Genworth Mortgage Insurance Australia Limited

ABN 72 154 890 730

Half Year Financial Report 30 June 2015

Appendix 4D

Contents	**Page**

1) Company details

Genworth Mortgage Insurance Australia Limited
ABN 72 154 890 730
Reporting period: 1 January 2015 to 30 June 2015
Previous corresponding reporting period: 1 January 2014 to 30 June 2014

2) Results for announcement to the market

	Up/ down	% change	Half year ended 30 June 2015 $'000	Half year ended 30 June 2014 $'000
Revenue from ordinary activities	Not applicable	Not applicable	316,789	94,507
Profit from ordinary activities after income tax attributable to shareholders	Not applicable	Not applicable	113,046	42,489
Net profit for the period attributable to shareholders	Not applicable	Not applicable	113,046	42,489

Dividends	Amount per security (cents)	Franked amount per security (cents)
Interim dividend	12.5	18.5

The record date of the interim dividend is 21 August 2015.

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 for the comparative period represent the Company's six 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 $113 million for the reporting period. The results have been achieved through stable earned premium and low net claims incurred.

3) Net tangible assets per security

	Half year ended 30 June 2015 $	Half year ended 30 June 2014 $
Net tangible assets per security	3.79	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

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

Not applicable

9) Audit dispute or qualification

Not applicable

Attachment A

Genworth Mortgage Insurance Australia Limited

Half Year Financial Report

30 June 2015

Genworth Mortgage Insurance Australia Limited

ABN 72 154 890 730

Half Year Financial Report
30 June 2015

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Directors' report

The directors present their report together with the financial statements of the Group comprising Genworth Mortgage Insurance Australia Limited ("the Company") and its controlled entities ("the Group") for the half year ended 30 June 2015 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
Anthony Gill
Richard Grellman
Ian MacDonald
Samuel Marsico
Leon Roday
Stuart Take
Gayle Tollifson
Jerome Upton

Principal activity

The principal activity of the Group during the reporting period was the provision of lenders mortgage insurance ("LMI") 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 $113.0 million.

Net earned premium of $225.7 million was in line with expectations.

The loss ratio for the reporting period was 22.1%, reflecting a low volume of paid claims and a smaller than expected average claim size partially offset by an increase in delinquencies.

The expense ratio was 26.7%, which was consistent with expectations.

The underwriting profit for the reporting period was $115.6 million and the insurance margin was 57.2%.

Investment income was relatively lower for the reporting period, reflecting mark-to-market losses of $28 million.

Review of financial condition

Consolidated total assets were $4.5 billion as at 30 June 2015 and consolidated liabilities were $2.0 billion. Consolidated equity was $2.5 billion.

Cash flow

Cash flow from operating activities for the reporting period was $132.7 million.

Regulatory capital

The Group's regulatory capital at 30 June 2015 was 1.64 times the Prescribed Capital Amount ("PCA") and the Common Equity Tier 1 ("CET1") ratio was 1.59. 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 Australian General Partnership ("AGP") which is domiciled in Australia. AGP's ultimate parent is Genworth Financial, Inc ("GFI"), which has a controlling shareholding of 52.0% of the Company. GFI 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 2015 was $2.04 billion using the closing share price of $3.14.

Events subsequent to reporting date

On 5 August 2015, the Directors declared a 100% ordinary franked dividend of 12.5 cents per share totalling $81,250,000 and a special 100% fully franked dividend of 18.5 cents per share totalling $120,250,000.

On 3 July 2015, the Company's wholly owned subsidiary, Genworth Financial Mortgage Insurance Pty Limited (GFMI) issued $200,000,000 of 10-year, non-call 5 subordinated notes. The notes qualified as Tier 2 Capital under the Australia Prudential Regulatory Authority's capital adequacy framework. Concurrent with this transaction, GFMI redeemed $90,000,000 of its existing $140m subordinated notes, which have a first call date of 30 June 2016.
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

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 Group.

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 5 and forms part of the Directors' report.

Signed in accordance with a resolution of the directors:

Ellen Comerford	Richard Grellman
Director	Director

Dated at Sydney, 5 August 2015.

Lead Auditor's Independence Declaration

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

To: the directors Genworth Mortgage Insurance Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the review for half-year ended 30 June 2015 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
Partner

Sydney
5 August 2015

FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

Consolidated statement of comprehensive income

For the half year ended 30 June 2015

	Note	30 June 2015 $'000	30 June 2014 $'000
Gross written premium		285,354	78,147
Movement in unearned premium		(19,741)	(13,830)
Outward reinsurance premium expense		(39,957)	(8,905)
Net earned premium		225,656	55,412
Net claims incurred		(49,850)	(8,579)
Acquisition costs		(25,797)	(5,909)
Other underwriting expenses		(34,432)	(8,642)
Underwriting result		115,577	32,282
Investment income on assets backing insurance liabilities		13,531	7,870
Insurance profit		129,108	40,152
Investment income on equity holders' funds		37,645	22,320
Financing costs		(5,481)	(1,549)
Profit before income tax		161,272	60,923
Income tax expense		(48,226)	(18,434)
Profit for the period		113,046	42,489
Total comprehensive income for the period		113,046	42,489
Earnings per share			
Basic earnings per share (cents per share)	3.2	17.4	6.5
Diluted earnings per share (cents per share)	3.2	17.3	6.5

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 2015

	Note	30 June 2015 $'000	31 December 2014 $'000
Assets			
Cash		300,023	88,596
Accrued investment income		37,939	40,925
Investments		3,805,772	4,071,037
Trade and other receivables		19,290	3,701
Prepayments		1,907	2,168
Deferred reinsurance expense		109,645	80,602
Non-reinsurance recoveries		26,823	16,412
Deferred acquisition costs		126,329	124,470
Plant and equipment		1,005	1,234
Deferred tax asset		8,552	8,211
Intangibles		1,340	2,802
Goodwill		9,123	9,123
Total assets		4,447,748	4,449,281
Liabilities			
Trade and other payables		86,175	115,360
Reinsurance payable		125,294	93,948
Outstanding claims		254,008	230,874
Unearned premiums		1,382,373	1,362,632
Employee benefits provision		6,767	7,417
Interest bearing liabilities	5.1	139,026	138,575
Total liabilities		1,993,643	1,948,806
Net assets		2,454,105	2,500,475
Equity			
Share capital	5.2	1,706,467	1,706,467
Share based payment reserve		4,316	3,832
Other reserves		(476,559)	(476,559)
Retained earnings		1,219,881	1,266,735
Total equity		2,454,105	2,500,475

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 2015

	Share capital	Other reserves	Retained earnings	Share based payment reserve	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2015	1,706,467	(476,559)	1,266,735	3,832	2,500,475
Profit after taxation	-	-	113,046	-	113,046
Dividends declared and paid			(159,900)	-	(159,900)
Share based payment expense recognised	-	-	-	1,794	1,794
Share based payment settled	-	-	-	(1,310)	(1,310)
Balance at 30 June 2015	1,706,467	(476,559)	1,219,881	4,316	2,454,105
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 2015

	30 June 2015 $'000	30 June 2014 $'000
Cash flows from operating activities		
Premiums received	285,354	78,147
Interest and other income	80,570	14,737
Claims paid	(26,716)	(12,764)
Financial expense on long term borrowings	(5,481)	(1,549)
Cash payments in the course of operations	(89,684)	(16,492)
Income tax paid	(111,298)	(10,503)
Net cash provided by operating activities	132,745	51,576
Cash flows from investing activities		
Purchase of plant and equipment and intangibles	(190)	(5)
Payments for investments	(443,448)	(139,140)
Proceeds from sale of investments	682,220	98,005
Proceeds from acquisition of subsidiaries	-	67,295
Net cash provided in investing activities	238,582	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)
Dividends paid	(159,900)	-
Net cash used in financing activities	(159,900)	-
Net increase in cash held	211,427	77,731
Cash and cash equivalents at the beginning of the financial period	88,596	-
Cash and cash equivalents at the end of the financial period	300,023	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

Section 1 – Basis of preparation

1.1 Reporting entity

This general purpose consolidated financial report is for the half year ended 30 June 2015 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 5 August 2015.

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 annual report for the year ended 31 December 2014 and any public announcements made during the half year reporting period in accordance with the continuous disclosure reporting requirements of the Corporations Act 2001.

1.2 Basis of preparation

(a) Statement of compliance

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

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

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 six months results and the trading results of the underlying subsidiaries from 19 May 2014 to 30 June 2014.

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 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 2015.

Adoption of these standards has not had any material effect on the financial position or performance of the Group.

(c) Significant accounting policies

The accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2014. The calculation of diluted EPS (note 3.2) for 30 June 2014 has been amended to reflect the revised method used for 30 June 2015. This change impacts the notes disclosure only and has no impact on the profit for the period as disclosed in the statement of comprehensive income.

(d) 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 report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(e) New standards and interpretations not yet adopted

As at the date of this financial report, there are a number of new and revised accounting standards published by the AASB for which the mandatory application dates fall after the end of this half year reporting period. None of these standards have been early adopted or applied in the current reporting period.

	New Standards, Amendments and Interpretations	**Operative date**
AASB 9	Financial Instruments	1/01/2018
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9	1/01/2018
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9	1/01/2018
AASB 2013-9	Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instrument: Part C	1/01/2018
AASB 15	Revenue from contracts with customers	1/01/2017
AASB 2014-1	Amendments to Australian Accounting Standards - Part E	1/01/2018
AASB 2014-4	Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation	1/1/2016
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15	1/01/2017
AASB 2014-7 & 8	Amendments to Australian Accounting Standards arising from AASB 9	1/1/2018

Section 2 – Risk management

2.1 Fair value measurements

Accounting policies

Financial assets backing general insurance liabilities

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

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

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

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

- Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn;

- Fixed interest securities are initially recognised at fair value, determined as the quoted cost at date of acquisition. They are subsequently remeasured to fair value at each reporting date. For securities traded in an active market, fair value is determined by reference to published bid price quotations. For securities not traded and securities traded in a market that is not active, fair value are 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 the absence of observable market information, unobservable inputs which reflect management's view of market assumption are used. Valuation techniques maximise the use of observable inputs and minimise the use of unobservable inputs.

Financial assets not backing general insurance liabilities

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

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

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

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

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

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

30 June 2015	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial Instruments				
Government and semi-government bonds	-	709,622	-	709,622
Corporate bonds	-	2,887,165	48,500	2,935,665
Short term deposits	160,485	-	-	160,485
Total	160,485	3,596,787	48,500	3,805,772

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.

31 December 2014	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial Instruments				
Government and semi-government bonds		587,829	962	588,791
Corporate bonds		2,950,854	48,500	2,999,354
Short term deposits	482,892			482,892
Total	482,892	3,538,683	49,462	4,071,037

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 2015	Purchases	Disposals	Movement in fair value	Balance at 30 June 2015
	$'000	$'000	$'000	$'000	$'000
Financial Instruments					
Government and semi-government bonds	962	-	(966)	4	-
Corporate bonds	48,500	-	-	-	48,500
Total	49,462	-	(966)	4	48,500

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

Section 3 – Results for the period

3.1 Dividends

Accounting policy

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

(a) Dividend not recognised at reporting date

30 June 2015	Cents per share	Total amount $m	Payment date	Tax rate for franking credit	Percentage franked
2015 interim dividend	12.5	81.25	4 September 2015	30%	100%
2015 special dividend	18.5	120.25	4 September 2015	30%	100%

3.2 Earnings per share

Accounting policies

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

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

	30 June 2015	30 June 2014
Basic earnings per share (cents per share)	0.174	0.065
Diluted earnings per share (cents per share)	0.173	0.065

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

	30 June 2015 $'000	30 June 2014 $'000
Profit after tax	113,046	42,489
Profit used in calculating basic and diluted earnings per share	113,046	42,489

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

	30 June 2015 $'000	30 June 2014 $'000
Weighted average number of ordinary shares on issue	650,091	650,104
Weighted average number of shares used in the calculation of basic earnings per share	650,091	650,104
Weighted average number of dilutive potential ordinary shares		
Bonus element of shares	1,523	473
Weighted average number of shares used in the calculation of diluted earnings per share	651,614	650,577

Section 4 – Insurance Contracts

4.1 Outstanding claims

Accounting policies

Claims expense and a liability for outstanding claims are recognised in respect of direct and inward reinsurance business. The liability covers claims reported and outstanding, 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 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.

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

	30 June 2015 $'000	31 December 2014 $'000
Central estimate	223,096	202,800
Risk margin	30,912	28,074
Gross outstanding claims	254,008	230,874

(a) Reconciliation of changes in outstanding claims

	30 June 2015 $'000	31 December 2014 $'000
Opening balance at 1 January	230,874	-
Balance acquired on 19 May 2014	-	229,505
Current period net claims incurred	49,850	50,310
Claims paid	(26,716)	(48,941)
Closing balance	254,008	230,874
Current	199,647	182,214
Non-current	54,361	48,660
	254,008	230,874

4.2 Non reinsurance recoveries

Accounting policies

Reinsurance and other recoveries receivable

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

	30 June 2015 $'000	31 December 2014 $'000
Opening balance	16,412	-
Balance acquired on 19 May 2014	-	16,635
Movement of non-reinsurance recoveries	1,511	(223)
Borrower recoveries receivable recognised	8,900	-
Closing balance	26,823	16,412

When claims are paid, GMA typically obtains a legally enforceable judgement against borrowers for the amount of the loss incurred. GMA actively engages in collection activities to recover monies from borrowers under these judgements. Based on a history of successful collection activities over the last few years and the current economic conditions, an expected recovery rate was established and a recovery accrual related to claims paid was recorded. This resulted in a $8.9m increase in non-reinsurance recoveries receivable and corresponding decrease in net claims incurred.

4.3 Accounting estimates and judgements

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 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.

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. The variations in premium written are driven by the level of mortgage origination 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 in accordance with the accounting policies.

The approach to key estimates and judgements for this reporting period are the same as the 2014 financial year, unless otherwise stated.

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 reporting date, including the cost of delinquencies incurred but not yet reported to the Group.

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

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

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

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

Provisions are calculated gross of any recoveries. A separate estimate is made of the amounts that will be recoverable from lenders under specified arrangements. Estimates are also made for amounts recoverable from borrowers and property valuers, based upon the gross provisions. Refer to Note 4.2 Non reinsurance recoveries for further detailed information.

Section 5 – Capital management and financing

5.1 Interest bearing liabilities

Accounting policies

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

Finance 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.

	30 June 2015 $'000	31 December 2014 $'000
Subordinated notes	140,000	140,000
Less: capitalised transaction costs	(974)	(1,425)
	139,026	138,575

The subordinated notes were issued by GFMI 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 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 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.

On 3 July 2015, the Company's wholly owned subsidiary, Genworth Financial Mortgage Insurance Pty Limited (GFMI) issued $200,000,000 of 10-year, non-call 5 subordinated notes. The notes qualified as Tier 2 Capital under the Australia Prudential Regulatory Authority's capital adequacy framework. Concurrent with this transaction, GFMI redeemed $90,000,000 of its exiting $140m subordinated notes, which have a first call date of 30 June 2016.

5.2 Share capital

	30 June 2015 $'000	31 December 2014 $'000
Issued fully paid capital		
Opening balance	1,706,467	-
Issuance of share capital 650,000,000 ordinary shares	-	1,706,467
Closing balance	1,706,467	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.

5.3 Contingencies

There were no contingent liabilities as at 30 June 2015.

Section 6 – Other disclosures

6.1 Share-based payments

Accounting policies

Share-based payment transactions

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

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

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

Share based payment reserve

	30 June 2015 $'000	31 December 2014 $'000
Opening balance	3,832	-
Balance acquired on 19 May 2014	-	1,954
Share based compensation	1,794	3,315
Share based payment recharged from parent company	(1,310)	(1,437)
Closing balance	4,316	3,832

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. At 30 June 2015, the Group had the following share-based payment arrangements.

Share Rights Plan

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

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

On 7 May 2015, the Group granted additional share rights to the aggregate amount of $509,967 to 16 employees. One fourth of the share rights vest on each of the four vesting dates, which are 1 March 2016, 1 March 2017, 1 March 2018 and 1 March 2019.

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:

	2015	2014
Grant date	7/5/2015	21/5/2014
Share price on grant date ($)	$3.09	$2.95
Dividend yield	11.16%	7.8%
Risk free rate (%)	Tranche 1: 2.03%	Tranche 1: 2.60%
	Tranche 2: 2.03%	Tranche 2: 2.71%
	Tranche 3: 2.20%	Tranche 3: 3.08%
	Tranche 4: 2.35%	
Vesting dates	Tranche 1: 1 March 2016	Tranche 1: 20 May 2016
	Tranche 2: 1 March 2017	Tranche 2: 20 May 2017
	Tranche 3: 1 March 2018	Tranche 3: 20 May 2018
	Tranche 4: 1 March 2019	

Key terms and conditions:

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

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

Grant date	Balance at 1 January 2015 Number	Granted in the year Number	Exercised in the year Number	Cancelled/forfeited in the year Number	Balance at 30 June 2015 Number	Vested and exercisable at end of the year Number
21/5/2014	2,703,775		-	(18,891)	2,684,884	-
21/5/2014	99,250		(10,655)	-	88,595	-
7/5/2015	-	147,115	-	-	147,115	-
Total	2,803,025	147,115	(10,655)	(18,891)	2,920,594	-

Long term incentive plan

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

On 7 May 2015, the Group granted share rights in the aggregate amount of $1,822,777 to senior management employees.

Key terms and conditions:

- The rights are granted for nil consideration.
- Holders do not receive dividends and do not have voting rights until the rights are exercised.
- Each allocation is split equally into two portions and is subject to different performance hurdles with a twelve month deferral period after the performance period ends. The vesting conditions are as follows:
    - 50% is subject to return on equity hurdle (ROE allocation)
    - 50% is subject to earnings per share hurdle (EPS allocation)
- The number of share rights offered is determined by dividing the grant value of the 2015 long term incentive plan by $3.47 being the 10-day volume weighted average price (VWAP) of the Company share price following the release of full-year results for 2014, 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.

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

Grant date	Balance at 1 January 2015 Number	Granted in the year Number	Exercised in the year Number	Cancelled/forfeited in the year Number	Balance at 30 June 2015 Number	Vested and exercisable at end of the year Number
7/5/2015	-	525,834	-	-	525,834	-
Total	-	525,834	-	-	525,834	-

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.

6.2 Related party disclosures

On 12 May 2015, GFI sold 92.3 million shares in the Company. After completion, GFI's remaining holdings in the Company is 337.7 million shares, representing a controlling shareholding of 52.0% of the Company.

Corporate Overheads

Under the services agreements entered by the Group in 2014 with GFI and its affiliates, the services consist of finance, human resources, legal and compliance, investment services, information technology and other specified services. Most services agreements will be terminated if GFI ceases to beneficially own more than 50% of the common shares of the Company or at the request of either party at annual successive renewal terms after the initial term ends on 31 December 2016. 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 $2,684,000 for the half year ended 30 June 2015. There is a payable balance of $1,388,000 as at 30 June 2015.

6.3 Events subsequent to reporting date

On 5 August 2015, the Directors declared a 100% ordinary franked dividend of 12.5 cents per share totalling $81,250,000 and a special 100% fully franked dividend of 18.5 cents per share totalling $120,250,000.

As disclosed in Note 5.1, on 3 July 2015, the Company's wholly owned subsidiary, Genworth Financial Mortgage Insurance Pty Limited (GFMI) issued $200,000,000 of 10-year, non-call 5 subordinated notes. The notes qualified as Tier 2 Capital under the Australia Prudential Regulatory Authority's capital adequacy framework. Concurrent with this transaction, GFMI redeemed $90,000,000 of its existing $140m subordinated notes, which have a first call date of 30 June 2016.

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

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 7 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 2015 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	Richard Grellman
Director	Director

Dated at Sydney, 5 August 2015

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 2015, 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 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 2015 and its performance for the half-year period 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*.

KPMG

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 2015 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
5 August 2015