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**Genworth Financial Mortgage Insurance
Pty Limited New Zealand Branch**

**Annual Financial Report
31 December 2009**

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Directors' report

The Directors present their report together with the financial report of Genworth Financial Mortgage Insurance Pty Limited New Zealand Branch ("the Branch") for the year ended 31 December 2009 and the auditor's report thereon.

Directors

The names of the Company's Directors in office at any time during or since the end of the financial year are as follows:

Martin Barter (resigned 14 May 2010)

Paul Caputo (appointed 1 June 2010)

Peter Hall (resigned 7 July 2009)

Brian Hurley

Grant Robson

Jann Skinner

Stuart Take

Gayle Tollifson

Jerome Upton (appointed 11 August 2009)

Principal activities

The principal activity of the Branch during the financial year was the provision of lenders mortgage insurance. During the year the Branch ceased writing new business but continues to manage the run-off portfolio.

Review and result of operations

The Branch's (loss)/ profit after income tax amounted to (\$56,396,037) (2008: \$812,024). The current year loss is a result of negative economic conditions increasing claims expenses. The 2009 result includes establishing an unexpired risk liability of \$25,589,765 to meet the deficiency in the liability adequacy test calculated at the balance date.

Since the balance date, the Company has entered into a commercial agreement with one of the key customers in New Zealand under which that customer will make a financial contribution to claims lodged on policies originated by certain persons, with the amount of the contribution dependent on the identity of the mortgage originator.

Corporate structure

Genworth Financial Mortgage Insurance Pty Limited New Zealand Branch is a branch of an Australian company, Genworth Financial Mortgage Insurance Pty Limited ("the Company").

The Genworth Financial Mortgage Insurance Pty Limited New Zealand Branch's registered office and principal place of business is:

Q & V Building
203 Queen Street
Auckland

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Directors' report (continued)

Branch number

1493716

Auditors

KPMG

Bankers

Westpac Banking Corporation

Solicitors

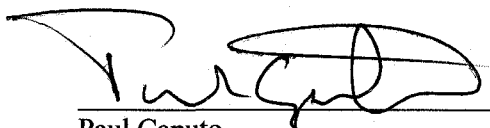
Chapman Tripp
PO Box 2206
Auckland

Bell Gully
PO Box 4190
Auckland


The Board of Directors present their Annual Report, including financial statements of the New Zealand Branch, for the year ended 31 December 2009, and the auditor's report thereon.

The shareholder of the Company has exercised its right under Section 211(3) of the Companies Act 1993 and unanimously agreed that this Annual Report need not comply with any of paragraphs (a) and (e) to (j) of Section 211(1) of the Act.

For and on behalf of the Board:



Paul Caputo
Director



Jann Skinner
Director

Dated at Sydney this 28th day of June 2010.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Statement of comprehensive income

For the year ended 31 December 2009

	Note	2009 NZ\$	2008 NZ\$
Premium revenue	5	10,993,766	13,997,519
Outward reinsurance premium expense		<u>(1,649,065)</u>	<u>(2,096,144)</u>
Net premium revenue		9,344,701	11,901,375
Net claims expense	10	(41,752,869)	(15,178,485)
Movement in unexpired risk reserve	22	(25,589,765)	-
Underwriting expenses	7	<u>(700,289)</u>	<u>(1,500,316)</u>
Loss from underwriting		(58,698,222)	(4,777,426)
Financial income	6	2,794,440	6,191,593
Other operating expenses	8	<u>(1,916,198)</u>	<u>(285,465)</u>
(Loss)/ profit before related income tax benefit/ (expense)		(57,819,980)	1,128,702
Income tax benefit/ (expense)	11	<u>1,423,943</u>	<u>(316,678)</u>
(Loss)/ profit for the period		<u>(56,396,037)</u>	<u>812,024</u>
Total comprehensive income for the period, net of income tax		<u>(56,396,037)</u>	<u>812,024</u>
(Loss)/ profit attributable to the members		<u>(56,396,037)</u>	<u>812,024</u>
Total comprehensive income attributable to the members		<u>(56,396,037)</u>	<u>812,024</u>

The statement of comprehensive income is to be read in conjunction with the notes on pages 6 to 27 which form part of the financial statements.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Statement of financial position

As at 31 December 2009

	Note	2009 NZ\$	2008 NZ\$
Current assets			
Cash assets		24,629,550	3,390,844
Short term deposits		25,000,000	69,359,934
Accrued investment income		65,497	689,282
Other receivables	12	794,726	85,215
Tax receivable		<u>6,302,306</u>	<u>5,368,584</u>
Total current assets		<u>56,792,079</u>	<u>78,893,859</u>
Non-current assets			
Plant and equipment	13	44,000	75,246
Other receivables	12	8,062,200	864,479
Investments (NZ Government Bond)		<u>522,359</u>	<u>508,068</u>
Total non-current assets		<u>8,628,559</u>	<u>1,447,793</u>
Total assets		<u>65,420,638</u>	<u>80,341,652</u>
Current liabilities			
Payables	14	611,622	15,096,540
Outstanding claims	15	47,255,889	12,361,885
Unexpired risk liability	22	25,589,765	-
Unearned premiums	16	<u>5,988,973</u>	<u>7,125,038</u>
Total current liabilities		<u>79,446,249</u>	<u>34,583,463</u>
Non-current liabilities			
Outstanding claims	15	7,560,399	1,977,759
Unearned premiums	16	11,345,094	20,278,953
Deferred tax liability	17	-	36,544
Total non-current liabilities		<u>18,905,493</u>	<u>22,293,256</u>
Total liabilities		<u>98,351,742</u>	<u>56,876,719</u>
Head Office Account		<u>(32,931,104)</u>	<u>23,464,933</u>
Total liabilities and Head office Account		<u>65,420,638</u>	<u>80,341,652</u>

The statement of financial position is to be read in conjunction with the notes on pages 6 to 27 which form part of the financial statements.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Statement of movement in Head Office Account

For the year ended 31 December 2009

	2008 NZ\$	2008 NZ\$
Head Office Account at the beginning of the year	23,464,933	22,652,909
Net (loss)/ profit for the year	<u>(56,396,037)</u>	<u>812,024</u>
Head Office Account at the end of year	<u>(32,931,104)</u>	<u>23,464,933</u>

The statement of movement in Head Office Account is to be read in conjunction with the notes on pages 6 to 27 which form part of the financial statements.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

1 Statement of significant accounting policies

Genworth Financial Mortgage Insurance Pty Limited New Zealand Branch ("the Branch") is registered to carry on inward insurance in New Zealand as a foreign Branch. The Branch's principal activity is the provision of lenders mortgage insurance.

The financial report was authorised for issue by the directors on 28 June 2010.

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to profit generating entities that qualify for and apply differential reporting concessions. The Branch is a reporting entity for the purposes of the Financial Act 1993 and its financial statements comply with that Act.

(b) Basis of preparation

These financial statements are presented in New Zealand dollars.

Genworth Financial Mortgage Insurance Pty Ltd New Zealand Branch is a branch of Genworth Financial Mortgage Insurance Pty Ltd and is a separate reporting entity for the purposes of the Financial Reporting Act 1993. The branch and head office are one legal entity and therefore the branch's financial statements should be read in conjunction with those of its head office, which include the branch's financial statements. Based on this the Directors are satisfied that the going concern assumption is appropriate.

The Branch qualifies for differential reporting exemptions as it has no public accountability and all its owners are involved in the governing of the Branch. All available exemptions allowed under the Framework for Differential Reporting have been adopted.

Amendments were made to the 'Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime (Framework for Differential Reporting)', effective from annual reporting periods on or after 1 January 2009. Qualifying entities must comply fully with all the provisions of certain standards. The following standards have been identified as applicable:

NZ IAS 10 Events after the reporting period,
NZ IAS 32 Financial Instruments: Presentation,
NZ IAS 39 Financial Instruments: Recognition and measurement,
NZ IFRS 1 First-time adoption of New Zealand equivalents to International Financial Reporting Standards,
NZ IFRS 4 Insurance contracts.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

1 Statement of significant accounting policies (continued)

(b) Basis of preparation (continued)

The financial report is prepared on the historical cost basis except for the following assets and liabilities being stated at their fair value: investments; outstanding claims; and reinsurance recoveries on claims.

The accounting policies set out below have been applied consistently by the Branch to all periods presented in the financial statements.

(c) Classification of insurance contracts

Contracts under which the Branch 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 a risk other than financial risk.

(d) Revenue recognition

Earned and unearned premium revenue

Premiums comprise amounts charged to the policyholder, excluding stamp duties and GST collected on behalf of third parties. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Unearned premiums are calculated by apportioning the premium written in the year over the periods of risk from the dates of attachment based on the pattern of risk which has been determined by actuarial assessment.

Premiums have been brought to account as income over periods up to nine years based on actuarial assessment of the pattern and period of risk.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the coupon rate on the financial asset, net of withholding tax paid or payable.

(e) Reinsurance

Reinsurance expense

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

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

1 Statement of significant accounting policies (continued)

(e) Reinsurance (continued)

Reinsurance and other recoveries receivable

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

(f) Claims

Claims expense and a liability for outstanding claims are recognised in respect of direct 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 reviewing individual claim data and estimating the ultimate cost of settling claims, which includes IBNR and settlement costs, using statistics based on past experience and trends.

This data is used to establish an actuarially based central estimate of outstanding claims to which a risk margin is added to reflect the inherent uncertainty in the central estimate.

(g) Taxation

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

Current tax is expected tax payable on the taxable income for the year, using tax rates enacted or substantively 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 liability 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.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

1 Statement of significant accounting policies (continued)

(h) Goods and services tax

Revenues and expenses are stated gross of goods and services tax (GST). Trade receivables, trade payables and all other assets and liabilities are stated gross of GST.

(i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand; deposits held at call with financial institutions; other short-term, 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; and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(j) Unexpired risk liability

Provision is made for unexpired risks arising from lenders mortgage insurance business where the expected value of claims and expenses attributed to the unexpired period of policies in force at the statement of financial position date exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs and deferred reinsurance.

The provision for unexpired risk is calculated separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

Any unexpired risk liability remaining after writing off deferred acquisition costs and deferred reinsurance premium is recognised immediately in the statement of comprehensive income.

(k) Payables

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

(l) Depreciation and amortisation

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

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

The estimated useful lives for the current and comparative periods are as follows:

	2009	2008
Furniture & equipment	5-8 years	5-8 years
Computing hardware	3-5 years	3-5 years

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

1 Statement of significant accounting policies (continued)

(m) Employee entitlements

The carrying amount of provisions for employee entitlements approximates net 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.

Superannuation commitments

All employees are entitled to varying levels of benefits on retirement, disability or death, based on accumulated employer contributions and investment earnings thereon. Contributions by the Branch are, as a minimum, in accordance with the New Zealand Superannuation Schemes Act 1989.

(n) Impairment of assets

The carrying amounts of the Branch's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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

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

(o) Leases

Operating lease payments for motor vehicles, equipment and buildings, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are included in the determination of the operating profit in equal instalments over the lease term, as this represents the pattern of benefits derived from the leased assets.

(p) Other receivables

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

The carrying amount of receivables approximates net fair value.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

2 Accounting estimates and judgements

Critical accounting estimates and judgements

The Branch 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 and unearned premiums (Note 5 and 16)

Premium is earned over periods of up to nine years. The principle underlying the earning recognition is to derive a premium earning scale which accrues 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 established for unearned premiums on the basis of the earning scale is consistent with the claims reserving approach.

Assumptions recommended by the Company's Appointed Actuary recognise that the unearned premium relating to cancellation of policies is brought to account immediately.

Estimation of outstanding claims liabilities (Note 15)

Provision is made for the estimated cost of claims incurred but not settled at the statement of financial position date, including the cost of claims incurred but not yet reported to the Branch.

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

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Branch, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured or notified to the Branch until some time after the events giving rise to the claims have happened.

In calculating the estimated cost of unpaid claims, the Branch 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 reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable under reinsurance contracts based upon the gross provisions.

Details of specific assumptions used in deriving the outstanding claims liabilities at the statement of financial position date are detailed in note 3.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

2 Accounting estimates and judgements

Critical accounting estimates and judgements (continued)

Liability adequacy test/ Unexpired risk provision (Note 22)

The methodology used for estimating claims liabilities is also used to estimate claims to be incurred on unexpired risk.

3 Actuarial assumptions and methods

The Branch internally valued the outstanding claims liabilities at the statement of financial position date. The valuation approach is consistent with that recommended by the Company's Appointed Actuary.

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

- delinquent loans advised to the Branch; and
- IBNR (incurred but not reported).

The provision in respect of delinquent loans 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 Branch by the lenders as being delinquent at the statement of financial position date.
- the frequency and severity factors are based on a review of historical claims and delinquency experience performed by the Appointed Actuary for the Company and adopted by the Branch.
- an IBNR provision is added to allow for unreported delinquent loans.

Actuarial assumptions and process

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

The Appointed Actuary examined Australian and New Zealand experience from the 1980-2009 underwriting years, including the mix of business by LVR and loan size band, the regions in which the secured properties are 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 the more extensive Australian historical claims experience and data examined. These factors were then adopted for the New Zealand business.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

3 Actuarial assumptions and methods (continued)

The Appointed Actuary applies the Generalised Linear Modelling statistical method to identify significant explanatory factors affecting outcomes and develop models for frequency and delinquency. The model incorporates past and anticipated movements in key variables to determine appropriate assumptions for reserving. The actuarial assumptions used in determining the outstanding claims liabilities are:

Frequency

The propensity for a delinquent loan to become a claim varied based on different LVR bands, arrears duration, customer segment, delinquency type and location.

Severity

Claim severity where 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 43% (2008: 19%)

Average severity factor is 24% (2008: 24%)

IBNR

The IBNR provision has been estimated by analysing the historical pattern of reported delinquencies. The IBNR provision is determined from ratios of "reported to ultimate delinquencies" applied to reported delinquencies. The analysis implied an IBNR equivalent to 16% (2008: 16%) of the reported delinquency reserve and this assumption has been adopted for the IBNR component in the overall estimate of outstanding claims at the balance date.

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 Branch is determined after considering the uncertainty in the portfolio, industry trends, the Branch's risk appetite and the margin corresponding with that appetite.

The Appointed Actuary reviewed the factors impacting the portfolio to establish a recommended margin at the level required by the Branch. Factors considered include variability of claims experience of the portfolio and the quality of historical data.

A risk margin of 14% (2008: 8%) has been assumed and is intended to achieve a 75% probability of sufficiency.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

3 Actuarial assumptions and methods (continued)

Sensitivity Analysis

The valuation of outstanding claims incorporates considering a range of factors that involves interactions in economic indicators, statistical modelling and observed historical claims development and experience. 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, in particular house prices and interest rates (and unemployment for new delinquencies), impact frequency and, to a lower extent, severity.

The actuarial analysis used the central estimate of the net outstanding claim liabilities. The following table represents the movement that would move the frequency and severity factors to the upper and lower "95% confidence" level as a direct result of future economic conditions varying from those adopted for the central estimate.

Impact on outstanding claims liabilities to changes in key variables

	Change in variable 2009	Impact on outstanding claims liabilities 2009 \$'000	Change in variable 2008	Impact on outstanding claims liabilities 2008 \$'000
Frequency factor	14%	11,857	23%	9,660
Frequency factor ¹	(11%)	(8,777)	(23%)	(6,627)
Severity factor	4%	5,501	1%	442
Severity factor	(3%)	(4,973)	(1%)	(442)

¹ Factor set to minimum of zero

Claims handling expenses

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

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

4 Insurance contracts – Insurance risk management

Risk management objectives and policies for mitigating insurance risk

The Company has established policies for accepting insurance risks which the Branch has adopted. The risk under any one insurance contract arises out of the uncertainty surrounding the probability of timing and severity of claims under the contract.

The Company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues.

The Company uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include provision of quantitative and qualitative analysis on economic and portfolio trends and key economic indicators through use of appropriate technologies and risk tools.

Objectives in managing risk arising from insurance and policies for mitigating those risks

The Company manages insurance risk to reduce the volatility of operating profits. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in loss experience, profits from insurance business are affected by market factors, particularly competition and movements in asset values. Short-term variability is, to some extent, a feature of insurance business.

In accordance with Prudential Standards issued by the prudential regulator for the Company, the Australian Prudential Regulation Authority (APRA), the Company has developed, implemented and maintains a Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS). The Branch has adopted the Company's RMS and REMS.

The RMS aims to formalise and communicate the Company's, including the Branch's, approach to the management of risk, with an emphasis on encouraging openness and the early reporting of material risks. It establishes:

- clear roles and responsibilities for the management of risk for Board, management and staff;
- the mechanisms by which the business determines its risk profile, considers and accepts new risks, and audits and monitors those risks; and
- reporting requirements for risk assessments and actions and their escalation to appropriate levels within the Branch and the Company.

The RMS and REMS identify the Branch's policies, procedures, processes and controls that comprise its risk management and controls systems. These systems address all material risks, financial and non financial, likely to be faced by the Branch. Annually, the Board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Company has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to the compliance with the RMS and REMS.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

4 Insurance contracts – Insurance risk management (continued)

Underwriting strategy

The Company's underwriting strategy is to mitigate insurance risk. Acceptable insurance risks to the Company constitute loans advanced against residential real estate security located in New Zealand. This can comprise loans for vacant land, existing homes, new home construction, and investment (rental) housing, as well as home improvements, renovations, personal investment purposes, and personal consumer purposes. The acceptability of insurance proposals submitted to the Branch is determined by their compliance with the Company's underwriting guidelines.

The Company's risk team is responsible for ensuring ongoing adherence with the Company's underwriting guidelines. The Company also undertakes a monthly operating review, which includes detailed commentary on the New Zealand housing market and economy, a review of the portfolio profile and an analysis of portfolio trends, and an outline of key risk issues affecting the Branch.

Reinsurance strategy

The Company follows the industry practice of reinsuring portions of insurance risks with reinsurance companies with the aim of diversifying the risks and to manage loss exposures. Reinsurance is also used to improve capital efficiency as well as available capital and surplus. The use of reinsurance enables the Company to write a larger volume of new business than would otherwise be the case and to write policies in amounts larger than the risk the Company is willing to retain.

The strength of the Branch's capital supplementation is that it leverages off the Company and its parent entity, which considers the Company to be core to the Group's LMI business operations.

The Branch is covered by some of the reinsurance arrangements entered into by the Company. The Company has reinsurance arrangements with related entities which provide capped catastrophe reinsurance protection for losses exceeding 120% of earned premium. The Company sets the criteria for acceptable reinsurance in terms of risk appetite and counter party risk and monitors the reinsurance program to mitigate overall insurance risk.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

4 Insurance contracts – Insurance risk management (continued)

Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are discussed below.

Product features

The Branch offers lenders mortgage insurance (LMI). The Branch's principal product is LMI with single premiums and 100% coverage. The insured lending institutions collect the single premium from prospective borrowers at the time the loan proceeds are advanced and remit the amount to the Branch as the mortgage insurer.

The Branch in return records the proceeds as unearned premium, invests those proceeds and recognises the premiums over time in accordance with the expected expiration of risk.

LMI protects the lending institution against loss should a borrower default on their loan. If the security property is required to be sold as a result of the defaults, the funds received from the sale may not cover the full balance outstanding on the loan. Should this occur, the lender is entitled to make an insurance claim to the Branch for reimbursement of any amount outstanding, subject to the terms and conditions of the LMI Master Policy of the Branch applicable to the relevant insurance contract.

Concentrations of insurance risks

Insurance risk is managed primarily through sensible pricing, product design, risk selection, investment strategy, rating and reinsurance. It is vital that the Branch reacts to changes in the general economic and commercial environment in which it operates.

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Branch's liabilities.

The Branch uses the global risk reporting methodology developed by its ultimate parent company, which summaries key business risk (performance) indicators, tracks key economic and business performance measures and highlights any adverse trends through use of performance triggers against plan. Concentration limits are monitored on a quarterly basis. Trigger levels have been established in consultation with the ultimate parent company, for geographical dispersion, lender concentration, and (LVR) bands. Portfolio exposure against these triggers is monitored quarterly.

The Branch follows the Company's policies to calculate the concentration of insurance risk. The greatest likelihood of significant losses to the Company arises from a severe and prolonged economic downturn. However, the Branch is also more exposed than the Company as a whole to lender concentration due to the relatively small size of the New Zealand market. The assumptions the Company uses to calculate these risks follow APRA's requirements to assess the probable maximum loss (PML). The Company's reinsurance arrangements provide protection against this exposure.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

4 Insurance contracts – Insurance risk management (continued)

Interest rate risk

The insurance contracts contain no clauses that expose the Branch directly to interest rate risk. The company is exposed to interest rate risk related to insurance contracts to the extent that the insurance liabilities are discounted. As there is no discounting applied to the outstanding claims, there is no exposure to the statement of financial position to interest rate risk related to insurance contracts.

Credit risk

The Branch's exposure to credit risk on policies it issues is minimal as non-payment of the premium will lead to policies either not being incepted or being cancelled.

The Branch is exposed to credit risk on reinsurance contracts as a result of exposure to individual reinsurers.

However, the Branch does not have any material exposure to an individual reinsurer which would impact the operating profit. As at the statement of financial position date, there are no amounts due from reinsurers. The Company monitors its potential exposure to reinsurers and utilises the Genworth Group pre-determined policy on the appropriate rating of reinsurers used in its global reinsurance programme.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

	2009 NZ\$	2008 NZ\$
5 Premium revenue		
Gross written premiums:		
- Direct premium	925,801	6,463,515
Movement in unearned premiums	<u>10,067,965</u>	<u>7,534,004</u>
Premium revenue	<u>10,993,766</u>	<u>13,997,519</u>
6 Financial income		
Interest	2,802,851	6,172,348
(Losses)/ gains in fair value of investments:		
- Unrealised	<u>(8,411)</u>	<u>19,245</u>
	<u>2,794,440</u>	<u>6,191,593</u>
7 Underwriting expenses		
Net commissions	10,815	3,815
Employee wages and salaries	447,318	648,171
Occupancy expenses	121,623	99,721
Depreciation expenses	31,246	38,969
Management fees	<u>89,287</u>	<u>709,640</u>
	<u>700,289</u>	<u>1,500,316</u>
8 Other operating expenses		
Exchange rate losses	1,687,726	4,334
Operating expenses	198,882	212,191
Marketing expenses	5,372	40,191
Administrative expenses	<u>24,218</u>	<u>28,749</u>
	<u>1,916,198</u>	<u>285,465</u>
9 Auditors' remuneration		
Fees for the Branch are paid by the head office of the Company.		
- Audit of financial reports	<u>8,000</u>	<u>8,000</u>

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

10 Net claims incurred

	Current Year NZ\$	2009 Prior Years NZ\$	Total NZ\$	Current Year NZ\$	2008 Prior Years NZ\$	Total NZ\$
Gross claims expense						
Direct	42,268,560	8,482,792	50,751,352	14,503,545	1,631,768	16,135,313
Gross claims incurred – undiscounted	42,268,560	8,482,792	50,751,352	14,503,545	1,631,768	16,135,313
Discounted movement	-	-	-	-	-	-
	42,268,560	8,482,792	50,751,352	14,503,545	1,631,768	16,135,313
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue – undiscounted	(106,168)	(35,389)	(141,557)	(7,035)	(2,345)	(9,380)
Discounted movement	-	-	-	-	-	-
Gross claims incurred after reinsurance and other recoveries	42,162,392	8,447,403	50,609,795	14,496,510	1,629,423	16,125,933
Non reinsurance recoveries	(6,184,775)	(2,672,151)	(8,856,926)	(47,372)	(900,076)	(947,448)
Net claims incurred	35,977,617	5,775,252	41,752,869	14,449,138	729,347	15,178,485

Current year amounts relate to risks borne in the current financial year. Prior year amounts relate to a reassessment of the risks borne in all previous financial years. The increase in incurred losses related to current and prior years was primarily attributable to less favourable loss trends experienced during the year. These trends were a result of an increase in the number and ageing of delinquencies. This was due to the weakening of New Zealand's property market and general economic conditions experienced in the year as a result of the Global Financial Crisis.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

	2009 NZ\$	2008 NZ\$
11 Income tax (benefit)/ expense		
(a) Income tax (benefit)/ expense		
Current tax	-	280,134
(Over) provision in prior year – current tax	(1,387,399)	-
Deferred tax (Note 17 (c))	<u>(36,544)</u>	<u>36,544</u>
	<u>(1,423,943)</u>	<u>316,678</u>
(b) Numerical reconciliation of income tax (benefit)/ expense to prima facie tax payable		
Prima facie income tax (benefit)/ expense calculated at 30% (2008: 30%) on profit	(17,345,994)	338,611
Increase/ (decrease) in income tax expense due to:		
- Tax benefit of New Zealand branch losses not recognised	17,309,450	-
- (Over) provision in prior year	(1,387,399)	-
- Others	-	(21,933)
Income tax expense on the profit	<u>(1,423,943)</u>	<u>316,678</u>
The over provision for income tax in respect of prior years represents an adjustment for income tax withheld at source on investment assets repaid to the Company by the Inland Revenue subsequent to the statement of financial position date.		
12 Other Receivables		
Current		
Non-reinsurance recoveries	<u>794,726</u>	<u>85,215</u>
Non-current		
Non-reinsurance recoveries	<u>8,062,200</u>	<u>864,479</u>

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

	2009 NZ\$	2008 NZ\$
13 Plant and equipment		
Plant and equipment - at cost	260,468	260,468
Less: Accumulated depreciation	<u>(216,468)</u>	<u>(185,222)</u>
Total plant and equipment - net book value	<u>44,000</u>	<u>75,246</u>

Reconciliations

Reconciliations of the carrying amounts for each class of plant and equipment are set out below:

Cost

Opening balance at 1 January	260,468	257,679
Additions	<u>-</u>	<u>2,789</u>
Closing balance at 31 December	<u>260,468</u>	<u>260,468</u>

Accumulated depreciation

Opening balance at 1 January	(185,222)	(146,253)
Depreciation charge	<u>(31,246)</u>	<u>(38,969)</u>
Closing balance at 31 December	<u>(216,468)</u>	<u>(185,222)</u>

14 Payables

Current

Accrued expenses	125,913	231,226
Trade creditors	431,725	1,518,565
Annual leave	34,860	41,417
Intra-company balance	<u>19,124</u>	<u>13,305,332</u>
	<u>611,622</u>	<u>15,096,540</u>

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

	2009 NZ\$	2008 NZ\$
15 Outstanding claims		
Current	47,255,889	12,361,885
Non-current	<u>7,560,399</u>	<u>1,977,759</u>
	<u>54,816,288</u>	<u>14,339,644</u>
Central estimate	48,363,314	13,372,106
Risk margin	<u>6,452,974</u>	<u>967,538</u>
Gross outstanding claims	<u>54,816,288</u>	<u>14,339,644</u>

Reconciliation of changes in outstanding claims:

Balance at 1 January	14,339,644	1,904,156
Current year claims incurred	50,609,795	16,125,933
Claims paid	<u>(10,133,151)</u>	<u>(3,690,445)</u>
Balance at 31 December	<u>54,816,288</u>	<u>14,339,644</u>

Risk margin

Process used to determine the risk margin

The risk margin is an additional allowance for uncertainty in the ultimate cost of claims. The overall margin adopted is determined by the Board after considering the uncertainty in the portfolio, industry trends and the Company's risk appetite.

To determine the risk margin, the Appointed Actuary has reviewed the factors impacting the portfolio to establish a recommended margin at the level required by the Board. Factors considered include:

- Variability of claims experience of the portfolio
- Quality of historical data
- Diversification between different classes within the portfolio
- Increased uncertainty due to future legislative changes

The risk margin is applied to the gross central estimate with appropriate reinsurance recoveries provided.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

15 Outstanding claims (continued)

A new approach was adopted to separately consider risk margin for outstanding claims and premium liabilities (previously, the total variability was assessed, and then allocated between outstanding claims and premium liabilities). This change in approach resulted in changes in risk margins applied on outstanding claims and premium liabilities. However, it does not significantly affect the risk margin applied on the total insurance liabilities. The risk margin was estimated to be 14% (2008: 8%) of the central estimate for outstanding claims.

No inflation or discounting has been applied to non-current claims on the basis that the effect is not material.

The weighted average term to settlement is approximately 18 months (2008: 17 months).

	2009	2008
	NZ\$	NZ\$

16 Unearned premiums

Unearned premiums – current	5,988,973	7,125,038
Unearned premiums – non-current	<u>11,345,094</u>	<u>20,278,953</u>
	<u>17,334,067</u>	<u>27,403,991</u>
Reconciliation of changes in unearned premiums		
Balance at 1 January	27,403,991	34,937,996
Premiums written during the year	925,801	4,367,370
Premiums earned during the year	<u>(10,995,725)</u>	<u>(11,901,375)</u>
Balance as at 31 December	<u>17,334,067</u>	<u>27,403,991</u>

17 Deferred tax

The balance comprises temporary differences attributable to:

Deferred tax assets (a)	899,868	206,785
Deferred tax liabilities (b)	(15,571)	(243,329)
Writedown of net deferred tax asset	<u>(884,297)</u>	<u>-</u>
Net deferred tax (c)	<u>-</u>	<u>(36,544)</u>

(a) Deferred tax assets

The balance comprises a temporary difference attributable to:

Employee benefits	66,432	12,425
Unrealised losses on investments	2,743	5,786
Provision for indirect claims handling costs	<u>830,693</u>	<u>188,574</u>
	<u>899,868</u>	<u>206,785</u>

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

2009	2008
NZ\$	NZ\$

17 Deferred tax (continued)

(b) Deferred tax liabilities

The balance comprises temporary differences attributable to:

Accrued interest income	<u>15,571</u>	<u>243,329</u>
	<u>15,571</u>	<u>243,329</u>

(c) Net deferred tax

Movements in net deferred tax

Opening balance at 1 January	(36,544)	-
Credited to the income statement (Note 11)	<u>36,544</u>	<u>(36,544)</u>
Closing balance at 31 December	<u>-</u>	<u>(36,544)</u>

At the statement of financial position date the branch had tax losses carried forward of \$17,309,450. The tax losses will be available to carry forward to offset against future profits of the branch. No deferred tax asset has been recognised in respect of these tax losses due to insufficient certainty of future profits to utilise the losses. In addition a reserve of \$884,298 was recognised against the value of future deferred tax assets. There were no tax losses in 2008.

18 Commitments

Operating lease commitments

The estimated future amounts of operating lease commitments not provided for in the financial statements are payable:

Within one year	89,442	86,144
One year or later and no later than five years	<u>22,360</u>	<u>193,824</u>
	<u>111,802</u>	<u>279,968</u>

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

19 Related party transactions

Related party transactions

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

Reinsurance policies

The Company has in place excess of loss reinsurance contracts with Genworth Mortgage Insurance Corporation (North Carolina) and Brookfield Life Assurance Limited, both entities which are controlled by the Ultimate parent entity.

Ultimate parent entity

The immediate Australian parent entity of the Company is Genworth Financial Mortgage Insurance Holdings Pty Limited. The ultimate parent entity is Genworth Financial Inc, a company incorporated in the United States of America.

20 Credit ratings

The Branch does not have a separate credit rating. At the date of this report, the Company has credit ratings of AA- and A1 from Standard & Poor's Rating Services and Moody's, respectively.

21 Events subsequent to reporting date

Since the balance date, the Company has entered into a commercial agreement with one of the key customers in New Zealand under which that customer will make a financial contribution to claims lodged on policies originated by certain persons, with the amount of the contribution dependent on the identity of the mortgage originator.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Branch, the results of those operations, or the state of affairs of the Branch in future financial years.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Notes to and forming part of the financial statements

For the year ended 31 December 2009

22 Unexpired risk liability

The liability adequacy test (LAT) has been conducted using the central estimate of premium liabilities together with the appropriate margin for uncertainty for each portfolio of contracts that are managed as a single portfolio and are subject to broadly similar risks. The test is based on prospective information and so is heavily dependent on assumptions and judgements.

The LAT undertaken as at the balance date identified a deficit of \$25,589,765 (2008: \$8,929,991 surplus). The deficiency of \$25,589,765 (2008: \$Nil) has been recognised in the statement of comprehensive income and a corresponding unexpired risk liability has been recognised in the statement of financial position.

The PoS adopted in performing the LAT is set at the 75th percentile (2008: 75th percentile)

For the purposes of the liability adequacy test, the present value of expected future cash flows for future claims including the risk margin for the Branch are as follows:

	2009 NZ\$	2008 NZ\$
Discounted central estimate	34,734,327	15,386,000
Risk margin	<u>8,189,505</u>	<u>3,088,000</u>
	<u>42,923,832</u>	<u>18,474,000</u>

The deficiency in unexpired risk liability is a result of poor claims experience in New Zealand. This is partly down to negative economic conditions, namely two calendar years of recession and negative house price growth. It is also due to one of the lenders in particular with poor underwriting veracity. However, this adverse experience will be partially offset by the benefit that the Company will receive under the commercial agreement with that lender which is in place as the date of this report (refer note 21).

The Company has a strong financial position and will provide necessary financial support when it is required to meet any future claims obligations of the Branch and any deficit in the Head office Account.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Directors' declaration

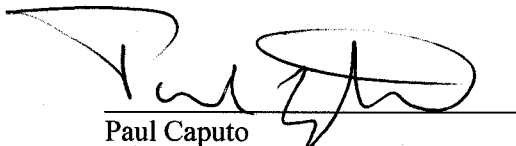
In the opinion of the directors of Genworth Financial Mortgage Insurance Pty Limited, the financial statements and notes of the New Zealand Branch on pages 3 to 27:

- (i) comply with New Zealand Generally Accepted Accounting Practice and give a true and fair view of the financial position of the Branch as at 31 December 2009 and the results of its operations for the year ended on that date; and
- (ii) have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

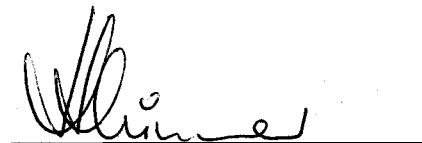
The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Branch and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider that they have taken adequate steps to safeguard the assets of the Branch, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements.

For and on behalf of the Board:



Paul Caputo
Director



Jann Skinner
Director

Dated at Sydney this 28th day of June 2010.



Audit report

To the shareholders of Genworth Financial Mortgage Insurance Pty Limited - New Zealand Branch

We have audited the financial statements on pages 3 to 5. The financial statements provide information about the past financial performance of Genworth Financial Mortgage Insurance Pty Limited ("the Company") - New Zealand Branch ("the Branch") and its financial position as at 31 December 2009. This information is stated in accordance with the accounting policies and notes to the accounts set out on pages 6 to 27.

Directors' responsibilities

The Directors of the Company are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Branch as at 31 December 2009 and the results of its operations for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors of the Company in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Branch's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditors we have no relationship with or interests in the Branch.



Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Branch as far as appears from our examination of those records;
- the financial statements on pages 3 to 27:
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the Branch as at 31 December 2009 and the results of its operations for the year ended on that date.

Our audit was completed on 28 June 2010 and our unqualified opinion is expressed as at that date.

KPMG

28 June 2010

Sydney

**Genworth Financial Mortgage
Insurance Pty Limited**

ABN 60 106 974 305

**Annual Financial Report
31 December 2009**

Genworth Financial Mortgage Insurance Pty Limited

ABN 60 106 974 305

Directors' report

For the year ended 31 December 2009

The Directors present their report together with the financial report of Genworth Financial Mortgage Insurance Pty Limited ("the Company") for the year ended 31 December 2009 and the auditor's report thereon.

Directors

The names of the Company's Directors in office at any time during or since the end of the financial year are as follows:

Martin Barter
Peter Hall (resigned 7 July 2009)
Brian Hurley
Grant Robson
Jann Skinner
Stuart Take
Gayle Tollifson
Jerome Upton (appointed 11 August 2009)

Principal activities

The principal activity of the Company during the financial year was the provision of lenders mortgage insurance.

Review and result of operations

The Company's profit after income tax amounted to \$128,168,000 (2008: \$261,948,000).

Corporate structure

Genworth Financial Mortgage Insurance Pty Limited is incorporated and domiciled in Australia. The immediate Australian parent entity of the Company is Genworth Financial Mortgage Insurance Holdings Pty Limited. The ultimate parent entity is Genworth Financial Inc, a company 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

Genworth Financial Mortgage Insurance Pty Limited

Directors' report (continued)

For the year ended 31 December 2009

Dividends

No dividends have been paid or declared by the Company during the year.

State of affairs

On the 31 July 2009, the company issued 45,000,000 ordinary shares to extinguish \$45,000,000 of liabilities due to the immediate parent in respect of tax sharing.

There were no other 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 has not been any matter or circumstance that has 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 the Directors and officers of the Company for the year ended 31 December 2009 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 2010. 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 contract.

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.

Genworth Financial Mortgage Insurance Pty Limited

Directors' report (continued)

For the year ended 31 December 2009

Directors' interests and benefits

No Director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors shown in the financial report) 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 Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report 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:



Martin Barter
Director



Gayle Tollifson
Director

Dated at Sydney this 16th day of April 2010.



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 2009 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

16 April 2010

Genworth Financial Mortgage Insurance Pty Limited**Statement of comprehensive income****For the year ended 31 December 2009**

	Note	2009 \$'000	2008 \$'000
Premium revenue	5	455,176	433,054
Outward reinsurance premium expense		<u>(72,575)</u>	<u>(65,658)</u>
Net premium revenue		382,601	367,396
Net claims expense	9	(216,611)	(177,120)
Underwriting expenses		<u>(37,215)</u>	<u>(32,072)</u>
Profit from underwriting		128,775	158,204
Financial income	6	109,472	266,307
Other operating expenses	7	<u>(46,138)</u>	<u>(48,316)</u>
Profit before related income tax expense		192,109	376,195
Income tax expense	10	<u>(63,941)</u>	<u>(114,247)</u>
Profit for the period		<u>128,168</u>	<u>261,948</u>
Total comprehensive income for the period, net of income tax		<u>128,168</u>	<u>261,948</u>
Profit attributable to the members		<u>128,168</u>	<u>261,948</u>
Total comprehensive income attributable to members		<u>128,168</u>	<u>261,948</u>

The statement of comprehensive income is to be read in conjunction with the notes on pages 9 to 52 which form part of the financial statements.

Genworth Financial Mortgage Insurance Pty Limited

Statement of financial position

As at 31 December 2009

	Note	2009 \$'000	2008 \$'000
Current assets			
Cash assets	11	164,178	71,387
Receivables	12	63,028	79,796
Deferred reinsurance expense	13	89	97
Investments	14	634,139	876,724
Deferred acquisition costs	15	<u>21,030</u>	<u>17,437</u>
Total current assets		<u>882,464</u>	<u>1,045,441</u>
Non-current assets			
Receivables	12	29,691	18,547
Plant and equipment	16	23,088	12,745
Intangibles		7,490	7,490
Deferred reinsurance expense	13	621	928
Investments	14	2,183,518	1,736,074
Deferred acquisition costs	15	<u>81,662</u>	<u>65,955</u>
Total non-current assets		<u>2,326,070</u>	<u>1,841,739</u>
Total assets		<u>3,208,534</u>	<u>2,887,180</u>
Current liabilities			
Outstanding claims	18	244,122	198,236
Unearned premiums	19	352,626	322,771
Payables	20	<u>103,134</u>	<u>103,944</u>
Total current liabilities		<u>699,882</u>	<u>624,951</u>
Non-current liabilities			
Deferred tax liability	17	2,156	15,502
Outstanding claims	18	37,798	28,210
Unearned premiums	19	798,773	722,860
Provisions	21	<u>2,202</u>	<u>1,774</u>
Total non-current liabilities		<u>840,929</u>	<u>768,346</u>
Total liabilities		<u>1,540,811</u>	<u>1,393,297</u>
Net assets		<u>1,667,723</u>	<u>1,493,883</u>
Equity			
Issued capital	22	1,401,559	1,356,559
Share based payment reserve	22(a)	1,634	962
Other reserves	23	(603,268)	(603,268)
Retained profits		<u>867,798</u>	<u>739,630</u>
Total equity		<u>1,667,723</u>	<u>1,493,883</u>

The statement of financial position is to be read in conjunction with the notes on pages 9 to 52 which form part of the financial statements.

Genworth Financial Mortgage Insurance Pty Limited

Statement of changes in equity

For the year ended 31 December 2009

	Issued capital \$'000	Other reserves \$'000	Share based payment reserve \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 January 2008	1,356,559	(603,268)	-	477,682	1,230,973
Expense for year	-	-	962	-	962
Profit after taxation	-	-	-	261,948	261,948
Balance at 31 December 2008	1,356,559	(603,268)	962	739,630	1,493,883
Share issue	45,000	-	-	-	45,000
Expense for year	-	-	672	-	672
Profit after taxation	-	-	-	128,168	128,168
Balance at 31 December 2009	1,401,559	(603,268)	1,634	867,798	1,667,723

The statement of changes in equity is to be read in conjunction with the notes on pages 9 to 52 which form part of the financial statements.

Genworth Financial Mortgage Insurance Pty Limited

Statement of cash flows

For the year ended 31 December 2009

	Note	2009 \$'000	2008 \$'000
Cash flows from operating activities			
Premiums received		561,067	457,102
Interest and other income		143,955	162,940
Claims paid		(173,498)	(146,087)
Cash payments in the course of operations		(134,966)	(236,852)
Income tax paid		<u>(42,325)</u>	<u>(50,099)</u>
Net cash provided by operating activities	28(b)	<u>354,233</u>	<u>187,004</u>
Cash flows from investing activities			
Payments for plant and equipment		(12,343)	(10,759)
Payments for investments		(1,331,968)	(625,100)
Proceeds from sale of investments		608,813	581,846
Repayment of loan to parent entity		-	47,767
Proceeds from share capital reduction of subsidiary		<u>24,000</u>	<u>15,000</u>
Net cash provided by/(used in) investing activities		<u>(711,498)</u>	<u>8,754</u>
Net (decrease)/increase in cash held		<u>(357,265)</u>	<u>195,758</u>
Cash and cash equivalents at the beginning of the financial year		<u>605,211</u>	<u>409,453</u>
Cash and cash equivalents at the end of the financial year	28(a)	<u>247,946</u>	<u>605,211</u>
Non-cash transactions	28(c)		

The statement of cash flows is to be read in conjunction with the notes on pages 9 to 52 which form part of the financial statements.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

1 Statement of significant accounting policies

Genworth Financial Mortgage Insurance Pty Limited (the "Company") is a company domiciled in Australia.

(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 following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 31 December 2009 but have not been applied in preparing this financial report:

- *AASB 2009-5 further amendments to Australia Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Company's 31 December 2010 financial statements, are not expected to have a significant impact on the financial statements.
- *AASB 9 Financial Instruments (2009)* requires financial assets to be classified on initial recognition as measured at amortised cost or fair value. This standard eliminates the existing AASB 139 Financial Instruments: Recognition and Measurement categories of held to maturity, available for sale and loans and receivables. AASB 9 is applicable for annual reporting periods beginning on or after 1 January 2013 with early adoption permitted for annual reporting periods ending on or after 31 December 2009. The Company has not yet determined the potential effect of the revised standard on the Company's financial statements.

The financial report is prepared on the historical cost basis except for the following assets and liabilities being stated at their fair value – investments, outstanding claims and reinsurance recoveries on unpaid claims.

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

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 reporting entity. Consolidated accounts are prepared by the Company's highest parent entity of the Australian Group.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

1 Statement of significant accounting policies (continued)

(b) Basis of preparation (continued)

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 in the next year are discussed in note 2.

The accounting policies have been applied consistently by the Company.

(c) Classification of insurance contracts

Contracts under which the Company 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.

(d) Revenue recognition

Earned and unearned premium revenue

Premiums comprise amounts charged to the policyholder, excluding stamp duties and GST collected on behalf of third parties. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Unearned premiums are calculated by apportioning the premium written in the year over the periods of risk from the dates of attachment based on the pattern of risk which has been based on an actuarial assessment.

Premiums have been brought to account as income from the date of attachment of risk over periods up to nine years based on an actuarial assessment of the pattern and period of risk.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the coupon rate on the financial asset, net of withholding tax paid or payable.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

1 Statement of significant accounting policies (continued)

(e) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(f) Reinsurance

Reinsurance expense

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

Reinsurance and other recoveries receivable

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

(g) Claims

Claims expense and a liability for outstanding claims are recognised in respect of direct and inward reinsurance business. The liability covers claims reported and outstanding, IBNR and the expected direct and indirect costs of settling those claims. Outstanding claims are assessed by reviewing individual claim files and estimating the ultimate cost of settling claims, which includes IBNR and settlement costs, using statistics based on past experience and trends.

The provision for outstanding claims contains a risk margin to reflect the inherent uncertainty in the central estimate.

(h) Taxation

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

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

1 Statement of significant accounting policies (continued)

(h) Taxation (continued)

Current tax is expected tax payable on the taxable income for the year, using tax rates enacted or substantively 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 liability 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 Financial Mortgage Insurance Holdings Pty Limited tax consolidation group. Under the tax consolidation system the head entity will be liable for the current income tax liabilities of that group. Entities will be 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.

(i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, 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, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(j) Acquisition costs

A portion of acquisition costs relating to unearned premium revenue is recognised as an asset in recognition that it represents a future benefit. Deferred acquisition costs are amortised over the financial years expected to benefit from the expenditure and are stated at the lower of cost and recoverable value.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

1 Statement of significant accounting policies (continued)

(k) Unexpired risk liability

Provision is made for unexpired risks arising from lenders mortgage insurance business where the expected value of claims and expenses attributed to the unexpired period of policies in force at the statement of financial position date exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs and deferred reinsurance.

The provision for unexpired risk is calculated separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

Any unexpired risk liability remaining after writing off deferred acquisition costs and deferred reinsurance premium is recognised immediately in the statement of comprehensive income.

(l) Investment assets

Financial assets backing general insurance liabilities

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

The 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 manages the average duration of the notional assets allocated to insurance activities to match the average claim payment profile.

The Company values financial assets and any assets backing insurance activities at fair value through profit and loss, with any resultant unrealised profits and losses recognised in the statement of comprehensive income.

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

- Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn;
- Trade and other receivables are stated at amortised cost less any impairment which approximates to fair value;
- Fixed interest securities quoted on stock exchanges are initially recognised at fair value determined at the quote cost at date of acquisition. The subsequent fair value measurement is taken as the quoted bid price of the investment unless bid price does not represent fair value. If this occurs the Company utilises a fair value price representing appropriate market data.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

1 Statement of significant accounting policies (continued)

(l) Investment assets (continued)

Financial assets not backing general insurance liabilities

Investments that do not back general insurance liabilities comprise the investment in the controlled entity which is stated at cost less impairment losses. This approximates to fair value with any resultant loss recognised in the statement of comprehensive income.

(m) Payables

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

(n) Depreciation and amortisation

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

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

The estimated useful lives for the current and comparative periods are as follows:

	2009	2008
Leasehold improvements	5 years	5 years
Furniture & equipment	5-8 years	5-8 years
Computing hardware	3-5 years	3-5 years
Computing software	5 years	5 years

(o) Employee entitlements

The carrying amount of provisions for employee entitlements approximates net 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.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

1 Statement of significant accounting policies (continued)

(o) Employee entitlements

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. The obligation is calculated using expected future increases in wage and salary rate including related on-costs and expected settlement dates, and is discounted using the Commonwealth Government bond rate at the statement of financial position date which has maturity dates approximating the terms of the Company's obligations.

Superannuation commitments

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

(p) Goodwill

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

Goodwill is stated at cost less any accumulated impairment loss.

(q) Impairment of assets

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

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

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

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

1 Statement of significant accounting policies (continued)

(r) Leases

The majority of leases entered into are operating leases, where the lessor retains substantially all the risks and benefits of ownership of the leased items. The majority of the lease arrangements are entered into as lessee for which the lease payments are recognised as an expense on a straight line basis over the term of the lease.

(s) Receivables

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

The carrying amount of receivables approximates net fair value.

(t) Share-based payment transactions

Genworth Financial Inc, the ultimate parent entity, provides benefits to directors and employees of the Group in the form of share-based payments including share options and restricted share units ("RSU"), 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.

Where an equity-settled award 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.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

2 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 and unearned premiums (Note 5 and 19)

Premium is earned over periods of up to nine years. The principle underlying the earning recognition is to derive a premium earning scale which accrues 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 established for unearned premiums on the basis of the earning scale is consistent with the claims reserving approach.

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

Estimation of outstanding claims liabilities (Note 18)

Provision is made for the estimated cost of claims incurred but not settled at the statement of financial position date, including the cost of claims 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.

The estimation of claims incurred but not reported ("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 reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable under reinsurance contracts based upon the gross provisions.

Details of specific assumptions used in deriving the outstanding claims liabilities at the statement of financial position date are detailed in note 3.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

3 Actuarial assumptions and methods

The Company internally valued the outstanding claims liabilities at the statement of financial position 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 (incurred but not reported).

The provision in respect of delinquent loans 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 at the statement of financial position date.
- 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.
- an IBNR provision is added to allow for unreported delinquent loans.

Actuarial assumptions and process

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

The Appointed Actuary examined the experience of the 1980-2009 underwriting years, including the mix of business by loan value ratio (LVR) and loan size band, the region in which property is insured, 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 applies the Generalised Linear Modelling statistical method to identify significant explanatory factors affecting outcomes and develop models for frequency and delinquency. The model incorporates past and anticipated movements in key variables to determine appropriate assumptions for reserving. The actuarial assumptions used in determining the outstanding claims liabilities are:

Frequency

The propensity for a delinquent loan to become a claim varies based on different LVR bands, arrears duration, delinquency type and location.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

3 Actuarial assumptions and methods (continued)

Severity

Claim severity, where severity is expressed as a percentage of the outstanding loan amount at the arrears date, varies according to the geographic region of the properties secured by the loans.

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

Average frequency factor is 35% (2008: 37%)

Average severity factor is 25% (2008: 24%)

IBNR

The IBNR provision has been estimated by analysing the historical pattern of reported delinquencies. The IBNR provision is determined from ratios of "reported to ultimate delinquencies" applied to reported delinquencies. The analysis implied an IBNR equivalent to 16% (2008: 16%) of the reported delinquency reserve and this assumption has been adopted for the IBNR component in the overall estimate of outstanding claims at the balance date.

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 has reviewed the factors impacting the portfolio to establish a recommended margin at the level required by the Company. Factors considered include variability of claims experience of the portfolio and the quality of historical data.

A risk margin of 14% (2008: 7%) has been assumed and is intended to achieve a 75% probability of sufficiency.

Sensitivity Analysis

The valuation of outstanding claims incorporates considering a range of factors that involves interactions in economic indicators, statistical modelling and observed historical claims development and experience. 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 condition and in particular house prices and interest rates (and unemployment for new delinquencies) impacts frequency and, to a lower extent, severity.

The actuarial analysis used the central estimate of the net outstanding claim liabilities. The following table represents the movement that would move the frequency and severity factors to the upper and lower "95% confidence" level as a direct result of future economic conditions varying from those adopted for the central estimate.

Genworth Financial Mortgage Insurance Pty Limited
Notes to and forming part of the financial statements
For the year ended 31 December 2009

3 Actuarial assumptions and methods (continued)

Impact on outstanding claims liabilities to changes in key variables

	Change in variable 2009	Impact on outstanding claims liabilities 2009 \$'000	Change in variable 2008	Impact on outstanding claims liabilities 2008 \$'000
Frequency factor	14%	75,804	13%	65,685
Frequency factor ¹	(11%)	(55,859)	(13%)	(62,299)
Severity factor	4%	28,957	1%	9,982
Severity factor	(3%)	(26,178)	(1%)	(9,982)

¹ Factor set to minimum of zero

Claims handling expenses

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

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

4 Insurance contracts – Insurance risk management

Risk management objectives and policies for mitigating insurance risk

The Company has established policies for accepting insurance risks. The risk under any one insurance contract arises out of the uncertainty surrounding the probability of timing and severity of claims under the contract.

The Company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues.

The Company uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include provision of quantitative and qualitative analysis on economic and portfolio trends and key economic indicators through use of appropriate technologies and risk tools.

Objectives in managing risk arising from insurance and policies for mitigating those risks

The Company manages insurance risk to reduce the volatility of operating profits. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in loss experience, profits from insurance business are affected by market factors, particularly competition and movements in asset values. Short-term variability is, to some extent, a feature of insurance business.

In accordance with Prudential Standards issued by the prudential regulator, the Australian Prudential Regulation Authority (APRA), the Company has developed, implemented and maintains a Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

The RMS aims to formalise and communicate the Company's approach to the management of risk, with an emphasis on encouraging openness and the early reporting of material risks. It establishes:

- clear roles and responsibilities for the management of risk for the Board, management and staff;
- the mechanisms by which the business determines its risk profile, considers and accepts new risks, and audits and monitors those risks; and
- reporting requirements for risk assessments and actions and their escalation to appropriate levels within the Company and within the Genworth Group.

The RMS and REMS identify the Company's policies, procedures, processes and controls that comprise its risk management and controls systems. These systems address all material risks, financial and non-financial, likely to be faced by the Company. Annually, the Board certifies to APRA that strategies have been put in place to monitor those risks, that the Company has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to the compliance with the RMS and REMS.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

4 Insurance contracts – Insurance risk management (continued)

Underwriting strategy

The Company's underwriting strategy is to mitigate insurance risk. Acceptable insurance risks to the Company constitute loans secured against residential real estate security located in Australia and New Zealand. This can comprise loans for vacant land, existing homes, new home construction, and investment (rental) housing, as well as home improvements, renovations, personal investment purposes and personal consumer purposes. The acceptability of insurance proposals submitted to the Company is determined by their compliance with the Company's underwriting guidelines.

The Company's risk team is responsible for ensuring ongoing adherence with the Company's underwriting guidelines. The Company also undertakes a monthly operating review, which includes detailed commentary on the Australian housing market and economy, a review of the portfolio profile, an analysis of portfolio trends and an outline of key risk issues affecting the Company.

Reinsurance strategy

The Company follows the industry practice of reinsuring portions of insurance risks with reinsurance companies with the aim of diversifying the risks and to manage loss exposures. Reinsurance is also used to improve capital efficiency as well as available capital and surplus. The use of reinsurance enables the Company to write a larger volume of new business than would otherwise be the case and to write policies in amounts larger than the risk the Company is willing to retain.

The strength of the Company's capital supplementation is that it leverages off its parent entity which considers the Company to be core to the Group's LMI business operations.

The Company has reinsurance arrangements with related entities, Genworth Mortgage Insurance Corporation (North Carolina) and Brookfield Life Assurance Limited. In 2009 the Company also signed a new reinsurance treaty with an unrelated entity. In aggregate, they provide a capped catastrophe reinsurance protection for losses exceeding 120% of earned premium. The Company sets the criteria for acceptable reinsurance in terms of risk appetite and counter party risk and monitors the reinsurance program to mitigate overall insurance risk. Genworth Mortgage Insurance Corporation (North Carolina) has BBB- and Baa2 ratings based on the latest ratings published by Standard & Poor's Rating Services and Moody's respectively. Brookfield Life Assurance Limited is an unrated company.

The Company has a strategy to further diversify its reinsurance arrangements. As part of this, it has entered into a further excess of loss treaty providing \$250 million of cover effective from 1 January 2010 with unrelated reinsurers.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

4 Insurance contracts – Insurance risk management (continued)

Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are discussed below.

Product features

The Company offers lenders mortgage insurance (LMI) and portfolio credit enhancement policies. The Company's principal product is LMI with single premiums and 100% coverage. The insured lending institutions collect the single premium from prospective borrowers at the time the loan proceeds are advanced and remit the amount to the Company as the mortgage insurer.

The Company in return records the proceeds to unearned premium, invests those proceeds and recognises the premiums over time in accordance with the expected expiration of risk.

LMI protects the lending institution against loss should a borrower default on their loan. If the security property is required to be sold as a result of the defaults, the funds received from the sale net of selling costs may not cover the full balance outstanding on the loan. Should this occur, the lender is entitled to make an insurance claim to the Company for reimbursement of any amount outstanding, subject to the terms and conditions of the relevant LMI Master Policy of the Company.

Concentrations of insurance risks

Insurance risk is managed primarily through pricing, product design, risk selection, investment strategy, rating and reinsurance. It is vital that the Company reacts to changes in the general economic and commercial environment in which it operates.

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact upon the Company's liabilities.

The Company uses the global risk reporting methodology developed by its ultimate parent company, which summarises key business risk (performance) indicators, tracks key economic and business performance measures and highlights any adverse trends through use of performance triggers against plan. Concentration limits are monitored on a quarterly basis. Trigger levels have been established in consultation with the ultimate parent company, for geographical dispersion, lender concentration and LVR bands. Portfolio exposure against these triggers is monitored quarterly.

The greatest likelihood of significant losses to the Company arises from a severe and prolonged economic downturn. The assumptions the Company uses to calculate these risks follow APRA's requirements to assess the probable maximum loss (PML). The Company's reinsurance arrangements provide protection against this exposure.

Interest rate risk

The insurance and reinsurance contracts contain no clauses that expose the Company directly to interest rate risk. The company is exposed to interest rate risk related to insurance contracts to the extent that the insurance liabilities are discounted. As there is no discounting applied to the outstanding claims, there is no exposure on statement of financial position to interest rate risk related to insurance contracts.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

4 Insurance contracts – Insurance risk management (continued)

Credit risk

The Company's exposure to credit risk on policies it issues is minimal as non-payment of the premium will lead to policies either not being incepted or being cancelled.

The Company is exposed to credit risk on reinsurance contracts as a result of exposure to individual cedants.

The Company does not have any material exposure to an individual cedant which would impact the operating profit. As at the statement of financial position date, there are no amounts due from reinsurance cedants. However the Company does monitor its potential exposure to cedants. The Company utilises the Genworth Group pre-determined policy on the appropriate rating of reinsurers used in its global reinsurance programme. (Refer related party Note 30 for further explanation)

Genworth Financial Mortgage Insurance Pty Limited
Notes to and forming part of the financial statements
For the year ended 31 December 2009

	2009 \$'000	2008 \$'000
5 Premium revenue		
Gross written premiums:		
- Direct premium	486,565	436,015
- Inward reinsurance premium	75,389	22,614
Movement in unearned premiums	<u>(106,778)</u>	<u>(25,575)</u>
Premium revenue	<u>455,176</u>	<u>433,054</u>
6 Financial income		
Interest	153,690	160,222
(Losses)/gains in fair value of investments		
- Unrealised	(48,095)	112,873
- Realised	3,877	(1,024)
Impairments:		
- Bonds	<u>-</u>	<u>(5,764)</u>
	<u>109,472</u>	<u>266,307</u>
7 Other operating expenses		
Depreciation expense	2,000	1,354
Loss on disposal of plant and equipment	-	274
Employee expenses		
- Salaries and wages	21,969	23,241
- Superannuation contributions	1,341	1,484
- Employee benefits	386	405
Occupancy expenses	2,697	2,198
Marketing expenses	1,300	2,084
Administrative expenses	<u>16,445</u>	<u>17,276</u>
	<u>46,138</u>	<u>48,316</u>

Genworth Financial Mortgage Insurance Pty Limited
Notes to and forming part of the financial statements
For the year ended 31 December 2009

	2009 \$	2008 \$
8 Auditor's remuneration		
Audit services		
- Audit of financial reports	187,500	205,500
- Other regulatory audit services	20,000	20,500
- Audit of US GAAP financial statements – SEC Regulation AB	<u>139,900</u>	<u>156,800</u>
	<u>347,400</u>	<u>382,800</u>

There were no non-audit services provided by the auditor.

9 Net claims incurred

	Current Year \$'000	2009 Prior Years \$'000	Total \$'000	Current Year \$'000	2008 Prior Years \$'000	Total \$'000
Gross claims expense						
Direct	188,787	44,033	232,820	154,646	43,084	197,730
Inwards reinsurance	<u>1,702</u>	<u>-</u>	<u>1,702</u>	<u>1,035</u>	<u>-</u>	<u>1,035</u>
Gross claims incurred – undiscounted and discounted	<u>190,489</u>	<u>44,033</u>	<u>234,522</u>	<u>155,681</u>	<u>43,084</u>	<u>198,765</u>
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue – undiscounted and discounted	<u>(4,162)</u>	<u>(1,388)</u>	<u>(5,550)</u>	<u>(1,448)</u>	<u>(483)</u>	<u>(1,931)</u>
Gross claims incurred after reinsurance and other recoveries	<u>186,327</u>	<u>42,645</u>	<u>228,972</u>	<u>154,233</u>	<u>42,601</u>	<u>196,834</u>
Non-reinsurance recoveries	<u>(8,614)</u>	<u>(3,747)</u>	<u>(12,361)</u>	<u>(7,586)</u>	<u>(12,128)</u>	<u>(19,714)</u>
Net claims incurred	<u>177,713</u>	<u>38,898</u>	<u>216,611</u>	<u>146,647</u>	<u>30,473</u>	<u>177,120</u>

Current year amounts relate to risks borne in the current financial year. Prior year amounts relate to a reassessment of the risks borne in all previous financial years. The increase in incurred losses related to prior years was primarily attributable to less favourable loss trends experienced during the year. These trends were a result of an increase in the number and ageing of delinquencies. This was due to the weakening of Australia's property market and general economic conditions experienced in the year as a result of the Global Financial Crisis.

Genworth Financial Mortgage Insurance Pty Limited
Notes to and forming part of the financial statements
For the year ended 31 December 2009

	2009 \$'000	2008 \$'000
10 Income tax expense		
(a) Income tax expense		
Current tax	81,072	83,128
Deferred tax (Note 17(c))	(14,883)	30,740
(Over)/under provision in prior year - current tax	(3,785)	
- deferred tax	<u>1,537</u>	<u>379</u>
	<u>63,941</u>	<u>114,247</u>
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Prima facie income tax expense calculated at 30% (2008: 30%) on profit	57,632	112,858
Increase in income tax expense due to:		
- Non-taxable items	721	1,009
- Tax benefit of New Zealand branch losses not recognised	7,836	-
- (Over)/under provision in prior year	<u>(2,248)</u>	<u>380</u>
Income tax expense on the profit	<u>63,941</u>	<u>114,247</u>
11 Cash assets		
Current		
Cash at bank	<u>164,178</u>	<u>71,387</u>

For an analysis of the sensitivity of cash assets to foreign exchange and interest rate risk refer to note 27(a) (iii).

Genworth Financial Mortgage Insurance Pty Limited
Notes to and forming part of the financial statements
For the year ended 31 December 2009

	2009 \$'000	2008 \$'000
12 Receivables		
Current		
Premium receivables	2,834	2,958
Accrued investment income	38,163	29,810
Other debtors	19,647	18,788
Receivable from a controlled entity	-	27,073
Non-reinsurance recoveries	<u>2,384</u>	<u>1,167</u>
	<u>63,028</u>	<u>79,796</u>
Non-current		
Non-reinsurance recoveries	<u>29,691</u>	<u>18,547</u>
	<u>29,691</u>	<u>18,547</u>

For an analysis of the sensitivity of other receivables to foreign exchange and interest rate risk refer to note 27(a)(iii). Carrying amounts of receivables reasonably approximate fair value at statement of financial position date.

None of the receivables are impaired or past due.

13 Deferred reinsurance expense

Deferred reinsurance expense – current	89	97
Deferred reinsurance expense – non-current	<u>621</u>	<u>928</u>
	<u>710</u>	<u>1,025</u>

Reconciliation of changes in deferred reinsurance expense

Balance at 1 January	1,025	1,626
Deferral of reinsurance premium on current year contracts	190	107
Earning of reinsurance premium previously deferred	<u>(505)</u>	<u>(708)</u>
Balance as at 31 December	<u>710</u>	<u>1,025</u>

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

	2009 \$'000	2008 \$'000
14 Investments		
Current		
Government and semi-government bonds	167,076	134,571
Corporate bonds	383,295	208,329
Short term deposits	<u>83,768</u>	<u>533,824</u>
	<u>634,139</u>	<u>876,724</u>
Non-current		
Shares in controlled entity (Note 31)	27,598	51,599
Government and semi-government bonds	1,115,167	749,333
Corporate bonds	<u>1,040,753</u>	<u>935,142</u>
	<u>2,183,518</u>	<u>1,736,074</u>

All investments other than shares in controlled entities are classified as financial assets or assets backing insurance activities designated at fair value through profit and loss. For an analysis of the sensitivity of investments at fair value through profit or loss to foreign exchange, interest rate and price risks refer to note 27(a)(iii).

15 Deferred acquisition costs

Deferred acquisition costs – current	21,030	17,437
Deferred acquisition costs – non-current	<u>81,662</u>	<u>65,955</u>
	<u>102,692</u>	<u>83,392</u>
Reconciliation of changes in deferred acquisition costs:		
Balance at 1 January	83,392	71,301
Acquisition costs incurred in year	56,515	44,163
Amortisation charged to the statement of comprehensive income	<u>(37,215)</u>	<u>(32,072)</u>
Balance as at 31 December	<u>102,692</u>	<u>83,392</u>

Genworth Financial Mortgage Insurance Pty Limited
Notes to and forming part of the financial statements
For the year ended 31 December 2009

	2009 \$'000	2008 \$'000
16 Plant and equipment		
Plant and equipment - at cost	29,827	17,484
Less: Accumulated depreciation	<u>(6,739)</u>	<u>(4,739)</u>
Total plant and equipment - net book value	<u>23,088</u>	<u>12,745</u>
Reconciliations		
Reconciliations of the carrying amounts for plant and equipment are set out below:		
<i>Cost</i>		
Opening balance at 1 January	17,484	7,198
Additions	12,343	10,759
Disposals	<u>-</u>	<u>(473)</u>
Closing balance at 31 December	<u>29,827</u>	<u>17,484</u>
<i>Accumulated depreciation</i>		
Opening balance at 1 January	(4,739)	(3,584)
Depreciation charge	(2,000)	(1,354)
Disposals	<u>-</u>	<u>199</u>
Closing balance at 31 December	<u>(6,739)</u>	<u>(4,739)</u>

Genworth Financial Mortgage Insurance Pty Limited**Notes to and forming part of the financial statements****For the year ended 31 December 2009**

	2009 \$'000	2008 \$'000
17 Deferred tax		
The balance comprises temporary differences attributable to:		
Deferred tax assets (a)	12,217	9,068
Deferred tax liabilities (b)	<u>(14,373)</u>	<u>(24,570)</u>
Net deferred tax (c)	<u>(2,156)</u>	<u>(15,502)</u>

(a) Deferred tax assets

The balance comprises temporary differences attributable to:

Employee benefits	1,369	1,470
Purchased interest on investments	6,752	3,906
Provision for indirect claims handling costs	3,372	3,168
Others	<u>724</u>	<u>524</u>
	<u>12,217</u>	<u>9,068</u>

(b) Deferred tax liabilities

The balance comprises temporary differences attributable to:

Unrealised gains on investments	(1,666)	(16,085)
Research and development claims on fixed assets	(1,386)	-
Accrued interest income	<u>(11,321)</u>	<u>(8,485)</u>
	<u>(14,373)</u>	<u>(24,570)</u>

Genworth Financial Mortgage Insurance Pty Limited**Notes to and forming part of the financial statements****For the year ended 31 December 2009**

	2009 \$'000	2008 \$'000
17 Deferred tax (continued)		
(c) Net deferred tax		
Movements in net deferred tax		
Opening balance at 1 January	(15,502)	15,617
Credited/(debited) to the statement of comprehensive income	14,883	(30,740)
Over/(under) provision of prior year tax	<u>(1,537)</u>	<u>(379)</u>
Closing balance at 31 December	<u>(2,156)</u>	<u>(15,502)</u>
 18 Outstanding claims		
Current	244,122	198,236
Non-current	<u>37,798</u>	<u>28,210</u>
	<u>281,920</u>	<u>226,446</u>
 Central estimate	249,982	211,909
Risk margin	<u>31,938</u>	<u>14,537</u>
Gross outstanding claims	<u>281,920</u>	<u>226,446</u>
 <i>Reconciliation of changes in outstanding claims:</i>		
Balance at 1 January	226,446	175,699
Current year gross claims incurred	228,972	196,834
Claims paid	<u>(173,498)</u>	<u>(146,087)</u>
Balance at 31 December	<u>281,920</u>	<u>226,446</u>

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

18 Outstanding claims (continued)

Risk margin

Process used to determine the risk margin

The risk margin is an additional allowance for uncertainty in the ultimate cost of claims. The overall margin adopted is determined by the Board after considering the uncertainty in the portfolio, industry trends and the Company's risk appetite.

To determine the risk margin, the Appointed Actuary reviews the factors impacting the portfolio to establish a recommended margin at the level required by the Board. Factors considered include:

- Variability of claims experience of the portfolio
- Quality of historical data
- Diversification between different classes within the portfolio
- Increased uncertainty due to future legislative changes

The risk margin is applied to the gross central estimate with appropriate reinsurance recoveries provided.

A new approach was adopted to separately consider risk margin for outstanding claims and premium liabilities (previously, the total variability was assessed, which was then allocated between outstanding claims and premium liabilities). This approach resulted in changes in risk margins applied on outstanding claims and premium liabilities, however, it does not significantly affect the risk margin applied on the total insurance liabilities. The risk margin was estimated to be 14% (2008: 7%) of the central estimate for outstanding claims.

No inflation rate or discounting has been applied to non-current claims on the basis that the effect is not material.

The weighted average term to settlement is approximately 18 months (2008: 17 months).

Genworth Financial Mortgage Insurance Pty Limited
Notes to and forming part of the financial statements
For the year ended 31 December 2009

	2009 \$'000	2008 \$'000
19 Unearned premiums		
Unearned premiums – current	352,626	322,771
Unearned premiums – non-current	<u>798,773</u>	<u>722,860</u>
	<u>1,151,399</u>	<u>1,045,631</u>
<i>Reconciliation of changes in unearned premiums</i>		
Balance at 1 January	1,045,631	1,020,056
Premiums incepted during the year	489,693	444,710
Premiums earned during the year	(382,915)	(419,135)
Exchange rate revaluation adjustment	<u>(1,010)</u>	<u>-</u>
Balance as at 31 December	<u>1,151,399</u>	<u>1,045,631</u>
20 Payables		
Current		
Accrued expenses	8,233	6,463
Trade creditors	54,498	44,200
Annual leave	2,391	2,122
Payable to related entities	<u>38,012</u>	<u>51,159</u>
	<u>103,134</u>	<u>103,944</u>

For an analysis of the sensitivity of payables to foreign exchange risk, refer to note 27(a) (iv).

Included in the related entity payables are the balances related to taxes payable to the head entity. 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. The Company has also utilised tax losses from the head entity of \$45,000,000 and \$31,703,000 for 2009 and 2008 respectively.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

	2009 \$'000	2008 \$'000
21 Provisions		
Non-current		
Long service leave	<u>2,202</u>	<u>1,774</u>

The present values of employee entitlements not expected to be settled within 12 months of balance date have been calculated using the following weighted averages:

	2009	2008
Discount rate	5.3%	6.4%
Settlement (years)	10	10
Number of employees at statement of financial position date	241	255

22 Issued capital

	2009 \$'000	2008 \$'000
Issued fully paid capital		
Opening balance at 1 January	1,356,559	1,356,559
Additional capital issued – 31 July 2009	<u>45,000</u>	<u>-</u>
Closing balance at 31 December	<u>1,401,559</u>	<u>1,356,559</u>

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.

(a) Share based payment reserve

Balance at 1 January	962	-
Share-based compensation	<u>672</u>	<u>962</u>
Balance at 31 December	<u>1,634</u>	<u>962</u>

Refer to Note 34 for detailed information.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

	2009 \$'000	2008 \$'000
23 Other reserves		
Other reserves	<u>(603,268)</u>	<u>(603,268)</u>

The balance comprises goodwill which cannot be recognised 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 at that time. Consequently, goodwill is not permitted to be recognised in the financial statements of the acquirer.

24 Capital management

(a) Capital management strategy

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 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:

(i) Regulatory capital

The Company is subject to APRA's prudential standards which set out the basis for calculating the minimum capital requirement ("MCR"), 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 MCR utilises a risk based approach to capital adequacy. The Company uses APRA's prescribed method for calculating the MCR, which is the sum of the capital charges for insurance, investment, investment concentration and catastrophe concentration risk.

It is the Company's policy to hold regulatory capital levels in excess of the MCR required by APRA. The Company maintains sufficient capital to support the MCR, which is APRA's derivation of the required capital to meet a 1 in 250 year risk of absolute ruin.

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.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

24 Capital management (continued)

(ii) 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 AA- and A1 ratings based on latest ratings published for the Company by Standard & Poor's Rating Services and Moody's respectively.

(iii) Economic capital

In conjunction with the considerations set out above, which are important to the functioning of the business, consideration is given to the operational capital needs of the business.

(b) Capital composition

Total core capital is calculated as equity as shown in the statement of financial position. Consideration is also given to capital support from reinsurance and any debt, although the extent of recognition varies depending on the capital basis being assessed.

(c) Regulatory capital compliance

APRA's prudential standards require additional disclosure of regulatory capital in the annual financial statements.

	2009 \$'000	2008 \$'000
Tier 1 capital (section 1)		
Paid-up ordinary shares	1,401,559	1,356,559
General reserves	274,359	274,359
Other reserves	(601,634)	(602,306)
Retained earnings	912,852	760,531
Less: Deductions	(42,370)	(63,385)
Net Tier 1 capital	<u>1,944,766</u>	<u>1,725,758</u>
Total capital base	<u>1,944,766</u>	<u>1,725,758</u>
Minimum capital requirement	<u>1,493,537</u>	<u>1,266,842</u>
Capital adequacy multiple	<u>1.30</u>	<u>1.36</u>

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

2009	2008
\$'000	\$'000

25 Commitments

Operating lease commitments

The estimated future amounts of operating lease commitments not provided for in the financial statements are payable:

Within one year	4,591	3,600
One year or later and no later than five years	<u>11,792</u>	<u>13,363</u>
	<u>16,383</u>	<u>16,963</u>

The Company leases property and equipment under operating leases expiring from one to five years. Leases of property generally provide the Company with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are generally based on movements in the Consumer Price Index.

26 Dividends

(a) Ordinary shares

There were no dividends declared and paid by the Company during the year (2008: nil).

(b) Dividend franking account

In accordance with the tax consolidation legislation, the Parent, as the head entity in the tax consolidated group, has assumed the benefit of available franking credits.

27 Financial risk management

The activities of the Company expose it to a variety of financial risks such as market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Company has a Risk Management Strategy ("RMS") which is discussed in more detail in Note 4. The risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

The key objectives of the Company's asset and liability management strategy are to ensure sufficient liquidity is maintained at all times to meet the Company's obligations, including settlement of its insurance liabilities and, within these parameters, to optimise investment returns for policyholders and shareholders.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

27 Financial risk management (continued)

(a) Market risk

(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 equities, 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 of movements in the financial assets and liabilities on the Company's statement of comprehensive income and statement of financial position are shown in note 27(a)(iii).

At 31 December 2009, had the Australian dollar weakened/strengthened by 10% against the NZ dollar with all other variables held constant, post-tax profit for the year would have been \$3,100,000 higher/\$2,817,000 lower (2008: \$3,435,000 higher/\$3,122,000 lower), mainly as a result of foreign exchange gains/losses on translation of NZ dollar denominated cash and cash equivalents and financial assets at fair value through profit or loss.

	AUD denominated \$'000	NZD denominated \$'000	Total AUD \$'000
2009			
<i>Financial assets</i>			
Cash at bank	144,237	24,646	164,178
Short term deposits	63,541	25,000	83,768
Investments	2,705,870	522	2,706,291
Receivables	85,500	8,922	92,719
<i>Financial liabilities</i>			
Payables	106,666	(4,362)	103,134
Net financial assets	2,892,482	63,452	2,943,822

Genworth Financial Mortgage Insurance Pty Limited
Notes to and forming part of the financial statements
For the year ended 31 December 2009

27 Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

	AUD denominated \$'000	NZD denominated \$'000	Total AUD \$'000
2008			
<i>Financial assets</i>			
Cash at bank	68,548	3,387	71,387
Short term deposits	475,686	69,360	533,824
Investments	2,026,949	508	2,027,375
Receivables	109,093	(12,957)	98,343
<i>Financial liabilities</i>			
Payables	102,311	1,760	103,944
Net financial assets	2,577,965	58,538	2,626,985

(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 duration. 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 potential impact of movements in the financial assets and liabilities on the Company's statement of comprehensive income and statement of financial position are shown in note 27(a)(iii).

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

27 Financial risk management (continued)

(a) Market risk (continued)

(iii) Summarised sensitivity analysis

The following table summarises the sensitivity, after allowing for income tax, of the Company's financial assets and liabilities to interest rate risk and foreign exchange risk.

	Carrying amount \$'000 AUD	Interest rate risk				Foreign exchange risk			
		-1%		+1%		-10%		+10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
2009									
<i>Financial assets</i>									
Cash at bank	164,178					(1,269)	(1,269)	1,396	1,396
Short term deposits	83,768	(586)	(586)	586	586	(1,287)	(1,287)	1,416	1,416
Investments	2,706,291	55,958	55,958	(60,257)	(60,257)	(27)	(27)	30	30
Receivables	92,719					(459)	(459)	505	505
<i>Financial liabilities</i>									
Payables	103,134					225	225	(247)	(247)
Total increase/(decrease)		55,372	55,372	(59,671)	(59,671)	(2,817)	(2,817)	3,100	3,100

	Carrying amount \$'000 AUD	Interest rate risk				Foreign exchange risk			
		-1%		+1%		-10%		+10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
2008									
<i>Financial assets</i>									
Cash at bank	71,387	-	-	-	-	(181)	(181)	199	199
Short term deposits	533,824	(3,737)	(3,737)	3,737	3,737	(3,700)	(3,700)	4,070	4,070
Investments	2,027,375	45,877	45,877	(45,153)	(45,153)	(27)	(27)	30	30
Receivables	98,343	-	-	-	-	691	691	(760)	(760)
<i>Financial liabilities</i>									
Payables	103,944	-	-	-	-	94	94	(103)	(103)
Total increase/(decrease)		42,140	42,140	(41,416)	(41,416)	(3,123)	(3,123)	3,436	3,436

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

27 Financial risk management (continued)

(b) Credit risk exposures

Credit risk is the risk of loss from a counterparty failing to meet their financial obligations. The Company's credit risk arises predominantly from investments and the amounts are as indicated by the carrying amounts of the financial assets. There is no significant concentration of credit risk as the Company transacts with a large number of individual debtors without any single receivable being material.

The Company's investment portfolio comprises 98.2% (2008 98.8%) of total fixed interest and cash with counterparties having a Standard & Poor's 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 can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

	2009	2008
	\$'000	\$'000
Cash at bank and short-term bank deposits		
AAA	247,946	515,710
AA	-	89,501
	247,946	605,211
Investments		
AAA	1,992,850	1,192,566
AA	439,908	528,395
A	219,898	275,557
BBB	53,635	30,857
	2,706,291	2,027,375
Receivables		
Counterparties with external credit rating (Moody's)		
AAA	25,412	16,599
AA	11,955	12,049
A	5,919	8,049
BBB	848	323
Unrated	48,585	61,323
	92,719	98,343

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

27 Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk of there being insufficient cash resources to meet payment obligations 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 maturity profile of the assets with the expected pattern of claims payments. The money market securities are restricted to investment grade securities with concentrations of investments managed as per the investment mandate. Details of the Company's investments are provided in note 14.

	Less than 1 year	1 - 5 years	Total
	\$'000	\$'000	\$'000
2009			
<i>Financial liabilities</i>			
Payables	103,134	-	103,134
Provisions	-	2,202	2,202
Outstanding claims provision	240,965	40,955	281,920
	344,099	43,157	387,256

	Less than 1 year	1 - 5 years	Total
	\$'000	\$'000	\$'000
2008			
<i>Financial liabilities</i>			
Payables	103,944	-	103,944
Provisions	-	1,774	1,774
Outstanding claims provision	198,236	28,210	226,446
	302,180	29,984	332,164

(d) Fair value measurements

The Company's financial assets and liabilities are carried in the statement of financial position at amounts that approximate fair value.

The carrying amounts of all financial assets and liabilities are reviewed to ensure they are not in excess of the net fair value.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

27 Financial risk management (continued)

(d) Fair value measurements (continued)

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.

2009	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Investments				
Government and semi-government bonds	-	1,281,820	423	1,282,243
Corporate bonds	-	1,422,534	1,514	1,424,048
Total	-	2,704,354	1,937	2,706,291

Note: Short term deposits have not been included in the above fair value assessment.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

28 Notes to the statement of cash flows

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as 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:

	2009 \$'000	2008 \$'000
Cash assets (Note 11)	164,178	71,387
Short term deposits (Note 14)	<u>83,768</u>	<u>533,824</u>
	<u>247,946</u>	<u>605,211</u>

(b) Reconciliation of profit after income tax to net cash provided by operating activities

Profit after income tax	128,168	261,948
Add/(less) items classified as investing/financing activities:		
Loss/(gain) on sale and fair value adjustments of investments	(3,877)	6,788
Unrealised (gains)/losses on investments	48,095	(112,873)
Add non-cash items:		
Loss on disposal of plant and equipment	-	274
Share based payments	672	962
Depreciation	<u>2,000</u>	<u>1,354</u>
Net cash provided by operating activities before change in assets and liabilities	175,058	158,453
Change in assets and liabilities during the financial year:		
Increase/(decrease) in receivables	5,963	(30,201)
Increase in outstanding claims liability	55,474	50,747
(Decrease)/increase in creditors and borrowings	44,189	(36,832)
Increase in deferred acquisition costs	(19,300)	(12,091)
Decrease/(increase) in deferred tax balances	(13,347)	31,119
Increase in provision for long service leave	428	234
Increase in unearned premiums	<u>105,768</u>	<u>25,575</u>
Net cash provided by operating activities	<u>354,233</u>	<u>187,004</u>

(c) Non-cash transactions

During the year there was a significant non-cash transaction whereby the Company issued equity of \$45,000,000 (2008: \$Nil) in settlement of the tax sharing liabilities due to the immediate parent.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

29 Key management personnel disclosures

The following were key management personnel of the Company at any time during the reporting period and unless otherwise indicated, were Directors for the entire period:

Directors of the Company

Martin Barter
Peter Hall (resigned 7 July 2009)
Brian Hurley
Grant Robson
Jann Skinner
Stuart Take
Gayle Tollifson
Jerome Upton (appointed 11 August 2009)

Executives

Paul Caputo
Anne O'Driscoll (appointed 16 November 2009)
Craig MacKenzie
Edward Pike (resigned 30 October 2009)
Bridget Sakr

The key management personnel compensation is:

	2009	2008
	\$'000	\$'000
Short-term employee benefits	2,462	3,498
Post-employment benefits	157	261
Termination benefits	694	-
Equity compensation benefits	927	2,194
	<u>4,240</u>	<u>5,953</u>

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

30 Related party disclosures

Related party transactions

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

During the year \$21,000,000 (2008: \$Nil) of intercompany liabilities were settled with Genworth Financial Mortgage Indemnity Limited as part of the tax sharing agreement.

Reinsurance policies

The Company has in place excess of loss reinsurance contracts with Genworth Mortgage Insurance Corporation (North Carolina) and Brookfield Life Assurance Limited.

Reinsurance premiums of \$69,760,000 (2008: \$65,057,000) were ceded during the year. A premium of \$16,975,000 (2008: \$17,925,000) is payable for the contracts as at 31 December 2009.

Corporate overhead

The Company received services from Genworth Financial Inc. The amount charged to the Company during the year was \$4,237,000 (2008: \$4,462,000).

Issue of shares

In July 2009, the Company issued 45,000,000 shares to the Parent in consideration for the benefit of \$45,000,000 of tax losses under the tax sharing agreement for the tax consolidated group.

Parent and ultimate parent entity

The immediate Australian parent entity of the Company is Genworth Financial Mortgage Insurance Holdings Pty Limited. The ultimate parent entity is Genworth Financial Inc, a company incorporated in the United States of America.

Other related parties

The Company entered a services agreement with Genworth Financial Australia Holdings LLC (LLC), whereby LLC provides corporate advisory and treasury services to the Company. A fee of \$204,000 (2008: \$Nil) is payable for the contract as at 31 December 2009.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

31 Controlled entity

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

<i>Name of entity</i>	<i>Country of incorporation</i>	<i>Class of shares</i>	<i>Equity holding (%)</i>	
			2009	2008
Genworth Financial Mortgage Indemnity Limited	Australia	Ordinary	100	100

32 Events subsequent to reporting date

There has not been any matter or circumstance that has 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.

33 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 PoS adopted in performing the LAT is set at the 75th percentile (2008: 75th percentile).

For the purposes of the liability adequacy test, the present value of expected future cash flows for future claims including the risk margin for the Company are as follows:

	2009 \$'000	2008 \$'000
Discounted central estimate	632,009	572,022
Risk margin	<u>106,014</u>	<u>113,883</u>
	<u>738,023</u>	<u>685,905</u>

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

34 Share-based payments

The ultimate parent entity grants share-based awards to employees of subsidiaries share options and restricted share units ("RSU") 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.

The following table contains the share option weighted-average grant-date fair value information and related valuation assumptions for the years ended 31 December:

	2009	2008
Estimated fair value per option	\$5.91	\$8.28
Valuation assumptions:		
Expected term (years)	6	6
Expected volatility	55.9%	26.0%
Expected dividend yield	0.5%	1.2%
Risk-free interest rate	2.7%	3.2%

During 2009 and 2008, the ultimate parent entity granted stock options with exercise prices ranging from \$2.22 to \$12.45 and \$7.60 to \$34.29, respectively, which equalled the closing market prices on the date of grant. The share options have an exercise term of ten years and will vest in 20% annual increments commencing on the first anniversary of the date of grant.

Additionally, during 2009 and 2008, the ultimate parent entity issued RSUs with restriction periods ranging from three to eight years with a fair value of \$2.22 to \$12.09 and \$7.60 to \$38.14, respectively, measured at the market price of the non-restricted shares on the grant date.

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

34 Share-based payments (continued)

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

2009								
Grant date	Expiry Date	Exercise Price	Balance at 1 January 2009 Number	Granted in the year Number	Exercised in the year Number	Cancelled/forfeited in the year Number	Balance at 31 December 2009 Number	Vested and exercisable at end of the year Number
25/05/2004	13/09/2012	\$19.2163	940	-	-	627	313	313
	25/05/2014	\$21.6823	67,241	-	-	10,686	56,555	56,555
	26/09/2011	\$25.2050	392	-	-	392	-	-
	26/07/2011	\$31.0800	314	-	-	314	-	-
20/07/2005	20/07/2015	\$35.6924	13,800	-	-	7,560	6,240	5,640
09/08/2006	09/08/2016	\$37.9496	27,300	-	-	14,010	13,290	9,030
22/09/2006	22/09/2016	\$38.8058	3,000	-	-	3,000	-	-
03/10/2006	03/10/2006	\$38.7502	5,000	-	-	5,000	-	-
01/05/2007	01/05/2017	\$38.7836	10,000	-	-	10,000	-	-
31/07/2007	31/07/2017	\$33.9356	36,102	-	-	33,552	2,550	1,020
13/02/2008	13/02/2018	\$25.3516	51,000	-	-	44,040	6,960	1,392
12/02/2009	12/02/2019	\$2.7353	-	60,600	-	7,200	53,400	-
19/08/2009	25/05/2014	\$8.6729	-	3,121	-	833	2,288	-
19/08/2009	20/07/2015	\$8.6729	-	3,450	-	2,000	1,450	-
19/08/2009	09/08/2016	\$8.6729	-	5,150	-	1,900	3,250	-
19/08/2009	22/09/2016	\$8.6729	-	1,000	-	1,000	-	-
19/08/2009	03/10/2016	\$8.6729	-	1,666	-	-	1,666	-
19/08/2009	01/05/2017	\$8.6729	-	3,333	-	-	3,333	-
19/08/2009	31/07/2017	\$8.6729	-	11,050	-	2,050	9,000	-
19/08/2009	13/02/2018	\$8.6729	-	14,680	-	2,400	12,280	-
19/08/2009	19/08/2019	\$8.6729	-	10,000	-	-	10,000	-
01/12/2009	01/12/2019	\$12.4534	-	15,000	-	-	15,000	-
			215,089	129,050	-	146,564	197,575	73,950
Weighted average exercise price			\$29.05	\$6.32	-	\$28.24	\$14.83	\$28.30

Genworth Financial Mortgage Insurance Pty Limited

Notes to and forming part of the financial statements

For the year ended 31 December 2009

34 Share-based payments (continued)

2008								
Grant date	Expiry Date	Exercise Price	Balance at 1 January 2008 Number	Granted in the year Number	Exercised in the year Number	Cancelled/forfeited in the year Number	Balance at 31 December 2008 Number	Vested and exercisable at end of the year Number
25/05/2004	13/09/2012	\$24.79	940	-	-	-	940	940
	25/05/2014	\$27.97	70,115	-	-	2,874	67,241	39,630
	26/09/2011	\$32.51	392	-	-	-	392	392
	26/07/2011	\$40.09	314	-	-	-	314	314
20/07/2005	20/07/2015	\$46.04	14,760	-	-	960	13,800	7,920
12/08/2005	02/11/2007	\$56.81	-	-	-	-	-	-
	02/11/2007	\$46.07	-	-	-	-	-	-
	02/11/2007	\$35.12	-	-	-	-	-	-
	02/11/2007	\$38.99	-	-	-	-	-	-
09/08/2006	09/08/2016	\$48.95	28,800	-	-	1,500	27,300	11,760
22/09/2006	22/09/2016	\$50.06	3,000	-	-	-	3,000	1,200
03/10/2006	03/10/2006	\$49.99	5,000	-	-	-	5,000	2,000
01/05/2007	01/05/2017	\$50.03	10,000	-	-	-	10,000	2,000
31/07/2007	31/07/2017	\$43.78	37,710	-	-	1,608	36,102	7,452
13/02/2008	13/02/2018	\$32.70	-	51,000	-	-	51,000	-
			171,031	51,000	-	6,942	215,089	73,608
Weighted average exercise price			\$38.95	\$32.70	-	\$38.66	\$37.49	\$36.46

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

2009						
Grant date	Balance at 1 January 2009 Number	Granted in the year Number	Exercised in the year Number	Cancelled/forfeited in the year Number	Balance at 31 December 2009 Number	Vested and exercisable at end of the year Number
03/01/2005	5,625	-	-	-	5,625	-
20/07/2005	1,636	-	-	850	786	-
09/08/2006	5,937	-	2,966	734	2,237	-
07/02/2007	5,000	-	-	-	5,000	-
31/07/2007	14,037	-	-	2,017	12,020	-
04/10/2007	-	-	-	-	-	-
03/12/2007	3,750	-	-	-	3,750	-
13/02/2008	17,984	-	700	3,300	13,984	-
12/02/2009	-	14,466	-	2,600	11,866	-
Total	53,969	14,466	3,666	9,501	55,268	-

Genworth Financial Mortgage Insurance Pty Limited
Notes to and forming part of the financial statements
For the year ended 31 December 2009

34 Share-based payments (continued)

2008						
Grant date	Balance at 1 January 2008 Number	Granted in the year Number	Exercised in the year Number	Cancelled/forfeited in the year Number	Balance at 31 December 2008 Number	Vested and exercisable at end of the year Number
03/01/2005	7,500	-	1,875	-	5,625	-
20/07/2005	3,604	-	1,734	234	1,636	-
09/08/2006	6,405	-	-	468	5,937	-
07/02/2007	5,000	-	-	-	5,000	-
31/07/2007	15,084	-	223	824	14,037	-
03/12/2007	3,750	-	-	-	3,750	-
13/02/2008	-	17,984	-	-	17,984	-
Total	41,343	17,984	3,832	1,526	53,969	-

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2009 \$'000	2008 \$'000
Share-based payment expense	672	962

In July 2009 Genworth Financial Inc offered to eligible employees to exchange eligible stock options for a reduced number of stock options (the "Replacement awards"). These have the same term (or expiration date) as the eligible options for which they were exchanged and will vest and become exercisable, subject to continued employment over a three-or four year period. Generally, unvested Replacement awards will be forfeited if an eligible employee's contract is terminated for any reason other than retirement, business disposition, death, disability or redundancy (in which cases a portion or all may become vested in accordance with the Genworth Financial Inc Omnibus Incentive Plan). Any changes from the exchange are reflected in the above tables.


Genworth Financial Mortgage Insurance Pty Limited

Directors' declaration


In the directors' opinion:

- (a) the financial statements and notes set out on pages 5 to 52 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 2009 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 also 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:



Martin Barter
Director



Gayle Tollifson
Director

Dated at Sydney this 16th day of April 2010.



Independent auditor's report to the members of Genworth Financial Mortgage Insurance Pty Limited

Report on the financial report

We have audited the accompanying financial report of Genworth Financial Mortgage Insurance Pty Limited (the Company), which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes set out on pages 5 to 52 and the directors' declaration set out on page 53.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Genworth Financial Mortgage Insurance Pty Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 31 December 2009 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

KPMG

David Kells
Partner

Sydney

16 April 2010