Genworth Mortgage Insurance Australia Limited

ABN 72 154 890 730

Half Year Financial Report
30 June 2016

Appendix 4D

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1) Company details

Genworth Mortgage Insurance Australia Limited
ABN 72 154 890 730
Reporting period: 1 January 2016 to 30 June 2016
Previous corresponding reporting period: 1 January 2015 to 30 June 2015

2) Results for announcement to the market

	Up/ down	% change	Half year ended 30 June 2016 $'000	Half year ended 30 June 2015 $'000
Revenue from ordinary activities	UP	16.7%	369,598	316,789
Profit from ordinary activities after income tax attributable to shareholders	Up	20.1%	135,811	113,046
Net profit for the period attributable to shareholders	Up	20.1%	135,811	113,046

Dividends	Amount per security (cents)	Franked amount per security (cents)
Interim dividend	14.0	14.0
Special dividend	12.5	12.5

The record date of the interim dividend is 17 August 2016.

Brief explanation of any figures reported above

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

3) Net tangible assets per security

	Half year ended 30 June 2016 $	Half year ended 30 June 2015 $
Net tangible assets per security	3.97	3.79

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 2016

Genworth Mortgage Insurance Australia Limited

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Half Year Financial Report 30 June 2016

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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 2016 and the auditor's review report thereon.

Directors

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

David Foster (appointed on 30 May 2016)
Anthony Gill
Richard Grellman
Ian MacDonald
Samuel Marsico (resigned on 5 May 2016)
Georgette Nicholas (appointed on 30 May 2016)
Leon Roday
Stuart Take
Gayle Tollifson
Jerome Upton

Principal activity

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

Review and results of operations

Operating results for the reporting period

The Group reported a 2016 statutory interim net profit after tax of $135.8 million, up 20% from $113.0 million in the prior corresponding period, largely reflecting favourable mark-to-market movements in the investment portfolio.

Net earned premium of $228.8 million was consistent with the prior corresponding period.

The expense ratio decreased to 24.4% from 26.5% in the prior corresponding period, reflecting benefits from the cost reduction initiatives taken over the year.

The loss ratio for the reporting period was 33%, reflecting an increase in delinquencies and a reserve strengthening to reflect the emerging experience.

The underwriting profit for the reporting period fell to $97.6 million from $115.6 million in the prior corresponding period, primarily due to an increase in the net claims incurred. The insurance margin was 63.5%, up 6% from 57.2% in the prior corresponding period, mainly driven by the favourable mark to market gain from the investment portfolio.

Investment income was higher for the reporting period reflecting mark-to-market gains of $32.7 million, partially offset by lower investment yields.

Review of financial condition

Consolidated total assets were $4.0 billion as at 30 June 2016 and consolidated liabilities were $2.0 billion.

Cash flow

Cash flow from operating activities for the reporting period was $44.6 million.

Regulatory capital

The Group's regulatory capital at 30 June 2016 was 1.56 times the Prescribed Capital Amount ("PCA") and the Common Equity Tier 1 ("CET1") ratio was 1.43. Regulatory capital exceeds the Group's targets and reflected a strong capital position.

Corporate structure

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

Market capitalisation

The market capitalisation of the Company as at 30 June 2016 was $1.4 billion based on the closing share price of $2.75.

Events subsequent to reporting date

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

On 3 August 2016, the Directors declared a 100% ordinary franked dividend of 14 cents per share totalling $71,300,000 and a 100% franked special dividend of 12.5 cents per share totalling $63,700,000.

Likely developments

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

Rounding off

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

Lead auditor’s independence declaration

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

Signed in accordance with a resolution of the Directors:

Richard Grellman	Georgette Nicholas
Chairman	**Director**

Dated at Sydney, 3 August 2016

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 2016 there have been:

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

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

KPMG

David Kells
Partner

Sydney
3 August 2016

Financial Statements

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Consolidated statement of comprehensive income

For the half year ended 30 June 2016

	Note	30 June 2016 $'000	30 June 2015 $'000
Gross written premium		189,774	285,354
Movement in unearned premium		75,979	(19,741)
Outward reinsurance premium expense		(36,912)	(39,957)
Net earned premium		228,841	225,656
Net claims incurred		(75,389)	(49,850)
Acquisition costs		(25,332)	(25,797)
Other underwriting expenses		(30,477)	(34,432)
Underwriting result		97,643	115,577
Investment income on assets backing insurance liabilities		47,574	13,531
Insurance profit		145,217	129,108
Investment income on equity holders' funds		56,271	37,645
Financing costs		(8,214)	(5,481)
Profit before income tax		193,274	161,272
Income tax expense		(57,463)	(48,226)
Profit for the period		135,811	113,046
Total comprehensive income for the period		135,811	113,046
Earnings per share			
Basic earnings per share (cents per share)	3.2	23.4	17.4
Diluted earnings per share (cents per share)	3.2	23.3	17.3

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

Consolidated statement of financial position

As at 30 June 2016

	Note	30 June 2016 $'000	31 December 2015 $'000
Assets			
Cash		37,804	78,114
Accrued investment income		32,516	34,621
Investments including derivatives	2.1	3,601,432	3,847,759
Trade and other receivables		3,008	2,831
Prepayments		2,243	2,179
Deferred reinsurance expense		130,427	71,040
Non-reinsurance recoveries	4.2	30,418	28,770
Deferred acquisition costs		141,133	145,075
Plant and equipment		646	828
Deferred tax assets		11,385	10,593
Intangibles		1,590	1,026
Goodwill		9,123	9,123
Total assets		4,001,725	4,231,959
Liabilities			
Trade and other payables		59,339	77,658
Reinsurance payable		147,135	86,753
Outstanding claims	4.1	312,965	276,983
Unearned premium		1,244,611	1,320,590
Employee benefits provision		7,031	6,810
Interest bearing liabilities	5.1	195,466	244,416
Total liabilities		1,966,547	2,013,210
Net assets		2,035,178	2,218,749
Equity			
Share capital	5.2	1,354,034	1,556,470
Share based payment reserve		3,487	5,521
Other reserves		(476,559)	(476,559)
Retained earnings		1,154,216	1,133,317
Total equity		2,035,178	2,218,749

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

Consolidated statement of changes in equity

For the half year ended 30 June 2016

	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 2016	1,556,470	(476,559)	1,133,317	5,521	2,218,749
Profit after taxation	-	-	135,811	-	135,811
Dividends declared and paid	-	-	(114,912)	-	(114,912)
Share based payment expense recognised	-	-	-	1,253	1,253
Share based payment settled	-	-	-	(3,287)	(3,287)
Capital reduction	(202,436)	-	-	-	(202,436)
Balance at 30 June 2016	1,354,034	(476,559)	1,154,216	3,487	2,035,178

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

Consolidated statement of cash flows

For the half year ended 30 June 2016

	Note	30 June 2016 $'000	30 June 2015 $'000
Cash flows from operating activities			
Premiums received		189,774	285,354
Interest and other income		69,345	80,570
Claims paid		(41,055)	(26,716)
Financial expense on long term borrowings		(5,408)	(5,481)
Cash payments in the course of operations		(100,058)	(89,684)
Income tax paid		(67,999)	(111,298)
Net cash provided by operating activities		44,599	132,745
Cash flows from investing activities			
Payment for plant and equipment and intangibles		(847)	(190)
Payments for investments		(378,169)	(443,448)
Proceeds from sale of investments		661,074	682,220
Net cash used in investing activities		282,058	238,582
Cash flows from financing activities			
Capital reduction		(202,436)	-
Dividends paid		(114,912)	(159,900)
Repayment of long term borrowings		(49,619)	-
Net cash provided by financing activities		(366,967)	(159,900)
Net (decrease)/increase in cash held		(40,310)	211,427
Cash and cash equivalents at the beginning of the financial period		78,114	88,596
Cash and cash equivalents at the end of the financial period		37,804	300,023

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

Section 1 Basis of preparation

1.1 Reporting entity

This general purpose consolidated financial report is for the half year ended 30 June 2016 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 3 August 2016.

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 2015 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 accounting policies adopted in the preparation of this financial report are consistent with those applied for the previous financial year unless otherwise noted. 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.

(c) Changes in accounting policies

The following new and amended accounting standards are applicable for the current reporting period.

	New Standards, Amendments and Interpretations	Operative date
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	1/07/2015
AASB 2014-4	Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation	1/01/2016
AASB 2015-1	Amendments to Australian Accounting Standards - Annual improvement to Australian Accounting Standards 2012-2014 Cycle	1/01/2016
AASB 2015-2	Amendments to Australian Accounting Standards - Disclosure Initiative: Amendment to AASB 101	1/01/2016

Adoption of the new and amended accounting standards had no material financial impact on the Group.

(d) Rounding off

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

(e) Use of estimates and judgements

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

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

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 2015 financial year, unless otherwise stated.

Section 2 Risk Management

2.1 Financial risk management

Fair value measurements

Accounting policies

Financial assets backing general insurance liabilities

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

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

In accordance with the 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 is determined using valuation techniques with the most common technique being reference to observable market

data using the fair values of recent arm's length transactions involving the same or similar instruments. In the absence of observable market information, unobservable inputs which reflect management's view of market assumptions are used. Valuation techniques maximise the use of observable inputs and minimise the use of unobservable inputs, and

- Equity securities are designated as financial assets at fair value through profit and loss upon initial recognition. They are initially recorded at fair value, determined as the cost at date of acquisition and are subsequently remeasured to fair value, using the quoted price, at each reporting date.

Financial assets not backing general insurance liabilities

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

Derivative financial instruments

Derivatives are used solely to manage risk exposure and are not used for trading or speculation.

Derivatives are initially recognised at trade date at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value through profit and loss.

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 2016	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial Instruments				
Government and semi-government bonds	-	885,001	-	885,001
Corporate bonds	-	2,220,227	48,500	2,268,727
Equity investments	129,087	-	-	129,087
Short term deposits	318,603	-	-	318,603
Derivatives	-	-	14	14
Total	447,690	3,105,228	48,514	3,601,432

31 December 2015	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial Instruments				
Government and semi-government bonds	-	870,166	-	870,166
Corporate bonds	-	2,404,131	48,500	2,452,631
Short term deposits	523,408	-	-	523,408
Derivatives	-	-	1,554	1,554
Total	523,408	3,274,297	50,054	3,847,759

There is an insignificant proportion of investments, 1% (2015: 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 2016	Purchases	Disposals	Movement in fair value	Balance at 30 June 2016
	$'000	$'000	$'000	$'000	$'000
Financial Instruments					
Corporate bonds	48,500	-	-	-	48,500
Derivatives	1,554	-	-	(1,540)	14
Total	50,054	-	-	(1,540)	48,514

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

Derivative financial instruments

An interest rate swaption is an option to enter into an interest rate swap. Each option exists for a period of time and the purchaser pays a one-time, up-front premium to acquire the options. The purchaser has a right, but not obligation, to exercise the option if interest rates reach a particular level.

Interest rate swaptions are valued using an income approach. The primary inputs into the valuation represent the forward interest rate swap curve, which is generally considered an observable input, forward interest rate volatility and time value component associated with the optionality in the derivative. As a result of the significant unobservable inputs associated with the forward interest rate volatility input, these derivatives are classified as Level 3.

Section 3 Results for the period

3.1 Dividends

Accounting policy

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

	Cents per share	Total amount $m	Payment date	Tax rate for franking credit	Percentage franked
2015 interim dividend	12.5	81.3	4 September 2015	30%	100%
2015 special dividend	18.5	120.3	4 September 2015	30%	100%
2015 final dividend	14.0	83.4	4 March 2016	30%	100%
2015 special dividend	5.3	31.5	4 March 2016	30%	100%

Dividends not recognised at reporting date

	Cents per share	Total amount $m	Expected payment date	Tax rate for franking credit	Percentage franked
2016 interim dividend	14.0	71.3	31 August 2016	30%	100%
2016 special dividend	12.5	63.7	31 August 2016	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 2016	30 June 2015
Basic earnings per share (cents per share)	23.4	17.4
Diluted earnings per share (cents per share)	23.3	17.3

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

	30 June 2016 $'000	30 June 2015 $'000
Profit after tax	135,811	113,046
Profit used in calculating basic and diluted earnings per share	135,811	113,046

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

	30 June 2016 $'000	30 June 2015 $'000
Weighted average number of ordinary shares on issue	581,130	650,091
Weighted average number of shares used in the calculation of basic earnings per share	581,130	650,091
Weighted average number of dilutive potential ordinary shares		
Bonus element of shares	1,405	1,523
Weighted average number of shares used in the calculation of diluted earnings per share	582,535	651,614

Section 4 Insurance contracts

4.1 Outstanding claims

Accounting policies

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

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

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

	2016 $'000	2015 $'000
Central estimate	274,456	242,938
Risk margin	38,509	34,045
Gross outstanding claims	312,965	276,983

(a) Reconciliation of changes in outstanding claims

	2016 $'000	2015 $'000
Opening balance at 1 January	276,983	230,874
Current period net claims incurred	75,389	112,710
Movement in non-reinsurance recoveries	1,648	12,358
Claims paid	(41,055)	(78,959)
Closing balance	312,965	276,983
Current	238,228	202,181
Non-current	74,737	74,802
	312,965	276,983

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

	2016 $'000	2015 $'000
Opening balance	28,770	16,412
Movement of non-reinsurance recoveries	1,748	558
Borrower recoveries receivable recognised	(100)	11,800
Closing balance	30,418	28,770

4.3 Accounting estimates and judgements

Critical accounting estimates and judgements

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

A data enhancement project was completed by the Company in the prior year in order to refine its assessment of risk emergence and to better inform both reserving practices and premium earning patterns. As a result of this project, the assumptions underlying the premium earning scale and the Incurred But Not Reported claims estimates were refined. The assumption changes resulted in an increase in both the net earned premium and the outstanding claims estimates.

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 ten 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 some time after the events giving rise to the claims have happened.

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

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

Section 5 Capital management and financing

5.1 Interest bearing liabilities

Accounting policies

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

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

		30 June 2016 $'000	31 December 2015 $'000
Subordinated notes			
$140 million subordinated notes	(a)	-	49,619
$200 million subordinated notes	(b)	200,000	200,000
Less: capitalised transaction costs		(4,534)	(5,203)
		195,466	244,416

(a) On 30 June 2016, Genworth Financial Mortgage Insurance Pty Limited ("GFMI") redeemed the remaining $49,619,000 of its $140,000,000 subordinated notes issued on 30 June 2011.

(b) On 3 July 2015, GFMI issued $200,000,000 of 10 year, non-call 5, Tier 2 subordinated notes. The notes qualified as Tier 2 Capital under the APRA's capital adequacy framework.

Key terms and conditions are:

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

5.2 Equity

Share capital

	30 June 2016 $'000	31 December 2015 $'000
Issued fully paid capital		
Opening balance	1,556,470	1,706,467
Buy-back shares, net of transaction costs	-	(149,997)
Capital reduction	(202,436)	-
Closing balance	1,354,034	1,556,470

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

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

Capital reduction and share consolidation

On 1 June 2016, $202 million of capital was returned to shareholders as part of the Group's capital management initiatives. As result of the capital reduction, GMA consolidated its share capital through the conversion of every one GMA share into 0.8555 shares. Following the completion of the share consolidation the total number of shares on issue is 509,365,050 ordinary shares.

On-market buy-back

On 30 October 2015, GMA announced its intention to commence, with effect from 16 November 2015, an on-market share buy-back program for shares up to a maximum equivalent value of $150 million which would continue until 15 April 2016. The on-market buy-back is consistent with GMA's stated strategy of pursuing capital management initiatives that ensure an efficient capital structure and help deliver improved returns to shareholders.

As at 31 December 2015, GMA had acquired 54,600,000 of shares for a total consideration of $150 million.

5.3 Capital commitments and contingencies

There were no contingent liabilities as at 30 June 2016.

Section 6 Other disclosures

6.1 Related party disclosures

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

Corporate overhead

On settlement of the Company's IPO, the Group entered into certain agreements with Genworth Financial and its affiliates. Under the agreements GFI will provide certain services to the Group, with most services being terminated if GFI ceases to beneficially own more than 50% of the common shares of the Company or at the request of either party at annual successive renewal terms after the initial term ends on 31 December 2016. The services rendered by GFI and affiliated companies consist of finance, human resources, legal and compliance, investments services, information technology and other specified services. These transactions are in the normal course of business and accordingly are measured at fair value. Payment for these service transactions are non-interest bearing and are settled on a quarterly basis. The Group incurred net charges of $2,807,000 (2015: $2,684,000) for the half year ended 30 June 2016. There is a payable balance of $1,399,000 (2015: $1,388,000) as at 30 June 2016.

6.2 Share based payments

Accounting policies

Share-based payment transactions

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

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

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

Share Rights Plan

On 21 May 2014, the Group granted restricted share rights to a number of key employees including executive 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 an employee ceases continuous service with the Group, any unvested share rights are immediately cancelled, except in cases of retirement, redundancy, total and permanent disability or death.

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

On 7 May 2015, the Group granted additional share rights in 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.

On 6 May 2016, the Group granted share rights in the aggregate amount of $499,030 to nominated employees. One fourth of the share rights vest on each of the four vesting dates, which are 1 March 2017, 1 March 2018, 1 March 2019 and 1 March 2020.

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:

	2016	2015	2014
Grant date	6/5/2016	7/5/2015	21/5/2014
Share price on grant date ($)	$3.00	$3.09	$2.95
Dividend yield	11.36%	11.16%	7.8%
Risk free rate (%)	Tranche 1: 1.57% Tranche 2: 1.57% Tranche 3: 1.57% Tranche 4: 1.80%	Tranche 1: 2.03% Tranche 2: 2.03% Tranche 3: 2.20% Tranche 4: 2.35%	Tranche 1: 2.60% Tranche 2: 2.71% Tranche 3: 3.08
Vesting dates	Tranche 1: 1 March 2017 Tranche 2: 1 March 2018 Tranche 3: 1 March 2019 Tranche 4: 1 March 2020	Tranche 1: 1 March 2016 Tranche 2: 1 March 2017 Tranche 3: 1 March 2018 Tranche 4: 1 March 2019	Tranche 1: 20 May 2016 Tranche 2: 20 May 2017 Tranche 3: 20 May 2018

Key terms and conditions:

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

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

2016						
Grant date	Balance at 1 January 2016	Granted in the year	Exercised in the year (*)	Cancelled/forfeited in the year	Balance at 30 June 2016	Vested and exercisable at end of the year
	Number	Number	Number	Number	Number	Number
21/05/2014	2,554,698	-	(840,969)	(727,571)	986,158	-
21/05/2014	70,876	-	(4,147)	-	66,729	-
7/05/2015	139,904	-	(34,967)	-	104,937	-
6/05/2016	-	280,281[1]	-	-	280,281	-
Total	2,765,478	280,281	(880,083)	(727,571)	1,438,105	-

[1] The number of share rights granted in the year includes 66,105 shares rights, representing the deferred short- term incentive component under the 2015 remuneration program.

2015						
Grant date	Balance at 1 January 2015	Granted in the year	Exercised in the year (*)	Cancelled/forfeited in the year	Balance at 31 December 2015	Vested and exercisable at end of the year
	Number	Number	Number	Number	Number	Number
21/05/2014	2,703,775	-	(11,278)	(137,779)	2,554,698	-
21/05/2014	99,250	-	(28,374)	-	70,876	-
7/05/2015	-	147,115	-	(7,211)	139,904	-
Total	2,803,025	147,115	39,652	(144,990)	2,765,478	-

Long term incentive plan (LTI)

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

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

On 6 May 2016, the Group granted share rights in the aggregate amount of $1,729,230 to senior management employees.

Key terms and conditions:

- The rights are granted for nil consideration
- Holders are entitled to receive notional dividend equivalents during the vesting period but do not have voting rights.
- Each allocation is split equally into two portions which are subject to different performance hurdles with a twelve month deferral period after the performance period ends. The first vesting condition is not market related and requires continuous active employment for four years from grant date. The second set of vesting conditions are as follows:
  - 50% is subject to a return on equity performance condition (ROE). The Group's 3-year average ROE is tested against target ROEs over a 3 year period.

- 50% is subject to a relative total shareholder return performance condition (TSR). The Group's TSR is tested against comparator group, the ASX 200 excluding resource companies over a 3 year period.
- The number of share rights offered is determined by dividing the grant value of the 2016 long term incentive plan by $2.33, being the 10-day volume weighted average price (VWAP) of the Company share price following the release of full-year results for 2015, rounded down to the nearest whole share right. Each share right is a right granted to acquire a fully paid ordinary share of the Company.
- The fair value of the share rights is the share price as at the grant date.

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

The fair value of the share rights for LTI 2016 is calculated as at the grant date using Monte Carlo simulation. The factors and assumptions used for the valuation are summarised in the below table.

	2016
Grant date	6/5/2016
Share price on grant date ($)	$3.00
Dividend yield	11.36%
Volatility	35.00%
Correlation	A correlation matrix for the ASX 200 (excluding resource companies) has been used
Risk free rate (%)	1.57%
Vesting date	31 December 2019

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

Grant date	Balance at 1 January 2016	Granted in the year	Exercised in the year	Cancelled/forfeited in the year	Balance at 30 June 2016	Vested and exercisable at end of the year
	Number	Number	Number	Number	Number	Number
7/05/2015	525,834	-	-	(316,316)	209,518	-
22/06/2015	7,737	-	-	-	7,737	-
6/05/2016	-	742,159	-	-	742,159	-
Total	533,571	742,159	-	(316,316)	959,414	-

Grant date	Balance at 1 January 2015	Granted in the year	Exercised in the year	Cancelled/forfeited in the year	Balance at 31 December 2015	Vested and exercisable at end of the year
	Number	Number	Number	Number	Number	Number
7/05/2015	-	525,834	-	-	525,834	-
22/06/2015	-	7,737	-	-	7,737	-
Total	-	533,571	-	-	533,571	-

Omnibus Incentive Plan

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

Under the Omnibus Incentive Plans, GFI issues stock options, stock appreciation rights, restricted stock, restricted stock units, other stock based awards and dividend equivalent awards with respect to its common stock to employees of its affiliates throughout the world. Under the Cost Agreement, GFMI and LLC have agreed to bear the costs for their employees' participation in the Omnibus Incentive Plans from time to time.

Employees of GFMI and LLC will not, following the IPO, receive any further awards under the Omnibus Incentive Plans. Any incentives after that date will be provided through the Group's share rights plan. However, GFMI and LLC will continue to bear the costs of past awards under the Omnibus Incentive Plans. The Group has reserved for such costs and the amount of the reserve is marked to market to reflect the Group's exposure to those costs having regard to the price of GFI shares.

6.3 Events subsequent to reporting date

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

On 3 August 2016, the Directors declared a 100% ordinary franked dividend of 14 cents per share totalling $71,300,000 and a 100% franked special dividend of 12.5 cents per share totalling $63,700,000.

Directors' declaration

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

a) the condensed consolidated financial statements and notes set out on pages 8 to 24 are in accordance with the Corporations Act 2001, including:
    (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance, for the six month period ended on that date; and
    (ii) complying with Australian Accounting Standards AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001 and
b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors

Richard Grellman

Chairman

Georgette Nicholas

Director

Dated at Sydney, 3 August 2016.

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 2016, 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 2016 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 2016 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

David Kells
Partner

Sydney
3 August 2016