Genworth Financial Mortgage Insurance Pty Limited

ABN 60 106 974 305

Annual Financial Report
31 December 2016

Directors' report

The Directors present their report together with the financial statements of Genworth Financial Mortgage Insurance Pty Limited ("the Company") for the year ended 31 December 2016 and the auditor's report thereon.

Directors

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

David Foster (appointed on 30 May 2016)
Anthony (Tony) Gill
Richard Grellman (resigned on 31 August 2016)
Ian MacDonald
Samuel Marsico (resigned on 5 May 2016)
Gai McGrath (appointed 31 August 2016)
Georgette Nicholas (appointed on 30 May 2016)
Leon Roday
Stuart Take
Gayle Tollifson
Jerome Upton

Principal activities

The principal activity of the Company during the financial year was the provision of lenders mortgage insurance ("LMI").

Review and result of operations

The Company's profit after income tax amounted to $202,144,000 (2015: $226,452,000).

Corporate structure

Genworth Financial Mortgage Insurance Pty Limited is incorporated and domiciled in Australia. In November 2016, Genworth Mortgage Insurance Australia Limited (GMA) become the immediate parent of the Company as a result of an internal reorganisation. GMA's major shareholder is Genworth Financial Inc. (GFI) with 52.0% ownership. GFI is incorporated in the United States of America.

Genworth Financial Mortgage Insurance Pty Limited's registered office and principal place of business is Level 26, 101 Miller Street, North Sydney, NSW 2060.

Dividends

The Company paid an ordinary dividend of $0.1784 and $0.0821 per ordinary share amounting to $250,000,000 and $115,000,000 to its shareholder, Genworth Financial Services Pty Limited on 26 May 2016 and 29 November 2016 respectively. In 2015, the Company paid an ordinary dividend of $0.0892 and $0.2354 per ordinary share amounting to $125,000,000 and $330,000,000 to its shareholder, Genworth Financial Services Pty Limited on 30 June 2015 and 15 December 2015 respectively.

State of affairs

There were no significant changes in the state of affairs of the Company that occurred during the year.

Environmental regulations

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

Events subsequent to reporting date

There have not been any matters or circumstances that have arisen since the end of the financial year to the date of this report that, in the opinion of the Directors of the Company, would significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

Likely developments

Further information about likely developments in the operations of the Company 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 Company.

Indemnification and insurance of officers and auditors

During the financial year, the Company paid premiums to insure Directors and certain officers of the Company for the year ended 31 December 2016 and, since the end of the financial year, the Company has paid or agreed to pay premiums in respect of such insurance contracts for the year ending 31 December 2017. Such insurance contracts insure against liability (subject to certain exclusions) persons who are or have been Directors or officers of the Company.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid as such disclosure is prohibited under the terms of the contracts.

The Company has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an auditor of the Company.

Directors' interests and benefits

Other than the aggregate remuneration paid or receivable by Directors included in the financial report, and remuneration as an executive paid or payable by the related body corporate, no Director has received or become entitled to receive any benefit because of a contract made by the Company or a related body corporate with a director or with a firm of which a Director is a member, or with an entity in which the Director has a substantial interest.

Rounding off

The Company 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 4 and forms part of the Directors' report.
Signed in accordance with a resolution of the Directors:

Ian MacDonald
Chairman

Dated at Sydney, 24 February 2017

KPMG

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

To the Directors of Genworth Financial Mortgage Insurance Pty Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2016 there have been:

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

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

KPMG

David Kells
Partner

Sydney

24 February 2017

Financial statements

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Statement of comprehensive income

For the year ended 31 December 2016

	Note	2016 $'000	2015 $'000
Gross written premium	3.1	381,910	507,563
Movement in unearned premium		142,790	42,042
Outward reinsurance premium expense		(71,824)	(79,729)
Net earned premium		452,876	469,876
Net claims incurred	4.1	(158,606)	(112,956)
Acquisition costs		(52,505)	(54,536)
Other underwriting expenses	3.3	(63,989)	(67,471)
Profit from underwriting		177,776	234,913
Investment income on assets backing insurance liabilities		40,353	39,048
Insurance profit		218,129	273,961
Investment income on shareholders' funds		83,446	65,720
Financing costs		(14,205)	(16,547)
Profit before income tax		287,370	323,134
Income tax expense	3.5(a)	(85,226)	(96,682)
Profit for the year		202,144	226,452
Total comprehensive income for the year		202,144	226,452

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

Statement of financial position

As at 31 December 2016

	Note	2016	2015
		$'000	$'000
Assets			
Cash	6.5	50,742	69,951
Accrued investment income		28,533	34,398
Investments including derivatives	2.1(f)	3,313,593	3,612,052
Trade and other receivables	6.3	1,514	2,743
Prepayments		2,222	2,079
Deferred reinsurance expense	4.2	80,163	71,040
Non-reinsurance recoveries		34,382	28,752
Deferred acquisition costs	4.3	141,997	145,075
Plant and equipment		472	828
Deferred tax asset	3.5(b)	9,951	10,398
Investment in controlled entity		27,598	27,598
Intangibles	6.1	2,006	1,026
Goodwill		7,490	7,490
Total assets		3,700,663	4,013,430
Liabilities			
Trade and other payables	6.4	33,259	77,821
Reinsurance payable		95,328	86,754
Outstanding claims	4.4	354,870	276,434
Unearned premiums	4.6	1,177,801	1,320,590
Employee benefits provision	6.2	6,413	6,595
Interest bearing liabilities	5.2	195,972	244,416
Total liabilities		1,863,643	2,012,610
Net assets		1,837,020	2,000,820
Equity			
Share capital	5.3(a)	1,401,559	1,401,559
Share based payment reserve	5.3(b)	1,314	2,258
Other reserves	5.5	(603,268)	(603,268)
Retained earnings		1,037,415	1,200,271
Total equity		1,837,020	2,000,820

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

Statement of changes in equity

For the year ended 31 December 2016

	Share capital	Other reserves	Share based payment reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2015	1,401,559	(603,268)	2,146	1,428,819	2,229,256
Dividend declared and paid	-	-	-	(455,000)	(455,000)
Share based payment expense recognised	-	-	829	-	829
Share based payment settled	-	-	(1,184)	-	(1,184)
Share based payment expense to be recharged back to the major shareholder	-	-	467	-	467
Profit after taxation	-	-	-	226,452	226,452
Balance at 31 December 2015	1,401,559	(603,268)	2,258	1,200,271	2,000,820
Balance at 1 January 2016	1,401,559	(603,268)	2,258	1,200,271	2,000,820
Dividend declared and paid	-	-	-	(365,000)	(365,000)
Share based payment expense recognised	-	-	246	-	246
Share based payment settled	-	-	(1,131)	-	(1,131)
Share based payment expense to be recharged back to the major shareholder	-	-	(59)	-	(59)
Profit after taxation	-	-	-	202,144	202,144
Balance at 31 December 2016	1,401,559	(603,268)	1,314	1,037,415	1,837,020

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

Statement of cash flows

For the year ended 31 December 2016

	Note	2016	2015
		$'000	$'000
Cash flows from operating activities			
Premiums received		381,910	507,563
Interest and other income		130,771	153,252
Financial expense on long term borrowings		(16,884)	(13,893)
Claims paid		(85,800)	(78,984)
Cash payments in the course of operations		(200,522)	(187,573)
Income tax paid		(109,898)	(166,476)
Net cash provided by operating activities	3.4	99,577	213,889
Cash flows from investing activities			
Payments for plant and equipment and intangibles		(1,520)	(251)
Payment for investments		(896,886)	(822,216)
Proceeds from sale of investments		1,193,299	962,845
Proceeds from dividend income		940	408
Net cash provided by investing activities		295,833	140,786
Cash flows from financing activities			
Net proceeds from long term borrowings		-	104,180
Repayment of long term borrowings		(49,619)	-
Payment of dividends		(365,000)	(455,000)
Net cash used in financing activities		(414,619)	(350,820)
Net (decrease)/increase in cash held		(19,209)	3,855
Cash at the beginning of the financial year		69,951	66,096
Cash at the end of the financial year	6.5	50,742	69,951

The 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

Genworth Financial Mortgage Insurance Pty Limited (the "Company") is a company domiciled in Australia. The Company is a for-profit entity.

The financial statements were authorised for issue by the Board of Directors on 24 February 2017.

1.2 Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. International Financial Reporting Standards ("IFRSs") form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ("AIFRS"). The financial reports of the Company also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

(b) Basis of preparation

The financial report is presented in Australian dollars.

The 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 assets and liabilities comprise both current amounts (expected to be recovered or settled within 12 months after the reporting date) and non-current amounts (expected to be recovered or settled more than 12 months after the reporting date). For those assets and liabilities that comprise both current and non-current amounts, information regarding the respective current and non-current amounts is disclosed in the relevant note to the financial statements.

The 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 Company does not prepare consolidated accounts for the consolidated entity comprising it and its controlled entity as the directors do not consider the consolidated entity to be a disclosing entity.

Consolidated accounts are prepared by the Company's highest parent entity of the Australian Group, Genworth Mortgage Insurance Australia Limited.

(c) Changes in accounting policies

New and amended standards adopted by the Company

The Company has adopted the following accounting standards which became effective for the annual reporting period commencing on 1 January 2016. These standards have introduced new disclosures but did not materially affect the amounts recognised in the financial statements.

	New Standards, Amendments and Interpretations	Operative date
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
AASB 1057	Application of Australian Accounting Standard	1/01/2016
AASB 2015-9	Amendments to Australia Accounting Standards - Scope and Application Paragraphs	1/01/2016
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	1/07/2015

New accounting standards and amendments issued but not yet effective

A number of new standards, amendments to standards and interpretations noted below are effective for annual periods beginning on or after 1 January 2017, and have not been applied in preparing these consolidated financial statements. The application of these standards is not expected to have material impact on the Group's accounting policies.

The adoption of AASB 9 Financial Instruments and AASB 15 Revenue from contracts with customers which becomes mandatory for the Company's 2018 financial statements are not expected to result in significant changes to accounting for investments and revenue recognition respectively. An initial assessment of the AASB 16 Leases has been undertaken and it is not expected to have a material impact on the financial statements.

	New Standards, Amendments and Interpretations	Operative date
AASB 9	Financial Instruments	1/01/2018
AASB 15	Revenue from contracts with customers	1/01/2018
AASB 16	Leases	1/01/2019
AASB 2014-1	Amendments to Australian Accounting Standards – Financial instruments Part E	1/01/2018
AASB 2015-8	Amendments to Australian Accounting Standards – Effective date of AASB 15	1/01/2018
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	1/01/2017
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1/01/2017
AASB 2016-3	Amendments to Australian Accounting Standards – Clarifications to AASB 15	1/01/2018
AASB 2016-5	Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions	1/01/2018

(d) Rounding off

The Company 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.

(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 the judgements about 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.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment are discussed in Note 4.8.

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

The accounting policies have been applied consistently by the Company.

(f) Goodwill

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

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

The impairment testing of goodwill involves the use of accounting estimates and assumptions. The recoverable amount of cash generating unit is determined on the basis of value in use calculations. The value in use is calculation should be performed on a pre-tax basis. The present value of future cash flow projection should be based on the most recent management approved budgets, which generally do not forecast beyond five years. The carrying value of identifiable intangible assets is deducted from the value generated from the cash flow projections to arrive at a recoverable value for goodwill which is then compared with the carrying value of goodwill. The carrying value of goodwill is tested for impairment at each reporting date.

Section 2 Risk management

2.1 Financial risk management

(a) Risk management framework

The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board has established a Risk Committee as well as an Audit Committee and Capital and Investment Committee. The Risk Committee is responsible for developing and monitoring the Company's risk management policies, and reports regularly to the Board on its activities. Furthermore, the Committee assists the Board in providing an objective non-executive review and oversight of the implementation and on-going operation of the Company's Risk Management Framework. The Committee works closely with other Board Committees that have oversight of some material risks to ensure that all risks are identified and adequately managed.

The Audit Committee assists the Board in providing an objective non-executive review of the effectiveness of the Risk Management Framework, in relation to the management of material financial risks. Similarly, the Capital and Investment Committee assists the Board in monitoring compliance with the Risk Management Framework, in relation to the execution of the Company's capital and investment strategy.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and

systems are reviewed to reflect changes in market conditions and the Company's activities. The Company, through its management policies and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Risk concentration

Risk is managed primarily through appropriate pricing, product design, risk selection, appropriate investment strategies, financial strength ratings and reinsurance. It is vital that the Company closely monitors and responds to any changes in the general economic and commercial environment in which it operates.

Due to the nature of the Australian economy, the majority of mortgages are originated through the country's four largest banks. The Company's top three lender customers accounted for approximately 71% of the Company's gross written premium, as outlined in the table below:

Lender customer	FY16 GWP	FY15 GWP
Lender customer 1	47%	44%
Lender customer 2	14%	12%
Lender customer 3	10%	10%

(c) Market risk

Market risk is the risk of adverse financial impact due to changes in the value or future cash flows of financial instruments from fluctuations in foreign currency exchange rates, interest rates and equity prices.

(i) Currency risk

Currency risk is the risk of loss arising from an unfavourable movement in market exchange rates. The Company is exposed to currency risk on its investments in international receivables and payables denominated in a currency other than Australian dollars and the net investment in foreign branch operations. The currency giving rise to the risk is New Zealand dollars.

The potential impact on the Company's profit and loss and equity as a result of a 10% depreciation/ appreciation of the Australian dollar at the reporting date, assuming all other variables remain constant, is shown below.

	2016		2015	
	+10%	-10%	+10%	-10%
	$'000	$'000	$'000	$'000
Impact to profit and loss and equity from 10% depreciation/ appreciation in the Australian Dollar on New Zealand assets and liabilities.	446	(545)	677	(828)

(ii) Cash flow and fair value interest rate risk

The Company is exposed to interest rate risk arising on interest bearing assets. Assets with floating rate interest expose the Company to cash flow interest rate risk. Fixed interest rate assets expose the Company to fair value interest rate risk.

The Company's strategy is to invest in high quality, liquid fixed interest securities and cash and to actively manage the duration. The Company used derivative financial instruments in the form of interest rate swaptions to mitigate interest rate risk arising from fixed interest securities. The risk management processes over these derivative financial instruments include close senior management scrutiny, including appropriate board approval. Derivatives are used only for approved purposes and are subject to delegated authority levels provided to management. The level of derivative exposure is reviewed on an ongoing basis. Appropriate segregation of duties exists with respect to derivative use and compliance with policy, limits and other requirements is closely monitored.

The investment portfolios are actively managed to achieve a balance between cash flow interest rate risk and fair value interest rate risk bearing in mind the need to meet the liquidity requirements of the insurance business.

The Company has exposure to interest rate risk on its term subordinated notes. The interest rate on these notes is reset quarterly. The Company manages the level of assets with similar maturities to offset this exposure.

The potential impact of movements in interest rates on the Company's profit and loss and equity as a result of 1% increase/decrease in the interest bearing assets, assuming all other variables remain constant, are shown below.

	2016		2015	
	+1%	-1%	+1%	-1%
	$'000	$'000	$'000	$'000
Investments – fixed interest securities and related interest rate derivatives	52,104	(41,474)	59,123	(49,710)

(iii) Equity price risk

Price risk is the risk that the fair value of a financial asset will fluctuate because of changes in market prices, rather than changes in interest rates and/or exchange rates. These price movements may be caused by factors specific to the individual financial asset or its issuer, or factors affecting all similar financial assets traded on the market. The Company has exposure to equity price risk through investment in equities.

During the year, the Company purchased equity securities as a return enhancing investment for the shareholder funds portfolio. The equity investment also provides a diversification benefit to the overall investment portfolio. The investment is structured to provide a lower volatility return outcome than a market-weighted allocation to Australian equities. The equity investment targets a volatility of 10% by allocating dynamically between cash and a portfolio of shares which replicate the S&P ASX 200 Index.

The potential impact of movements in price risk on the Company's profit and loss and equity as a result of a 10% increase/ decrease in value of equity securities at reporting date are shown below.

	2016		2015	
	+10%	-10%	+10%	-10%
Investments – equity securities	13,136	(13,136)	-	-

(d) Credit risk exposures

Credit risk is the risk of default by borrowers and transactional counterparties as well as the loss of value of assets due to deterioration in credit quality. The Company's credit risk arises predominantly from investment activities and the amounts are as indicated by the carrying amounts of the financial assets.

The Company's investment portfolio comprises 97% (2015: 96%) of total securities and cash with counterparties having a rating of A- or better. The Company does not expect any investment counterparties to fail to meet their obligations given their strong credit ratings.

The credit quality of financial assets that are neither past due nor impaired is assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. As at balance date there were no assets past due.

The ratings in the following table are the lower equivalent rating of either Standard & Poor's or Moody's.

	2016 $'000	2015 $'000
Cash at bank and short-term bank deposits		
AAA	41,359	14,528
AA	167,044	326,324
A	16,450	5,000
BBB	5,000	8,800
BB	3,000	3,000
	232,853	357,652
Investments		
AAA	1,532,210	1,621,255
AA	766,319	884,749
A	548,031	677,320
BBB	97,267	141,027
	2,943,827	3,324,351
Accrued investment income		
AAA	12,789	14,677
AA	9,663	11,346
A	5,289	6,487
BBB	378	1,878
BB	10	10
	28,129	34,398
Receivables without external credit rating	1,514	2,743

(e) Liquidity risk

Liquidity risk is the risk that there are insufficient cash resources to meet payment obligations to policyholders and creditors without affecting the daily operations or the financial condition of the Company.

Management of liquidity risk includes asset and liability management strategies. The assets held to back insurance liabilities consist predominantly of highly rated fixed income securities which can generally be readily sold or exchanged for cash. The assets are managed so as to effectively match the interest rate maturity profile with the expected pattern of claims payments.

The money market securities are restricted to investment grade securities with concentrations of investments managed in accordance with investment mandates.

2016 Financial liabilities	Less than 1 year $'000	1 - 5 years $'000	Total $'000
Payables	33,259	-	33,259
Reinsurance payable	83,688	11,640	95,328
Outstanding claims provision	272,721	82,149	354,870
	389,668	93,789	483,457

2015	Less than 1 year	1 - 5 years	Total
Financial liabilities	$'000	$'000	$'000
Payables	68,301	9,520	77,821
Reinsurance payable	75,397	11,356	86,753
Outstanding claims provision	201,765	74,669	276,434
	354,302	86,025	440,327

(f) 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 Company has designated the assets backing general insurance activities based on their 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 Company accounts for financial assets and any assets backing insurance activities at fair value through profit and loss, with any resultant unrealised profits and losses recognised in the statement of comprehensive income.

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

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

Financial assets not backing general insurance liabilities

Investments that do not back general insurance liabilities include the investment in the controlled entity which is stated at cost less impairment losses. The balances of investments not backing insurance liabilities are designated as financial assets on the same basis as those backing insurance liabilities.

Derivative financial instruments

The Company uses derivatives to manage risks. 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.

Investments

	2016 $'000	2015 $'000
Fixed interest rate		
Short term deposits	139,738	283,873
Government and semi-government bonds	929,739	870,166
Corporate bonds	1,504,132	1,962,917
	2,573,609	3,116,956
Floating interest rate		
Short term deposits	42,373	3,828
Government and semi-government bonds	26,936	-
Corporate bonds	480,131	489,714
	549,440	493,542
Equity securities		
Listed	187,655	-
Derivatives		
Investment related derivatives	2,889	1,554
Total investments	3,313,593	3,612,052
Current	554,106	867,561
Non-current	2,571,832	2,744,491
Equity	187,655	-
	3,313,593	3,612,052

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

The Company 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.

2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Investments				
Government and semi-government bonds	-	956,675	-	956,675
Corporate bonds	-	1,984,263	-	1,984,263
Short term deposits	182,111	-	-	182,111
Derivatives	-	-	2,889	2,889
Equity securities	187,655	-	-	187,655
Total	369,766	2,940,938	2,889	3,313,593

2015	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Investments				
Government and semi-government bonds	-	870,166	-	870,166
Corporate bonds	-	2,404,131	48,500	2,452,631
Short term deposits	287,701	-	-	287,701
Derivatives	-	-	1,554	1,554
Total	287,701	3,274,297	50,054	3,612,052

There are an insignificant proportion of investments, less than 1% (2015: 1%), for which a valuation methodology is used to determine the fair value. These assets are effectively marked to model rather than marked to market. 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 31 December 2016
2016	$'000	$'000	$'000	$'000	$'000
Financial Instruments					
Corporate bonds	48,500	-	(48,500)	-	-
Derivatives	1,554	1,568	-	(233)	2,889
Total	50,054	1,568	(48,500)	(233)	2,889

	Balance at 1 January 2015	Purchases	Disposals	Movement in fair value	Balance at 31 December 2015
2015	$'000	$'000	$'000	$'000	$'000
Financial Instruments					
Government and semi-government bonds	481	-	(481)	-	-
Corporate bonds	48,500	-	-	-	48,500
Derivatives	-	2,502	-	(948)	1,554
Total	48,981	2,502	(481)	(948)	50,054

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

Derivative financial instruments

The Company used derivative financial instruments in the form of interest rate swaptions to mitigate interest rate risk arising from fixed interest securities. An interest rate swaption is an option to enter into an interest rate swap. The 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 the interest rates reach a particular level.

The valuation of interest rate swaptions is determined 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, the derivative is classified as Level 3.

Reporting date positions

The notional amount and fair value of derivative financial instruments, together with maturity profile at reporting positions are provided below:

	2016					2015	
	Within 1 year	Maturity profile 1 to 5 years	Maturity profile over 5 years	Notional contract amount	Fair value asset	Notional contract amount	Fair value asset
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Investment related derivatives							
Interest rate swaptions	1,650,000	-	-	1,650,000	2,889	1,700,000	1,554

Section 3 Results for the year

3.1 Gross written premium

Accounting policies

Gross written premium comprises amounts charged to policyholders (direct premium) or other insurers (inwards reinsurance premium) for insurance contracts. Premiums charged to policyholders, excludes stamp duties and goods and services tax ("GST") collected on behalf of third parties.

	2016 $'000	2015 $'000
Direct premium	381,361	506,488
Inward reinsurance premium	549	1,075
	381,910	507,563

3.2 Investment income

Accounting policies

Interest revenue

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

Dividend revenue

Dividend is recognised on the date the dividends/distributions are declared, which for listed equity securities is deemed to be the ex-dividend date.

Gains/ (losses) in fair value of investments

Refer to Note 2.1 (f) Accounting policies and fair value estimations for further details.

	2016 $'000	2015 $'000
Dividend from subsidiary	940	408
Dividend revenue	7,113	-
Interest	117,792	146,978
Gains/ (losses) in fair value of investments		
Unrealised	(12,525)	(52,459)
Realised	11,010	9,841
Impairments	(531)	-
Total investment income	123,799	104,768

	2016 $'000	2015 $'000
Represented by		
Investment income on assets backing insurance liabilities	40,353	39,048
Investment income on equity holders' funds	83,446	65,720
	123,799	104,768

3.3 Other underwriting expenses

	2016 $'000	2015 $'000
Depreciation and amortisation expense	895	2,329
Employee expenses:		
• Salaries and wages	26,994	31,902
• Superannuation contributions	1,718	2,007
• Employee benefits	(100)	(305)
Occupancy expenses	2,818	3,170
Marketing expenses	506	738
Administrative expenses	31,158	27,630
	63,989	67,471

3.4 Net cash provided by operating activities

This note reconciles the operating profit to the cash provided by operating activities per the cash flow statement.

	2016 $'000	2015 $'000
Profit after income tax	202,144	226,452
Add/(less) items classified as investing/financing activities:		
Gain on sale of investments	(10,478)	(9,834)
Unrealised losses/(gains) on investments	12,525	52,459
Dividend income	(940)	(408)
Add non-cash items:		
Share based payments	(944)	112
Loss on disposal of plant and equipment	1	102
Depreciation and amortisation	894	2,329
Net cash provided by operating activities before change in assets and liabilities	203,202	271,212
Change in assets and liabilities during the financial year:		
Decrease/ (increase) in receivables	(7,803)	4,353
Increase/ (decrease) in outstanding claims liability	78,436	46,346
(Decrease)/ increase in payables and borrowings	(34,811)	(42,482)
Decrease in deferred acquisition costs	3,078	(20,605)
Increase in deferred tax balances	447	(2,342)
Increase in employee benefits provision	(182)	(551)
Increase in unearned premiums	(142,790)	(42,042)
Net cash provided by operating activities	99,577	213,889

3.5 Income taxes

Accounting policies

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

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

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

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

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

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

	2016 $'000	2015 $'000
(a) Income tax expense		
Current tax	84,656	97,623
Deferred tax	463	(739)
(Over)/under provision in prior year:		
Current tax	123	1,401
Deferred tax	(16)	(1,603)
	85,226	96,682

Numerical reconciliation of income tax expense to prima facie tax payable

	2016 $'000	2015 $'000
Prima facie income tax expense calculated at 30% (2015: 30%) on profit	86,211	96,940
Increase/ (decrease) in income tax expense due to:		
Foreign tax rate differential	(880)	-
(Over)/ under provision in prior year	107	(201)
Other non-taxable items	(212)	(57)
Income tax expense on the profit	85,226	96,682

(b) Deferred tax assets and liabilities

Deferred tax asset balance comprises temporary differences attributable to:	2016 $'000	2015 $'000
Employee benefits	3,224	3,767
Accrued expenses	399	1,064
Provision for indirect claims handling costs	6,328	5,401
Fixed assets and intangibles	-	166
	9,951	10,398

Net deferred tax

Movements in net deferred tax		
Opening balance at 1 January	10,398	8,056
Credited to the statement of comprehensive income	(463)	739
Over/ (under) provision of prior year tax	16	1,603
Closing balance at 31 December	9,951	10,398

3.6 Dividends

Accounting policy

Provisions for dividends are made in respect of ordinary shares where the dividends are declared on or before the reporting date but have not yet been distributed at that date.

(a) Ordinary shares

The Company paid an ordinary dividend of $0.1784 and $0.0821 per ordinary share amounting to $250,000,000 and $115,000,000 to its shareholder, Genworth Financial Services Pty Limited on 26 May 2016 and 29 November 2016 respectively. In 2015, the Company paid an ordinary dividend of $0.0892 and $0.2354 per ordinary share amounting to $125,000,000 and $330,000,000 to its shareholder, Genworth Financial Services Pty Limited on 30 June 2015 and 15 December 2015 respectively.

(b) Dividend franking account

In accordance with the tax consolidation legislation Genworth Mortgage Insurance Australia Limited, as the head entity in the tax consolidated group, has assumed the benefit of available franking credits.

Section 4 Insurance Contracts

Accounting policy

Classification of insurance contracts

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

4.1 Net claims incurred

(a) Claims analysis

	2016 $'000	2015 $'000
Gross claims incurred	166,351	133,452
Reinsurance and other recoveries revenue	(6,845)	(8,696)
Borrower recoveries recognised	(900)	(11,800)
Net claims incurred	158,606	112,956

(b) Claims development

	2016			2015		
	Current Year $'000	Prior Years $'000	Total $'000	Current Year $'000	Prior Years $'000	Total $'000
Gross claims expense						
Direct	254,952	(94,418)	160,534	204,015	(72,007)	132,008
Inwards reinsurance	9,863	(4,046)	5,817	7,688	(6,243)	1,445
Gross claims incurred – undiscounted	264,815	(98,464)	166,351	211,703	(78,250)	133,453
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries – undiscounted	(812)	(6,033)	(6,845)	(1,322)	(7,375)	(8,697)
Borrower recoveries recognised	(107)	(793)	(900)	(1,331)	(10,469)	(11,800)
Net claims incurred	263,938	(105,332)	158,606	209,050	(96,094)	112,956

4.2 Deferred reinsurance expense

Accounting policies

Reinsurance expense

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

	2016 $'000	2015 $'000
Balance at 1 January	71,040	80,602
Deferral of reinsurance premium on current year contracts	147,638	70,166
Expensing of reinsurance premium previously deferred	(138,515)	(79,728)
Balance as at 31 December	80,163	71,040
Current	68,524	59,683
Non-current	11,639	11,357
	80,163	71,040

4.3 Deferred acquisition costs

Accounting policies

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

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

Refer to Note 4.8 Accounting estimates and judgements for further detailed information.

	2016 $'000	2015 $'000
Balance at 1 January	145,075	124,470
Acquisition costs incurred in year	52,864	70,879
Amortisation charge	(55,942)	(50,274)
Balance as at 31 December	141,997	145,075
Current	51,273	51,940
Non-current	90,724	93,135
	141,997	145,075

4.4 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 4.8 Accounting estimates and judgements and Note 4.9 Actuarial assumptions and methods for further detailed information.

	2016 $'000	2015 $'000
Central estimate	313,952	242,589
Risk margin	40,918	33,845
Gross outstanding claims	354,870	276,434

(a) Reconciliation of changes in outstanding claims

Balance at 1 January	276,434	230,088
Current year net claims incurred	158,606	112,956
Movement in non-reinsurance recoveries	5,630	12,374
Claims paid	(85,800)	(78,984)
Balance at 31 December	354,870	276,434
Current	272,721	201,765
Non-current	82,149	74,669
	354,870	276,434

(b) Claims development

2016

Underwriting years	Prior years[1] $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	Total $'000
At end of year of underwrite	204,459	9,302	8,438	4,393	701	992	1,079	1,021	778	1,424	860	233,447
One year later:	150,001	39,265	44,511	19,629	7,004	6,668	7,805	6,825	12,917	6,803		301,428
Two years later	129,417	61,383	47,593	36,755	15,005	10,997	11,246	20,871	20,319			353,586
Three years later	106,325	45,635	52,954	47,621	9,744	9,989	24,535	29,722				326,525
Four years later	41,696	50,058	79,244	24,386	8,108	15,925	43,917					263,334
Five years later	34,485	61,174	31,875	16,589	23,971	23,182						191,276
Six years later	48,112	29,491	22,638	40,761	11,717							152,719
Seven years later	12,296	10,197	23,698	12,537								58,728
Eight years later	(1,947)	(11,264)	8,579									(4,632)
Nine years later	(39,883)	4,116										(35,767)
All future years	(2,970)											(2,970)
Net incurred to date	681,991	299,357	319,530	202,671	76,250	67,753	88,582	58,439	34,014	8,227	860	1,837,674
Net paid to date	661,442	273,774	283,637	165,886	51,900	31,997	27,654	15,497	4,849	550	0	1,517,186
Outstanding claims provision at 31 December 2016	22,714	26,741	37,388	38,155	25,182	36,922	62,879	44,313	30,088	7,919	887	333,188
Recoveries on Paid Claims as at 31 Dec 2016	2,165	1,158	1,494	1,371	833	1,166	1,951	1,370	923	242	27	12,700

[1] Prior 2007 underwriting years

2015

Underwriting years	Prior years[1] $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	Total $'000
At end of year of underwrite	204,831	9,302	8,438	4,393	701	992	1,079	1,021	778	1,424	232,959
One year later:	150,001	39,265	44,511	19,629	7,004	6,668	7,805	6,825	12,917		294,625
Two years later	129,417	61,383	47,593	36,755	15,005	10,997	11,246	20,871			333,267
Three years later	106,324	45,636	52,953	47,621	9,744	9,989	24,535				296,802
Four years later	41,696	50,058	79,245	24,386	8,107	15,925					219,417
Five years later	34,485	61,174	31,875	16,589	23,971						168,094
Six years later	48,112	29,491	22,638	40,761							141,002
Seven years later	12,296	10,196	23,698								46,190
Eight years later	(1,947)	(11,264)									(13,211)
All future years	(39,883)										(39,883)
Net incurred to date	685,332	295,241	310,951	190,134	64,532	44,571	44,665	28,717	13,695	1,424	1,679,262
Net paid to date	659,315	267,051	269,299	149,983	43,410	23,024	14,615	4,285	559	39	1,431,580
Outstanding claims provision at 31 December 2015	27,754	29,470	43,543	41,974	22,080	22,526	31,414	25,541	13,732	1,448	259,482
Recoveries on Paid Claims as at 31 Dec 2015	1,737	1,280	1,891	1,823	958	979	1,364	1,109	596	63	11,800

[1] Prior 2007 underwriting years

(c) Reconciliation of claims development table to outstanding claims provision

	2016 $'000	2015 $'000
Closing outstanding claims provision per claims development table	333,188	259,482
Non reinsurance recoveries	21,682	16,952
Gross closing outstanding claims provision	354,870	276,434

4.5 Non reinsurance recoveries

Accounting policies

Reinsurance and non-reinsurance recoveries

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 Company 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	28,752	16,378
Movement of non-reinsurance recoveries	4,730	574
Borrower recoveries receivable recognised	900	11,800
Closing balance	34,382	28,752

When claims are paid, the Company typically obtains a legally enforceable judgement against borrowers for the amount of the loss incurred. The Company 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 $11.8 million recorded in non-reinsurance recoveries receivable and a corresponding decrease in net claims incurred in 2015.

4.6 Unearned premiums

Accounting policies

Earned and unearned premium revenue

Premiums have been brought to account as income from the date of attachment of risk over periods up to ten years based on an actuarial assessment of the pattern and period of risk. The earned portion of premiums received is recognised as revenue. The balance of premium received is carried as an unearned premium reserve.
Refer to Note 4.8 Accounting estimates and judgements for further detailed information.

	2016 $'000	2015 $'000
Balance at 1 January	1,320,590	1,362,632
Premiums incepted during the year	381,910	507,563
Premiums earned during the year	(524,699)	(549,605)
Balance as at 31 December	1,177,801	1,320,590
Current	377,680	423,944
Non-current	800,121	896,646
	1,177,801	1,320,590

4.7 Liability adequacy test

Accounting policies

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

The liability adequacy test ("LAT") has identified a surplus for the portfolio of contracts that are subject to broadly similar risks.

The probability of adequacy adopted in performing the liability adequacy test is set at the 70th percentile (2015: 75th percentile), includes a risk margin of 14% (2015: 29%). The 70% PoA represented by the LAT differs from the 75% represented by the outstanding claims liability as the former is reflective of experience, whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liability.

4.8 Accounting estimates and judgements

Critical accounting estimates and judgements

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

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

Estimation of premium revenue/ unearned premium/ deferred acquisition costs (Note 3.1, 4.3 and 4.6)

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 (Note 4.4)

Provision is made for the estimated claim cost of reported delinquencies at the statement of financial position date, including the cost of delinquencies incurred but not yet reported to the Company.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of expected third party recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, the final outcome may 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 Company is determined after considering the uncertainty in the portfolio, industry trends, the Company'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 Company, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured or notified to the Company until some time after the events giving rise to the claims have happened.

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

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

4.9 Actuarial assumptions and methods

The Company internally values the outstanding claims liabilities at the reporting date. The valuation approach is consistent with that recommended by the Appointed Actuary.

The valuation methods used are based on the underlying attributes of the claims portfolio. The Company establishes provisions for outstanding claims in two parts:

- delinquent loans advised to the Company; and
- IBNR.

The provision in respect of delinquent loans not in possession by the mortgagee is determined according to the following formula:

- outstanding loan amount multiplied by frequency factor multiplied by severity factor.

In applying this formula:

- the outstanding loan amount insured is the total outstanding amount on those loans advised to the Company by the lenders as being delinquent;
- the frequency and severity factors are based on a review of historical claims and delinquency experience performed by the Appointed Actuary and adopted by the Company.

For loans where the mortgagee is in possession ("MIPs") and a claim has been submitted, the claimed amount adjusted for amounts not eligible to be claimed is provided. For loans where there is a MIP but a claim has not yet been submitted, case estimate based approach is used using the current outstanding loan balance including accumulated arrears adjusted for selling costs, the most recent property valuation, or an estimate thereof, and any amounts not eligible to be claimed.

Actuarial assumptions and process

Historical information relating to arrears and claims history for the Company is provided to the Appointed Actuary in order to determine the underlying assumptions.

The Appointed Actuary examines all past underwriting years, including the mix of business by loan to value ratio ("LVR") and loan size band, the region in which the mortgaged property is located, product types, loan purpose and arrears duration.

Statistical modelling was used to identify significant explanatory factors affecting outcomes for frequency and severity based on historical claims experience.

The Appointed Actuary identifies significant explanatory factors affecting outcomes and incorporates this information into models for frequency and severity. The models incorporate past and anticipated movements in key variables to determine appropriate assumptions for reserving. The actuarial assumptions used in determining the outstanding claims liabilities other than MIPs are:

Frequency

While the propensity for a delinquent loan to become a claim varies for many explanatory factors (as determined by the Appointed Actuary's analyses), the frequency basis is summarised on any given balance date and expressed so that it varies by LVR band and number of payments in arrears taking into account the average mix of effects of the other explanatory factors on the balance date. Additional loadings may be placed on these factors according to the geographic location, loan balance, External Dispute Resolution (those borrowers accessing ombudsman services or seeking legal representation), and the lender, to adjust for shorter term expectations of frequency.

Severity

Claim severity varies according to the number of payments in arrears and the geographic region of the properties secured by the mortgages. Claim severity is expressed as a percentage of the outstanding loan amount at the arrears date,

The following average frequency and severity factors were used in the measurement of outstanding claims:

- Average frequency factor is 34% (2015: 35%)
- Average severity factor is 24% (2015: 25%)

IBNR

The IBNR provision is estimated by analysing the historical pattern of reported delinquencies.

Risk Margin

The risk margin is an additional allowance for uncertainty in the ultimate cost of claims over and above the central estimate determined on the bases set out above. The overall margin adopted by the Company is determined after considering the uncertainty in the portfolio, industry trends, the Company's risk appetite and the margin corresponding with that appetite.

The Appointed Actuary reviews the factors impacting the portfolio to establish a recommended risk margin at the level required by the Company and APRA. Factors considered include:

- variability of claims experience of the portfolio;
- quality of historical data;
- uncertainty due to future economic conditions;
- diversification within the portfolio; and
- increased uncertainty due to future legislative changes.

A risk margin for outstanding claims of 14% (2015: 15%) of net central estimate has been assumed and is intended to achieve a 75% PoA.

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

The weighted average term to settlement is approximately 19 months (2015: 23 months).

Sensitivity Analysis

The valuation of outstanding claims incorporates a range of factors that involves interactions with economic indicators, statistical modelling and observed historical claims development. Certain variables can be expected to impact outstanding claims liabilities more than others and consequently a greater degree of sensitivity to these variables can be expected.

Future economic conditions and in particular house prices, interest rates and unemployment (for new delinquencies) impact frequency and, to a lesser extent, severity.

The actuarial result is based on the central estimate of the net outstanding claim liabilities. The impact on the profit and loss before income tax to changes in key actuarial assumptions is set out in the table below.

The upper and lower bounds of a 95% confidence interval of frequency and severity outcomes are applied as sensitivity factors. The impact of applying the sensitivities is asymmetric around the central estimate due to the assumed asymmetry of the distribution of outcomes of the net outstanding claim liabilities.

Impact on outstanding claims liabilities to changes in key variables

	Change in variable 2016	Impact on outstanding claims liabilities 2016 $'000	Change in variable 2015	Impact on outstanding claims liabilities 2015 $'000
Frequency factor – upper 97.5th	10%	68,078	18%	96,035
Frequency factor – lower 2.5th	(9%)	(56,754)	-13%	(70,013)
Severity factor – upper 97.5th	10%	101,334	7%	57,576
Severity factor – lower 2.5th	(8%)	(77,816)	-6%	(47,927)

Claims handling expenses

Claims handling expenses are estimated after considering historical actual expenses and management's projected costs of handling claims over the weighted average term to settlement.

4.10 Capital adequacy position

APRA's Prudential Standard GPS 110 Capital Adequacy requires additional disclosure in the annual financial statements to improve policyholder and market understanding of the capital adequacy of the company.

	2016 $'000	2015 $'000
Tier 1 capital		
Paid-up ordinary shares	1,401,559	1,401,559
Other reserves	(601,954)	(601,011)
Retained earnings	1,037,415	1,200,270
Less: Deductions	(33,251)	(32,248)
Net surplus relating to insurance liabilities	66,433	152,930
Net Tier 1 capital	1,870,202	2,121,500
Tier 2 capital	200,000	249,600
Total capital base	2,070,202	2,371,100
Insurance risk charge	229,646	226,500
Insurance concentration risk charge	1,084,846	1,333,755
Asset risk charge	109,971	75,936
Asset concentration risk charge	-	-
Operating risk charge	29,943	27,671
Aggregation benefit	(51,678)	(36,616)
Total prescribed capital amount	1,402,728	1,627,246
Prescribed Capital Amount coverage	1.48	1.46

Section 5 Capital management and financing

5.1 Capital management

The capital management strategy plays a central role in managing risk to create shareholder value whilst meeting the crucial and equally important objective of providing an appropriate level of capital to protect both policyholders' and lenders' interests and satisfy regulators. Capital finances growth, capital expenditure and business plans and also provides support in the face of adverse outcomes from insurance and other activities and investment performance.

The determination of the capital amount and mix is built around three core considerations. The Company aims to hold capital to meet the highest requirements derived from these three considerations:

(a) Regulatory capital

The Company is subject to APRA's prudential standards, which set out the basis for calculating the Prescribed Capital Requirement ("PCR"), which is the minimum level of capital that the regulator deems must be held to meet policyholder obligations. The capital base is expected to be adequate for the size, business mix, complexity and risk profile of the business and so the PCR utilises a risk based approach to capital adequacy. The PCR is the sum of the capital charges for insurance, investments and other assets, investment concentration, operational and catastrophe concentration risk plus any supervisory adjustment imposed by APRA.

It is the Company's policy to hold regulatory capital levels in excess of the PCR required by APRA. The Company maintains sufficient capital to support the PCR, which is APRA's derivation of the required capital to meet a 1 in 200 year risk of absolute ruin, and has at all times during the current and prior financial year complied with the externally imposed capital requirements to which it is subject.

Capital calculations for regulatory purposes are based on a premium liabilities model, which is different from the deferral and matching model which underpins the measurement of assets and liabilities in the financial statements. The premium

liabilities model estimates future expected claim payments arising from future events insured under existing policies. This differs from the measurement of the outstanding claims liabilities on the statement of financial position, which considers claims relating to events that occur only up to and including the reporting date.

On 30 June 2016, the Company redeemed the remaining $49,619,000 of its existing 2011 subordinated notes. Refer to Note 5.2 Interest bearing liabilities for further information

(b) Ratings capital

The Company sets its target capital strength by reference to a target financial strength rating from an independent ratings agency. The ratings help to reflect the financial strength of the Company and demonstrate to the stakeholders the ability to pay claims for the long term. The Company has A+ and A3 ratings based on latest ratings published for the Company by Standard & Poor's Rating Services and Moody's, respectively. On 25 September 2016, Fitch Ratings (Fitch) affirmed the Company has an A+ rating.

(c) Economic capital

The Company uses an economic capital model (ECM) to assess the level of capital required for the underwriting, claims estimation, credit, market, liquidity, operational and group risk to which it is exposed. Economic capital is determined as the level of capital the Company needs to ensure that it can satisfy its ultimate policyholder obligations in relation to all insurance contracts issued on or before the end of the business plan year. The ECM is used by management to help in the determination of strategic capital allocation, business planning, underwriting performance, pricing and reinsurance arrangements. The Company reviews its capital structure on an ongoing basis to optimise the allocation of capital whilst minimising the cost of capital. Active management of the business and its capital has enabled the Company to maintain its insurer financial strength and credit rating.

Internal capital adequacy assessment process (ICAAP) management

The Company has implemented an ICAAP as part of its compliance with the LAGIC standards. The purpose of ICAAP is to assist the Company in making a proactive internal assessment of its capital requirements considering the current strategy, business plan and associated risks inherent in that business plan. In addition to the internal capital requirement, the ICAAP recognises the capital required for regulatory and ratings agency purposes, and identifies planned and potential sources of capital required to meet these objectives. The ICAAP is also designed to further augment the current corporate governance practices undertaken by the Board of Directors in respect of the ongoing assessment of the Company' s risk profile, risk appetite, strategic plan and capital adequacy.

The ICAAP summary statement is designed to summarise the major components of the ICAAP, which are:

i. Risk Management Framework
ii. Risk Management Strategy
iii. Capital Management and Planning
    - The identification of the amount of capital required to be held against the risks of the business;
    - The strategy for ensuring adequate capital is maintained over time, including the identification of specific capital targets; and
    - The plans for how target levels of capital are to be met and the means available for sourcing additional capital if and when required;
iv. Capital Monitoring
    - The actions and procedures for monitoring the Company's compliance with its regulatory capital requirements and capital targets including the triggers to alert management to, and specified actions to avert and rectify, potential breaches of these requirements; and
    - The processes for reporting on the ICAAP and its outcomes to the Board and senior management.
v. Stress Testing and scenario analysis relating to potential risk exposures and available capital resources.
vi. ICAAP integration - ensuring that the ICAAP is taken into account in making business decisions.

5.2 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; 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 the borrowings.

		2016 $'000	2015 $'000
Subordinated notes			
$140 million subordinated notes	(A)	-	49,619
$200 million subordinated notes	(B)	200,000	200,000
Less: capitalised transaction costs		(4,028)	(5,203)
		195,972	244,416

(A) On 30 June 2016, the Company redeemed the remaining $49,619,000 of its existing $140,000,000 subordinated notes issued on 30 June 2011.

(B) On 3 July 2015, the Company issued $200,000,000 of 10 year, non-call 5 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.

5.3 Equity

(a) Share capital

	2016 $'000	2015 $'000
Issued fully paid capital		
1,401,559,000 ordinary shares (2015: 1,401,559,000)	1,401,559	1,401,559

The Company does not have par value in respect of its issued shares. 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.

(b) Share based payment reserve

	2016 $'000	2015 $'000
Balance at 1 January	2,258	2,146
Share based compensation	246	829
Share based payment settled	(1,131)	(1,184)
Share-based payment expense to be recharged back to the major shareholder	(59)	467
Balance at 31 December	1,314	2,258

Refer to Note 7.5 Share based payments for further detailed information.

5.4 Capital commitments and contingencies

Accounting policies

The Company leases property and equipment under operating leases, where the lessor retains substantially all the risks and benefits of ownership of the leased items, expiring from one to five years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on movements in the Consumer Price Index. All leases entered into are operating leases. Lease payments are recognised as an expense in profit and loss on a straight line basis over the term of these leases. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Operating lease commitments

	2016 $'000	2015 $'000
Within one year	6,362	6,491
One year or later and no later than five years	3,773	9,988
	10,135	16,479

Contingencies

There were no contingent liabilities as at 31 December 2016.

5.5 Other reserves

	2016 $'000	2015 $'000
Other reserves	(603,268)	(603,268)

The balance in the other reserves comprises goodwill which has not been recognised as an asset due to the acquisition of the lenders mortgage insurance business from GE Mortgage Insurance Pty Ltd and GE Capital Mortgage Insurance Corporation (Australia) Pty Ltd, being between entities under common control with the Company at that time. Consequently, goodwill has not been recognised as an asset in the financial statements of the acquirer.

Section 6 Operating assets and liabilities

6.1 Intangibles

The intangibles balance represents software development expenditure.

Accounting policies

Acquired intangible assets

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

Software development expenditure

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

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

Impairment assessment

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

There was no impairment charge recognised during the year.

Reconciliations

Reconciliations of the carrying amounts for intangibles are set out below:

	2016 $'000	2015 $'000
Cost		
Opening balance at 1 January	24,754	25,471
Additions	1,513	177
Disposals	(19)	(894)
Closing balance at 31 December	26,248	24,754
Accumulated amortisation		
Opening balance at 1 January	(23,728)	(22,668)
Amortisation charge	(532)	(1,850)
Disposals	18	790
Closing balance at 31 December	(24,242)	(23,728)
Total net intangibles	2,006	1,026

6.2 Employee benefits provision

Accounting policies

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

Wages, salaries and annual leave

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

Long service leave

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

Superannuation commitments

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

	2016 $'000	2015 $'000
Annual leave	2,493	2,561
Long service leave	3,920	4,034
	6,413	6,595
Current	4,711	4,604
Non-current	1,702	1,991
	6,413	6,595

As at the balance date there were 223 employees (2015: 259 employees).

6.3 Trade and other receivables

Accounting policies

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

	2016 $'000	2015 $'000
Other debtors	1,514	2,743
Current	1,514	2,743

Carrying amounts of receivables reasonably approximate fair value at statement of financial position date. None of the receivables are impaired or past due.

6.4 Trade and other payables

Accounting policies

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

	2016 $'000	2015 $'000
Accrued expenses	22,983	40,821
Interest payable	32	2,711
Trade creditors	14,096	11,025
Related party (receivable)/payable	(3,852)	23,264
	33,259	77,821
Current	33,259	68,301
Non-current	-	9,520
	33,259	77,821

Included in the related party payables are the balances related to taxes (receivable)/payable to the head entity of $3,703,000 (2015: $21,416,000). Under the tax consolidation system, current tax liabilities recognised for the year by the Company are assumed by the head entity in the tax consolidated group. The current tax liabilities arising for the Company under the tax funding agreement are recognised as an intercompany payable to the head entity in the tax consolidated group.

6.5 Cash and cash equivalents

Accounting policies

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are measured at fair value, being the principal amount.

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2016 $'000	2015 $'000
Cash assets	50,742	69,951

Section 7 Other disclosures

7.1 Auditor's remuneration

	2016 $	2015 $
Audit of financial reports	271,544	286,649
Regulatory audit services	53,649	56,633
	325,193	343,282
Non assurance services	35,000	35,000
	35,000	35,000

This is the total fee for non assurance services provided to GMA, Genworth Financial Mortgage Insurance Pty Limited and Genworth Financial Mortgage Indemnity Limited.

7.2 Key management personnel disclosures

The following were key management personnel of the Company for the entire period, unless otherwise stated.

Directors of the Company	Executive KMP
David Foster (appointed on 30 May 2016)	Tobin Fonseca
Anthony (Tony) Gill	Andrew Cormack
Richard Grellman (resigned on 31 August 2016)	Bridget Sakr (resigned on 14 December 2016)
Ian MacDonald	Luke Oxenham
Samuel Marsico (resigned on 5 May 2016)	
Gai McGrath (appointed on 31 August 2016)	
Georgette Nicholas (appointed on 30 May 2016)	
Leon Roday	
Stuart Take	
Gayle Tollifson	
Jerome Upton	

The key management personnel compensation is:

	2016 $'000	2015 $'000
Short-term employee benefits	5,306	5,841
Post-employment benefits	501	349
Equity compensation benefits	1,267	2,100
	7,074	8,290

7.3 Related party disclosures

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

Corporate overhead

The Company entered into a shared services agreement with Genworth Financial Inc. ("GFI"), the Group's major shareholder. The services rendered by GFI consist of finance, human resources, legal and compliance, investment 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 amount charged to the Company during the year was $5,462,000 (2015:$5,581,000). There is a payable balance of $452,000 as at 31 December 2016 (2015: $468,000).

Other related party transactions

The Company paid $955,000 (2015: $11,222,000) to the head entity of the tax consolidated group, Genworth Mortgage Insurance Australia Limited, for the final 2015 tax funding notified under the terms of the tax funding agreement.
The Company paid nil (2015: $12,000,000) to Genworth Financial New Holdings Pty Limited for intercompany settlement during the year.

The Company has a services agreement with Genworth Financial Australia Holdings LLC ("LLC"), whereby LLC provides corporate advisory and treasury services to the Company. The amount charged to the Company during the year was $1,535,000 (2015: $2,475,000) with fees payable of nil (2015: $261,000) as at 31 December 2016.

The Company was charged by Genworth Mortgage Insurance Australia Limited an amount of $979,000 (2015: $1,409,000) for share based payment transactions during the year with fees payable of $744,000 (2015:$ 1,605,000) as at 31 December 2016.

Dividend

The Company paid an ordinary dividend of $0.1784 and $0.0821 per ordinary share amounting to $250,000,000 and $115,000,000 to its shareholder, Genworth Financial Services Pty Limited on 26 May 2016 and 29 November 2016 respectively. In 2015, the Company paid an ordinary dividend of $0.0892 and $0.2354 per ordinary share amounting to $125, 000,000 and $330,000,000 to its shareholder, Genworth Financial Services Pty Limited on 30 June 2015 and 15 December 2015 respectively.

The Company received from Genworth Financial Mortgage Indemnity Limited an ordinary dividend amounting to $940,000 (2015: $408,000) during the year.

Parent entity

The parent entity of the company is Genworth Mortgage Insurance Australia Limited (GMA). GMA's major shareholder is GFI with 52.0% ownership. GFI is incorporated in the United States of America.

7.4 Controlled entity

Accounting policies

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

activities and who receives the returns from those activities. The financial statements of the controlled entities are included from the date control commences until the date control ceases.

Investment in controlled entity is carried at the cost of acquisition less accumulated impairment in the Company's financial statements.

Name of entity	Country of incorporation	Class of shares	Equity holding (%)	
			2016	2015
Genworth Financial Mortgage Indemnity Limited	Australia	Ordinary	100	100

7.5 Share-based payments

Accounting policies

Genworth Financial Inc., the Group's major shareholder, provides benefits to directors and employees of the Group in the form of share-based payments including share options and restricted share units ("RSUs"), whereby directors and employees render services to the Group in exchange for shares or rights over shares in Genworth Financial Inc. ("equity-settled transactions").

The cost of equity-settled transactions under the Genworth Financial Inc. Omnibus Incentive Plan is measured by reference to the fair value at the date which they are granted. The fair value is calculated using the Black-Scholes option pricing model. No account is taken of any performance conditions, other than conditions linked to the price of the shares of Genworth Financial Inc. ("market conditions").

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date").

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) an estimated number of awards that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

In the case where an equity-settled award vests and subsequently is cancelled, it is treated as if it had not vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

Share-based payment transactions

GFI grants share-based awards to employees of subsidiaries in the form of share appreciation rights ("SAR") and RSUs under the Genworth Financial Inc. Omnibus Incentive Plan.

For awards issued prior to 1 January 2006, share-based expense is recognised on a graded vesting attribution method over the awards' respective vesting schedules. For awards issued after 1 January 2006, share-based expense is recognised evenly on a straight-line attribution method over the awards' respective vesting periods.

The estimated fair value of share-based payment awards on the date of grant is calculated using the Black-Scholes Model. The Black-Scholes Model requires the input of certain assumptions that involve judgement. Management periodically evaluates the assumptions and methodologies used to calculate estimated fair value of share-based payments. Circumstances may change and additional data may become available over time, which could result in changes to these assumptions and methodologies.

One-fourth of the SARs vests on each of the first, second, third and fourth anniversaries of the Grant Date, provided that there has been continuous service with the Company or one of its Affiliates through such dates. Unvested SARs are immediately cancelled upon termination of service with the Company or its Affiliates before the expiry date, except under certain conditions.

One-fourth of the RSUs vest on each of the first, second, third and fourth anniversaries of the Grant Date, provided that there has been continuous service with the Company or one of its affiliates through such dates. Unvested RSUs are immediately cancelled upon termination of service with the Company or its Affiliates, except under certain conditions.

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

2016								
Grant date	Expiry Date	Exercise Price	Balance at 1 January 2016	Granted in the year	Exercised in the year	Cancelled/ forfeited in the year	Balance at 31 December 2016	Vested and exercisable at end of the year
			Number	Number	Number	Number	Number	Number
09/08/2006	09/08/2016	47.30	6,600	-	-	6,600	-	-
13/02/2008	13/02/2018	31.60	7,800	-	-	-	7,800	7,800
12/02/2009	12/02/2019	3.41	17,500	-	17,500	-	-	-
19/08/2009	09/08/2016	10.81	3,049	-	-	3,049	-	-
19/08/2009	31/07/2017	10.81	2,450	-	-	-	2,450	2,450
19/08/2009	13/02/2018	10.81	6,288	-	-	-	6,288	6,288
10/02/2010	10/02/2020	19.65	48,600	-	-	18,000	30,600	30,600
09/02/2011	09/02/2021	17.67	38,500	-	-	12,000	26,500	38,500
14/02/2012	14/02/2022	12.31	46,800	-	-	14,700	32,100	35,100
15/02/2013	15/02/2023	12.56	46,500	-	-	15,000	31,500	23,250
20/02/2014	20/02/2024	21.11	14,000	-	-	-	14,000	3,500
Total			238,087	-	17,500	69,349	151,238	147,488
Weighted average exercise price			$15.95	-	$3.41	$18.46	$16.51	$16.41

2015								
Grant date	Expiry Date	Exercise Price	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
20/07/2005	20/07/2015	44.04	2,400	-	-	2,400	-	-
09/08/2006	09/08/2016	46.82	6,600	-	-	-	6,600	6,600
13/02/2008	13/02/2018	31.28	7,800	-	-	-	7,800	7,800
12/02/2009	12/02/2019	3.37	20,500	-	3,000	-	17,500	17,500
19/08/2009	20/07/2015	10.70	99	-	-	99	-	-
19/08/2009	09/08/2016	10.70	3,049	-	-	-	3,049	3,049
19/08/2009	31/07/2017	10.70	2,450	-	-	-	2,450	2,450
19/08/2009	13/02/2018	10.70	6,288	-	-	-	6,288	6,288
10/02/2010	10/02/2020	19.45	48,600	-	-	-	48,600	48,600
09/02/2011	09/02/2021	17.49	38,500	-	-	-	38,500	38,500
14/02/2012	14/02/2022	12.18	46,800	-	-	-	46,800	35,100
15/02/2013	15/02/2023	12.43	46,500	-	-	-	46,500	23,250
20/02/2014	20/02/2024	20.89	14,000	-	-	-	14,000	3,500
Total			243,586	-	3,000	2,499	238,087	192,637
Weighted average exercise price			$16.07	-	3.37	42.72	$15.95	$16.34

Balance at 1 January 2015 is adjusted for options granted in prior periods to employees who transferred into/out of the Company during the year.

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

2016						
Grant date	Balance at 1 January 2016 Number	Granted in the year Number	Exercised in the year Number	Cancelled/forfeited in the year Number	Balance at 31 December 2016 Number	Vested and exercisable at end of the year Number
03/01/2012	3,750	-	3,750	-	-	-
06/01/2012	1,250	-	1,250	-	-	-
11/01/2012	6,250	-	-	6,250	-	-
14/02/2012	17,681	-	16,306	1,375	-	-
15/02/2013	68,984	-	32,693	15,396	20,895	-
1/10/2013	3,000	-	-	3,000	-	-
2/12/2013	5,000	-	2,500	-	2,500	-
20/2/2014	91,942	-	29,870	28,632	33,440	-
20/03/2015	1,350	-	-	-	1,350	-
Total	199,207	-	86,369	54,653	58,185	-

2015						
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 31 December 2015 Number	Vested and exercisable at end of the year Number
07/02/2007	2,500	-	2,500	-	-	-
01/03/2011	5,000	-	5,000	-	-	-
02/09/2011	10,477	-	10,477	-	-	-
03/01/2012	7,500	-	3,750	-	3,750	-
06/01/2012	2,500	-	1,250	-	1,250	-
11/01/2012	12,500	-	6,250	-	6,250	-
14/02/2012	37,863	-	18,933	1,249	17,681	-
15/02/2013	111,666	-	37,234	5,448	68,984	-
1/08/2013	5,625	-		5,625	-	-
1/10/2013	4,500	-	1,500	-	3,000	-
2/12/2013	7,500	-	2,500	-	5000	-
20/2/2014	126,550	-	31,646	2,962	91,942	-
20/03/2015	-	1,350	-	-	1,350	-
Total	334,181	1,350	121,040	15,284	199,207	-
Balance at 1 January 2015 is adjusted for RSUs granted in prior periods to employees who transferred into/out of the Company during the year.						

7.6 Events subsequent to reporting date

There have not been any matters or circumstances that have arisen since the end of the financial year to the date of this report that, in the opinion of the Directors of the Company, would significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

Directors' declaration

In the opinion of the directors of Genworth Financial Mortgage Insurance Pty Limited (the "Company"):

(a) the financial statements and notes set out on pages 6 to 44 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company as at 31 December 2016 and of its performance, as represented by the results of its operations and its cash flows for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) the financial statements and notes comply with International Financial Reporting Standards; and

(c) 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:

Ian MacDonald
Chairman

Dated at Sydney, 24 February 2017.

KPMG

Independent Auditor's Report

To the Shareholders of Genworth Financial Mortgage Insurance Pty Limited,

Opinion

We have audited the ***Financial Report*** of Genworth Financial Mortgage Insurance Pty Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of financial position as at 31 December 2016
- Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Genworth Financial Mortgage Insurance Pty Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent

with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

David Kells
Partner

Sydney

24 February 2017