Genworth Mortgage Insurance Australia Limited

ABN 72 154 890 730

Half Year Financial Report
30 June 2020

Appendix 4D

Contents **Page**

1) Company details

Genworth Mortgage Insurance Australia Limited
ABN 72 154 890 730
Reporting period: 1 January 2020 to 30 June 2020
Previous corresponding reporting period: 1 January 2019 to 30 June 2019

2) Results for announcement to the market

	Up/ down	% change	Half year ended 30 June 2020 $'000	Half year ended 30 June 2019 $'000
Revenue from ordinary activities[1]	Down	(20.8%)	237,894	300,543
Net (loss) / profit from ordinary activities after income tax attributable to shareholders	Down	(202.2%)	(90,024)	88,113
Net (loss) / profit for the period attributable to shareholders	Down	(202.2%)	(90,024)	88,113

1 Includes Gross written premium, Movement in unearned premium, Other underwriting revenue, Investment income on assets backing insurance liabilities and Investment income on equity holders' funds.

Dividends	Amount per security (cents)	Franked amount per security (cents)
Interim dividend	nil	nil

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 2020 $	Half year ended 30 June 2019 $
Net tangible assets per security	3.37	4.14

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

Genworth Mortgage Insurance Australia Limited

ABN 72 154 890 730

FINANCIAL REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2020

Contents

Directors' report

The Directors present their report together with the financial statements of Genworth Mortgage Insurance Australia Limited ("the Company") and its controlled entities ("the Group") for the half year ended 30 June 2020 and the independent auditor's review report thereon.

Directors

The directors of the Company at any time during or since the end of the half year ended 30 June 2020 are as follows:

David Foster
Pauline Blight-Johnston (appointed 2 March 2020)
Ian MacDonald
Gai McGrath
Christine Patton
Stuart Take
Gayle Tollifson (resigned 15 March 2020)
Jerome Upton
Andrea Waters (appointed 16 March 2020)
Duncan West

Principal activity

The principal activity of the Group during the reporting period was the provision of lenders mortgage insurance ("LMI") under authorisation from the Australian Prudential Regulation Authority ("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.

Change in operating environment due to COVID-19

There has been a significant change to Genworth's operating environment due to the economic disruption caused by the COVID-19 pandemic in the half year ended 30 June 2020. The Australian Government has taken steps to support jobs, incomes and businesses by providing multiple economic stimulus packages, including wage subsidies, income support to households and cash flow support to businesses. Banks and other lending institutions have in place hardship and loan deferral programs to support affected borrowers. However, the recovery of the Australian economy is dependent upon the successful and ongoing management of COVID-19 related health outcomes.

The Group is regularly engaging with its lender customers to understand how they are responding to the current economic circumstances, and to ensure the Group is appropriately aligned with them in supporting borrowers such as expanding our hardship policy to enable lenders to provide further support to borrowers. The Group continues to monitor the situation closely and remains prudent in managing its underwriting risk.

The Government stimulus packages and lender initiatives will assist in alleviating the effect of COVID-19 on Genworth's claims experience. Genworth's ultimate COVID-19 related claims will be determined by the timing of economic recovery, that will also influence loss experience following the lender home loan repayment deferrals.

Review and results of operations

The COVID-19 pandemic has led to an increasingly uncertain economic environment which has resulted in significant volatility in financial markets. This has impacted the Group's financial performance in the half year ended 30 June 2020.

The Group reported a net loss after tax of $90.0 million compared to the $88.1 million net profit after tax in the prior corresponding period. The loss was driven by an anticipated increase in future claims likely to occur from the economic impacts of COVID-19, that has led to a write-down of deferred acquisition costs ("DAC") of $181.8 million at 31 March 2020 and an increase in claims reserving as a result of the hardship and loan deferral programs provided by the lenders.

Genworth's Supply and Service contract with the National Australia Bank ("NAB") expires on 20 November 2020. NAB has the option, at its sole discretion, to extend the Supply and Service Contract with Genworth for up to four periods of three months each by providing notice to Genworth. The LMI business underwritten under this contract represented approximately 12 per cent of Gross Written Premium ("GWP") in FY2019. The loss of this contract has had no impact on the results for the half year ended 30 June 2020.

Regulatory capital

The Group's regulatory capital at 30 June 2020 was 1.77 times the Prescribed Capital Amount ("PCA") on a level 2 basis and the Common Equity Tier 1 ("CET1") ratio was 1.53. Regulatory capital is above the Board's target capital range (1.32 to 1.44 times) and reflected its strong capital position.

Corporate structure

The Company is incorporated and domiciled in Australia. The majority shareholder of the Group is Genworth Financial International Holdings, LLC & 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 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. On 30 June 2020 GFI and China Oceanwide announced that they entered into a fifteenth waiver and agreement of each party's right to terminate the previously announced merger agreement to 30 September 2020. Subject to certain confirmations (as set out in the announcement on 30 June 2020), China Oceanwide has all regulatory approvals necessary to close the transaction.

Market capitalisation

The market capitalisation of the Company as at 30 June 2020 was $853.9 million based on the closing share price of $2.07.

Events subsequent to reporting date

On 24 June 2020 Genworth Financial Mortgage Insurance Pty Limited ("GFMI"), a wholly owned subsidiary of GMA had, pursuant to an exchange offer made by GFMI, accepted tenders from existing note holders to exchange $146,575,000 of GFMI's outstanding $200,000,000 (existing 2015 notes) due on 3 July 2025, for $146,575,000 of GFMI's new Floating Rate Subordinated Notes due on 3 July 2030 (new 2020 notes). GFMI agreed to issue additional new notes of $43,425,000 due on 3 July 2030. The issue of the new notes and settlement of the exchange for existing notes occurred on 3 July 2020. Following the settlement of the notes, GFMI has $243,425,000 notes on issue comprising $190,000,000 of new 2020 notes and $53,425,000 of existing 2015 notes.

On 30 July 2020, the Directors determined that no interim dividend declaration would be made for the half year ended 30 June 2020.

There are no other events that have arisen since 30 June 2020 to the date of this report that, in the opinion of the Directors, have significantly affected or may significantly affect the operations of the Group or the state affairs of the Group in future years.

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 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: 30 July 2020

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 2020 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
30 July 2020

Consolidated financial statements

Contents

Consolidated statement of comprehensive income

For the half year ended 30 June 2020

	Note	30 June 2020 $'000	30 June 2019 $'000
Gross written premium		239,321	184,099
Movement in unearned premium		(53,996)	(1,180)
Outward reinsurance premium expense		(34,539)	(35,312)
Net earned premium		**150,786**	**147,607**
Gross claims expense		(105,405)	(85,022)
Reinsurance and other recoveries revenue		4,320	5,177
Net claims incurred		**(101,085)**	**(79,845)**
Acquisition costs	4.4	(194,546)	(22,771)
Other underwriting expenses		(29,181)	(29,013)
Other underwriting revenue		599	599
Underwriting result		**(173,427)**	**16,577**
Investment income on assets backing insurance liabilities		45,300	60,680
Insurance (loss)/profit		**(128,127)**	**77,257**
Investment income on equity holders' funds		6,670	56,345
Investment expense		(2,216)	(2,114)
Financing costs		(4,963)	(6,298)
(Loss)/profit before income tax		**(128,636)**	**125,190**
Income tax benefit/(expense)		38,612	(37,077)
(Loss)/profit for the period		**(90,024)**	**88,113**
Total comprehensive (loss)/income for the period		**(90,024)**	**88,113**
Earnings per share			
Basic (loss)/earnings per share (cents per share)	3.2	(21.8)	20.6
Diluted (loss)/earnings per share (cents per share)	3.2	(21.8)	20.6

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 2020

	Note	30 June 2020 $'000	31 December 2019 $'000
Assets			
Cash and cash equivalents		80,901	87,254
Accrued investment income		19,816	19,529
Investments	2.1	3,116,533	3,043,814
Trade and other receivables		53,941	47,106
Prepayments		5,161	2,077
Deferred reinsurance expense		54,759	31,771
Non-reinsurance recoveries	4.2	27,364	22,770
Deferred acquisition costs	4.4	16,510	181,234
Plant and equipment		4,783	5,120
Lease assets		6,921	11,166
Deferred tax assets		59,871	9,104
Intangibles		7,172	7,340
Goodwill		9,123	9,123
Total assets		3,462,855	3,477,408
Liabilities			
Trade and other payables		38,826	41,827
Reinsurance payable		62,710	43,854
Outstanding claims	4.1	398,763	360,905
Unearned premium		1,334,797	1,280,451
Employee benefits provision		7,865	7,096
Interest bearing liabilities	5.1	200,000	199,369
Lease liabilities		14,352	16,430
Total liabilities		2,057,313	1,949,932
Net assets		1,405,542	1,527,476
Equity			
Share capital	5.2	1,090,180	1,090,180
Share-based payment reserve		1,238	2,209
Other reserves		(476,559)	(476,559)
Retained earnings		790,683	911,646
Total equity		1,405,542	1,527,476

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 2020

	Share capital	Other reserves	Retained earnings	Share-based payment reserve	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2019	1,154,084	(476,559)	1,058,116	1,659	1,737,300
Adjustment on initial application of AASB 16	-	-	79	-	79
Adjusted balance as at 1 January 2019	1,154,084	(476,559)	1,058,195	1,659	1,737,379
Profit after taxation	-	-	88,113	-	88,113
Dividends declared and paid	-	-	(39,338)	-	(39,338)
Share-based payment expense recognised	-	-	-	928	928
Share-based payment settled	-	-	-	(910)	(910)
Buy-back of shares (net of transaction costs)	(63,904)	-	-	-	(63,904)
Balance at 30 June 2019	1,090,180	(476,559)	1,106,970	1,677	1,722,268
Balance at 1 January 2020	1,090,180	(476,559)	911,646	2,209	1,527,476
Loss after taxation	-	-	(90,024)	-	(90,024)
Dividends declared and paid	-	-	(30,939)	-	(30,939)
Share-based payment expense recognised	-	-	-	(95)	(95)
Share-based payment settled	-	-	-	(876)	(876)
Balance at 30 June 2020	1,090,180	(476,559)	790,683	1,238	1,405,542

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 2020

	Note	30 June 2020 $'000	30 June 2019 $'000
Cash flows from operating activities			
Premiums received		263,638	202,561
Interest and other income		27,187	42,415
Claims paid		(69,472)	(59,385)
Interest paid		(4,103)	(5,510)
Cash payments in the course of operations		(127,892)	(93,274)
Income tax paid		(14,727)	(31,472)
Net cash provided by operating activities		74,631	55,335
Cash flows from investing activities			
Payment for plant and equipment and intangibles		(480)	(824)
Payments for investments		(1,845,467)	(1,153,744)
Proceeds from sale of investments		1,797,665	1,120,490
Rental proceeds from sub-lease of property		762	433
Net cash used in investing activities		(47,520)	(33,645)
Cash flows from financing activities			
Payments for the on-market buy-back of shares		-	(62,755)
Dividends paid		(30,939)	(39,338)
Payment of lease liabilities		(2,400)	(964)
Net cash used in financing activities		(33,339)	(103,057)
Net decrease in cash held		(6,228)	(81,367)
Effects of exchange rate changes on balances of cash held in foreign currencies		(125)	(2,169)
Cash and cash equivalents at the beginning of the financial year		87,254	141,450
Cash and cash equivalents at the end of the financial period		80,901	57,914

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 2020 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 operating segment consisting of a loan mortgage insurance business in Australia, therefore no segment information is presented.

The financial statements were authorised for issue by the Board of Directors on 30 July 2020.

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 2019 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 Significant accounting policies

(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 ("IFRS") 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,* IFRS and interpretations adopted by the International Accounting Standards Board ("IASB").

The current IFRS standard for insurance contracts does not include a comprehensive set of recognition and measurement criteria. The IASB has released in June 2020 the final version of a new standard (IFRS 17 *Insurance Contracts* – to be adopted as AASB 17 *Insurance Contracts* in an Australian context) that does include such criteria, with a revised effective date of 1 January 2023. The IASB also decided to extend the temporary exemption to IFRS 9 Financial Instruments, granted to insurers who meet specified criteria, to 1 January 2023. At the time of implementation of AASB 17, AASB 9 *Financial Instruments* will be implemented as well given the Group meets the requirements for deferral under AASB 2016-6 *Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*. 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 of the financial report

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.

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

(c) Accounting policies adopted

The accounting policies adopted in the preparation of these financial statements have been applied consistently by the Group and are the same as those applied for the previous reporting period, unless otherwise stated.

(i) Other new and amended standards adopted by the Group

There are additional new accounting standards and interpretations, effective since 1 January 2020 (refer to the table below) which were adopted by the Group. The adoption of these standards did not have a material effect on the Group's financial statements.

	New standards, amendments and interpretations	Operative date
AASB 2018-6	Amendments to Australian Accounting Standards – Definition of a Business	1 January 2020
AASB 2018-7	Amendments to Australian Accounting Standards – Definition of Material	1 January 2020
Conceptual Framework	Amendments to standards to apply the new definition and recognition criteria in the Conceptual Framework for Financial Reporting	1 January 2020
AASB 2020-4	Amendments to Australian Accounting Standards -Covid-19-Related Rent Concessions	1 June 2020

(ii) New accounting standards and amendments issued but not yet effective

There are various new accounting standards, amendments and interpretations noted below for which the mandatory application dates fall after the end of the current reporting period. None of these standards have been applied in preparing these consolidated financial statements. These changes are not expected to have a material impact on the Group's financial statements except for AASB 17.

	New standards, amendments and interpretations	Operative date
AASB 17	Insurance Contracts	1 January 2023
AASB 9	Financial Instruments	1 January 2023 (subject to exemption)
AASB 2017-5	Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	1 January 2022
AASB 2020-1	Amendments to Australian Accounting standards – Classification of Liabilities as Current or Non-current	1 January 2022
AASB 2020-3	Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments	1 January 2022

(d) Critical accounting estimates and judgements

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of policies and the 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 consistent with those noted in the Annual Report for the year ended 31 December 2019, with the exception of estimates and judgements relating to the COVID-19 pandemic, which are described as follows.

COVID-19 pandemic

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of the financial report.

The estimation uncertainty is associated with:

- the extent and duration of the disruption to business arising from the actions by governments, businesses and consumers to contain the spread of the virus;

- the extent and duration of the expected economic downturn (and forecasts for key economic factors including Gross Domestic Product ("GDP"), employment and house prices). This includes the disruption to capital markets, credit deterioration, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities; and

- the effectiveness of government and central bank measures that have and will be put in place to support businesses and consumers through this disruption and economic downturn.

The Group has developed various accounting estimates in the half year financial report based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing forecasts, including the estimation of future claims and related expenses for the preparation of the liability adequacy test (refer to note 4.4) and impairment testing of assets. The underlying assumptions are subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in the financial statements.

The impact of the COVID-19 pandemic on accounting estimates is discussed further below and in the relevant notes to the financial statements.

Fair value measurement of investments (AASB 13)
In response to the recent market volatility, the Group has reviewed the appropriateness of the inputs to its valuations of its investment assets and any impact of changes in these inputs have been considered with respect to the fair value hierarchies. The Group's portfolio have been appropriately valued at the end of the reporting period.

Impairment of assets (AASB 136)
As at 30 June 2020, the carrying value of the net assets of the Group was more than its market capitalisation which is an indicator of impairment. As a result, an impairment test was performed using assumptions the Group considers to be appropriate to provide a reasonable estimate of the value-in-use.

The impairment review the Group conducted included the goodwill, intangibles, leases and property and equipment assets and concluded these assets are all recoverable and there are no impairment charges required as at 30 June 2020.

Given the uncertainty of a rapidly changing economic environment, market sentiment, and regulatory and industry responses, the forecasts are likely to change. This will continue to be reviewed and a further impairment test will be performed at year end.

(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 Investments

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

The valuation methodologies of assets measured 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.

- *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.
- *Unlisted unit trust securities* are valued using quoted current unit prices as advised by the responsible entity, trustee or equivalent of the investment vehicle.

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.

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 investments carried at fair value has been classified under the three levels of the AASB 13 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. This category includes the unlisted equities. The fair value has been supported based on a discounted cash flow analysis performed utilising the latest available cash flows from the entity.

30 June 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial instruments				
Government and semi-government bonds	-	1,418,363	-	1,418,363
Corporate bonds	-	1,504,674	-	1,504,674
Short-term deposits	106,548	-	-	106,548
Derivative assets	-	2,481	-	2,481
Unlisted unit trusts	-	74,801	-	74,801
Unlisted equities	-	-	9,666	9,666
Total	106,548	3,000,319	9,666	3,116,533

31 December 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial instruments				
Government and semi-government bonds	-	1,319,323	-	1,319,323
Corporate bonds	-	1,438,478	-	1,438,478
Short-term deposits	193,134	-	-	193,134
Derivative assets	-	10,033	-	10,033
Unlisted unit trusts	-	78,846	-	78,846
Unlisted equities	-	-	4,000	4,000
Total	193,134	2,846,680	4,000	3,043,814

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Balance at 1 January 2020	Purchases	Disposals	Movement in fair value	Balance at 30 June 2020
	$'000	$'000	$'000	$'000	$'000
Financial Instruments					
Unlisted equities	4,000	-	-	5,666	9,666
Total	4,000	-	-	5,666	9,666

There have been no further investments in level 3 unlisted equities. The movement reflects the remeasurement of fair value at reporting date.

2.2 Derivative financial instruments

The Group used forward foreign exchange contracts to hedge currency exposures arising from interest bearing securities denominated in currencies other than Australian dollars, with both the foreign exchange and derivatives impact reported through profit and loss. Derivatives are used solely to manage risk exposure and are not used for trading or speculation.

Derivatives are initially recognised at trade date at fair value and attributable transaction costs are recognised in profit and loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value through profit and loss. The investment related derivatives are presented together with the underlying investments or as payables when the fair value is negative. Forward foreign exchange contracts are determined using observable inputs (level 2 in the fair value hierarchy).

Reporting date positions

The notional amount and fair value of derivative financial instruments at balance date is set out in the table below:

	30 June 2020			31 December 2019		
	Exposure $'000	Fair value asset $'000	Fair value liability $'000	Exposure $'000	Fair value asset $'000	Fair value liability $'000
Forward foreign exchange contracts	637,578	2,481	1,113	578,679	10,033	-

All derivative contracts are expected to be settled within 12 months.

Section 3 Results for the period

3.1 Dividends

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.

	30 June 2020		30 June 2019	
	Cents per share	$'000	Cents per share	$'000
2019 final dividend paid on 19 March 2020 (2018: final dividend) fully franked at 30%	7.5	30,939	9.0	39,338[1]
2019 interim dividend paid on 28 August 2019 (2018 interim dividend) fully franked at 30%	9.0	37,126	8.0	35,842[2]
2019 unfranked special dividend paid on 28 August 2019 (2018 special dividend fully franked at 30%)	21.9	90,341	4.0	17,921[2]

[1]of the total 2018 final dividend declared of $39.4 million, right and entitlement of $0.1 million to dividends was removed due to the share buy-back during the period.

[2] of the total 2018 interim and special dividends declared of $55.2 million, right and entitlement of $1.5 million to dividends was removed due to the share buy-back during the year.

Dividends not recognised at reporting date

On 30 July 2020, the Directors determined that no interim dividend declaration would be made for the half year ended 30 June 2020.

	30 June 2020		30 June 2019	
	Cents per share	$'000	Cents per share	$'000
2020 nil (2019: interim dividend fully franked at 30%)	-	-	9.0	37,126
2020 nil (2019: special dividend fully franked at 30%)	-	-	21.9	90,341

3.2 Earnings per share

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

Diluted (loss)/earnings per share is calculated by dividing the (loss)/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 2020	30 June 2019
Basic (loss)/earnings per share (cents per share)	(21.8)	20.6
Diluted (loss)/earnings per share (cents per share)	(21.8)	20.6

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

	30 June 2020 $'000	30 June 2019 $'000
(Loss)/profit after tax	(90,024)	88,113
(Loss)/profit used in calculating basic and diluted (loss)/earnings per share	(90,024)	88,113

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

	30 June 2020 '000	30 June 2019 '000
Weighted average number of ordinary shares on issue	412,514	428,026
Weighted average number of shares used in the calculation of basic (loss)/earnings per share	412,514	428,026
Weighted average number of dilutive potential ordinary shares		
Bonus element of shares	872	733
Weighted average number of shares used in the calculation of diluted (loss)/earnings per share	413,386	428,759

Section 4 Insurance contracts

4.1 Outstanding claims

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, incurred but not reported ("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 and 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 2020 $'000	31 December 2019 $'000
Central estimate	352,838	319,340
Risk margin	45,925	41,565
Gross outstanding claims	398,763	360,905

Reconciliation of changes in outstanding claims

	30 June 2020 $'000	31 December 2019 $'000
Opening balance as at 1 January	360,905	339,063
Current period net claims incurred	101,085	150,886
Movement in non-reinsurance recoveries	4,594	1,555
Claims paid	(67,821)	(130,599)
Closing balance	398,763	360,905
Comprising:		
Current	164,770	160,101
Non-current	233,993	200,804
	398,763	360,905

4.2 Non-reinsurance recoveries

Reinsurance and non-reinsurance 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. The following table presents non-reinsurance recoveries.

	30 June 2020 $'000	31 December 2019 $'000
Opening balance as at 1 January	22,770	21,215
Movement of non-reinsurance recoveries	4,594	1,555
Closing balance	27,364	22,770

There were no reinsurance recoveries at 30 June 2020 or 31 December 2019.

4.3 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 deferred acquisition costs ("DAC"), are recognised 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.

DAC is 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 not often 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.

4.4 Liability adequacy test

The liability adequacy test ("LAT") is an assessment of the carrying amount of the unearned premium liability and is conducted at each reporting date. It comprises current estimates of the present value of the expected cash flows relating to future claims plus an additional risk margin to reflect the inherent uncertainty in the central estimate. If the future claim costs exceed the unearned premium liability less related deferred reinsurance expense and deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The test is performed at the portfolio level of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. Any deficiency is recognised in the statement of comprehensive income, with a corresponding impact in the statement of financial position, recognised first through the write down of related deferred acquisition costs and any remaining balance being recognised as an unexpired risk liability.

The probability of adequacy ("PoA") adopted for the liability adequacy test is set at 70% and differs from the 75% probability of adequacy adopted in determining the outstanding claims liabilities. The reason for this difference is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liabilities.

The table below provides the details of the net premium liabilities (net of reinsurance and adjusted for appropriate risk margin) for LAT as at 30 June 2020, 31 March 2020 and 31 December 2019:

	30 June 2020 $'000	31 March 2020 $'000	31 December 2019 $'000
Unearned premium	1,334,797	1,302,208	1,280,451
Less: Deferred acquisition costs	(16,510)	(183,798)[1]	(181,234)
Less: Deferred reinsurance costs	(54,759)	(72,030)	(31,771)
Net unearned premium	**1,263,528**	**1,046,380**	**1,067,446**
Net central estimate of present value of expected cash flows associated with future claims	1,034,439	1,071,823	899,295
Risk margin of the present value of expected cash flows on future claims	147,809	156,349	121,457
Net premium liabilities	**1,182,248**	**1,228,172**	**1,020,752**
LAT surplus/(deficiency)	**81,280**	**(181,792)**	**46,694**
Risk margin percentage	17%	17%	17%
Probability of adequacy	70%	70%	70%

[1] Prior to DAC write-down.

Expected future claims are inherently uncertain, particularly in the current environment as the economic effects of COVID-19 continues to emerge. The Group has projected future claims from COVID-19 based on a range of possible economic scenarios and has adopted a central scenario estimate for the liability valuation incorporating a median view of economic forecasts.

At 31 March 2020, the Group had a LAT deficiency of $181.8 million which resulted in a DAC write-down of $181.8 million. This related to older book years, as newer book years have benefitted from higher pricing and tighter underwriting standards and are expected to remain profitable.

At 30 June 2020, under the Group's central scenario estimate, expected future claims (including an appropriate risk margin) exceeded the net insurance liabilities, creating a LAT surplus of $81.3 million.

The $181.8 million DAC write-down is included in the "Acquisition costs" line which totals $194.5 million in the consolidated statement of comprehensive income in the half year ended 30 June 2020, and is the key driver of the reduction in "Deferred acquisition costs" in the consolidated statement of financial position from $181.2 million at 31 December 2019 to $16.5 million at 30 June 2020.

Section 5 Capital management and financing

5.1 Interest bearing liabilities

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 capitalised transaction costs and premium paid on the early redemption of borrowings.

The Company considers the carrying value of the interest-bearing liabilities to approximate its fair value. The interest-bearing liabilities have been classified as Level 2 under the three levels of the AASB 13 fair value hierarchy.

		30 June 2020 $'000	31 December 2019 $'000
Subordinated notes			
$200 million subordinated notes	(a)	200,000	200,000
Less: capitalised transaction costs		-	(631)
		200,000	199,369

(a) On 3 July 2015, Genworth Financial Mortgage Insurance ("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.

APRA provided approval on 2 June 2020 to call the notes, subject to issuing the same amount of new Tier 2 debt. Refer to note 6.3 - Events subsequent to reporting date for further details.

5.2 Share capital

	30 June 2020	30 June 2020	31 December 2019	31 December 2019
	Number of shares		Number of shares	
	‘000	$’000	‘000	$‘000
Issued fully paid capital				
Balance as at 1 January	412,514	1,090,180	437,465	1,154,084
Buy-back shares, net of transaction costs	-	-	(24,951)	(63,904)
Closing balance	412,514	1,090,180	412,514	1,090,180

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.

5.3 Contingencies

There were no contingent liabilities as at 30 June 2020 (31 December 2019: NIL).

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 in 2014, the Group entered into certain agreements with Genworth Financial (“GFI”) and its affiliates. Under the agreements GFI provide certain services to the Group, with most services being terminated if GFI ceases to beneficially own more than 50% of the ordinary shares of the Company or at the request of either party giving six months’ notice prior to the automatic annual renewal terms after 31 December each year. 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 $2,344,000 for the half year ended 30 June 2020 (30 June 2019: $2,265,000). There is $37,000 payable balance as at 30 June 2020 (30 June 2019: $nil).

Share buy-back

There has been no on-market share buy-back in the six-month period ended 30 June 2020.

In 2019 GFI participated in on-market sale transactions during the buy-back program to maintain approximately a 52% stake in the Group. GFI had sold 13.0 million shares for a total consideration of $32.9 million.

6.2 Share-based payments

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. 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

Between 7 May 2015 and 1 March 2017, the Group granted restricted share rights to a number of key employees. The aggregate amount of these share rights was $1,501,907. One quarter of the share rights granted during the year vest on each of the first, 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.

From 1 January 2018, it was decided that no grants would be made under the share rights plan. All outstanding grants (prior to 2018) made under the share rights plan will continue to vest per the original terms and conditions of the plan.

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

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
Grant date	1 March 2017	6 May 2016	7 May 2015
Share price on grant date ($)	$2.81	$3.00	$3.09
Dividend yield	8.60%	11.36%	11.16%
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%
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

The final tranche of the 2016 Equity Plan grant vested on 1 March 2020.

Key terms and conditions:

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

Deferred short term incentive

Plan	Eligibility	Nature of award	Vesting conditions
Short Term Incentive (STI) Deferral Plan	Executives and any employee with an annual STI award >$50,000	• One-third of the dollar value of the annual short-term incentive is converted to a grant of deferred share rights for executives. • For any annual STI payment greater than $50,000 one-third of the amount greater than $50,000 is converted to a grant of deferred share rights, provided the amount is $10,000 or more (applies to any non-executive incentive > $50,000). • Notional dividend equivalents accrue during the vesting period and are delivered through an adjustment to the number of vested share rights at the end of the deferral period.	• Continuous active employment for 12 months from grant date. • Board and Committee satisfaction that adverse outcomes have not arisen that were not apparent when performance was assessed, and satisfaction that there was not excessive risk taking in achievement of results.

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

2020						
Grant date	Balance at 1 January 2020	Granted in the period	Exercised in the period	Cancelled/forfeited in the period	Balance at 30 June 2020	Vested and exercisable at end of the period
	Number	Number	Number	Number	Number	Number
6 May 2016	34,302	-	(34,302)	-	-	-
1 March 2017	85,393	-	(42,674)	-	42,719	-
1 March 2019	215,087	35,321	(244,532)	(5,876)	-	-
1 March 2020	-	117,533[1]	-	-	117,533	-
Total	334,782	152,854	(321,508)	(5,876)	160,252	-

[1] The number of share rights granted in the period representing the deferred short-term incentive component under the 2019 remuneration program.

2019						
Grant date	Balance at 1 January 2019	Granted in the period	Exercised in the period	Cancelled/forfeited in the period	Balance at 30 June 2019	Vested and exercisable at end of the period
	Number	Number	Number	Number	Number	Number
7 May 2015	21,292	-	(21,292)	-	-	-
22 June 2015	1,935	-	(1,935)	-	-	-
6 May 2016	74,970	-	(36,737)	(2,858)	35,375	-
1 March 2017	161,700	-	(51,298)	(14,659)	95,743	-
1 March 2018	166,920	16,464	(183,384)	-	-	-
4 February 2019	-	53,702	-	-	53,702	-
1 March 2019	-	215,087[1]	-	-	215,087	-
Total	426,817	285,253	(294,646)	(17,517)	399,907	-

[1] The number of share rights granted in the period representing the deferred short-term incentive component under the 2018 remuneration program.

Long term incentive plan

The Group implemented a long-term incentive ("LTI") plan for executive key management personnel ("KMP") which is performance oriented and reflects local market practice.

The vesting conditions for each of the LTI plan granted include:

- Continuous active employment for four years from grant date
- Performance conditions

LTI grant date	Nature of award	Total ($)
6 May 2016	share rights	$1,729,230
1 March 2017	share rights	$1,873,986
1 March 2018	share rights	$1,886,491
1 March 2019	share rights	$1,688,601
1 March 2020	share rights	$1,771,188

Key terms and conditions for the 2020 LTI

- 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 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 underlying return on equity ("ROE") performance condition. The Group's three-year average underlying ROE measured against regulatory capital (based on the upper end of the Board's target range above the prescribed capital amount) is tested against target underlying ROEs over a three-year period.
  - 75% is subject to relative total shareholder return ("TSR") performance condition. The Group's TSR is tested against comparator group, the ASX 200 financial services excluding Real Estate Investment Trust ("REITs") over a three-year period.
- The number of share rights offered is determined by dividing the grant value of the 2020 long term incentive plan by $3.7341, being the 10-day volume weighted average price ("VWAP") of the Company share price as at 31 December 2019 results, 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 linked to relative TSR performance huddles 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.

	2020	2019	2018	2017
Grant date	1 March 2020	1 March 2019	1 March 2018	1 March 2017
Share price on grant date ($)	$3.22	$2.53	$2.37	$2.81
Dividend yield (%)	0%[1]	0%[1]	0%[1]	8.60%
Volatility (%)	31.94%	31.02%	34.1%	35.00%
Correlation	A correlation matrix for the ASX 200 financial services (excluding REITs) has been used	A correlation matrix for the ASX 200 financial services (excluding REITs) has been used	A correlation matrix for the ASX 200 financial services (excluding REITs) has been used	A correlation matrix for the ASX 200 (excluding resource companies) has been used
Risk free rate (%)	0.54%	2.24%	2.1%	2.0%
Vesting date	31 December 2023	31 December 2022	31 December 2021	31 December 2020

[1] Consistent with the requirements set out in AASB 2, 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:

2020 Grant date	Balance at 1 January 2020	Granted in the period	Exercised in the period	Cancelled/forfeited in the period	Balance at 30 June 2020	Vested and exercisable at end of the period
	Number	Number	Number	Number	Number	Number
6 May 2016[1]	-	60,393	(60,393)	-	-	-
1 March 2017	453,430	-	-	(293,204)	160,226	-
17 July 2017	75,025	-	-	-	75,025	-
1 March 2018	583,215	-	-	(326,932)	256,283	-
1 March 2019	777,190	-	-	(281,620)	495,570	-
1 March 2020	-	474,328	-	-	474,328	-
Total	1,888,860	534,721	(60,393)	(901,756)	1,461,432	-

[1] Represents notional dividends awarded as share rights associated with 2016 LTI plan share rights that had previously vested/been exercised on 31 December 2019.

2019 Grant date	Balance at 1 January 2019	Granted in the period	Exercised in the period	Cancelled/forfeited in the period	Balance at 30 June 2019	Vested and exercisable at end of the period
	Number	Number	Number	Number	Number	Number
7 May 2015[1]	-	23,789	(23,789)	-	-	-
6 May 2016	552,604	-	-	(86,746)	465,858	-
1 March 2017	531,042	-	-	(77,612)	453,430	-
17 July 2017	75,025	-	-	-	75,025	-
1 March 2018	667,766	-	-	(84,551)	583,215	-
1 March 2019	-	777,190	-	-	777,190	-
Total	1,826,437	800,979	(23,789)	(248,909)	2,354,718	-

[1] Represents notional dividends awarded as share rights associated with 2015 LTI plan share rights that had previously vested/been exercised on 31 December 2018.

6.3 Events subsequent to reporting date

On 24 June 2020 GFMI, a wholly owned subsidiary of GMA has, pursuant to an exchange offer made by GFMI, accepted tenders from existing note holders to exchange $146,575,000 of GFMI's outstanding $200,000,000 (existing 2015 notes) due in July 2025 for $146,575,000 of GFMI's new Floating Rate Subordinated Notes due in July 2030 (new 2020 notes). GFMI agreed to issue additional new notes of $43,425,000 due in July 2030. The issue of the new notes and settlement of the exchange for existing notes occurred on 3 July 2020. Following the settlement of the notes, GFMI has $243,425,000 notes on issue comprising $190,000,000 of new 2020 notes and $53,425,000 of existing 2015 notes.

On 30 July 2020, the Directors determined that no interim dividend declaration would be made for the half year ended 30 June 2020.

There are no other events that have arisen since 30 June 2020 to the date of this report that, in the opinion of the Directors, have significantly affected or may significantly affect the operations of the Group or the state affairs of the Group in future years.

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 26 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 2020 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: 30 July 2020

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 2020 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 2020;
- 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; and
- 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.

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
- 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 Company's financial position as at 30 June 2020 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

30 July 2020