs		154,115	151,791
Plant and equipment		4,659	938
Deferred tax assets		8,970	9,435
Intangibles		2,389	1,301
Goodwill		9,123	9,123
Total assets		3,676,989	3,765,885
Liabilities			
Trade and other payables		33,359	31,653
Reinsurance payable		85,216	159,979
Outstanding claims	4.1	339,336	339,679
Unearned premium		1,192,455	1,108,554
Employee benefits provision		7,114	6,796
Interest bearing liabilities	5.1	197,591	197,035
Total liabilities		1,855,071	1,843,696
Net assets		1,821,918	1,922,189
Equity			
Share capital	5.2	1,218,829	1,303,151
Share based payment reserve		1,534	2,528
Other reserves		(476,559)	(476,559)
Retained earnings		1,078,114	1,093,069
Total equity		1,821,918	1,922,189

The consolidated statement of financial position is to be read in conjunction with notes to the financial statements.

Consolidated statement of changes in equity

For the half year ended 30 June 2018

	Share capital	Other reserves	Retained earnings	Share based payment reserve	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2017	1,354,034	(476,559)	1,086,517	3,389	1,967,381
Profit after taxation	-	-	88,663	-	88,663
Dividends declared and paid	-	-	(71,312)	-	(71,312)
Share based payment expense recognised	-	-	-	3,005	3,005
Share based payment settled	-	-	-	(3,933)	(3,933)
Balance at 30 June 2017	1,354,034	(476,559)	1,103,868	2,461	1,983,804
Balance at 1 January 2018	1,303,151	(476,559)	1,093,069	2,528	1,922,189
Profit after taxation	-	-	41,903	-	41,903
Dividends declared and paid	-	-	(56,858)	-	(56,858)
Share based payment expense recognised	-	-	-	484	484
Share based payment settled	-	-	-	(1,478)	(1,478)
Buy-back of shares, net of transaction costs	(84,322)	-	-	-	(84,322)
Balance at 30 June 2018	1,218,829	(476,559)	1,078,114	1,534	1,821,918

The consolidated statement of changes in equity is to be read in conjunction with notes to the financial statements.

Consolidated statement of cash flows

For the half year ended 30 June 2018

	Note	30 June 2018 $'000	30 June 2017 $'000
Cash flows from operating activities			
Premiums received		189,970	182,310
Interest and other income		42,243	58,560
Claims paid		(74,980)	(57,096)
Financial expense on long term borrowings		(3,222)	(3,008)
Cash payments in the course of operations		(99,392)	(87,636)
Income tax paid		(22,273)	(46,120)
Net cash provided by operating activities		32,346	47,010
Cash flows from investing activities			
Payment for plant and equipment and intangibles		(5,064)	(592)
Payments for investments		(583,423)	(623,138)
Proceeds from sale of investments		711,577	629,749
Net cash provided by investing activities		123,090	6,019
Cash flows from financing activities			
Payments for the on-market buy-back of shares		(84,322)	-
Dividends paid		(56,858)	(71,311)
Net cash used in financing activities		(141,180)	(71,311)
Net (decrease)/increase in cash held		14,256	(18,282)
Cash and cash equivalents at the beginning of the financial period		43,025	57,634
Cash and cash equivalents at the end of the financial period		57,281	39,352

The consolidated statement of cash flows is to be read in conjunction with notes to the financial statements.

Section 1 Basis of preparation

1.1 Reporting entity

This general purpose consolidated financial report is for the half year ended 30 June 2018 and comprises the consolidated financial statements for Genworth Mortgage Insurance Australia Limited (the "Company") and its controlled entities (together referred to as the "Group"). The company is a for-profit entity domiciled in Australia and its shares are publicly traded on the Australian Securities Exchange ("ASX"). The Group operates in one business and geographical segment conducting loan mortgage insurance business in Australia; hence no segment information is presented.

The financial statements were authorised for issue by the Board of Directors on 1 August 2018.

The consolidated half year financial report does not include all the information required for full annual financial reports, and should be read in conjunction with the annual report for the year ended 31 December 2017 and any public announcements made during the half year reporting period in accordance with the continuous disclosure reporting requirements of the Corporations Act 2001.

1.2 Basis of preparation

(a) Statement of compliance

This consolidated financial report is a general purpose half year financial report that has been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standard *AASB 134 Interim Financial Reporting*, and all other applicable Australian Accounting Standards adopted by the Australian Accounting Standards Board ("AASB") and the ASX listing rules.

International Financial Reporting Standards ("IFRSs") form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ("AIFRS"). The half year financial report of the consolidated entity also complies with IAS 34 Interim Financial Reporting, IFRSs and interpretations adopted by the International Accounting Standards Board.

The current IFRS standard for insurance contracts does not include a comprehensive set of recognition and measurement criteria. The IASB has issued a new standard (*IFRS 17 Insurance Contracts* – adopted as AASB 17 Insurance Contracts in an Australian context) that does include such criteria, however this standard will not come into effect until 1 January 2021, at which time AASB 9 will be implemented as well given the Company meets the requirements for deferral under AASB 2016-6. Until this standard takes effect, the financial reports of insurers in different countries that comply with IFRS may not be comparable in terms of the recognition and measurement of insurance contracts.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group.

(b) Basis of preparation

The consolidated financial report is prepared on the historical cost basis except for investments being stated at fair value and outstanding claims and the related reinsurance recoveries on unpaid claims being stated at present value. All values are rounded to the nearest thousand dollars, unless otherwise stated, in accordance with ASIC Corporations Instrument 2016/191.

The consolidated financial report is presented in Australian dollars.

The consolidated statement of financial position has been prepared using the liquidity format of presentation, in which the assets and liabilities are presented broadly in order of liquidity.

(c) Significant accounting policies adopted

The accounting policies adopted in the preparation of this financial report are consistent with those applied for the previous reporting year except as set out below.

New and amended accounting standards adopted by the Group

	New standards, amendments and interpretations	Operative date
AASB 15	Revenue from contracts with customers	1 January 2018
AASB 2015-8	Amendments to Australian Accounting Standards – Effective date of AASB 15	1 January 2018
AASB 2015-10	Amendments to Australian Accounting Standards – Effective date of Amendments to AASB 10 and AASB 128	1 January 2018
AASB 2016-3	Amendments to Australian Accounting Standards – Clarifications to AASB 15	1 January 2018
AASB 2016-5	Amendments to Australian Accounting Standards - Classification and measurement of share-based payment transactions	1 January 2018
AASB 2016-6	Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts	1 January 2018
AASB 2017-3	Amendments to Australian Accounting Standards – Clarifications to AASB 4	1 January 2018
IFRIC Interpretation 22	Foreign currency transactions and advance consideration	1 January 2018

AASB 15 introduces a single model for the recognition of revenue based on when control of goods and services transfers to a customer. It does not apply to insurance contracts and financial instruments. Hence the Group's revenue is not materially impacted by this change.

There were no new Australian Accounting Standards and Interpretations issued and effective, including the above, which had a material financial impact on the Group.

(d) Use of estimates and judgements

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources.

These estimates and underlying assumptions are reviewed on an ongoing basis and actual results may vary from estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The approach to key estimates and judgements for this reporting period are the same as the 2017 financial year, unless otherwise stated.

(e) Comparative figures

Comparative figures have been adjusted, where necessary, to conform to the basis of presentation and the classification used in the current period.

Section 2 Risk management

2.1 Financial risk management

Fair value measurements

Accounting policies

Financial assets backing general insurance liabilities

The assets backing general insurance liabilities are those assets required to cover the technical insurance liabilities (outstanding claims and unearned premiums) plus an allowance for capital adequacy.

The Group has designated the assets backing general insurance activities based on its function. Initially insurance technical balances are offset against the required assets, with any additional assets required being allocated based on liquidity.

In accordance with the Group's investment strategy, the Group actively monitors the average duration of the notional assets allocated to insurance activities to ensure sufficient funds are available for claim payment obligations.

The Group accounts for financial assets and any assets backing insurance activities at fair value through profit and loss, with any unrealised profits and losses recognised in the statement of comprehensive income.

The valuation methodologies of assets valued at fair value are summarised below:

- Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn;
- Fixed interest securities are initially recognised at fair value, determined as the quoted cost at date of acquisition. They are subsequently remeasured to fair value at each reporting date. For securities traded in an active market, fair value is determined by reference to published bid price quotations. For securities not traded and securities traded in a market that is not active, fair value is determined using valuation techniques with the most common technique being reference to observable market data using the fair values of recent arm's length transactions involving the same or similar instruments. In the absence of observable market information, unobservable inputs which reflect management's view of market assumptions are used. Valuation techniques maximise the use of observable inputs and minimise the use of unobservable inputs; and
- Listed equity securities are designated as financial assets at fair value through profit and loss upon initial recognition. They are initially recorded at fair value, determined as the quoted cost at date of acquisition and are subsequently remeasured to fair value at each reporting date.

Financial assets not backing general insurance liabilities

Investments not backing insurance liabilities are designated as financial assets at fair value through profit and loss on the same basis as those backing insurance liabilities.

The Group's financial assets and liabilities are carried at fair value.

The Group investments carried at fair value have been classified under the three levels of the IFRS fair value hierarchy as follows:

Level 1 - Quoted prices in an active market: Fair value investments which are quoted in active and known markets. The quoted prices are those at which transactions have regularly and recently taken place within such markets.

Level 2 - Valuation techniques with observable parameters: Fair value investments using inputs other than quoted prices within Level 1 that are observable either directly or indirectly.

Level 3 - Valuation techniques with significant unobservable parameters: Fair value investments using valuation techniques that include inputs that are not based on observable market data.

30 June 2018	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial Instruments				
Government and semi-government bonds	-	856,932	-	856,932
Corporate bonds	-	1,332,743	-	1,332,743
Equity investments	160,249	-	-	160,249
Short term deposits	871,432	-	-	871,432
Total	1,031,681	2,189,675	-	3,221,356

31 December 2017	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial Instruments				
Government and semi-government bonds	-	751,250	-	751,250
Corporate bonds	-	1,308,056	-	1,308,056
Equity investments	237,443	-	-	237,443
Short term deposits	1,051,798	-	-	1,051,798
Total	1,289,241	2,059,306	-	3,348,547

Interest bearing liabilities are initially measured at fair value (net of transaction costs) but are subsequently measured at amortised cost. The Company considers the fair value of the interest bearing liabilities to be approximate to that of the carrying value. The interest bearing liabilities have been classified as Level 2 under the three levels of the IFRS fair value hierarchy.

Section 3 Results for the period

3.1 Dividends

Accounting policy

A provision for dividends is made in respect of ordinary shares when dividends have been declared on or before the reporting date but have not yet been distributed at that date.

	Cents per share	Total amount $m	Payment date	Tax rate for franking credit	Percentage franked
2016 final dividend	14.0	71.3	8 March 2017	30%	100%
2017 interim dividend	12.0	61.1	30 August 2017	30%	100%
2017 special dividend	2.0	10.2	30 August 2017	30%	100%
2017 final dividend[1]	12.0	56.9	16 March 2018	30%	100%

[1]of the total 2017 final dividend declared of $59.1 million, right and entitlement of $2.2 million to dividends was waived resulted from the share buy-back during the year.

Dividends not recognised at reporting date

	Cents per share	Total amount $m	Expected payment date	Tax rate for franking credit	Percentage franked
2018 interim dividend	8.0	36.8[2]	30 August 2018	30%	100%
2018 special dividend	4.0	18.4[2]	30 August 2018	30%	100%

[2]based on the number of shares on issue at 2 July 2018 (553,948 shares were cancelled on 2 July 2018 and no dividend will be paid on these shares).

3.2 Earnings per share

Accounting policies

Basic earnings per share is calculated by dividing the profit after tax by the weighted average number of shares on issue during the reporting period.

Diluted earnings per share is calculated by dividing the profit after tax adjusted for any costs associated with dilutive potential ordinary shares by the weighted average number of ordinary shares and dilutive potential ordinary shares.

	30 June 2018	30 June 2017
Basic earnings per share (cents per share)	8.9	17.4
Diluted earnings per share (cents per share)	8.9	17.4

(a) Reconciliation of earnings used in calculating earnings per share

	30 June 2018 $'000	30 June 2017 $'000
Profit after tax	41,903	88,663
Profit used in calculating basic and diluted earnings per share	41,903	88,663

(b) Reconciliation of weighted average number of ordinary shares used in calculating earnings per share

	30 June 2018 $'000	30 June 2017 $'000
Weighted average number of ordinary shares on issue	470,105	509,392
Weighted average number of shares used in the calculation of basic earnings per share	470,105	509,392
Weighted average number of dilutive potential ordinary shares		
Bonus element of shares	557	841
Weighted average number of shares used in the calculation of diluted earnings per share	470,662	510,233

Section 4 Insurance contracts

4.1 Outstanding claims

Accounting policies

Claims expense and a liability for outstanding claims are recognised in respect of direct and inward reinsurance business. The liability covers claims reported and outstanding, IBNR and the expected direct and indirect costs of settling those claims. Outstanding claims are assessed by estimating the ultimate cost of settling delinquencies, which includes IBNR and settlement costs, using statistics based on past experience and trends. Changes in outstanding claims are recognised in profit or loss in the reporting period in which the estimates are changed.

The provision for outstanding claims contains a risk margin to reflect the inherent uncertainty in the central estimate, the central estimate being the expected value of outstanding claims.

No discounting has been applied to non-current claims on the basis that the effect is immaterial.

Refer to Note 4.3 Accounting estimates and judgements for further detailed information.

	30 June 2018 $'000	31 December 2017 $'000
Central estimate	300,090	300,375
Risk margin	39,246	39,304
Gross outstanding claims	339,336	339,679

(a) Reconciliation of changes in outstanding claims

	30 June 2018 $'000	31 December 2017 $'000
Opening balance at 1 January	339,679	355,546
Current period net claims incurred	76,375	141,774
Movement in non-reinsurance recoveries	(1,738)	(10,862)
Claims paid	(74,980)	(146,779)
Closing balance	339,336	339,679
Current	255,547	254,730
Non-current	83,789	84,949
	339,336	339,679

4.2 Reinsurance and non-reinsurance recoveries

Accounting policies

Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNR claims are recognised as revenue. Recoveries receivable on paid claims are presented as part of non-reinsurance recoveries receivable net of any provision for impairment based on objective evidence for individual receivables. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Reinsurance does not relieve the Group of its liabilities to policyholders and reinsurance recoveries are, if applicable, presented as a separate asset on the statement of financial position.

	30 June 2018 $'000	31 December 2017 $'000
Opening balance	23,552	34,414
Movement of non-reinsurance recoveries	62	(962)
Net borrower recoveries receivable recognised	(1,800)	(9,900)
Closing balance	21,814	23,552

When claims are paid, Genworth typically obtains a legally enforceable judgement against borrowers for the amount of the loss incurred. Genworth actively engages in collection activities to recover monies from borrowers under these judgements. Based on a history of successful collection activities over the last few years and current economic conditions, an expected recovery rate was established and a recovery accrual related to claims paid was recorded.

4.3 Accounting estimates and judgements

Critical accounting estimates and judgements

The Group makes judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The areas where critical accounting estimates and judgements are applied are noted below.

Estimation of premium revenue/ unearned premium/ deferred acquisition costs

Premium is earned over periods of up to 12 years. The principle underlying the earning recognition is to derive a premium earning scale which recognises the premium in accordance with the incidence of claims risk.

The review of the premium earning scale is based on an annual analysis of a number of factors including the historical pattern of claims incurred, the pattern of policy cancellations, economic outlook and policyholder risk profile. The estimate for unearned premiums is established on the basis of this earning scale. Changes to earnings curve assumptions, which in turn impact the timing of the recognition of unearned premium and DAC, are recognized prospectively. Changes are recommended by the Appointed Actuary when the results of the annual analysis indicate an ongoing change in the pattern of emergence of risk.

Deferred acquisition costs are amortised under the same premium earnings scale as the related insurance contract.

Estimation of outstanding claims liabilities

Provision is made for the estimated claim cost of reported delinquencies at the reporting date, including the cost of delinquencies incurred but not yet reported to the Group.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of expected third party recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

A risk margin is added to the central estimate as an additional allowance for uncertainty in the ultimate cost of claims over and above the central estimate. The overall margin adopted by the Group is determined after considering the uncertainty in the portfolio, industry trends, the Group's risk appetite and the margin corresponding with that appetite.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until sometime after the events giving rise to the claims have happened.

In calculating the estimated cost of unpaid claims, the Group uses a variety of estimation techniques, generally based upon statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which might create distortion in the underlying statistics or cause the cost of unsettled claims to increase or decrease when compared with the cost of previously settled claims.

Provisions are calculated gross of any recoveries. A separate estimate is made of the amounts that will be recoverable from lenders under specified arrangements. Estimates are also made for amounts recoverable from borrowers and property valuers, based upon the gross provisions.

Section 5 Capital management and financing

5.1 Interest bearing liabilities

Accounting policies

Interest bearing liabilities are initially recognised at fair value less transaction costs that are directly attributable to the transaction. After initial recognition the liabilities are carried at amortised cost using the effective interest rate method.

Finance related costs include interest, which is accrued at the contracted rate and included in payables, and amortisation of transaction costs which are capitalised, presented together with borrowings, and amortised over the life of the borrowings. This cost also includes the write off of capitalised transaction costs and premium paid on the early redemption of borrowings.

		30 June 2018 $'000	31 December 2017 $'000
Subordinated notes			
$200 million subordinated notes	(a)	200,000	200,000
Less: capitalised transaction costs		(2,409)	(2,965)
		197,591	197,035

(a) On 3 July 2015, GFMI issued $200,000,000 of 10 year, non-call five year subordinated notes. The notes qualified as Tier 2 Capital under the APRA's capital adequacy framework.

Key terms and conditions are:

- Interest is payable quarterly in arrears, with the rate each calendar quarter being the average of the 90 day bank bill swap rate at the end of the prior quarter plus a margin equivalent to 3.5% per annum; and
- The notes mature on 3 July 2025 (non-callable for the first 5 years) with the issuer having the option to redeem at par from 3 July 2020. Redemption at maturity, or any earlier date provided for in the terms and conditions of issue, is subject to prior approval by APRA.

5.2 Equity

Share capital

	30 June 2018 $'000	31 December 2017 $'000
Issued fully paid capital		
Opening balance	1,303,151	1,354,034
Buy-back shares, net of transaction costs	(84,322)[1]	(50,883)
Closing balance	1,218,829	1,303,151

[1] 553,948 shares have been bought back on 28 June 2018 for a value of $1,442,000. These shares have been cancelled on 2 July 2018. These shares form part of the buy-back shares disclosed in the table above.

The Company's issued shares do not have a par value. All ordinary shares are fully paid. Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

On-market buy-back

On 2 August 2017, the Company announced its intention to commence, with effect from 21 August 2017, an on-market share buy-back program for shares up to a maximum equivalent value of $100 million. As at 31 December 2017 the Company acquired 17,013,668 of shares for a total consideration of $51 million

On 9 February 2018, the Company recommenced the on-market FY 2017 share buy-back program and completed the program on 21 February 2018 with 18,537,698 shares acquired for a total consideration of $49 million.

On 2 May 2018, the Company announced its intention to commence, with effect from 17 May 2018 and continue until 31 October 2018 an on-market share buy-back program for shares up to a maximum equivalent value of $100 million. As at 30 June 2018 the Company acquired 13,596,431 of shares for a total consideration of $35 million.

5.3 Contingencies

There were no contingent liabilities as at 30 June 2018.

Section 6 Other disclosures

6.1 Related party disclosures

Transactions with related parties are undertaken on normal commercial terms and conditions.

Corporate overhead

On settlement of the Company‘s IPO, the Group entered into certain agreements with Genworth Financial and its affiliates. Under the agreements GFI will provide certain services to the Group, with most services being terminated if GFI ceases to beneficially own more than 50% of the common shares of the Company or at the request of either party at annual successive renewal terms after the initial term ends on 31 December 2016. The services rendered by GFI and affiliated companies consist of finance, human resources, legal and compliance, investments services, information technology and other specified services. These transactions are in the normal course of business and accordingly are measured at fair value. Payment for these service transactions are non-interest bearing and are settled on a quarterly basis. The Group incurred net charges of $1,363,339 (30 June 2017: $2,028,000) for the half year ended 30 June 2018. There is a payable balance of $284,000 (30 June 2017: $402,000) as at 30 June 2018.

Share buy-back

GFI participated in on-market sale transactions during the buy-back program to maintain the approximately 52 per cent stake in the Group. GFI has sold 16.7 million shares for a total consideration of $43.3 million as at 30 June 2018. Refer to Note 5.2 Equity for further details.

6.2 Share based payments

Accounting policies

Share-based payment transactions

Share based remuneration is provided in various forms to eligible employees and executive Directors of the Group in compensation for services provided to the Group.

The fair value at the grant date, being the date both the employee and the employer agree to the arrangement, is determined using a valuation model based on the share price at grant date and the vesting conditions. The fair value does not change over the life of the instrument. At each reporting period during the vesting period and upon final vesting or expiry of the equity instruments, the total accumulated expense is revised based on the fair value at grant date and the latest estimate of the number of equity instruments that are expected to vest based on the vesting conditions, and taking into account the expired portion of the vesting period. The movement in the total of accumulated expenses from the previous reporting date is recognised in the profit and loss with a corresponding movement in the share based payment reserve.

To satisfy obligations under the various share based remuneration plans, shares are generally expected to be equity settled.

Share Rights Plan

On 21 May 2014, the Group granted restricted share rights to a number of key employees including executive KMP. The aggregate amount of these share rights was $7,265,000. One third of the share rights granted during the year vest on each of the second, third and fourth anniversaries of the grant date. If at any time an employee ceases continuous service with the Group, any unvested share rights are immediately cancelled, except in cases of retirement, redundancy, total and permanent disability or death.

In addition to the grants to key employees, other employees were granted an amount of share rights in the aggregate amount of $276,000. All share rights granted to other employees vest on the third anniversary of the grant date. If at any time an employee ceases continuous service with the Group, any unvested share rights vest immediately. The aggregate amount of $276,000 was expensed during the year ended 31 December 2014.

Share rights plan grant date	Available to	Vesting period	Total ($)
7 May 2015	Nominated employees	Four equal tranches vested on first anniversary of grant date	$509,967
6 May 2016	Nominated employees	Four equal tranches vested on first anniversary of grant date	$499,030
1 March 2017	Nominated employees	Four equal tranches vested on first anniversary of grant date	$492,910

From 2018 onwards, it was decided that no grants would be made under the Equity Plan. All outstanding grants (prior to 2018) made under the Equity Plan will continue to vest per the original terms and conditions of the plan.

The fair value of the share rights is calculated as at the grant date using a Black Scholes valuation. The factors and assumptions used for the valuation are summarised in the below table:

	2017	2016	2015	2014
Grant date	1 March 2017	6 May 2016	7 May 2015	21 May 2014
Share price on grant date ($)	$2.81	$3.00	$3.09	$2.95
Dividend yield	8.6%	11.36%	11.16%	7.8%
Risk free rate (%)	Tranche 1: 1.83% Tranche 2: 2.00% Tranche 3: 2.15% Tranche 4: 2.29%	Tranche 1: 1.57% Tranche 2: 1.57% Tranche 3: 1.57% Tranche 4: 1.80%	Tranche 1: 2.03% Tranche 2: 2.03% Tranche 3: 2.20% Tranche 4: 2.35%	Tranche 1: 2.60% Tranche 2: 2.71% Tranche 3: 3.08
Vesting dates	Tranche 1: 1 March 2018 Tranche 2: 1 March 2019 Tranche 3: 1 March 2020 Tranche 4: 1 March 2021	Tranche 1: 1 March 2017 Tranche 2: 1 March 2018 Tranche 3: 1 March 2019 Tranche 4: 1 March 2020	Tranche 1: 1 March 2016 Tranche 2: 1 March 2017 Tranche 3: 1 March 2018 Tranche 4: 1 March 2019	Tranche 1: 20 May 2016 Tranche 2: 20 May 2017 Tranche 3: 20 May 2018

Key terms and conditions:

- The rights are granted for nil consideration.
- Holders do not receive dividends and do not have voting rights until the rights are exercised.

Details of the number of employee share rights granted, exercised and forfeited or cancelled during the period were as follows:

2018						
Grant date	Balance at 1 January 2018	Granted in the year	Exercised in the year	Cancelled/forfeited in the year	Balance at 30 June 2018	Vested and exercisable at end of the year
	Number	Number	Number	Number	Number	Number
21 May 2014	294,344	-	(269,187)	(25,157)	-	-
7 May 2015	51,936	-	(22,710)	(6,491)	22,735	-
22 June 2015	3,869	-	(1,934)	-	1,935	-
6 May 2016	154,224	-	(43,139)	(31,812)	79,273	-
1 March 2017	363,374	5,890	(173,951)	(27,145)	168,168	-
1 March 2018	-	191,636[1]	-	(10,371)	181,265	-
Total	867,747	197,526	(510,921)	(100,976)	453,376	-

[1] The number of share rights granted in the year representing the deferred short- term incentive component under the 2017 remuneration program.

2017						
Grant date	Balance at 1 January 2017	Granted in the year	Exercised in the year (*)	Cancelled/forfeited in the year	Balance at 31 December 2017	Vested and exercisable at end of the year
	Number	Number	Number	Number	Number	Number
21 May 2014	844,020	-	(423,052)	(126,624)	294,344	-
21 May 2014	54,665	-	(54,665)	-	-	-
7 May 2015	99,528	-	(35,543)	(12,049)	51,936	-
22 June 2015	5,803	-	(1,934)	-	3,869	-
6 May 2016	271,714	-	(117,490)	-	154,224	-
1 March 2017	-	382,344[1]	(703)	(18,267)	363,374	-
Total	1,275,730	382,344	(633,387)	(156,940)	867,747	-

[1] The number of share rights granted in the year includes 139,169 shares rights, representing the deferred short-term incentive component under the 2016 remuneration program.

* included employees who ceased service with the Group, any unvested share rights vested immediately.

Long term incentive plan (LTI)

The Group implemented a long term incentive plan for executive KMP which is performance oriented and reflects local market practice.

LTI grant date	Nature of award	Vesting conditions	Total ($)
7 May 2015	share rights	• continuous active employment for four years from grant date. • Subject to performance conditions	$1,822,777
6 May 2016	share rights		$1,729,230
1 March 2017	share rights		$1,873,986
1 March 2018	share rights		$1,886,491

Key terms and conditions:

- The rights are granted for nil consideration
- Holders are entitled to receive notional dividend equivalents during the vesting period but do not have voting rights.
- Each allocation is split equally into two portions which are subject to different performance hurdles with a twelve month deferral period after the performance period ends. The first vesting condition is not market related and requires continuous active employment for four years from grant date. The second set of vesting conditions are as follows:
  - 25% is subject to a return on equity performance condition (ROE). The Group's 3-year average ROE is tested against target ROEs over a 3 year period.
  - 75% is subject to a relative total shareholder return performance condition (TSR). The Group's TSR is tested against comparator group, the ASX 200 financial services excluding Real Estate Investment Trust (REITs) over a 3 year period.
- The number of share rights offered is determined by dividing the grant value of the 2018 long term incentive plan by $2.6611, being the 10-day volume weighted average price (VWAP) of the Company share price following the release of full-year results for 2017, rounded down to the nearest whole share right. Each share right is a right granted to acquire a fully paid ordinary share of the Company.
- The fair value of the share rights is the share price as at the grant date.

If an employee ceases employment with the Group before the performance conditions are tested, their unvested rights will generally lapse.

The fair value of the share rights for LTI is calculated as at the grant date using Monte Carlo simulation. The factors and assumptions used for the valuation are summarised in the below table.

	2018	2017
Grant date	1 May 2018	1 March 2017
Share price on grant date ($)	2.37	$2.81
Dividend yield	0%[2]	8.60%
Volatility	34.1%	35.00%
Correlation		A correlation matrix for the ASX 200 (excluding resource companies) has been used
Risk free rate (%)	2.09%	2.0%
Vesting date	31 December 2021	31 December 2020

[2] *Consistent with the requirements set out in AASB2, given participants in the LTI plan are entitled to dividend equivalents on the underlying shares, the input for expected dividend yield has been set to zero. For the purposes of Relative TSR fair value calculations, the expected dividend yield of the comparator group has also been set to zero*

Details of the number of employee share rights granted, exercised and forfeited or cancelled during the period were as follows:

2018						
Grant date	Balance at 1 January 2018	Granted in the year	Exercised in the year	Cancelled/forfeited in the year	Balance at 30 June 2018	Vested and exercisable at end of the year
	Number	Number	Number	Number	Number	Number
7 May 2015	116,196	-	-	-	116,196	-
6 May 2016	648,988	-	-	(96,384)	552,604	-
1 March 2017	646,425	-	-	(115,383)	531,042	-
17 July 2017	75,025	-	-	-	75,025	-
1 March 2018	-	708,914	-	(41,148)	667,766	-
Total	1,486,634	708,914	-	(252,915)	1,942,633	-

2017						
Grant date	Balance at 1 January 2017	Granted in the year	Exercised in the year	Cancelled/forfeited in the year	Balance at 31 December 2017	Vested and exercisable at end of the year
	Number	Number	Number	Number	Number	Number
7 May 2015	177,497	-	-	(61,301)	116,196	-
6 May 2016	742,159	-	-	(93,171)	648,988	-
1 March 2017	-	646,425	-	-	646,425	-
17 July 2017	-	75,025	-	-	75,025	-
Total	919,656	721,450	-	(154,472)	1,486,634	-

Omnibus Incentive Plan

GFI, GFMI and LLC entered into a Cost Agreement on 15 July 2005 (as varied from time to time) pursuant to which GFI agreed to offer its 2004 Omnibus Incentive Plan and its 2012 Omnibus Incentive Plan (Omnibus Incentive Plans) to certain employees of GFMI and LLC.

Under the Omnibus Incentive Plans, GFI issues stock options, stock appreciation rights, restricted stock, restricted stock units, other stock based awards and dividend equivalent awards with respect to its common stock to employees of its affiliates throughout the world. Under the Cost Agreement, GFMI and LLC have agreed to bear the costs for their employees' participation in the Omnibus Incentive Plans from time to time. Employees of GFMI and LLC will not, following the IPO, receive any further awards under the Omnibus Incentive Plans. Any incentives after that date will be provided through the Group's share rights plan.

However, GFMI and LLC will continue to bear the costs of past awards under the Omnibus Incentive Plans. The Group has reserved for such costs and the amount of the reserve is marked to market to reflect the Group's exposure to those costs having regard to the price of GFI shares.

6.3 Events subsequent to reporting date

As the following event occurred after reporting date and did not relate to conditions existing at reporting date, no account has been taken in the financial statements for the current reporting period.

On 1 August 2018, the Directors declared a 100% ordinary franked dividend of 8.0 cents per share totalling $36,817,000 and a 100% franked special dividend for 4.0 cents per share totalling $18,409,000.

Directors' declaration

In the opinion of the Directors of Genworth Mortgage Insurance Australia Limited (the Company):

a) the condensed consolidated financial statements and notes set out on pages 8 to 24 are in accordance with the Corporations Act 2001, including:
   (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance, for the six month period ended on that date; and
   (ii) complying with Australian Accounting Standards AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001 and

b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors

Ian MacDonald

Chairman

Dated: 1 August 2018.

Independent Auditor's Review Report

To the shareholders of Genworth Mortgage Insurance Australia Limited

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying ***Half-year Financial Report*** of Genworth Mortgage Insurance Australia Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Genworth Mortgage Insurance Australia Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2018 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Half-year Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2018
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date
- Notes 1 to 6 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises Genworth Mortgage Insurance Australia Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year.

KPMG

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- for such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Genworth Mortgage Insurance Australia Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

David Kells
Partner

Sydney
1 August 2018