Genworth Financial Mortgage Insurance Pty Limited

ABN 60 106 974 305

Annual Financial Report
31 December 2010

Genworth Financial Mortgage Insurance Pty Limited

Directors' report

For the year ended 31 December 2010

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 2010 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)
Ellie Comerford (appointed 20 December 2010)
Brian Hurley (resigned 8 November 2010)
Grant Robson
Jann Skinner
Stuart Take
Gayle Tollifson
Jerome Upton

Principal activities

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

Review and result of operations

The Company's profit after income tax amounted to $191,179,000 (2009: $128,168,000).

Gross written premiums for 2010 of $366,779,000 (2009: $561,954,000) were 35% lower than 2009, essentially due to reduced mortgage originations in the Australian market, particularly for loans with loan-to-value ratios that exceed 80% which is the source of the majority of the Company's premiums.

The 6% reduction in net earned premium to $358,312,000 (2009: 382,601,000) was driven by the cost of additional reinsurance protections.

The loss ratio (net claims expense/net earned premium) of 43.3% improved from 56.6%. This reflects a combination of the benefit of improved economic conditions in Australia and an increased component of the earned premium including the rate increases implemented since 2008. These benefits were partially offset by an allowance for higher claims costs on claims incurred as at balance date in regions affected by flooding, together with the higher reinsurance expense.

Investment in people and systems to service the growth in the in-force book in recent years has increased expenses. Investment income benefited from higher running yields throughout the year and lower unrealised losses from the mark-to-market adjustment on the Company's interest-bearing investments.

Corporate structure

Genworth Financial Mortgage Insurance Pty Limited is incorporated and domiciled in Australia. Prior to 2010 the Company was a wholly owned subsidiary of Genworth Financial Mortgage Insurance Holdings Pty Limited. During the year ended 31 December, 2010 Genworth Financial Mortgage Insurance Holdings Pty Limited sold 13% of the issued share capital of the Company to Genworth Financial Services Pty Ltd, which is 100% owned by the same immediate parent entity of the Company. 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

Dividends

The Company paid an ordinary dividend of $0.0428 (2009: $nil) per ordinary share, amounting to $60,000,000, to its shareholders, Genworth Financial Mortgage Insurance Holdings Pty Limited and Genworth Financial Services Pty Ltd, on 16 December 2010.

State of affairs

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

Environmental regulations

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

Events subsequent to reporting date

Subsequent to the balance date there was significant flooding in Australia due to heavy rains affecting northern Australia, mostly in Queensland. Other areas impacted by this event are New South Wales, Victoria and Tasmania. LMI policies explicitly exclude physical damage, including flood, from coverage. However, it is anticipated that these events may lead to increased claims frequency and severity in the affected areas over time due to changes in GDP growth, unemployment rates, interest rates and land values.

To allow for the potential impact on the ultimate cost of claims incurred as at balance date, $6,200,000 (including risk margin) related to this weather event has been included in outstanding claims as at 31 December 2010.

There has not been any other 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 2010 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 2011. 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.

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:

Paul Caputo
Director

Gayle Tollifson
Director

Dated at Sydney this 12[h] day of April 2011.

KPMG

Lead auditor's independence declaration under section 307C of the Corporations Act 2001

To: the Directors of Genworth Financial Mortgage Insurance Pty Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2010 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

12 April 2011

Genworth Financial Mortgage Insurance Pty Limited

Statement of comprehensive income

For the year ended 31 December 2010

	Note	2010 $'000	2009 $'000
Premium revenue	5	452,001	455,176
Outward reinsurance premium expense		(93,689)	(72,575)
Net premium revenue		358,312	382,601
Net claims expense	9	(155,255)	(216,611)
Underwriting expenses		(41,651)	(37,215)
Profit from underwriting		161,406	128,775
Financial income	6	168,921	109,472
Other operating expenses	7	(55,151)	(46,138)
Profit before related income tax expense		275,176	192,109
Income tax expense	10	(83,997)	(63,941)
Profit for the period		191,179	128,168
Total comprehensive income for the period, net of income tax		191,179	128,168
Profit attributable to the members		191,179	128,168
Total comprehensive income attributable to members		191,179	128,168

The statement of comprehensive income is to be read in conjunction with the notes on pages 9 to 48 which form part of the financial statements.

Genworth Financial Mortgage Insurance Pty Limited

Statement of financial position

As at 31 December 2010

	Note	2010 $'000	2009 $'000
Current assets			
Cash assets	11	70,375	164,178
Receivables	12	54,548	63,028
Deferred reinsurance expense	13	33,582	89
Investments	14	452,933	634,139
Deferred acquisition costs	15	32,375	30,939
Total current assets		643,813	892,373
Non-current assets			
Receivables	12	24,045	29,691
Plant and equipment	16	3,623	4,483
Intangibles	17	20,350	18,605
Goodwill		7,490	7,490
Deferred reinsurance expense	13	312	621
Investments	14	2,503,431	2,183,518
Deferred acquisition costs	15	72,356	71,753
Total non-current assets		2,631,607	2,316,161
Total assets		3,275,420	3,208,534
Current liabilities			
Outstanding claims	19	219,823	244,122
Unearned premiums	20	337,181	352,626
Payables	21	143,762	103,134
Total current liabilities		700,766	699,882
Non-current liabilities			
Deferred tax liability	18	3,609	2,156
Outstanding claims	19	40,712	37,798
Unearned premiums	20	728,379	798,773
Provisions	22	2,495	2,202
Total non-current liabilities		775,195	840,929
Total liabilities		1,475,961	1,540,811
Net assets		1,799,459	1,667,723
Equity			
Issued capital	23	1,401,559	1,401,559
Share based payment reserve	23(a)	2,191	1,634
Other reserves	24	(603,268)	(603,268)
Retained profits		998,977	867,798
Total equity		1,799,459	1,667,723

The statement of financial position is to be read in conjunction with the notes on pages 9 to 48 which form part of the financial statements.

Genworth Financial Mortgage Insurance Pty Limited
Statement of changes in equity
For the year ended 31 December 2010

	Issued capital $'000	Other reserves $'000	Share based payment reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2009	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
Dividends declared and paid	-	-	-	(60,000)	(60,000)
Expense for year	-	-	557	-	557
Profit after taxation	-	-	-	191,179	191,179
Balance at 31 December 2010	1,401,559	(603,268)	2,191	1,998,977	1,799,459

The statement of changes in equity is to be read in conjunction with the notes on pages 9 to 48 which form part of the financial statements.

Genworth Financial Mortgage Insurance Pty Limited

Statement of cash flows

For the year ended 31 December 2010

	Note	2010 $'000	2009 $'000
Cash flows from operating activities			
Premiums received		367,945	561,067
Interest and other income		175,159	143,955
Claims paid		(171,191)	(173,498)
Cash payments in the course of operations		(205,501)	(134,966)
Income tax paid		(48,258)	(42,325)
Net cash provided by operating activities	29(b)	118,154	354,233
Cash flows from investing activities			
Payments for plant and equipment and intangibles		(5,830)	(12,343)
Payments for investments		(1,254,271)	(1,331,968)
Proceeds from sale of investments		1,195,887	608,813
Proceeds from share capital reduction of subsidiary		-	24,000
Net cash used in investing activities		(64,214)	(711,498)
Cash flows from financing activities			
Payments for dividends		(60,000)	-
Net cash used in financing activities		(60,000)	-
Net decrease in cash held		(6,060)	(357,265)
Cash and cash equivalents at the beginning of the financial year		247,946	605,211
Cash and cash equivalents at the end of the financial year	29(a)	241,886	247,946

The statement of cash flows is to be read in conjunction with the notes on pages 9 to 48 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 2010

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.

As at the balance date there are a number of new and revised accounting standards published by the AASB for which the mandatory application dates fall after the end of the current reporting period.

None of these standards have been early adopted and applied in the current reporting period.

Title	Description	Operative date
AASB 9	Financial Instruments	1 January 2013
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013
AASB 2009-12	Amendments to Australian Accounting Standards	1 January 2011
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 July 2010
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2011
AASB 124	Related Party Disclosures	1 January 2011

The Company will apply the standards and amendments detailed above for the reporting periods for which the operative date falls. An initial assessment of the financial impact of AASB 9 and associated amendments to other accounting standards has been undertaken and the application of the current version of this standard is not expected to have a material impact on the Company's accounting policies.

The financial report is prepared on the historical cost basis except for investments being stated at fair value and outstanding claims and the related reinsurance recoveries on unpaid claims being stated at present value.

The Company 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.

1 Statement of significant accounting policies (continued)

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

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.

Certain items have been reclassified from the Company's prior year financial report to conform to the current period's presentation. The reclassifications are:

- Disclosure of intangible assets separately from plant and equipment. This change is a balance sheet reclassification only and has no impact on profit for the period.
- Reclassification of prior year DAC balances between current and non-current in order to be consistent with the classification in 2010. This change is a balance sheet reclassification only and has no impact on profit for the period.

(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 goods and services tax ("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.

1 Statement of significant accounting policies (continued)

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) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of 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 (refer to Note 3 for further detail).

(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

1 Statement of significant accounting policies (continued)

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 nor 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 New 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

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

(k) Unexpired risk liability

Provision is made for unexpired risks arising from lenders mortgage insurance business where the

1 **Statement of significant accounting policies (continued)**

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. Where there is no observable market data a valuation model is used.

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.

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:

	2010	2009
Leasehold improvements	5 years	5 years
Furniture & equipment	5-8 years	5-8 years
Computing hardware	3-5 years	3-5 years
Intangibles	5 years	5 years

(o) Intangible assets

Acquired intangible assets

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

Software development expenditure

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

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

The recoverability of the carrying amount of the asset is reviewed each reporting date by determining whether there is an indication that the carrying value may be impaired. If such indication exists, the item is tested for impairment by comparing the recoverable amount, or value in use, of the asset to the carrying value. An impairment charge is recognised in the income statement when the carrying value

1 Statement of significant accounting policies (continued)

exceeds the calculated recoverable amount. The impairment charges can be reversed if there has been a change in the estimate used to determine the recoverable amount.

(p) Goodwill

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

Goodwill is stated at cost less any accumulated impairment loss.

(q) 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.

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.

(r) 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

1 Statement of significant accounting policies (continued)

loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised as a loss in the statement of comprehensive income.

(s) Leases

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

(t) Receivables

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

The carrying amount of receivables approximates net fair value.

(u) 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.

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 20)

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 19)

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.

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.

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; and
- 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 1980-2010 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.

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 31% (2009: 35%)

Average severity factor is 25% (2009: 25%)

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 led to an IBNR factor of 19% (2009: 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 and APRA. Factors considered include variability of claims experience of the portfolio and the quality of historical data.

A risk margin for outstanding claims of 14% (2009: 14%) has been assumed and is intended to achieve a 75% probability of sufficiency. A risk margin of 30% has been assumed for the premium liabilities (unearned premium) (2009: 25%) at the 75% probability of sufficiency level.

Sensitivity Analysis

The valuation of outstanding claims incorporates 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 and in particular house prices and interest rates (and unemployment for new delinquencies) impacts frequency and, to a lower extent, severity.

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

3 Actuarial assumptions and methods (continued)

Impact on outstanding claims liabilities to changes in key variables

	Change in variable 2010	Impact on outstanding claims liabilities 2010 $'000	Change in variable 2009	Impact on outstanding claims liabilities 2009 $'000
Frequency factor	13%	71,995	14%	75,804
Frequency factor[1]	(10%)	(55,361)	(11%)	(55,859)
Severity factor	4%	27,283	4%	28,957
Severity factor	(3%)	(24,665)	(3%)	(26,178)

[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.

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").

4 Insurance contracts – Insurance risk management (continued)

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.

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 Company Limited. The Company also has reinsurance arrangements with nine unrelated reinsurers. In aggregate, they provide a capped catastrophe reinsurance protection for losses exceeding 120% of net earned premium in any one underwriting year. 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.

4 Insurance contracts – Insurance risk management (continued)

Genworth Mortgage Insurance Corporation (North Carolina) has BB- and Baa2 ratings based on the latest ratings published by Standard & Poor's Rating Services ("S&P") and Moody's respectively. Brookfield Life Assurance Limited is an unrated company. The nine non-related reinsurers have ratings from S&P or AM Best equivalent to A- or better.

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 LMI and portfolio credit enhancement policies. The Company's principal product is LMI with single premiums and 100% coverage. Most business is sourced when 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. A smaller proportion of business is sourced when lenders insure a portfolio of existing loans that were previously uninsured. This usually occurs when the lender plans to securitise those loans.

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 default, 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 remaining 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.

4 Insurance contracts – Insurance risk management (continued)

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.

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 31 for further explanation).

	2010 $'000	2009 $'000
5 Premium revenue		
Gross written premiums:		
- Direct premium	336,528	486,565
- Inward reinsurance premium	30,251	75,389
Movement in unearned premiums	85,222	(106,778)
Premium revenue	452,001	455,176
6 Financial income		
Dividend income – controlled entity	8,500	-
Interest	168,417	153,690
(Losses)/gains in fair value of investments		
- Unrealised	(11,140)	(48,095)
- Realised	3,144	3,877
	168,921	109,472

	2010 $'000	2009 $'000
7 Other operating expenses		
Depreciation and amortisation expense	4,871	2,000
Employee expenses		
- Salaries and wages	26,412	21,969
- Superannuation contributions	1,510	1,341
- Employee benefits	228	386
Occupancy expenses	2,873	2,697
Marketing expenses	1,935	1,300
Administrative expenses	17,322	16,445
	55,151	46,138

8 Auditor's remuneration

	2010 $	2009 $
Audit services		
- Audit of financial reports	168,840	187,500
- Other regulatory audit services	30,790	20,000
- Audit of US GAAP financial statements – SEC Regulation AB	132,300	139,900
	331,930	347,400
Other services		
- Other assurance services	35,438	-
	35,438	-

9 Net claims incurred

	2010 Current Year $'000	2010 Prior Years $'000	2010 Total $'000	2009 Current Year $'000	2009 Prior Years $'000	2009 Total $'000
Gross claims expense						
Direct	145,567	7,252	152,819	158,131	74,689	232,820
Inwards reinsurance	7,518	(3,673)	3,845	3,798	(2,096)	1,702
Gross claims incurred – undiscounted and discounted	153,085	3,579	156,664	161,929	72,593	234,522
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries – undiscounted and discounted	3,199	(4,608)	(1,409)	(9,875)	(8,036)	(17,911)
Net claims incurred	156,284	(1,029)	155,255	152,054	64,557	216,611

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 decrease in incurred losses related to prior years was primarily attributable to more favourable loss trends experienced during the year. These trends were partly due to a strengthening of Australia's property market and general economic conditions. It also reflects the outcomes of the Company entering into several commercial agreements with key customers to limit exposures on badly performing portfolios insured in prior periods.

10 Income tax expense

(a) Income tax expense

	2010 $'000	2009 $'000
Current tax	87,833	81,072
Deferred tax (Note 18(c))	(1,972)	(14,883)
(Over)/under provision in prior year - current tax	(5,289)	(3,785)
- deferred tax	3,425	1,537
	83,997	63,941

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2010 $'000	2009 $'000
Prima facie income tax expense calculated at 30% (2009: 30%) on profit	82,553	57,632
Increase in income tax expense due to:		
- Non-taxable items	(2,569)	721
- Tax benefit of New Zealand branch losses not recognised	5,877	7,836
- (Over)/under provision in prior year	(1,864)	(2,248)
Income tax expense on the profit	83,997	63,941

	2010 $'000	2009 $'000

11 Cash assets

Current

	2010 $'000	2009 $'000
Cash at bank	70,375	164,178

For an analysis of the sensitivity of cash assets to foreign exchange and interest rate risk refer to Note 28(a) (iii).

12 Receivables

Current

	2010 $'000	2009 $'000
Premium receivables	1,050	2,834
Accrued investment income	39,346	38,163
Other debtors	11,571	19,647
Non-reinsurance recoveries	2,581	2,384
	54,548	63,028

Non-current

	2010 $'000	2009 $'000
Non-reinsurance recoveries	24,045	29,691
	24,045	29,691

For an analysis of the sensitivity of other receivables to foreign exchange and interest rate risk refer to Note 28(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

	2010 $'000	2009 $'000
Deferred reinsurance expense – current	33,582	89
Deferred reinsurance expense – non-current	312	621
	33,894	710

	2010 $'000	2009 $'000

13 Deferred reinsurance expense (continued)

Reconciliation of changes in deferred reinsurance expense

	2010 $'000	2009 $'000
Balance at 1 January	710	1,025
Deferral of reinsurance premium on current year contracts	33,564	190
Expensing of reinsurance premium previously deferred	(380)	(505)
Balance as at 31 December	33,894	710

14 Investments

	2010 $'000	2009 $'000
Current		
Government and semi-government bonds	15,563	167,076
Corporate bonds	265,859	383,295
Short term deposits	171,511	83,768
	452,933	634,139
Non-current		
Shares in controlled entity (Note 32)	27,598	27,598
Government and semi-government bonds	1,306,790	1,115,167
Corporate bonds	1,169,043	1,040,753
	2,503,431	2,183,518

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 and interest rate risks refer to Note 28(a)(iii).

15 Deferred acquisition costs

	2010 $'000	2009 $'000
Deferred acquisition costs – current	32,375	30,939
Deferred acquisition costs – non-current	72,356	71,753
	104,731	102,692
Reconciliation of changes in deferred acquisition costs:		
Balance at 1 January	102,692	83,392
Acquisition costs incurred in year	43,690	56,515
Amortisation charged to the statement of comprehensive income	(41,651)	(37,215)
Balance as at 31 December	104,731	102,692

	2010 $'000	2009 $'000

16 Plant and equipment

	2010 $'000	2009 $'000
Plant and equipment - at cost	9,761	9,397
Less: Accumulated depreciation	(6,138)	(4,914)
Total plant and equipment - net book value	3,623	4,483

Reconciliations

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

Cost

	2010 $'000	2009 $'000
Opening balance at 1 January	9,397	8,988
Additions	528	409
Disposals	(164)	-
Closing balance at 31 December	9,761	9,397

Accumulated depreciation

	2010 $'000	2009 $'000
Opening balance at 1 January	(4,914)	(3,455)
Depreciation charge	(1,314)	(1,459)
Disposals	90	-
Closing balance at 31 December	(6,138)	(4,914)

17 Intangibles

	2010 $'000	2009 $'000
Intangibles - at cost	25,732	20,430
Less: Accumulated amortisation	(5,382)	(1,825)
Total intangibles	20,350	18,605

Reconciliations

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

Cost

	2010 $'000	2009 $'000
Opening balance at 1 January	20,430	8,496
Additions	5,302	11,934
Disposals	-	-
Closing balance at 31 December	25,732	20,430

Accumulated amortisation

	2010 $'000	2009 $'000
Opening balance at 1 January	(1,825)	(1,284)
Amortisation charge	(3,557)	(541)
Closing balance at 31 December	(5,382)	(1,825)

	2010 $'000	2009 $'000

18 Deferred tax

The balance comprises temporary differences attributable to:

	2010 $'000	2009 $'000
Deferred tax assets (a)	10,946	12,217
Deferred tax liabilities (b)	(14,555)	(14,373)
Net deferred tax (c)	(3,609)	(2,156)

(a) Deferred tax assets

The balance comprises temporary differences attributable to:

	2010 $'000	2009 $'000
Employee benefits	2,625	1,369
Purchased interest on investments	5,064	6,752
Provision for indirect claims handling costs	3,257	3,372
Others	-	724
	10,946	12,217

(b) Deferred tax liabilities

The balance comprises temporary differences attributable to:

	2010 $'000	2009 $'000
Unrealised gains on investments	(1,249)	(1,666)
Research and development claims on fixed assets	(4,811)	(1,386)
Accrued interest income	(8,491)	(11,321)
Others	(4)	-
	(14,555)	(14,373)

(c) Net deferred tax

Movements in net deferred tax

	2010 $'000	2009 $'000
Opening balance at 1 January	(2,156)	(15,502)
Credited/(debited) to the statement of comprehensive income (Note 10)	1,972	14,883
Over/(under) provision of prior year tax	(3,425)	(1,537)
Closing balance at 31 December	(3,609)	(2,156)

	2010 $'000	2009 $'000
19 Outstanding claims		
Current	219,823	244,122
Non-current	40,712	37,798
	260,535	281,920
Central estimate	231,148	249,982
Risk margin	29,387	31,938
Gross outstanding claims	260,535	281,920

Reconciliation of changes in outstanding claims:

	2010 $'000	2009 $'000
Balance at 1 January	281,920	226,446
Current year net claims incurred	149,806	228,972
Claims paid	(171,191)	(173,498)
Balance at 31 December	260,535	281,920

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 before the allowance for reinsurance.

19 Outstanding claims (continued)

A risk margin for the outstanding claims liability of 14% (2009: 14%) has been assumed and is intended to achieve a 75% Probability of Sufficiency ("PoS"). The risk margin for outstanding claims and premium liabilities are separately determined. The risk margin for premium liabilities (unearned premium) at the 75% Probability of Sufficiency level is 30% (2009: 25%).

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 (2009: 18 months).

20 Unearned premiums

	2010 $'000	2009 $'000
Unearned premiums – current	337,181	352,626
Unearned premiums – non-current	728,379	798,773
	1,065,560	1,151,399
Reconciliation of changes in unearned premiums		
Balance at 1 January	1,151,399	1,045,631
Premiums incepted during the year	366,779	561,954
Premiums earned during the year	(452,001)	(455,176)
Exchange rate revaluation adjustment	(617)	(1,010)
Balance as at 31 December	1,065,560	1,151,399

21 Payables

Current

	2010 $'000	2009 $'000
Accrued expenses	11,581	8,233
Trade creditors	40,918	54,498
Annual leave	2,499	2,391
Deferred reinsurance payable	33,333	-
Payable to related entities	55,431	38,012
	143,762	103,134

For an analysis of the sensitivity of payables to foreign exchange risk, refer to note 28(a) (iii).

Included in the related entity payables are the balances related to taxes payable to the head entity of $52,557,000 (2009: $37,265,000). Under the tax consolidation system, current tax liabilities recognised for the year by the Company are assumed by the head entity in the tax consolidated group. The current tax liabilities arising for the Company under the tax funding agreement are recognised as an intercompany payable to the head entity in the tax consolidated group. The Company has also utilised tax losses from the head entity of $97,884,000 and $63,127,000 for 2010 and 2009 respectively.

	2010 $'000	2009 $'000
22 Provisions		
Non -current		
Long service leave	2,495	2,202

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:

	2010	2009
Discount rate	5.8%	5.3%
Settlement (years)	10	10
Number of employees at statement of financial position date	249	241

23 Issued capital

	2010 $'000	2009 $'000
Issued fully paid capital		
Opening balance at 1 January of 1,401,559,000 shares (2009: 1,356,559,000)	1,401,559	1,356,559
Additional capital issued of 45,000,000 shares	-	45,000
Closing balance at 31 December	1,401,559	1,401,559

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

	2010	2009
Balance at 1 January	1,634	962
Share-based compensation	557	672
Balance at 31 December	2,191	1,634

Refer to Note 35 for detailed information.

	2010 $'000	2009 $'000
24 Other reserves		
Other reserves	(603,268)	(603,268)

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.

25 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, and has at all times during the current and prior financial year complied with the externally imposed capital requirements to which they are subject.

Capital calculations for regulatory purposes are based on a premium liabilities model, which is different from the deferral and matching model which underpins the measurement of assets and liabilities in the financial statements. The premium liabilities model estimates future expected claim payments arising from future events insured under existing policies. This differs from the measurement of the outstanding claims liabilities on the statement of financial position, which considers claims relating to events that occur only up to and including the reporting date.

25 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 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.

On 23 June 2010 APRA issued new reporting standards aimed at harmonising APRA prudential reporting with financial reporting prepared under Australian accounting standards with an effective date of 1 July 2010.

	2010 $'000	2009 $'000
Tier 1 capital (section 1)		
Paid-up ordinary shares	1,401,559	1,401,559
General reserves	-	274,359
Other reserves	(601,077)	(601,634)
Retained earnings	998,977	912,852
Less: Deductions	(54,096)	(42,370)
Net surplus/ (deficit) relating to insurance liabilities	277,016	-
Net Tier 1 capital	2,022,379	1,944,766
Total capital base	2,022,379	1,944,766
Minimum capital requirement	1,313,189	1,493,537
Capital adequacy multiple	1.54	1.30

	2010 $'000	2009 $'000
26 Commitments		
Operating lease commitments		
The estimated future amounts of operating lease commitments not provided for in the financial statements are payable:		
Within one year	5,818	4,591
One year or later and no later than five years	9,785	11,792
	15,603	16,383

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.

27 Dividends

(a) Ordinary shares

The Company paid an ordinary dividend of $0.0428 per ordinary share, amounting to $60,000,000, to its shareholders, Genworth Financial Mortgage Insurance Holdings Pty Limited and Genworth Financial Services Pty Ltd on 16 December 2010 (2009: nil).

(b) Dividend franking account

In accordance with the tax consolidation legislation Genworth Financial New Holdings Pty Limited, as the head entity in the tax consolidated group, has assumed the benefit of available franking credits.

28 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), 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 2010

28 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 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 28(a)(iii).

At 31 December 2010, 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 $345,000 higher/$345,000 lower (2009: $3,100,000 higher/$2,817,000 lower), mainly as a result of currency gains/losses on translation of NZ dollar denominated cash and cash equivalents and financial assets at fair value through profit or loss.

At the balance date, the Company had the following exposure to currency risk:

	AUD denominated $'000	NZD denominated $'000	Total AUD $'000
2010			
Financial assets			
Cash at bank	66,417	5,193	70,375
Short term deposits	171,511	-	171,511
Investments*	2,756,854	527	2,757,255
Receivables	77,088	1,975	78,593
Financial liabilities			
Payables	143,308	595	143,762
Net financial assets	2,928,562	7,100	2,933,972

	AUD denominated $'000	NZD denominated $'000	Total AUD $'000
2009			
Financial assets			
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
Financial liabilities			
Payables	106,666	(4,362)	103,134
Net financial assets	2,892,482	63,452	2,943,822

* Investment in controlled entity is not included

28 Financial risk management (continued)

(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 28(a)(iii).

(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 currency risk.

		Interest rate risk				Currency risk*			
	Carrying	-1%		+1%		-10%		+10%	
	amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
	A$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2010									
Financial assets									
Cash at bank	70,375	(493)	(493)	493	493	(277)	(277)	277	277
Short term deposits	171,511	(1,201)	(1,201)	1,201	1,201	-	-	-	-
Investments	2,757,255	75,876	75,876	(74,722)	(74,722)	(28)	(28)	28	28
Receivables	78,593					(105)	(105)	105	105
Financial liabilities									
Payables	143,762					32	32	(32)	(32)
Total increase/(decrease)		74,182	74,182	(73,028)	(73,028)	(378)	(378)	378	378

		Interest rate risk				Currency risk*			
	Carrying	-1%		+1%		-10%		+10%	
	amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
	A$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2009									
Financial assets									
Cash at bank	164,178	(1,149)	(1,149)	1,149	1,149	(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
Financial liabilities									
Payables	103,134					225	225	(247)	(247)
Total increase/(decrease)		54,223	54,223	(58,522)	(58,522)	(2,817)	(2,817)	3,100	3,100

*Movement in AUD relative to NZD.

28 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.

The Company's investment portfolio comprises 99.1% (2009 98.2%) 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. As at balance date there were no assets past due.

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.

	2010 $'000	2009 $'000
Cash at bank and short-term bank deposits		
AAA	241,886	247,946
Investments		
AAA	2,102,916	1,992,850
AA	461,542	439,908
A	165,580	219,898
BBB	27,217	53,635
	2,757,255	2,706,291
Receivables		
Counterparties with external credit rating (Moody's)		
AAA	28,758	25,412
AA	9,441	11,955
A	3,914	5,919
BBB	608	848
Unrated	35,872	48,585
	78,593	92,719

(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.

28 Financial risk management (continued)

The mix of maturity of investments, which determines the current and non-current classification, has resulted in the current assets being less than current liabilities. However, the Company holds $1,306,389,000 of non-current government or semi-government bonds rated AAA or AA which can be liquidated to pay current liabilities as required.

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 $'000	1 - 5 years $'000	Total $'000
2010			
Financial liabilities			
Payables	143,762	-	143,762
Outstanding claims provision	219,823	40,712	260,535
	363,585	40,712	404,297

	Less than 1 year $'000	1 - 5 years $'000	Total $'000
2009			
Financial liabilities			
Payables	103,134	-	103,134
Outstanding claims provision	244,122	37,798	281,920
	347,256	37,798	385,054

(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.

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.

28 Financial risk management (continued)

2010	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Investments				
Government and semi-government bonds	-	1,321,951	402	1,322,353
Corporate bonds	-	1,386,402	48,500	1,434,902
Total	-	2,708,353	48,902	2,757,255

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

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.

There is an insignificant proportion of investments, 2% (2009: 0%), for which a valuation methodology is used to determine the fair value. These assets are effectively marked to model rather than marked to market. Reasonable changes in the judgement applied in conducting these valuations would not have a significant impact on the statement of financial position.

29 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:

	2010 $'000	2009 $'000
Cash assets (Note 11)	70,375	164,178
Short term deposits (Note 14)	171,511	83,768
	241,886	247,946

29 Notes to the statement of cash flows (continued)

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

	2010 $'000	2009 $'000
Profit after income tax	191,179	128,168
Add/(less) items classified as investing/financing activities:		
Gain on sale and fair value adjustments of investments	(3,144)	(3,877)
Unrealised losses on investments	11,140	48,095
Add non-cash items:		
Share based payments	557	672
Depreciation	4,871	2,000
Net cash provided by operating activities before change in assets and liabilities	204,603	175,058
Change in assets and liabilities during the financial year:		
Increase/ (decrease) in receivables	(19,560)	5,963
(Decrease)/increase in outstanding claims liability	(21,385)	55,474
Increase in creditors and borrowings	40,628	44,189
Increase in deferred acquisition costs	(2,039)	(19,300)
Increase/ (decrease) in deferred tax balances	1,453	(13,347)
Increase in provision for long service leave	293	428
(Decrease)/ increase in unearned premiums	(85,839)	105,768
Net cash provided by operating activities	118,154	354,233

(c) Non-cash transactions

There were no significant non-cash transactions during the year (2009: $45,000,000). The prior year transaction related to issued equity in settlement of the tax sharing liabilities due to the immediate parent.

30 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 (resigned 14 May 2010)
Paul Caputo (appointed 1 June 2010)
Ellie Comerford (appointed 20 December 2010)
Brian Hurley (resigned 8 November 2010)
Grant Robson
Jann Skinner
Stuart Take
Gayle Tollifson
Jerome Upton

Executives
Miles Burge
Craig Mackenzie
Robert Mullins
Anne O'Driscoll
Bridget Sakr

30 Key management personnel disclosures (continued)

The key management personnel compensation is:

	2010 $'000	2009 $'000
Short-term employee benefits	1,881	2,462
Post-employment benefits	155	157
Termination benefits	28	694
Equity compensation benefits	595	927
	2,659	4,240

31 Related party disclosures

Related party transactions

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

During the year $16,000,000 of intercompany liabilities were paid to Genworth Financial Mortgage Insurance Holdings Pty Limited as part of the tax sharing agreement. In 2009 $21,000,000 was paid to Genworth Financial Mortgage Indemnity Limited under 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 $62,439,000 (2009: $69,760,000) were ceded during the year. A premium of $22,938,000 (2009: $16,975,000) is payable for the contracts as at 31 December 2010.

Corporate overhead

The Company received services from Genworth Financial Inc. The amount charged to the Company during the year was $5,000,000 (2009: $4,237,000).

Dividends

The Company paid an ordinary dividend of $0.0428 (2009: $nil) per ordinary share amounting to $60,000,000 to its shareholders, Genworth Financial Mortgage Insurance Holdings Pty Limited and Genworth Financial Services Pty Ltd, on 16 December 2010.

The Company received an ordinary dividend of $0.2652 per ordinary share, amounting to $8,500,000, from its subsidiary Genworth Financial Mortgage Indemnity Limited, on 30 June 2010 (2009: nil).

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.

31 Related party disclosures (continued)

Other related party transactions

Genworth Financial Mortgage Insurance Holdings Pty Limited, the immediate parent entity of the Company sold 13% of the issued share capital of the Company to Genworth Financial Services Pty Ltd, which is 100% owned by the same immediate parent entity of the Company. In consideration Genworth Financial Services Pty Ltd issued 401,868,095 fully paid ordinary shares at $0.6156 each.

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 $127,000 (2009: $204,000) is payable for the contract as at 31 December 2010.

32 Controlled entity

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

Name of entity	*Country of incorporation*	*Class of shares*	*Equity holding (%)*	
			2010	2009
Genworth Financial Mortgage Indemnity Limited	Australia	Ordinary	100	100

33 Events subsequent to reporting date

Subsequent to the balance date there was significant flooding in Australia due to heavy rains affecting northern Australia, mostly in Queensland. Other areas impacted by this event are New South Wales, Victoria and Tasmania. LMI policies explicitly exclude physical damage, including flood, from coverage. However, it is anticipated that these events may lead to increased claims frequency and severity in the affected areas over time due to changes in GDP growth, unemployment rates, interest rates and land values.

To allow for the potential impact on the ultimate cost of claims incurred as at balance date, $6,200,000 (including risk margin) related to this weather event has been included in outstanding claims as at 31 December 2010.

There has not been any other 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.

34 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 (2009: 75th percentile).

34 Unexpired risk liability (continued)

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:

	2010 $'000	2009 $'000
Discounted central estimate of premium liability	479,531	632,009
Risk margin – premium liability (75% PoS)	85,001	106,014
	564,532	738,023

35 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:

	2010	2009
Estimated fair value per option	$10.24	$5.91
Valuation assumptions:		
Expected term (years)	6	6
Expected volatility	92.7%	55.9%
Expected dividend yield	0.5%	0.5%
Risk-free interest rate	2.9%	2.7%

35 Share-based payments (continued)

During 2010 and 2009, the ultimate parent entity granted stock options with exercise prices ranging from $13.83 to $18.00 and $2.22 to $12.45, 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 2010 and 2009, the ultimate parent entity issued RSUs with restriction periods ranging from three to eight years with a fair value of $11.30 to $14.56 and $2.22 to $12.09, respectively, measured at the market price of the non-restricted shares on the grant date.

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

2010								
Grant date	Expiry Date	Exercise Price	Balance at 1 January 2010 Number*	Granted in the year Number	Exercised in the year Number	Cancelled/ forfeited in the year Number	Balance at 31 December 2010 Number	Vested and exercisable at end of the year Number
25/05/2004	13/09/2012	$17.3499	4,070	-	-	313	3,757	3,757
	25/05/2014	$19.5763	56,555	-	-	28,188	28,367	28,367
	26/09/2011	$22.7569	2,348	-	-	-	2,348	2,348
	26/07/2011	$28.0612	2,348	-	-	-	2,348	2,348
20/07/2005	20/07/2015	$32.2257	6,540	-	-	3,840	2,700	2,700
09/08/2006	09/08/2016	$34.2636	13,590	-	-	2,640	10,950	8,760
31/07/2007	31/07/2017	$30.6395	2,550	-	-	-	2,550	1,530
13/02/2008	13/02/2018	$22.8893	11,760	-	-	-	11,760	4,704
12/02/2009	12/02/2019	$2.4696	63,200	-	14,000	12,200	37,000	4,800
19/08/2009	25/05/2014	$7.8305	7,288	-	-	41	7,247	2,419
19/08/2009	20/07/2015	$7.8305	1,850	-	368	100	1,382	219
19/08/2009	09/08/2016	$7.8305	3,850	-	435	500	2,915	688
19/08/2009	03/10/2016	$7.8305	1,666	-	-	-	1,666	556
19/08/2009	01/05/2017	$7.8305	3,333	-	-	3,333	-	-
19/08/2009	31/07/2017	$7.8305	9,930	-	1,001	3,850	5,079	1,028
19/08/2009	13/02/2018	$7.8305	13,780	-	1,070	5,000	7,710	1,125
19/08/2009	19/08/2019	$7.8305	10,000	-	6,667	3,333	-	-
01/12/2009	01/12/2019	$11.2439	15,000	-	-	-	15,000	5,000
10/02/2010	10/02/2020	$14.2355	-	13,800	-	-	13,800	-
			229,658	13,800	23,541	63,338	156,579	70,349
Weighted average exercise price			$14.71	$13.83	$4.51	$14.24	$13.71	$19.30

*Balance at 1 January 2010 includes options granted in prior periods to employees who transferred into the Australian Company during the year.

Genworth Financial Mortgage Insurance Pty Limited
Notes to and forming part of the financial statements
For the year ended 31 December 2010

35 Share-based payments (continued)

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

35 Share-based payments (continued)

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

2010 Grant date	Balance at 1 January 2010* Number	Granted in the year Number	Exercised in the year Number	Cancelled/forfeited in the year Number	Balance at 31 December 2010 Number	Vested and exercisable at end of the year Number
03/01/2005	5,625	-	1,875	-	3,750	-
20/07/2005	954	-	954	-	-	-
09/08/2006	2,471	-	-	134	2,337	-
07/02/2007	5,625	-	1,875	-	3,750	-
31/07/2007	12,890	-	4,835	3,443	4,612	-
03/12/2007	3,750	-	-	3,750	-	-
13/02/2008	16,051	-	-	3,334	12,717	-
12/02/2009	14,333	-	4,779	2,400	7,154	-
10/02/2010	-	67,734	-	19,866	47,868	-
01/11/2010	-	10,000	-	-	10,000	-
Total	61,699	77,734	14,318	32,927	92,188	-

*Balance at 1 January 2010 includes options granted in prior periods to employees who transferred into the Australian Company during the year.

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	-
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	-

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

	2010 $'000	2009 $'000
Share-based payment expense	557	672

35 Share-based payments (continued)

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 48 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 2010 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:

Paul Caputo
Director

Gayle Tollifson
Director

Dated at Sydney this 12th day of April 2011.

KPMG

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 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 35 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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 judgment, 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 of the financial report that gives a true and fair view 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, a true and fair 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.

KPMG

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 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards 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

12 April 2011

Genworth Financial Mortgage Insurance Pty Limited New Zealand Branch

Annual Financial Report
31 December 2010

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Directors' report

For the year ended 31 December 2010

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 2010 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)
Ellie Comerford (appointed 20 December 2010)
Brian Hurley (resigned 8 November 2010)
Grant Robson
Jann Skinner
Stuart Take
Gayle Tollifson
Jerome Upton

Principal activities

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

Review and result of operations

The Branch's loss after income tax amounted to $17,697,372 (2009: $56,396,037).

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 Suite 120, Plaza level, AXA building, 41 Shortland Street, Auckland.

Branch number

1493716

Auditors

KPMG

Bankers

Westpac Banking Corporation

Solicitors

Bell Gully
PO Box 4190
Auckland

Buddle Findlay
PO Box 1433
Auckland

The Board of Directors present their Annual Report, including financial statements of the New Zealand Branch, for the year ended 31 December 2010, 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

Gayle Tollifson
Director

Dated at Sydney this 12th day of April 2011.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Statement of comprehensive income

For the year ended 31 December 2010

	Note	2010 NZ$	2009 NZ$
Premium revenue	5	8,036,614	10,993,766
Outward reinsurance premium expense		(1,184,597)	(1,649,065)
Net premium revenue		6,852,017	9,344,701
Net claims expense	10	(35,364,648)	(41,752,869)
Movement in unexpired risk reserve	22	9,491,728	(25,589,765)
Underwriting expenses	7	(541,775)	(700,289)
Loss from underwriting		(19,562,678)	(58,698,222)
Financial income	6	1,109,771	2,794,440
Other operating revenue		528,352	-
Other operating expenses	8	(416,084)	(1,916,198)
Loss before related income tax benefit		(18,340,639)	(57,819,980)
Income tax benefit	11	643,267	1,423,943
Loss for the period		(17,697,372)	(56,396,037)
Total comprehensive income for the period, net of income tax		(17,697,372)	(56,396,037)
Loss attributable to the members		(17,697,372)	(56,396,037)
Total comprehensive income attributable to the members		(17,697,372)	(56,396,037)

The statement of comprehensive income is to be read in conjunction with the notes on pages 6 to 25 which form part of the financial statements.

Genworth Financial Mortgage Insurance Pty Limited

New Zealand Branch

Statement of financial position

As at 31 December 2010

	Note	2010 NZ$	2009 NZ$
Current assets			
Cash assets		5,192,981	24,629,550
Short term deposits		-	25,000,000
Accrued investment income		31,409	65,497
Other receivables	12	271,615	794,726
Tax receivable		1,271,204	6,302,306
Total current assets		6,767,209	56,792,079
Non-current assets			
Plant and equipment	13	23,861	44,000
Other receivables	12	1,671,676	8,062,200
Investments (NZ Government Bond)		527,095	522,359
Total non-current assets		2,222,632	8,628,559
Total assets		8,989,841	65,420,638
Current liabilities			
Payables	14	2,063,571	611,622
Outstanding claims	15	25,918,859	47,255,889
Unexpired risk liability	22	16,098,037	25,589,765
Unearned premiums	16	3,953,178	5,988,973
Total current liabilities		48,033,645	79,446,249
Non-current liabilities			
Outstanding claims	15	4,924,491	7,560,399
Unearned premiums	16	6,660,181	11,345,094
Total non-current liabilities		11,584,672	18,905,493
Total liabilities		59,618,317	98,351,742
Head Office Account		(50,628,476)	(32,931,104)
Total liabilities and Head office Account		8,989,841	65,420,638

The statement of financial position is to be read in conjunction with the notes on pages 6 to 25 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 2010

	2010 NZ$	2009 NZ$
Head Office Account at the beginning of the year	(32,931,104)	23,464,933
Loss for the year	(17,697,372)	(56,396,037)
Head Office Account at the end of year	(50,628,476)	(32,931,104)

The statement of movement in Head Office Account is to be read in conjunction with the notes on pages 6 to 25 which form part of the financial statements.

1 Statement of significant accounting policies

The Branch is registered to carry on inward insurance in New Zealand as a foreign Branch. The principal activity is the provision of LMI.

The financial report was authorised for issue by the directors on 12th April 2011.

(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.

1 Statement of significant accounting policies (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 unpaid 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. 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 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.

(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 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 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.

1 Statement of significant accounting policies (continued)

(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 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 (refer to note 3 for further detail).

(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.

(h) Goods and services tax

Expenses are stated gross of goods and services tax ("GST"). Trade payables and all other assets and liabilities are stated gross of GST.

1 Statement of significant accounting policies (continued)

(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:

	2010	2009
Furniture & equipment	5-8 years	5-8 years
Computing hardware	3-5 years	3-5 years

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

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

(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.

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 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 of the Company and the Branch, 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.

2 Accounting estimates and judgements

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.

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; and
- 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 loan value ratio ("LVR") and loan size band, the region in which the 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 the more extensive Australian historical claims experience and data examined. These factors were then adopted for the New Zealand business.

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.

3 Actuarial assumptions and methods (continued)

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, 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 50% (2009: 43%)

Average severity factor is 20% (2009: 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 led to an IBNR factor of 19% (2009: 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 Company and APRA. Factors considered include variability of claims experience of the portfolio and the quality of historical data.

A risk margin for outstanding claims of 14% (2009: 14%) has been assumed and is intended to achieve a 75% probability of sufficiency. A risk margin of 30% has been assumed for the premium liabilities (unearned premium reserve) (2009: 25%) at the 75% probability of sufficiency.

Sensitivity Analysis

The valuation of outstanding claims incorporates 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.

3 Actuarial assumptions and methods (continued)

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 result is based on the central estimate of the net outstanding claim liabilities. The following table represents the changes in frequency and severity factors that would move the results 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 2010	Impact on outstanding claims liabilities 2010 $'000	Change in variable 2009	Impact on outstanding claims liabilities 2009 $'000
Frequency factor	20%	7,254	14%	11,857
Frequency factor[1]	(15%)	(5,594)	(11%)	(8,777)
Severity factor	3%	2,645	4%	5,501
Severity factor	(3%)	(2,392)	(3%)	(4,973)

[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.

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.

4 Insurance contracts – Insurance risk management

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.

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.

4 Insurance contracts – Insurance risk management (continued)

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, Genworth Mortgage Insurance Corporation (North Carolina) and Brookfield Life Assurance Company Limited, 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 Mortgage Insurance Corporation (North Carolina) has BB- and Baa2 ratings based on the latest ratings published by Standard & Poor's Rating Services ("S&P") and Moody's respectively. Brookfield Life Assurance Limited is an unrated company.

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 LMI and the 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.

4 Insurance contracts – Insurance risk management (continued)

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.

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 cedants.

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. (refer related party Note 19 for further explanation).

	2010 NZ$	2009 NZ$

5 Premium revenue

	2010 NZ$	2009 NZ$
Gross written premiums:		
- Direct premium	1,290,952	925,801
Movement in unearned premiums	6,745,662	10,067,965
Premium revenue	8,036,614	10,993,766

6 Financial income

	2010 NZ$	2009 NZ$
Interest	1,104,797	2,802,851
Gains/ (losses) in fair value of investments:		
- Unrealised	4,974	(8,411)
	1,109,771	2,794,440

7 Underwriting expenses

	2010 NZ$	2009 NZ$
Commissions	1,104	10,815
Employee wages and salaries	198,424	447,318
Occupancy expenses	140,862	121,623
Depreciation expense	20,139	31,246
Management fees	181,246	89,287
	541,775	700,289

8 Other operating expenses

	2010 NZ$	2009 NZ$
Exchange rate losses	-	1,687,726
Operating expenses	397,788	198,882
Marketing expenses	4,311	5,372
Administrative expenses	13,985	24,218
	416,084	1,916,198

9 Auditors' remuneration

Fees for the Branch are paid by the head office of the Company.

	2010 NZ$	2009 NZ$
- Audit of financial reports	8,000	8,000

10 Net claims incurred

	2010 Current Year NZ$	2010 Prior Years NZ$	2010 Total NZ$	2009 Current Year NZ$	2009 Prior Years NZ$	2009 Total NZ$
Gross claims expense						
Direct	16,033,260	12,119,810	28,153,070	42,268,560	8,482,792	50,751,352
Gross claims incurred – undiscounted and discounted	16,033,260	12,119,810	28,153,070	42,268,560	8,482,792	50,751,352
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries – undiscounted and discounted	4,247,896	2,963,682	7,211,578	(6,290,943)	(2,707,540)	(8,998,483)
Net claims incurred	20,281,156	15,083,492	35,364,648	35,977,617	5,775,252	41,752,869

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.

During the year the Company entered into a commercial agreement with one of the key customers in New Zealand under which that customer makes 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.

During 2009, 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.

11 Income tax benefit

(a) Income tax benefit

	2010 NZ$	2009 NZ$
Current tax	-	-
Over provision in prior year – current tax	(643,267)	(1,387,399)
Deferred tax (Note 17 (c))	-	(36,544)
	(643,267)	(1,423,943)

	2010 NZ$	2009 NZ$

11 Income tax benefit (continued)

(b) Numerical reconciliation of income tax benefit to prima facie tax payable

	2010 NZ$	2009 NZ$
Prima facie income tax benefit calculated at 30% (2009: 30%) on loss	(5,502,192)	(17,345,994)
Increase/ (decrease) in income tax benefit due to:		
- Tax benefit of New Zealand branch losses not recognised	5,502,192	17,309,450
- Over provision in prior year	(643,267)	(1,387,399)
Income tax benefit on the loss	(643,267)	(1,423,943)

The over provision for income tax in respect of prior years represents an adjustment for income tax withheld at source on investment assets.

12 Other Receivables

	2010 NZ$	2009 NZ$
Current		
Non-reinsurançe recoveries	271,615	794,726
Non-current		
Non-reinsurance recoveries	1,671,676	8,062,200

13 Plant and equipment

	2010 NZ$	2009 NZ$
Plant and equipment - at cost	260,468	260,468
Less: Accumulated depreciation	(236,607)	(216,468)
Total plant and equipment - net book value	23,861	44,000

Reconciliations

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

	2010 NZ$	2009 NZ$
Cost		
Opening balance at 1 January	260,468	260,468
Additions	-	-
Closing balance at 31 December	260,468	260,468

	2009 NZ$	2008 NZ$

13 Plant and equipment (continued)

Accumulated depreciation

Opening balance at 1 January	(216,468)	(185,222)
Depreciation charge	(20,139)	(31,246)
Closing balance at 31 December	(236,607)	(216,468)

14 Payables

Current

Accrued expenses	156,569	125,913
Trade creditors	227,049	431,725
Annual leave	18,023	34,860
Intra-company balance	1,661,930	19,124
	2,063,571	611,622

15 Outstanding claims

Current	25,918,859	47,255,889
Non-current	4,924,491	7,560,399
	30,843,350	54,816,288
Central estimate	27,212,637	48,363,314
Risk margin	3,630,713	6,452,974
Gross outstanding claims	30,843,350	54,816,288

Reconciliation of changes in outstanding claims:

Balance at 1 January	54,816,288	14,339,644
Current year claims incurred	28,153,070	50,609,795
Claims paid	(52,126,008)	(10,133,151)
Balance at 31 December	30,843,350	54,816,288

15 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 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.

A risk margin of 14% (2009: 14%) for the outstanding claims liability has been assumed and is intended to achieve a 75% Probability of Sufficiency ("PoS"). The risk margin for outstanding claims and premium liabilities are separately disclosed. The risk margin for premium liabilities (unearned premium) at the 75% probability of sufficiency is 30% (2009: 25%).

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 (2009: 18 months).

16 Unearned premiums

	2010 NZ$	2009 NZ$
Unearned premiums – current	3,953,178	5,988,973
Unearned premiums – non-current	6,660,181	11,345,094
	10,613,359	17,334,067
Reconciliation of changes in unearned premiums		
Balance at 1 January	17,334,067	27,403,991
Premiums written during the year	1,290,952	925,801
Premiums earned during the year	(8,011,660)	(10,995,725)
Balance as at 31 December	10,613,359	17,334,067

	2010 NZ$	2009 NZ$
17 Deferred tax		
The balance comprises temporary differences attributable to:		
Deferred tax assets (a)	5,407	899,868
Deferred tax liabilities (b)	-	(15,571)
Writedown of net deferred tax asset	(5,407)	(884,297)
Net deferred tax (c)	-	-

(a) Deferred tax assets

	2010 NZ$	2009 NZ$
The balance comprises a temporary difference attributable to:		
Employee benefits	5,407	66,432
Unrealised losses on investments	-	2,743
Provision for indirect claims handling costs	-	830,693
	5,407	899,868

(b) Deferred tax liabilities

	2010 NZ$	2009 NZ$
The balance comprises temporary differences attributable to:		
Accrued interest income	-	15,571
	-	15,571

(c) Net deferred tax

	2010 NZ$	2009 NZ$
Movements in net deferred tax		
Opening balance at 1 January	-	(36,544)
Credited to the income statement (Note 11)	-	36,544
Closing balance at 31 December	-	-

At the statement of financial position date the branch had tax losses carried forward of $22,655,365 (2009: $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 $5,407 (2009: $884,297) was recognised against the value of future deferred tax assets.

	2010 NZ$	2009 NZ$
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	48,380	89,442
One year or later and no later than five years	-	22,360
	48,380	111,802

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

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, to significantly affect the operations of the Branch, the results of those operations, or the state of affairs of the Branch in future financial years.

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 $16,098,037 (2009: $25,589,765). The decrease in the unexpired risk liability of $9,491,728 (2009: $25,589,765 increase) has been recognised in the statement of comprehensive income.

The PoS adopted in performing the LAT is set at the 75th percentile (2009: 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:

	2010 NZ$	2009 NZ$
Discounted central estimate of premium liabilities	20,924,824	34,734,327
Risk margin – premium liabilities (75% PoS)	5,786,573	8,189,505
	26,711,397	42,923,832

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 or low house price growth. It is also due to one of the lenders in particular with poor underwriting veracity, however, this adverse experience has been partially offset by the benefit that the Company receives under a commercial agreement with that lender.

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 25:

(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 2010 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

Gayle Tollifson
Director

Dated at Sydney this 12th day of April 2011.

KPMG

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Genworth Financial Mortgage Insurance Pty Limited New Zealand Branch ("the branch") on pages 3 to 25. The financial statements comprise the statement of financial position as at 31 December 2010 and the statements of comprehensive income and movement in Head Office Account for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the branch's preparation of the financial statements that give a true and fair view of the matters to which they relate 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 branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

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

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

KPMG

Opinion

In our opinion the financial statements of Genworth Financial Mortgage Insurance Pty Limited New Zealand Branch on pages 3 to 25:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the branch as at 31 December 2010 and of its financial performance for the year ended on that date.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of section 16(1)(d) and section 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by Genworth Financial Mortgage Insurance Pty Limited New Zealand Branch as far as appears from our examination of those records.

KPMG

Sydney

12 April 2011