Genworth

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30 July 2014

Company Announcements Office
Australian Securities Exchange
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

Genworth Mortgage Insurance Australia Limited (ASX: GMA)
Results and Financial Statements for the Half Year Ended 30 June 2014

Genworth Mortgage Insurance Australia Limited (GMA) announces its financial results for the half year ended 30 June 2014.

The following documents are enclosed:

1. Appendix 4D – Half Year Report; and

2. Financial Report for the Half Year ended 30 June 2014.

Yours faithfully

Jonathan Downes
General Counsel and Company Secretary

Genworth Mortgage Insurance Australia Limited

ABN 72 154 890 730

Half Year Financial Report
30 June 2014

Appendix 4D

Contents **Page**

1) Company details

Genworth Mortgage Insurance Australia Limited
ABN 72 154 890 730
Reporting period: 1 January 2014 to 30 June 2014
Previous corresponding reporting period: 1 January 2013 to 30 June 2013

2) Results for announcement to the market

	Up/ down	% change	Half year ended 30 June 2014 $'000	Half year ended 30 June 2013 $'000
Revenue from ordinary activities	Not applicable	Not applicable	94,507	-
Profit from ordinary activities after income tax attributable to shareholders	Not applicable	Not applicable	42,489	-
Net profit for the period attributable to shareholders	Not applicable	Not applicable	42,489	-

Dividends	Amount per security (cents)	Franked amount per security (cents)
Interim dividend	2.8	2.8

The record date of the interim dividend is 15 August 2014.

Brief explanation of any figures reported above

The Group was formed as a result of a restructure of the existing Genworth Australia companies as part of the implementation of a reorganisation plan for the Initial Public Offer ("IPO"). The Company was incorporated on 21 December 2011 with $1 share capital and had nil operating activity until it gained control of Genworth Financial Australia Holdings LLC on 19 May 2014 as part of the IPO restructure. Thus the Group's Consolidated Statement of Comprehensive Income and Statement of Cash Flows represent the Company's 6 month results and the trading results of the underlying subsidiaries from 19 May 2014 to 30 June 2014.

The Group has delivered a net profit after tax of $42.5 million for the reporting period. The results have been achieved through stable earned premium and low net claims incurred and strong financial income assisted by favourable unrealised gains on the fixed interest securities due to credit spread movements.

3) Net tangible assets per security

	Half year ended 30 June 2014 $	Half year ended 30 June 2013 $
Net tangible assets per security	3.59	-

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

The Company gained 100% control of all Genworth Australian subsidiaries on 19 May 2014 as part of the implementation of a reorganisation plan for the IPO. After the reorganisation, the Group consists of the Company and the following subsidiaries:

- Genworth Financial Mortgage Insurance Pty Limited;
- Genworth Financial Mortgage Indemnity Limited;
- Genworth Financial Services Pty Limited;
- Genworth Financial Mortgage Insurance Holdings Pty Limited;
- Genworth Financial Mortgage Insurance Finance Holdings Limited;
- Genworth Financial Mortgage Insurance Finance Pty Limited;
- Genworth Financial New Holdings Pty Limited; and
- Genworth Financial Australia Holdings LLC.

5) Dividends

Refer to note 4 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

Not applicable

9) Audit dispute or qualification

Not applicable

Attachment A

Genworth Mortgage Insurance Australia Limited

Half Year Financial Report
30 June 2014

Genworth Mortgage Insurance Australia Limited

ABN 72 154 890 730

Half Year Financial Report
30 June 2014

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 for the half year ended 30 June 2014 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:

Ellen Comerford (Appointed 21 December 2011)
Anthony Gill (Appointed 20 February 2012)
Richard Grellman (Appointed 20 February 2012)
Ian MacDonald (Appointed 19 March 2012)
Samuel Marsico (Appointed 19 March 2012)
Leon Roday (Appointed 19 March 2012)
Stuart Take (Appointed 20 February 2012)
Gayle Tollifson (Appointed 20 February 2012)
Jerome Upton (Appointed 20 February 2012)

Initial public offer ("IPO") and use of proceeds

The Group was formed on 19 May 2014 when the Company gained 100% control of all Australian subsidiaries as part of the implementation of a reorganisation plan for the IPO. The Group's Consolidated Statement of Comprehensive Income and Statement of Cash Flows represent the Company's six month results and the results of the underlying subsidiaries for the period from 19 May 2014 to 30 June 2014 ("reporting period").

The Company listed on the Australian Securities Exchange ("ASX") on 20 May 2014 under code GMA at an issue price of $2.65 per share. $583.0 million was raised from the offer, representing 33.8% of the issued share capital of the Company. The remaining 66.2% of the share capital is held by Genworth Financial Inc. ("GFI").

Underwriting costs of $16.0 million associated with the share issue were offset against the proceeds of the IPO. The Group used the net proceeds of $566.9 million from the IPO to repay the intercompany loan from Australian General Partnership ("AGP"), the Company's immediate parent entity, to another Group entity, Genworth Financial Holdings LLC.

Principal activity

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

Review and results of operations

Operating results for the reporting period

Net profit after tax for the reporting period was $42.5 million.

Net earned premium of $55.4 million was in line with expectations.

The loss ratio for the reporting period was 15.5%, reflecting a low volume of paid claims and a smaller than expected average claim size.

The expense ratio was 26.3%, which was in line with expectations. All third party costs and expenses associated with the IPO were reimbursed by GFI, as part of the master agreement between the Company and GFI for the purpose of the IPO.

The underwriting profit for the reporting period was $32.3 million and the insurance margin was 72%.

Investment income was strong for the reporting period, reflecting unrealised gains from credit movements, offset by lower interest income as a result of lower investment yields.

Review of financial condition

Consolidated total assets were $4.2 billion as at 30 June 2014 and consolidated liabilities were $1.9 billion. Consolidated equity was $2.3 billion. The share capital of $1.7 billion comprises 650 million shares on issue at an issue price of $2.65 per share. Other reserves of ($0.5 billion) are the result of business combinations under common control as part of the implementation of a reorganisation plan for the IPO.

Cash flow

Cash flow from operating activities for the reporting period was $51.6 million.

Regulatory capital

The Group's regulatory capital at 30 June 2014 was 1.54 times the Prescribed Capital Amount ("PCA") and the Common Equity Tier 1 ("CET1") ratio was 1.48. Regulatory capital exceeded the Group's targets and reflected a strong capital position.

Corporate structure

The Company is incorporated and domiciled in Australia. The immediate parent entity is AGP which is domiciled in Australia. GFI, the ultimate parent entity, is incorporated in the United States of America and listed on the New York Stock Exchange.

The Company's registered office and principal place of business is Level 26, 101 Miller Street, North Sydney NSW 2060.

Market capitalisation

The market capitalisation of the Company as at 30 June 2014 was $2.1 billion using the closing share price of $3.28.

Events subsequent to reporting date

On 30 July 2014, the Directors declared a 100% franked interim dividend of 2.8 cents per share totalling $18,200,000.

There have been no other matters or circumstances that have arisen since the end of the financial period to the date of this report that, in the opinion of the directors of the Company, would significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

Likely developments

The Group continues to focus on the following key strategies:

- strengthening our market leadership position;
- enhancing profitability;
- optimising our capital position and enhancing return on equity ("ROE");
- maintaining strong risk management discipline; and
- proactively engaging regulators, rating agencies and other industry participants.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

Rounding off

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 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 4 and forms part of the Directors' report.

Signed in accordance with a resolution of the directors:

Ellen Comerford
Director

Richard Grellman
Director

Dated at Sydney, 30 July 2014.

KPMG

Lead Auditor's Independence Declaration

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 for the half year ended 30 June 2014 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

KPMG

Ian Moyser

Ian Moyser
Partner

Sydney

30 July 2014

Consolidated statement of comprehensive income

For the half year ended 30 June 2014

	2014 $'000	2013 $'000
Gross written premium	78,147	-
Movement in unearned premium	(13,830)	-
Outward reinsurance premium expense	(8,905)	-
Net earned premium	55,412	**-**
Net claims incurred	(8,579)	-
Acquisition costs	(5,909)	-
Other underwriting expenses	(8,642)	-
Underwriting result	32,282	**-**
Investment income on assets backing insurance liabilities	7,870	-
Insurance profit	40,152	**-**
Investment income on equity holders' funds	22,320	-
Financing costs	(1,549)	-
Profit before income tax	60,923	-
Income tax expense	(18,434)	-
Profit for the period	42,489	-
Total comprehensive income for the period	42,489	-
Earnings per share		
Basic earnings per share (cents per share)	6.5	-
Diluted earnings per share (cents per share)	5.8	-

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

Consolidated statement of financial position

As at 30 June 2014

	Note	2014 $'000	2013 $'000
Assets			
Cash		77,731	-
Accrued investment income		35,530	-
Investments		3,833,660	-
Trade and other receivables		2,838	-
Prepayments		1,517	-
Deferred reinsurance expense		108,298	-
Non-reinsurance recoveries		16,624	-
Deferred acquisition costs		122,662	-
Plant and equipment		1,458	-
Deferred tax asset		7,776	-
Intangibles		4,859	-
Goodwill		9,123	-
Total assets		4,222,076	-
Liabilities			
Trade and other payables		78,464	-
Reinsurance payable		121,911	-
Outstanding claims		225,319	-
Unearned premiums		1,306,631	-
Employee benefits provision		6,912	-
Interest bearing liabilities	3	138,147	-
Total liabilities		1,877,384	-
Net assets		2,344,692	-
Equity			
Share capital	5	1,706,467	-
Share based payment reserve	5(a)	2,517	-
Other reserves	6	(476,559)	-
Retained earnings		1,112,267	-
Total equity		2,344,692	-

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

Consolidated statement of changes in equity

For the half year ended 30 June 2014

	Share capital	Other reserves	Retained earnings	Share based payment reserve	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2013	-	-	-	-	-
Profit for the year	-	-	-	-	-
Balance at 30 June 2013	-	-	-	-	-
Balance at 1 January 2014	-	-	-	-	-
Profit after taxation	-	-	42,489	-	42,489
Transactions with owners in their capacity as owners	-	(476,559)	1,069,778	1,954	595,173
Issuance of shares	1,706,467	-	-	-	1,706,467
Share based payment expense recognised	-	-	-	593	593
Share based payment settled	-	-	-	(30)	(30)
Balance at 30 June 2014	1,706,467	(476,559)	1,112,267	2,517	2,344,692

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

Consolidated statement of cash flows

For the half year ended 30 June 2014

	2014 $'000	2013 $'000
Cash flows from operating activities		
Premiums received	78,147	-
Interest and other income	14,737	-
Claims paid	(12,764)	-
Financial expense on long term borrowings	(1,549)	-
Cash payments in the course of operations	(16,492)	-
Income tax paid	(10,503)	-
Net cash provided by operating activities	51,576	-
Cash flows from investing activities		
Payment for plant and equipment and intangibles	(5)	-
Payments for investments	(139,140)	-
Proceeds from sale of investments	98,005	-
Proceeds from acquisition of subsidiaries	67,295	
Net cash used in investing activities	26,155	-
Cash flows from financing activities		
Proceeds from issuance of share capital	583,000	-
Equity issuance costs	(16,032)	-
Repayment of related party note	(566,968)	-
Net cash provided by financing activities	-	-
Net increase in cash held	77,731	-
Cash and cash equivalents at the beginning of the financial period	-	-
Cash and cash equivalents at the end of the financial period	77,731	-

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

Notes to the financial statements

1 Statement of significant accounting policies

This general purpose consolidated financial report is for the half year ended 30 June 2014 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 30 July 2014.

(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.

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 company has a 31 December year-end. It was incorporated on 21 December 2011 with $1 share capital and had nil operating activity until it gained control of Genworth Financial Australia Holdings LLC on 19 May 2014 as part of the IPO restructure. The half year ended 30 June 2014 represents the Company's 6 months results and the trading results of the underlying subsidiaries from 19 May 2014 to 30 June 2014. For the results of the standalone company only please refer to Note 11.

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 Group has adopted all new Accounting Standards as issued by the AASB that are mandatory for the year ended 31 December 2014 and thus are also applicable for the half year end 30 June 2014. Adoption of these standards has not had any material effect on the financial position or performance of the Group.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these consolidated financial statements. An initial assessment of these standards and amendments has taken place and the application of these standards is not expected to have material impact on the Group's accounting policies. AASB 9 *Financial Instruments*, which becomes mandatory for the Group's 2017 financial statements could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

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.

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the consolidated financial report and director's report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in Note 2.

The mortgage insurance business is seasonal in nature. While net premiums earned, investment income and underwriting and administrative expenses are relatively stable from quarter to quarter, premiums written and losses may vary each quarter. These variations are driven by the level of mortgage originations and related mortgage policies written, which are typically lowest in the first quarter each year. Delinquencies and losses on claims vary from quarter to quarter primarily as the result of prevailing economic conditions as well as the characteristics of the insurance in-force portfolio, such as size and age. All revenue and expenses are recognised when they occur in accordance with the accounting policies referred to in notes 1 c) to w).

The accounting policies have been applied consistently by the Group.

The consolidated half year financial report does not include all of the information required for full annual financial reports, and should be read in conjunction with the prospectus lodged by the Company with the Australian Securities and Investments Commission ("ASIC") on 23 April 2014, as well as any public announcements made during the half year reporting period in accordance with the continuous disclosure reporting requirements of the Corporations Act 2001. The prospectus was unaudited, with certain parts subject to a limited assurance review performed by KPMG, as described in the prospectus.

(c) Principles of consolidation

The Group incorporates the assets and liabilities of the Company and all subsidiaries as at the reporting date and the results of the Company and all subsidiaries for the period then ended as if they had operated as a single entity.

Controlled entities

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entities. In assessing control, the Company shall consider the purpose and design of the entities in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives the returns from those activities. The financial statements of the controlled entities are included from the date control commences until the date control ceases.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Where a subsidiary is less than wholly owned, the equity interests held by external parties are presented separately as minority interest on the consolidated statement of financial position.

(d) Classification of insurance contracts

Contracts under which an entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk.

(e) Revenue recognition

Earned and unearned premium revenue

Premiums comprise amounts charged to the policyholder, excluding stamp duties and goods and services tax ("GST") collected on behalf of third parties. Premiums have been brought to account as income from the date of attachment of risk over periods up to eleven years based on an actuarial assessment of the pattern and period of risk. The earned portion of premiums received is recognised as revenue. The balance of premium received is carried as an unearned premium reserve.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the coupon rate on investments, and interest rates on cash and cash equivalents, net of withholding tax paid or payable.

(f) Reinsurance

Reinsurance expense

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance coverage received. Accordingly, a portion of outwards reinsurance premium is treated at the balance date as a deferred reinsurance expense.

Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and incurred but not reported claims ("IBNR") are recognised as revenue. Recoveries receivable on paid claims are presented as part of trade and other receivables 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.

(g) 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, 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.

(h) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable profit; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

The Group's subsidiaries constitute a tax consolidated group of which the Company is the head entity. Under the tax consolidation system, the head entity is liable for the current income tax liabilities of that group. Entities are jointly and severally liable for the current income tax liabilities of the Group where the head entity defaults, subject to the terms of a valid tax sharing agreement between the entities in the Group. Assets and liabilities arising from the Company under the tax funding arrangement are recognised as amounts receivable from or payable to other entities in the Group.

(i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Acquisition costs

Costs associated with obtaining and recording mortgage insurance contracts are referred to as acquisition costs and are capitalised when they relate to the acquisition of new business or the renewal of existing business. These are presented as deferred acquisition costs ("DAC") and amortised under the same basis as the earning pattern of premium over the period of the related insurance contracts. The balance at the reporting date represents the capitalised acquisition costs relating to unearned premium and is stated at cost subject to the liability adequacy test.

The Company reviews all assumptions underlying DAC and tests DAC for recoverability annually. If the balance of unearned premiums is less than the current estimate of future losses and related expenses a charge to income is recorded for additional DAC amortisation.

(k) Liability adequacy test

The liability adequacy test is an assessment of the carrying amount of the unearned premium liability and is conducted at each reporting date. If 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, exceed the unearned premium liability less related deferred reinsurance and deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The test is performed at the level of portfolio 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.

(l) Investment assets

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 Company's investment strategy, the Company 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 values financial assets and any assets backing insurance activities at fair value through profit and loss, with any resultant 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 by reference to the fair values of recent arm's length transactions involving the same or similar instruments. In absence of observable market information, unobservable inputs which reflect management's view of market assumption are used. Valuation techniques are utilised that maximise the use of observable inputs and minimise the use of unobservable inputs.

Financial assets not backing general insurance liabilities

The balance of investments not backing insurance liabilities are designated as financial assets at fair value through profit or loss.

(m) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 30-60 days. The carrying amount of accounts payable approximates fair value.

(n) Depreciation and amortisation

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each item of plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain the Group will obtain ownership by the end of the lease term. Assets are depreciated or amortised from the date of acquisition.

Depreciation and amortisation methods, useful lives and residual values are reviewed at each reporting date. Where changes are made, adjustments are reflected in current and future periods only.

The estimated useful lives for the current period are as follows:

	2014	2013
Leasehold improvements	5-10 years	5-10 years
Furniture & equipment	5-8 years	5-8 years
Computing hardware	3-5 years	3-5 years
Intangibles	5 years	5 years

(o) Intangible assets

Acquired intangible assets

Acquired intangible assets are initially recorded at their cost at the date of acquisition, being the fair value of the consideration provided and, for assets acquired separately, incidental costs directly attributable to the acquisition. All intangible assets acquired have a finite useful life and are amortised on a straight line basis over the estimated useful life of the assets being the period in which the related benefits are expected to be realised (shorter of legal benefit and expected economic life).

Software development expenditure

Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised in the statement of financial position and amortised over its expected useful life, subject to impairment testing. Costs incurred in researching and evaluating a project up to the point of formal commitment to a project are expensed as incurred. Only software development projects with total budgeted expenditure of more than $250,000 are considered for capitalisation. Smaller projects and other costs are treated as maintenance costs, being an ongoing part of maintaining effective technology, and are expensed as incurred.

All capitalised costs are deemed to have an expected useful life of 5 years unless it can be clearly demonstrated for a specific project that the majority of the net benefits are to be generated over a longer or shorter period. The capitalised costs are amortised on a straight line basis over the period following completion of a project or implementation of part of a project.

The recoverability of the carrying amount of the asset is reviewed each reporting date by determining whether there is an indication that the carrying value may be impaired. If such indication exists, the item is tested for impairment by comparing the recoverable amount, or value in use, of the asset to the carrying value. An impairment charge is recognised when the carrying value exceeds the calculated recoverable amount and recognised in the income statement. The impairment charges can be reversed if there has been a change in the estimate used to determine the recoverable amount.

(p) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at deemed cost less any accumulated impairment losses.

(q) Employee entitlements

The carrying amount of provisions for employee entitlements approximates fair value.

Wages, salaries and annual leave

The accruals for employee entitlements to wages, salaries and annual leave represent present obligations resulting from employees' services provided up to the statement of financial position date, calculated at undiscounted amounts based on wage and salary rates that the entity expects to pay as at reporting date including related on-costs.

Long service leave

The Company's net obligation in respect of long-term benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. A liability for long service leave is recognised as the present value of estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. The estimated future cash outflows are discounted using interest rates on national government guaranteed securities which have terms to maturity that match, as closely as possible, the estimated future cash outflows. Factors which affect the estimated future cash outflows such as expected future salary increases including related on-costs and expected settlement dates are incorporated in the measurement.

Superannuation commitments

The superannuation plan is a defined contribution plan. All employees are entitled to varying levels of benefits on retirement based on accumulated employer contributions and investment earnings thereon as well as benefits in the event of disability or death. Contributions by the Group are, as a minimum, in accordance with the Superannuation Guarantee Levy.

(r) Impairment of assets

The carrying amounts of the Group's assets, other than deferred tax assets (see Note 1(h)) and DAC (see Note 1(j)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill and assets that have an indefinite useful life, the recoverable amount is estimated at each statement of financial position date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income, unless an asset has previously been re-valued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised as a loss in the statement of comprehensive income.

(s) Leases

All leases entered into are operating leases, where the lessor retains substantially all the risks and benefits of ownership of the leased items. Lease payments are recognised as an expense on a straight line basis over the term for these leases.

(t) Receivables

The collectability of receivables is assessed at balance date and an impairment loss is made for any doubtful accounts.

(u) Share-based payment transactions

Share based remuneration is provided in various forms to eligible employees and directors of the Group in compensation for services provided to the Group. All share based payments are equity settled.

The fair value at the grant date, being the date both the employee and the employer agree to the arrangement, is determined using valuation models based on the share price at grant date and the vesting conditions. This fair value does not change over the life of the instrument. There are no conditions other than service period, and for certain share-based payments, links to the price of the shares. 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 are recognised in the income statement 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 bought on the market at or near the date of vesting.

(v) Interest bearing liabilities and finance costs

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 costs include interest, which is accrued at the contracted rate and included in payables; amortisation of transaction costs which are capitalised, presented together with borrowings, and amortised over the life of the borrowings; and amortisation of discounts or premiums (the difference between the original proceeds, net of transaction costs, and the settlement or redemption value of borrowings) over the term of the liabilities.

(w) Earnings per share

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.

2 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 eleven 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 analysis of the historical pattern of claims incurred and the pattern of policy cancellations. The estimate for unearned premiums is established on the basis of this earning scale.

Assumptions recommended by the Appointed Actuary recognise that the unearned premium relating to cancelled policies is brought to account immediately.

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 statement of financial position 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 some time after the events giving rise to the claims have happened.

In calculating the estimated cost of unpaid claims the consolidated entity 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 may create distortion in the underlying statistics or which might 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.

3 Interest bearing liabilities

	30 June 2014 $'000	31 December 2013 $'000
Subordinated notes	140,000	-
Less: capitalised transaction costs	(1,853)	-
	138,147	-

The subordinated notes were issued by subsidiary Genworth Financial Mortgage Insurance Pty Limited on 30 June 2011 with a face value of $140 million and are eligible for recognition as lower Tier 2 capital, in transitional arrangements under prudential standards issued by APRA.

Key terms and conditions:

- Interest is payable quarterly in arrears, with the rate each calendar quarter being the average of the 90 day Bank Bill Swap rate ("BBSW") at the end of the prior quarter plus a margin equivalent to 4.75% per annum; and
- The notes mature on 30 June 2021 (non callable for the first 5 years) with the issuer having the option to redeem at par from 30 June 2016. Redemption at maturity, or any earlier date provided for in the terms and conditions of issue, is subject to prior approval by APRA.

4 Dividends

No dividends were declared or paid by the Group during the half year ended 30 June 2014. On 30 July 2014, the Directors declared a 100% franked interim dividend of 2.8 cents per share totalling $18,200,000.

5 Share capital

Issued fully paid capital		
Opening balance 1 ordinary share	-	-
Issuance of share capital 650,000,000 ordinary shares	1,706,467	-
Balance at 30 June 2014	1,706,467	-

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.

Share capital represents the issued share capital of $1,722,500,000 less the underwriting costs of $16,033,000.

(a) Share based payment reserve

Opening balance	-	-
Balance acquired 19 May 2014	1,954	-
Share based compensation	593	-
Share based payment recharged from parent company	(30)	-
Closing balance	2,517	-

Refer to Note 10 for detailed information.

6 Other reserves

	30 June 2014 $'000	31 December 2013 $'000
Opening balance	-	-
Common control transaction	(476,559)	-
	(476,559)	-

The Group has determined that the reorganisation represents a business combination involving entities under common control, and therefore the Group is not required to account for the reorganisation as a business combination under AASB 3 *Business combinations*. The reorganisation involved transactions with owners from which no goodwill arises, therefore any difference in these transactions are recognised directly into equity as other reserves.

Under the pre IPO group structure, there was no single Australian company with 100% control of Genworth's Australian subsidiaries. Through the implementation of a reorganisation plan the Company became the new holding company of the Group. After the reorganisation, the Group consists of the Company and the following subsidiaries:

- Genworth Financial Mortgage Insurance Pty Limited;
- Genworth Financial Mortgage Indemnity Limited;
- Genworth Financial Services Pty Limited;
- Genworth Financial Mortgage Insurance Holdings Pty Limited;
- Genworth Financial Mortgage Insurance Finance Holdings Limited;
- Genworth Financial Mortgage Insurance Finance Pty Limited;
- Genworth Financial New Holdings Pty Limited; and
- Genworth Financial Australia Holdings LLC.

7 Fair value measurements

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: This level of hierarchy, 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: This level of hierarchy, fair value investments using valuation techniques that include inputs that are not based on observable market data.

30 June 2014	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial Instruments				
Government and semi-government bonds	-	1,358,436	946	1,359,382
Corporate bonds	-	1,584,738	48,500	1,633,238
Short term deposits	841,040	-	-	841,040
Total	841,040	2,943,174	49,446	3,833,660

There are an insignificant proportion of investments, 1%, for which a valuation methodology is used to determine the fair value. These assets are effectively marked to model rather than fair value. Reasonable changes in the judgement applied in conducting these valuations would not have a significant impact on the statement of financial position.

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 2014	Formation of Group	Purchases	Disposals	Movement in fair value	Balance at 30 June 2014
	$'000	$'000	$'000	$'000	$'000	$'000
Financial Instruments						
Government and semi-government bonds	-	941	-	-	5	946
Corporate bonds	-	48,500	-	-	-	48,500
Total	-	49,441	-	-	5	49,446

Trade receivables are carried at amortised costs and approximate fair value.

The interest bearing liabilities were 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 Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of a reporting period.

8 Earnings per share

Basic and diluted earnings per share have been calculated using the weighted average and dilutive number of shares outstanding during the half year of 650,000,000. The difference between basic and diluted earnings per share is caused by the granting of potentially dilutive securities such as share rights, options and restricted share units ("RSUs").

Earnings per share have been calculated as follows:

	30 June 2014	30 June 2013
Basic earnings per share:		
Profit after tax	42,489,000	-
Weighted average shares outstanding	650,000,000	-
Basic net earnings per share (cents per share)	6.5	-

	30 June 2014	30 June 2013
Diluted earnings per share:		
Profit used in calculating diluted earnings per share	37,746,000	-
Weighted average shares outstanding	652,846,000	-
Diluted net earnings per share (cents per share)	5.8	-

The reconciling difference for profit after tax and weighted average shares outstanding between the basic and diluted earnings per share for the period relates to the IPO share rights plan as disclosed in Note 10.

9 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 Inc ("GFI"), the Company's major shareholder and its affiliates. The agreements prescribe that GFI will provide certain services, 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 parties at annual successive renewal terms after the initial term period ended 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 $2,392,000 for the half year ended 30 June 2014. As at 30 June there is a payable balance of $2,010,000.

During the period $12,137,000 of third party costs and expenses associated with the IPO transactions were reimbursed by our major shareholder, Genworth Financial Inc. as part of a master agreement entered between these two parties for the purpose of the IPO.

10 Share-based payments

Share Rights Plan

The Group's remuneration strategy is to provide market competitive remuneration programs that help attract, motivate and retain highly competent employees who are dedicated to achieving business objectives in a manner that is consistent with the long-term interests of Shareholders.

On 20 May 2014 the Group granted restricted share rights to the aggregate amount of $7,265,000 to executive key management personnel. 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 the employee ceases continuous service of the Group any unvested share rights are immediately cancelled, except in cases of redundancy, total and permanent disability, or death.

In addition to the grants to executive key management personnel, Group employees were granted an additional amount of share rights in the aggregate amount of $276,000. One third of the share rights granted vest on each of the first, second, and third anniversaries of the grant date. If at any time the employee ceases continuous service of the Group any unvested share rights vest immediately. As such, the aggregate amount of $276,000 was expensed during the period. Details of the number of employee share rights granted, exercised and forfeited or cancelled during the year were as follows:

2014						
Grant date	Balance at 1 January 2014 Number	Granted in the year Number	Exercised in the year Number	Cancelled/forfeited in the year Number	Balance at 30 June 2014 Number	Vested and exercisable at end of the year Number
21/05/2014	-	2,741,509	-	-	2,741,509	-
21/05/2014	-	104,151	-	-	104,151	-
Total	-	2,845,660	-	-	2,845,660	-

Omnibus Incentive Plan

GFI, Genworth Financial Mortgage Insurance Pty Limited ("MI") and Genworth Financial Australia Holdings LLC ("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 MI 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, MI and LLC have agreed to bear the costs for their employees' participation in the Omnibus Incentive Plans from time to time. Employees of MI 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, MI 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.

11 Parent entity disclosures

As a result of the reorganisation (refer to Note 6) the Company became the parent entity of the Group as at 19 May 2014 and has remained as the parent throughout the financial period ending 30 June 2014.

	30 June 2014 $'000	30 June 2013 $'000
Result of the parent entity		
Profit for the period	4,583	-
Other comprehensive income	-	-
Total comprehensive income for the period	4,583	-

	30 June 2014 $'000	31 December 2013 $'000
Financial position of parent entity at period end		
Total assets	2,136,318	-
Total liabilities	2,252	-
Net assets	2,134,066	-

Total equity of the parent entity comprising of:

	30 June 2014 $'000	31 December 2013 $'000
Share capital	1,706,467	-
Retained earnings	4,583	-
Share based payment	563	-
Other reserves	422,453	-
Total equity	2,134,066	-

12 Events subsequent to reporting date

On 30 July 2014, the Directors declared a 100% franked interim dividend of 2.8 cents per share totalling $18,200,000.

There have been no other matters or circumstances that have arisen since the end of the financial period to the date of this report that, in the opinion of the directors of the Company, would significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

Directors' declaration

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

(a) the condensed consolidated financial statements and notes that set out on pages 5 to 23, 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 2014 and of its performance, for the six month period ended on that date; and

(ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

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

Signed in accordance with a resolution of the directors:

Ellen Comerford Director	Richard Grellman Director

Dated at Sydney, 30 July 2014.

Independent auditor's review report to the members of Genworth Mortgage Insurance Australia Limited

Report on the financial report

We have reviewed the accompanying half year financial report of Genworth Mortgage Insurance Australia Limited (the Company) which comprises the consolidated statement of financial position as at 30 June 2014, 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 12 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half year's end or from time to time during the half year.

Directors' responsibility 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

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 2014 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.

Independence

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

Conclusion

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:

(a) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the half year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Ian Moyser
Partner

Sydney

30 July 2014