Genworth Financial Mortgage Insurance Pty Limited New Zealand Branch

Annual Financial Report
31 December 2012

Directors' report

The directors of Genworth Financial Mortgage Insurance Pty Limited ("the Company") 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 2012 and the auditor's report thereon.

Directors

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

Paul Caputo (Resigned 19 March 2012)
Ellie Comerford
Anthony Gill
Richard Grellman (Appointed 1 March 2012)
Ian MacDonald (Appointed 19 March 2012)
Samuel Marsico (Appointed 19 March 2012)
Leon Roday (Appointed 19 March 2012)
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 ceased to write new business from 30 September 2011, and will cease writing top up policies from 30 September 2013. The Branch will continue to manage the run-off portfolio.

Review and result of operations

The Branch's loss after income tax amounted to $(5,069,612) (2011: $9,841,358).

Likely developments

The Company's ultimate parent entity plans to pursue a partial sale of its Australian business, of which the Company is the principal operating entity, subject to market conditions and regulatory review and approval. This move, according to the ultimate parent entity, is part of a broader strategy to rebalance its business portfolio, support future growth opportunities with expanded access to the capital markets, while maintaining control of the Australian business. The ultimate parent anticipates selling up to 40 percent of its holdings in the Australian business, and the partial sale is not expected to occur prior to late 2013, subject to market valuation and regulatory consideration.

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 is located at c/o Bell Gully, Vero Centre, 48 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 2012, 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:

Ellie Comerford
Director

Richard Grellman
Director

Dated at Sydney, 31 May 2013.

Statement of comprehensive income

For the year ended 31 December 2012

	Note	2012 NZ$	2011 NZ$
Gross written premium		-	1,648,694
Movement in unearned premium		3,420,673	3,449,347
Outward reinsurance premium expense		(222,905)	(477,992)
Net earned premium		3,197,768	4,620,049
Net claims incurred	8	(8,534,944)	(23,278,966)
Movement in unexpired risk reserve	19	(569,642)	7,554,324
Other underwriting expenses	6	(163,729)	(353,178)
Loss from underwriting		(6,070,547)	(11,457,771)
Financial income	5	732,393	1,049,648
Other operating revenue		219,958	566,765
Loss before income tax		(5,118,196)	(9,841,358)
Income tax benefit	9(a)	48,584	-
Loss for the year		(5,069,612)	(9,841,358)
Total comprehensive income for the year		(5,069,612)	(9,841,358)
Loss attributable to the members		(5,069,612)	(9,841,358)
Total comprehensive income attributable to the members		(5,069,612)	(9,841,358)

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

Statement of financial position

As at 31 December 2012

	Note	2012 NZ$	2011 NZ$
Assets			
Cash		2,636,166	6,886,551
Short term deposits		10,000,000	25,000,000
Accrued investment income		35,247	148,242
Tax receivable		2,786	92,843
Trade receivables	10	14,431	12,793
Investments (NZ Government Bond)		505,659	525,692
Non-reinsurance recoveries		816,485	1,739,609
Total assets		14,010,774	34,405,730
Liabilities			
Payables	11	2,528,658	2,400,775
Outstanding claims	12	15,045,943	27,607,755
Unearned premiums	13	3,702,954	7,164,012
Unexpired risk liability	19	9,113,355	8,543,713
Total liabilities		30,390,910	45,716,255
Head Office Account		(16,380,136)	(11,310,524)
Total liabilities and Head Office Account		14,010,774	34,405,731

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

Statement of movement in Head Office Account

For the year ended 31 December 2012

	2012 NZ$	2011 NZ$
Head Office Account at the beginning of the year	(11,310,524)	(50,628,476)
Capital Contribution	-	49,159,310
Loss for the year	(5,069,612)	(9,841,358)
Head Office Account at the end of year	(16,380,136)	(11,310,524)

The statement of movement in Head Office Account is to be read in conjunction with the notes to the financial statements.

Statement of cash flows

For the year ended 31 December 2012

	Note	2012 NZ$	2011 NZ$
Cash flows from operating activities			
Premiums received		-	1,648,694
Interest and other income		865,775	934,132
Claims paid		(20,840,063)	(26,897,262)
Cash receipts in the course of operations		647,885	899,593
Income tax received		76,018	949,103
Net cash used in operating activities	15(b)	(19,250,385)	(22,465,740)
Cash flows from financing activities			
Funding from parent company		-	49,159,310
Net cash provided by financing activities		-	49,159,310
Net (decrease)/ increase in cash held		(19,250,385)	26,693,570
Cash and cash equivalents at the beginning of the financial year		31,886,551	5,192,981
Cash and cash equivalents at the end of the financial year	15(a)	12,636,166	31,886,551

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

Notes to the financial statements

1 Statement of significant accounting policies

Genworth Financial Mortgage Insurance Pty Limited New Zealand Branch ("the Branch") is registered to carry on inward insurance in New Zealand as a foreign Branch. The principal activity is the provision of LMI. The Branch is a for-profit entity.

The financial statements were authorised for issue by the Board of Directors on June 2013.

(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. 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 statement of financial position has been prepared using the liquidity format of presentation, in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current amounts (expected to be recovered or settled within 12 months after the reporting date) and non-current amounts (expected to be recovered or settled more than 12 months after the reporting date). For those assets and liabilities that comprise both current and non-current amounts, information regarding the respective current and non-current amounts is disclosed in the relevant note to the financial statements.

Items included in the financial statements are measured using the currency of the primary economic environment in which the Branch operates. The financial statements are presented in New Zealand dollars, which is the Branch's functional and presentation currency.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. An initial assessment of these standards and amendments has taken place and the application of these standards is not expected to have material impact on the Branch's accounting policies. NZ IFRS 9 Financial Instruments, which becomes mandatory for the Branch's 2014 financial statements could change the classification and measurement of financial assets. The Branch does not plan to adopt this standard early and the extent of the impact has not been determined.

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

(d) Revenue recognition

Earned and unearned premium revenue

Premiums comprise amounts charged to the policyholder. 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. The earned portion of premiums is recognised as revenue. The balance of premium received is carried as an unearned premium reserve.

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.

(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 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.

(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.

(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 (refer to Note 19).

(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) 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 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.

(m) 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.

(n) Investment assets

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

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

- Fixed interest securities are initially recognised at fair value, determined as the quote cost at date of acquisition. They are subsequently remeasured to fair value at each reporting date. For securities traded in an active market, fair value is determined by reference to published bid price quotations. For securities not traded, and securities traded in a market that is not active, fair value is determined using valuation techniques with the most common technique being reference to observable market data by reference to the fair values of recent arm's length transactions involving the same or similar instruments. In absence of observable market information, unobservable inputs which reflect management's view of market assumption are used. Valuation techniques are utilised that maximise the use of observable inputs and minimise the use of unobservable inputs.

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 13)

Premium is earned over periods of up to nine years. The principle underlying the earning recognition is to derive a premium earning scale which recognises the premium in accordance with the incidence of claims risk.

The review of the premium earning scale is based on an analysis of the historical pattern of claims incurred and the pattern of policy cancellations. The estimate established for unearned premiums on the basis of the earning scale is consistent with the claims reserving approach (refer to Note 3).

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

Estimation of outstanding claims liabilities (Note 12)

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

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

Liability adequacy test/ unexpired risk provision (Note 19)

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 effective date of the actuarial valuation of policy liabilities is 31 December 2012. The actuarial valuation was prepared by Mr Aaron Cutter, External Actuary, FIAA of Finity Consulting. The Appointed Actuary, Mr Tim Spicer, FIAA FNZSA, and the External Actuary, are satisfied as to the accuracy of the data upon which policy liabilities have been determined.

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;
- 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 1992-2012 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 adapted for the New Zealand business.

The Appointed Actuary applies the Generalised Linear Modelling statistical method to identify significant explanatory factors affecting outcomes and to 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

While the propensity for a delinquent loan to become a claim varies by many explanatory factors (as determined by the Appointed Actuary’s GLM analyses), the frequency basis is summarised on any given balance date and expressed so that it varies only by LVR band and number of payments in arrears (taking into account the average mix of effects of the other explanatory factors on the balance date).

Additional loadings are placed on these factors with the aim of adjusting for shorter term expectations of frequency.

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 58% (2011: 51%)

Average severity factor is 29% (2011: 26%)

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 117.5% (2011: 90%) of the reported reserve for delinquent loans three to six months in arrears 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.

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 Company and the Australian Prudential Regulation Authority ("APRA"). 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 net central estimate.

A risk margin of 15% (2011: 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. APRA require that the risk margins in total are at least equal to half of the coefficient of variation ("CV") of the Insurance Liabilities (outstanding claims plus premium liabilities) where this is greater than to 75% PoS. The half CV is greater than the 75% PoS and so a risk margin of 30% (2011:30%) has been assumed for the premium liabilities (unearned premium) so that the total risk margin (when expressed as a percentage of total net liabilities) is equal to half of the CV of the total distribution of liabilities.

No inflation or discounting has been applied to claims payable over 12 months on the basis that the effect is not material.

The weighted average term to settlement is approximately 21 months (2011: 21 months).

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, 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 impact on the profit and loss before income tax to changes in key actuarial assumptions is detailed in the table below.

Impact on outstanding claims liabilities to changes in key variables

	Change in variable 2012	Impact on outstanding claims liabilities 2012 $'000	Change in variable 2011	Impact on outstanding claims liabilities 2011 $'000
Frequency factor	23%	3,541	21%	6,600
Frequency factor	(18%)	(3,000)	(16%)	(5,085)
Severity factor	4%	1,434	4%	2,507
Severity factor	(4%)	(1,297)	(3%)	(2,266)

Claims handling expenses

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

4 Insurance contracts – Insurance risk management

Risk management objectives and policies for mitigating insurance risk

The Branch's insurance activities primarily involve management of the run-off policies underwritten prior to 30 September 2011.

The Branch no longer underwrites new insurance policies and only continues to insure top up policies until 30 September 2013. 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 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 management reports, technologies and risk tools.

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

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

In accordance with Prudential Standards issued by the prudential regulator for the Company, APRA, the Company has developed, implemented and maintains a Risk Management Framework ("RMF") and a Risk Management Strategy ("RMS") including a Reinsurance Management Strategy ("REMS"). The Branch applies the Company's RMS and REMS. The RMF incorporates the Company's Risk Appetite Statement.

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 RMF, RMS and REMS outline the Company's policies, procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non financial; enterprise, balance sheet, market, credit, insurance, reinsurance, and operational risk, 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 these.

Effective 1 January 2013 the company has implemented an Internal Capital Adequacy Assessment Process ("ICAAP"). This is a Board approved process whereby the Company assesses its capital needs and manages its capital levels accordingly.

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 Branch is covered by some of the reinsurance arrangements entered into by the Company. To reduce the concentration risk from reliance on affiliate reinsurance, on 1 July 2012, the Company terminated its reinsurance agreement with Genworth Mortgage Insurance Corporation (North Carolina). As at 31 December 2012, the Company has reinsurance arrangements in place with Brookfield Life Assurance Company Limited, a related entity, which provides capped catastrophe reinsurance protection for losses. 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.

Brookfield Life Assurance Company 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

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.

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 16 for further explanation).

	2012 NZ$	2011 NZ$

5 Financial income

	2012 NZ$	2011 NZ$
Interest	752,780	1,050,965
Losses in fair value of investments:		
• Unrealised	(20,387)	(1,317)
	732,393	1,049,648

6 Other underwriting expenses

	2012 NZ$	2011 NZ$
Commissions	-	138
Employee wages and salaries	-	155,647
Occupancy expenses	-	44,301
Loss on disposal of plant and equipment	-	23,861
Management fees	-	15,380
Operating expenses	150,191	97,190
Administrative expenses	13,538	16,661
	163,729	353,178

The branch ceased operations in 2011. The expenses incurred in 2012 are expenses allocated from the Company.

7 Auditors' remuneration

	2012 NZ$	2011 NZ$
Audit of financial reports	8,000	8,000

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

8 Net claims incurred

	2012			2011		
	Current Year NZ$	Prior Years NZ$	Total NZ$	Current Year NZ$	Prior Years NZ$	Total NZ$
Gross claims expense						
Direct	(172,302)	8,450,553	8,278,251	15,400,293	8,261,374	23,661,667
Gross claims incurred – undiscounted and discounted	(172,302)	8,450,553	8,278,251	15,400,293	8,261,374	23,661,667
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries – undiscounted and discounted	294,547	(37,854)	256,693	(74,375)	(308,326)	(382,701)
Net claims incurred	122,245	8,412,699	8,534,944	15,325,918	7,953,048	23,278,966

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.

In 2011 the Company continued to pay sizeable claims in New Zealand as a result of the poor quality of business originated by one of the key customers. Weak housing market conditions also attributed to the high frequency and severity of claims.

	2012 NZ$	2011 NZ$

9 Income tax benefit

(a) Income tax benefit

Current tax	-	-
Over provision in prior years- current tax	(48,584)	-
	(48,584)	-

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

Prima facie income tax benefit calculated at 28% (2011: 28%) on loss	(1,433,095)	(2,755,580)
Increase/ (decrease) in income tax benefit due to:		
Tax benefit of New Zealand branch losses not recognised	1,433,095	2,755,580
Over provision in prior years	(48,584)	-
Income tax benefit on the loss	(48,584)	-

At the statement of financial position date the Branch had tax losses carried forward of $91,137,902 (2011: $86,019,706). 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.

The over provision for income tax in respect of prior years relates to adjustments for income tax withheld at source on investment assets.

10 Trade receivables

Trade receivables	14,431	12,793

11 Payables

Accrued expenses	83,940	56,307
Trade creditors	21,592	91,309
Intra-company balance	2,423,126	2,253,159
	2,528,658	2,400,775

See related party Note 16 for further information on intra-company transactions.

12 Outstanding claims

Central estimate	13,189,381	24,358,470
Risk margin	1,856,562	3,249,285
Gross outstanding claims	15,045,943	27,607,755

	2012 NZ$	2011 NZ$
Balance at 1 January	27,607,755	30,843,350
Current year claims incurred	8,278,251	23,661,667
Claims paid	(20,840,063)	(26,897,262)
Balance at 31 December	15,045,943	27,607,755

13 Unearned premiums

Balance at 1 January	7,164,012	10,613,359
Premiums written during the year	-	1,648,694
Premiums earned during the year	(3,461,058)	(5,098,041)
Balance as at 31 December	3,702,954	7,164,012

14 Financial risk management

The activities of the Branch expose it to a variety of financial risks such as market risk (including 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 Branch.

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

(a) Market risk

Cash flow and fair value interest rate risk

The Branch is exposed to interest rate risk arising on interest bearing assets. Assets with floating rate interest expose the Branch to cash flow interest rate risk. Fixed interest rate assets expose the Branch to fair value interest rate risk. The Branch'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 Branch is also exposed to interest rate risk on its term subordinated notes. The interest rate on these notes is reset quarterly. The Company manages the level of assets with similar maturities to offset this exposure.

The potential impact of movements in interest rates on the Branch's profit and loss and equity are shown below.

+1% increase in interest rates	(16,957)	(41,693)
-1% decrease in interest rates	17,126	41,805

(b) Credit risk exposures

Credit risk is the risk of loss from a counterparty failing to meet their financial obligations. The Branch's credit risk arises predominantly from investments and the amounts are as indicated by the carrying amounts of the financial assets.

The Branch's investment portfolio comprises 100% (2011 100%) of total fixed interest and cash with counterparties having a Standard & Poor's rating of A- or better. The Branch 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.

	2012	2011
	NZ$	NZ$
Cash at bank and short-term bank deposits		
AA	12,636,166	31,886,551
	12,636,166	31,886,551
Investments		
AA	505,659	525,692
	505,659	525,692
Accrued investment income		
AA	35,247	148,242
	35,247	148,242
Receivables without external credit rating	17,217	105,636

Note: Investments are grouped by grade

(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 Branch.

Management of liquidity risk includes asset and liability management strategies. The assets held to back insurance liabilities consist of highly rated money market securities and a New Zealand Government Bond. The assets are managed so as to effectively match the maturity profile of the assets with the expected pattern of claims payments.

The money market securities are restricted to investment grade securities with concentrations of investments managed as per the investment mandate.

2012	Less than 1 year	1 - 5 years	Total
	NZ$	NZ$	NZ$
Financial liabilities			
Payables	2,528,658	-	2,528,658
Outstanding claims provision	13,749,615	1,296,328	15,045,943
	16,278,273	1,296,328	17,574,601

2011	Less than 1 year	1 - 5 years	Total
	NZ$	NZ$	NZ$
Financial liabilities			
Payables	2,400,775	-	2,400,775
Outstanding claims provision	25,075,394	2,532,361	27,607,755
	27,476,169	2,532,361	30,008,530

(d) Fair value measurements

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

The Branch 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.

2012	Level 1	Level 2	Level 3	Total
	NZ $	NZ $	NZ $	NZ $
Investments				
Government bond	-	-	505,659	505,659
Total	-	-	505,659	505,659

2011	Level 1	Level 2	Level 3	Total
	NZ $	NZ $	NZ $	NZ $
Investments				
Government bond	-	-	525,692	525,692
Total	-	-	525,692	525,692

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

For the New Zealand Government bond a valuation methodology is used to determine the fair value. This asset is effectively marked to model rather than marked to market. Reasonable changes in the judgement applied in conducting these valuations would not have a significant impact on the statement of financial position.

The movement between the opening and closing balance of Level 3 investments is due to unrealised losses recognised in the statement of comprehensive income in 2012 and 2011.

15 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:

	2012	2011
	NZ $	NZ $
Cash assets	2,636,166	6,886,551
Short term deposits	10,000,000	25,000,000
	12,636,166	31,886,551

	2012 NZ$	2011 NZ$
(b) Reconciliation of profit after income tax to net cash provided by operating activities		
Loss after income tax	(5,069,612)	(9,841,358)
Add non-cash items:		
Unrealised losses on investments	20,387	1,317
Depreciation	-	23,861
Net cash used in operating activities before change in assets and liabilities	(5,049,225)	(9,816,180)
Change in assets and liabilities during the financial year:		
Decrease in receivables	1,124,186	1,252,502
Decrease in outstanding claims liability	(12,561,812)	(3,235,595)
Increase in creditors and borrowings	127,882	337,204
Increase/ (decrease) in unexpired risk reserve	569,642	(7,554,324)
Decrease in unearned premiums	(3,461,058)	(3,449,347)
Net cash used in operating activities	(19,250,385)	(22,465,740)

16 Related party transactions

Related party transactions

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

During 2011 the Company injected $49,159,310 into the Branch to ensure that the Branch had sufficient cash resources to cover future claim payment obligations.

Reinsurance policies

On 1 July 2012, the Company terminated its excess of loss reinsurance contract with Genworth Mortgage Insurance Corporation (North Carolina). The Company continues to have in place an excess of loss reinsurance contract with Brookfield Life Assurance Limited.

Ultimate parent entity

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

17 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 A3 from Standard & Poor’s Rating Services and Moody’s, respectively.

18 Capital management

Under the New Zealand Prudential Supervision Act (2010), insofar as it relates to Genworth, insurance entities operating in New Zealand are required to meet minimum solvency standards. The branch has a section 59 exemption which, subject to certain requirements, means the Company is deemed to comply with the minimum solvency standards set out in the Act, provided it meets the corresponding APRA solvency requirements in Australia. The Company is in a strong financial position and will provide necessary financial support to the New Zealand branch when required to maintain any minimum solvency standards.

19 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 $9,113,355 (2011: $8,543,713). The increase in the unexpired risk liability of $569,642 (2011: $7,554,324 decrease) has been recognised in the statement of comprehensive income.

The PoS adopted in performing the LAT is set at the 75th percentile (2011: 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:

	2012 NZ$	2011 NZ$
Discounted central estimate of premium liabilities	10,041,515	12,486,032
Risk margin – premium liabilities (75% PoS)	2,774,794	3,221,693
	12,816,309	15,707,725

The recognition of the deficiency in unexpired risk liability is a result of poor claims experience in New Zealand. This is partly down to subdued economic conditions and negative or low house price growth. It is also due to one of the lenders in particular with poor underwriting veracity, however, the adverse experience was partially offset under a commercial agreement with that lender in 2010. The deficiency has declined as the premium liabilities decreases as a result of the Branch's book seasoning, with no new business written.

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. The Company has AA- and A3 ratings based on latest ratings published for the Company by Standard & Poor's Rating Services and Moody's, respectively and holds an APRA capital adequacy multiple of 1.49 at 31 December 2012.

20 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.

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 18:

(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 2012 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:

Ellie Comerford
Director

Richard Grellman
Director

Dated at Sydney, 31 May 2013.

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 22. The financial statements comprise the statement of financial position as at 31 December 2012, the statements of comprehensive income, movement in head office account and cash flows 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 International Financial Reporting Standards 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.

Opinion

In our opinion the financial statements on pages 3 to 22:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the branch as at 31 December 2012 and of its financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

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

- we have obtained all the information and explanations that 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

31 May 2013
Sydney

Resubmitted with Actuarial Report attached

Genworth Financial Mortgage Insurance Pty Limited

ABN 60 106 974 305

Annual Financial Report
31 December 2012

Directors' report

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 2012 and the auditor's report thereon.

Directors

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

Paul Caputo (Resigned 19 March 2012)
Ellie Comerford
Anthony Gill
Richard Grellman (Appointed 1 March 2012)
Ian MacDonald (Appointed 19 March 2012)
Samuel Marsico (Appointed 19 March 2012)
Leon Roday (Appointed 19 March 2012)
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 $171,970,000 (2011: $249,794,000).

Gross written premiums for 2012 of $544,899,000 (2011: $398,497,000) were 37% higher than 2011, reflecting a stronger high loan-to-value mortgage originations market driven by improved affordability from mortgage rate declines, as a result of cuts in official cash rates by the Reserve Bank of Australia in six separate decisions over the year.

A modest decrease in net earned premium to $363,333,000 (2011: 368,111,000) was driven by higher reinsurance premiums of $80,519,000 (2011: $73,420,000).

The loss ratio (net claims incurred/net earned premium) of 71.45% increased from 49.53%. This reflects reserve strengthening as a result of higher than anticipated frequency and severity of claims paid arising from later stage delinquencies from prior years. The higher losses were most pronounced in sub-segments of the Queensland region, whose economy has been pressured, as well as our 2007 and 2008 vintages which have a higher concentration of self-employed borrowers.

Underwriting and other operating expenses of $100,531,000 (2011: $96,530,000) increased by 4%. This is due to increases in salary and administration costs largely in the policy servicing area to manage higher volume of claims and delinquencies, as well as the substantial growth in gross written premiums.

Financial income of $257,295,000 (2011: $278,197,000) decreased marginally from a combination of lower investment yields and realised and unrealised gains on the market value of the portfolio of interest bearing securities.

Corporate structure

Genworth Financial Mortgage Insurance Pty Limited is incorporated and domiciled in Australia. 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 $0.0228 (2011: $0.0428) per ordinary share, amounting to $32,000,000 (2011: $60,000,000) to its shareholder on 21 December 2012.

State of affairs

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

Environmental regulations

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

Events subsequent to reporting date

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

Likely developments

The Company's ultimate parent entity plans to pursue a partial sale of its Australian business, of which the Company is the principal operating entity, subject to market conditions and regulatory review and approval. This move, according to the ultimate parent entity, is part of a broader strategy to rebalance its business portfolio, support future growth opportunities with expanded access to the capital markets, while maintaining control of the Australian business. The ultimate parent anticipates selling up to 40 percent of its holdings in the Australian business, and the partial sale is not expected to occur prior to late 2013, subject to market valuation and regulatory consideration.

Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

Indemnification and insurance of officers and auditors

During the financial year, the Company paid premiums to insure directors and certain officers of the Company for the year ended 31 December 2012 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 2013. Such insurance contracts insure against liability (subject to certain exclusions) persons who are or have been directors or officers of the Company.

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

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

Directors' interests and benefits

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

Rounding off

The Company is of a kind referred to in ASIC 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:

Ellie Comerford
Director

Richard Grellman
Director

Dated at Sydney, 21 February 2013.

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 2012 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

KPMG

Ian Moyser
Partner

Sydney

21 February 2013

Statement of comprehensive income

For the year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Gross written premium	5	544,899	398,497
Movement in unearned premium		(101,047)	43,034
Outward reinsurance premium expense		(80,519)	(73,420)
Net earned premium		363,333	368,111
Net claims incurred	9	(259,556)	(182,248)
Acquisition costs		(44,503)	(45,123)
Other underwriting expenses	7	(56,027)	(51,407)
Profit from underwriting		3,247	89,333
Financial income	6	257,295	278,197
Financing costs		(12,871)	(7,179)
Profit before income tax		247,671	360,351
Income tax expense	10(a)	(75,701)	(110,557)
Profit for the year		171,970	249,794
Total comprehensive income for the year		171,970	249,794
Profit attributable to the members		171,970	249,794
Total comprehensive income attributable to members		171,970	249,794

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

Statement of financial position

As at 31 December 2012

	Note	2012 $'000	2011 $'000
Assets			
Cash	11	23,071	39,640
Accrued investment income		41,524	37,574
Investments	14	3,523,751	3,307,338
Trade and other receivables	12	4,621	8,585
Prepayments		2,647	2,050
Deferred reinsurance expense	13	79,120	1,997
Non-reinsurance recoveries		24,749	30,968
Deferred acquisition costs	15	137,505	141,451
Plant and equipment	16	2,109	3,014
Deferred tax asset	18	2,430	1,995
Investment in controlled entity		27,598	27,598
Intangibles	17	11,559	16,477
Goodwill		7,490	7,490
Total assets		3,888,174	3,626,177
Liabilities			
Trade and other payables	21	94,854	118,471
Reinsurance payable		95,639	19,610
Outstanding claims	19	301,413	334,920
Unearned premiums	20	1,124,052	1,022,522
Employee benefits provision	22	5,735	5,306
Interest bearing liabilities	23	136,989	136,311
Total liabilities		1,758,682	1,637,140
Net assets		2,129,492	1,989,037
Equity			
Share capital	24	1,401,559	1,401,559
Share based payment reserve	24(a)	2,460	1,975
Other reserves	25	(603,268)	(603,268)
Retained earnings		1,328,741	1,188,771
Total equity		2,129,492	1,989,037

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

Statement of changes in equity

For the year ended 31 December 2012

	Share capital	Other reserves	Share based payment reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 31 December 2010	1,401,559	(603,268)	2,191	998,977	1,799,459
Dividends declared and paid	-	-	-	(60,000)	(60,000)
Expense for year	-	-	692	-	692
Share based payment recharged by parent company	-	-	(908)	-	(908)
Profit after taxation	-	-	-	249,794	249,794
Balance at 31 December 2011	1,401,559	(603,268)	1,975	1,188,771	1,989,037
Dividends declared and paid	-	-	-	(32,000)	(32,000)
Expense for year	-	-	802	-	802
Share based payment recharged by parent company	-	-	(317)	-	(317)
Profit after taxation	-	-	-	171,970	171,970
Balance at 31 December 2012	1,401,559	(603,268)	2,460	1,328,741	2,129,492

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

Statement of cash flows

For the year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Premiums received		545,383	399,543
Interest and other income		189,156	178,816
Financial expense on long term borrowings		(12,871)	(7,179)
Claims paid		(293,063)	(107,861)
Cash payments in the course of operations		(165,018)	(193,324)
Income tax paid		(95,741)	(97,232)
Net cash provided by operating activities	30(b)	167,846	172,763
Cash flows from investing activities			
Payments for plant and equipment and intangibles		(210)	(2,076)
Payments for investments		(1,122,417)	(1,077,921)
Proceeds from sale of investments		634,369	1,295,433
Net cash (used in)/ provided by investing activities		(488,258)	215,436
Cash flows from financing activities			
Payment of dividends		(32,000)	(60,000)
Proceeds from long term borrowings		-	135,997
Net cash (used in)/ provided by financing activities		(32,000)	75,997
Net (decrease)/ increase in cash held		(352,412)	464,196
Cash and cash equivalents at the beginning of the financial year		706,082	241,886
Cash and cash equivalents at the end of the financial year	30(a)	353,670	706,082

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

Notes to the financial statements

1 Statement of significant accounting policies

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

The financial statements were authorised for issue by the Board of Directors on 21 February 2013.

(a) Statement of compliance

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

(b) Basis of preparation

The financial report is presented in Australian dollars.

The statement of financial position has been prepared using the liquidity format of presentation, in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current amounts (expected to be recovered or settled within 12 months after the reporting date) and non-current amounts (expected to be recovered or settled more than 12 months after the reporting date). For those assets and liabilities that comprise both current and non-current amounts, information regarding the respective current and non-current amounts is disclosed in the relevant note to the financial statements.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. An initial assessment of these standards and amendments has taken place and the application of these standards is not expected to have material impact on the Company's accounting policies. AASB 9 Financial Instruments, which becomes mandatory for the Company's 2014 financial statements could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

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 disclosing entity.

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

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

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

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in Note 2.

The accounting policies have been applied consistently by the Company.

(c) Classification of insurance contracts

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

(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. 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. The earned portion of premium received is recognised as revenue. The balance of premium received is carried as an unearned premium reserve.

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 deferred reinsurance expense.

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, if applicable, 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. Changes in claims estimates are recognised in profit or loss in the reporting period in which the estimates are changed.

The provision for outstanding claims contains a risk margin to reflect the inherent uncertainty in the central estimate (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 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 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 is liable for the current income tax liabilities of that group. Entities are jointly and severally liable for the current income tax liabilities of the tax consolidated group where the head entity defaults, subject to the terms of the valid tax sharing agreement between the entities in the group. Assets and liabilities arising in the Company under the tax funding arrangement are recognised as amounts receivable from or payable to other entities in the tax consolidated group.

(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.

(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 ("DAC") and amortised under the same basis as the earning pattern of premium over the period of the related insurance contracts. The balance at the reporting date represents the capitalised acquisition costs relating to unearned premium and is stated at cost subject to the liability adequacy test (refer Note 1(k)).

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

(k) Liability adequacy test

The liability adequacy test is an assessment of the carrying amount of the unearned premium liability and is conducted at each reporting date. If current estimates of the present value of the expected cash flows relating to future claims plus an additional risk margin, to reflect the inherent uncertainty in the central estimate, exceed the unearned premium liability less related deferred reinsurance and deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The test is performed at the level of portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. Any deficiency is recognised in the statement of comprehensive income, with a corresponding impact in the statement of financial position, recognised first through the write down of related deferred acquisition costs, and any remaining balance being recognised as an unexpired risk liability (refer to Note 34).

(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 monitors the average duration of the notional assets allocated to insurance activities to ensure sufficient funds are available for claim payment obligations.

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

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

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

- Trade and other receivables are stated at amortised cost less any impairment which approximates to fair value;

- Fixed interest securities are initially recognised at fair value, determined as the quote cost at date of acquisition. They are subsequently remeasured to fair value at each reporting date. For securities traded in an active market, fair value is determined by reference to published bid price quotations. For securities not traded, and securities traded in a market that is not active, fair value is determined using valuation techniques with the most common technique being reference to observable market data by reference to the fair values of recent arm's length transactions involving the same or similar instruments. In absence of observable market information, unobservable inputs which reflect management's view of market assumption are used. Valuation techniques are utilised that maximise the use of observable inputs and minimise the use of unobservable inputs.

Financial assets not backing general insurance liabilities

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

(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 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:

	2012	2011
Leasehold improvements	5-10 years	5-10 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 life and are amortised on a straight line basis over the estimated useful life of the assets being the period in which the related benefits are expected to be realised (shorter of legal benefit and expected economic life).

Software development expenditure

Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised on the statement of financial position and amortised over its expected useful life, subject to impairment testing.

Costs incurred in researching and evaluating a project up to the point of formal commitment to a project 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 technology, and are expensed as incurred.

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

The recoverability of the carrying amount of the asset is reviewed each reporting date by determining whether there is any 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 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 deemed cost less any accumulated impairment losses.

(q) Employee entitlements

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

Wages, salaries and annual leave

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

Long service leave

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

Superannuation commitments

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

(r) Impairment of assets

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

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

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

(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 ("RSUs"), whereby directors and employees render services to the Group in exchange for shares or rights over shares in Genworth Financial Inc ("equity-settled transactions").

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

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

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

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

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

(v) Interest bearing liabilities and finance costs

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

Finance costs include interest, which is accrued at the contracted rate and included in payables; amortisation of transaction costs which are capitalised, presented together with borrowings, and amortised over the life of the borrowings; and amortisation of discounts or premiums (the difference between the original proceeds, net of transaction costs, and the settlement or redemption value of borrowings) over the term of the liabilities.

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 recognises the premium in accordance with the incidence of claims risk.

The review of the premium earning scale is based on an analysis of the historical pattern of claims incurred and the pattern of policy cancellations. The estimate established for unearned premiums on the basis of the earning scale is consistent with the claims reserving approach (refer to Note 3).

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

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

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

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 not in possession by the mortgagee is determined according to the following formula:

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

In applying this formula:

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

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

For MIPs where the claim has been submitted the approach adopted is to provision for the claimed amount, adjusted for amounts not eligible to be claimed.

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 1992-2012 underwriting years, including the mix of business by loan value ratio (“LVR”) and loan size band, the region in which the mortgaged property is located, product types, loan purpose and arrears duration.

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

The Appointed Actuary applies the Generalised Linear Modelling ("GLM") statistical method to identify significant explanatory factors affecting outcomes and to 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, other than MIPs, are:

Frequency

While the propensity for a delinquent loan to become a claim varies for many explanatory factors (as determined by the Appointed Actuary's GLM analyses), the frequency basis is summarised on any given balance date and expressed so that it varies only by LVR band and number of payments in arrears (taking into account the average mix of effects of the other explanatory factors on the balance date).

Additional loadings are placed on these factors according to geographic location and the lender, to adjust for shorter term expectations of frequency.

Severity

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

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

Average frequency factor is 42% (2011: 37%)

Average severity factor is 25% (2011: 24%)

IBNR

The IBNR provision is estimated by analysing the historical pattern of reported delinquencies. The IBNR allowance is then expressed as a percentage of the reserve for loans between three and six months of payments in arrears. The analysis led to an IBNR factor of 117.5% (2011: 90%) of the reported reserve for delinquent loans three to six month in arrears 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.

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 Company and the Australian Prudential Regulation Authority ("APRA"). Factors considered include:

- Variability of claims experience of the portfolio;
- Quality of historical data;
- Diversification between different classes within the portfolio, and;

- Increased uncertainty due to future legislative changes.

The risk margin is applied to the net central estimate.

A risk margin for outstanding claims of 15% (2011: 14%) has been assumed and is intended to achieve a 75% probability of sufficiency ("PoS"). The risk margins for outstanding claims and premium liabilities are separately determined. A risk margin of 30% (2011: 30%) has been assumed for the premium liabilities (unearned premium) at the 75% PoS level.

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

The weighted average term to settlement is approximately 21 months (2011: 21 months).

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

Impact on outstanding claims liabilities to changes in key variables

	Change in variable 2012	**Impact on outstanding claims liabilities 2012 $'000**	**Change in variable 2011**	**Impact on outstanding claims liabilities 2011 $'000**
Frequency factor	17%	70,994	15%	94,468
Frequency factor	(13%)	(60,905)	(11%)	(72,230)
Severity factor	3%	32,112	3%	36,278
Severity factor	(3%)	(28,842)	(3%)	(32,797)

Claims handling expenses

Claims handling expenses are estimated after considering historical actual expenses and the projected costs of handling claims over the weighted 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 managing insurance risk. 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 and trends.

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 management reports, 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, APRA, the Company has developed, implemented and maintains a Risk Management Framework ("RMF") and a Risk Management Strategy ("RMS"), including a Reinsurance Management Strategy ("ReMS"). The RMF incorporates the Company's Risk Appetite Statement.

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:

- the strategy for operating within the Company's risk appetite;
- 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 RMF, RMS and ReMS outline the Company's policies, procedures, processes and controls that comprise its risk management and control systems. These systems address financial and non-financial risk; enterprise, balance sheet, market, credit, insurance, reinsurance, and operational risk that have the potential to impact 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 these.

Effective 1 January 2013 the Company has implemented an Internal Capital Adequacy Assessment Process ("ICAAP"). This is a Board approved process whereby the Company assesses its capital needs and manages its capital levels accordingly.

Underwriting strategy

The Company's underwriting strategy is to manage and mitigate insurance risk to an acceptable level. Acceptable insurance risks to the Company constitute loans secured against residential real estate security located in Australia and, until new business was stopped in September 2011, 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 Underwriting function is responsible for ensuring ongoing adherence with the Company's underwriting guidelines, with oversight from the Risk function. The Company also undertakes monthly operating and risk reviews, which include 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

Through reinsurance, the Company aims to mitigate insurance risk 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.

On 1 July 2012, the Company terminated its reinsurance agreement with Genworth Mortgage Insurance Corporation (North Carolina). As at 31 December 2012, the Company had reinsurance arrangements in place with Brookfield Life Assurance Company Limited, a related entity, and with a number of unrelated reinsurers. In aggregate, they provide a capped catastrophe reinsurance protection for losses. 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.

On 29 January 2013, the Company terminated a second layer of the excess loss reinsurance arrangement with Brookfield Life Assurance Company Limited to further reduce reliance on affiliated reinsurance, effective from 1 January 2013.

All of the non-related reinsurers have ratings from Standard & Poor's ("S&P") or AM Best equivalent to A- or better. Brookfield Life Assurance Company Limited is an unrated company, and has supplied alternative capital support by means of commitments from its parent entity.

Terms and conditions of insurance contracts

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

Product features

The Company offers Lenders Mortgage Insurance ("LMI") and portfolio credit enhancement policies. The Company's principal product is LMI with single premiums and 100% coverage. Most business is sourced when the insured lending institutions collect an amount equal to 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 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 on the Company for reimbursement of any remaining amount outstanding, subject to the terms and conditions of the relevant LMI Master Policy of the Company.

Upon payment of a claim for a loss in respect of an insured loan, the lender assigns the insured loan contract to 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 closely monitors and responds to any 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 monthly basis. Trigger levels have been established in consultation with the ultimate parent company, for geographical dispersion, lender concentration and LVR bands. Portfolio exposure against these triggers is monitored quarterly.

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

Interest rate risk

As the outstanding loan balances on loans insured by the Company include accrued interest (but not penalty interest) and most insured mortgages are variable rate mortgages, the Company has an exposure to interest rate risk as part of any potential claims in the event the proceeds of sale of a property are less than the outstanding loan balance and related expenses covered by the policy.

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.

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 reinsurers in the context of the extent of the anticipated claims on the cedant and the cedants' claims paying abilities.

	2012 $'000	2011 $'000

5 Gross written premium

	2012 $'000	2011 $'000
Direct premium	529,212	388,627
Inward reinsurance premium	15,687	9,870
	544,899	398,497

6 Financial income

	2012 $'000	2011 $'000
Dividend income	10,000	-
Interest	174,686	176,948
Gains in fair value of investments		
• Unrealised	64,078	74,283
• Realised	8,531	26,966
	257,295	278,197

	2012 $'000	2011 $'000

7 Other underwriting expenses

	2012 $'000	2011 $'000
Depreciation and amortisation expense	6,011	6,041
Employee expenses		
• Salaries and wages	27,512	24,281
• Superannuation contributions	1,834	1,455
• Employee benefits	239	167
Occupancy expenses	3,108	2,801
Marketing expenses	946	1,952
Administrative expenses	16,377	14,710
	56,027	51,407

8 Auditor's remuneration

Audit services

	2012 $	2011 $
• Audit of financial reports	300,035	293,810
• Other regulatory audit services	35,000	32,000
	335,035	325,810

Other services

	2012 $	2011 $
• Non-assurance services	1,493,521	211,600
	1,493,521	211,600

In 2012 and 2011 non-assurance services provided primarily related to the proposed IPO and were settled by the ultimate parent company.

9 Net claims incurred

	2012 Current Year $'000	2012 Prior Years $'000	2012 Total $'000	2011 Current Year $'000	2011 Prior Years $'000	2011 Total $'000
Gross claims expense						
Direct	175,312	74,748	250,060	177,244	9,090	186,334
Inwards reinsurance	10,098	1,052	11,150	7,670	394	8,064
Gross claims incurred – undiscounted and discounted	185,410	75,800	261,210	184,914	9,484	194,398
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries – undiscounted and discounted	1,914	(3,568)	(1,654)	(2,940)	(9,210)	(12,150)
Net claims incurred	187,324	72,232	259,556	181,974	274	182,248

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 incurred loss related to insured events of prior years increased in 2012 primarily driven by reserve strengthening in the first quarter of 2012. The reserve strengthening was the result of higher than anticipated frequency and severity of claims paid from later stage delinquencies from prior years, particularly in coastal tourism areas of Queensland as a result of regional economic pressures as well as our 2007 and 2008 vintages which have a higher concentration of self-employed borrowers.

	2012 $'000	2011 $'000

10 Income tax expense

(a) Income tax expense

	2012 $'000	2011 $'000
Current tax	74,114	112,757
Deferred tax (Note 18(c))	(1,473)	(1,499)
(Over)/under provision in prior year:		
• Current tax	2,022	3,404
• Deferred tax	1,038	(4,105)
	75,701	110,557

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

	2012 $'000	2011 $'000
Prima facie income tax expense calculated at 30% (2011: 30%) on profit	74,301	108,105
Increase/ (decrease) in income tax expense due to:		
• Non-taxable items	(3,291)	2
• Tax benefit of New Zealand branch losses not recognised	1,631	3,151
• (Over)/ under provision in prior year	3,060	(701)
Income tax expense on the profit	75,701	110,557

11 Cash

	2012 $'000	2011 $'000
Cash at bank	23,071	39,640

For an analysis of the sensitivity of cash assets to foreign exchange and interest rate risk refer to Note 29(a).

12 Trade and other receivables

	2012 $'000	2011 $'000
Current		
Other debtors	4,621	8,585

For an analysis of the sensitivity of other receivables to foreign exchange and interest rate risk refer to Note 29(a). Carrying amounts of receivables reasonably approximate fair value at statement of financial position date.

None of the receivables are impaired or past due.

	2012 $'000	2011 $'000

13 Deferred reinsurance expense

Balance at 1 January	1,997	33,894
Deferral of reinsurance premium on current year contracts	131,500	33
Expensing of reinsurance premium previously deferred	(54,377)	(31,930)
Balance as at 31 December	79,120	1,997

Current	64,152	1,765
Non-current	14,968	232
	79,120	1,997

14 Investments

Short term deposits	330,599	666,442
Government and semi-government bonds	1,290,376	843,394
Corporate bonds	1,902,776	1,797,502
	3,523,751	3,307,338

Current	705,649	984,624
Non-current	2,818,102	2,322,714
	3,523,751	3,307,338

All investments 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 29(a).

15 Deferred acquisition costs

Balance at 1 January	141,451	104,731
Acquisition costs incurred in year	44,161	73,752
Amortisation charge	(48,107)	(37,032)
Balance as at 31 December	137,505	141,451
Current	50,904	48,485
Non-current	86,601	92,966
	137,505	141,451

16 Plant and equipment

Plant and equipment - at cost	10,136	9,930
Less: Accumulated depreciation	(8,027)	(6,916)
Total plant and equipment - net book value	2,109	3,014

Reconciliations

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

	2012 $'000	2011 $'000
Cost		
Opening balance at 1 January	9,930	9,761
Additions	210	523
Disposals	(4)	(354)
Closing balance at 31 December	10,136	9,930
Accumulated depreciation		
Opening balance at 1 January	(6,916)	(6,138)
Depreciation charge	(1,114)	(1,093)
Disposals	3	315
Closing balance at 31 December	(8,027)	(6,916)

17 Intangibles

Intangibles - at cost	24,847	24,868
Less: Accumulated amortisation	(13,288)	(8,391)
Total intangibles	11,559	16,477

Reconciliations

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

Cost		
Opening balance at 1 January	24,868	25,732
Additions	-	1,553
Disposals	(21)	(2,417)
Closing balance at 31 December	24,847	24,868
Accumulated amortisation		
Opening balance at 1 January	(8,391)	(5,382)
Amortisation charge	(4,897)	(4,949)
Disposals	-	1,940
Closing balance at 31 December	(13,288)	(8,391)

The intangibles balance represents software development expenditure.

18 Deferred tax

The balance comprises temporary differences attributable to:		
Deferred tax assets (a)	8,418	9,546
Deferred tax liabilities (b)	(5,988)	(7,551)
Net deferred tax (c)	2,430	1,995

(a) Deferred tax assets

The balance comprises temporary differences attributable to:		
Employee benefits	2,627	2,499
Purchased interest on investments	1,688	3,376
Provision for indirect claims handling costs	4,103	3,671
	8,418	9,546

	2012 $'000	2011 $'000

(b) Deferred tax liabilities

	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:		
Unrealised gains on investments	(415)	(829)
Research and development claims on fixed assets	(2,743)	(1,061)
Accrued interest income	(2,830)	(5,661)
	(5,988)	(7,551)

(c) Net deferred tax

	2012 $'000	2011 $'000
Movements in net deferred tax		
Opening balance at 1 January	1,995	(3,609)
Credited to the statement of comprehensive income (Note 10)	1,473	1,499
(Under)/ over provision of prior year tax	(1,038)	4,105
Closing balance at 31 December	2,430	1,995

19 Outstanding claims

	2012 $'000	2011 $'000
Central estimate	265,326	296,734
Risk margin	36,087	38,186
Gross outstanding claims	301,413	334,920
Reconciliation of changes in outstanding claims:		
Balance at 1 January	334,920	260,535
Current year net claims incurred	259,556	182,246
Claims paid	(293,063)	(107,861)
Balance at 31 December	301,413	334,920
Current	256,096	286,782
Non-current	45,317	48,138
	301,413	334,920

20 Unearned premiums

	2012 $'000	2011 $'000
Balance at 1 January	1,022,522	1,065,560
Premiums incepted during the year	544,899	398,497
Premiums earned during the year	(443,852)	(441,531)
Exchange rate revaluation adjustment	483	(4)
Balance as at 31 December	1,124,052	1,022,522
Current	330,476	299,834
Non-current	793,576	722,688
	1,124,052	1,022,522

21 Trade and other payables

	2012 $'000	2011 $'000
Accrued expenses	27,409	35,573
Interest payable	31	37
Trade creditors	17,994	19,359
Payable to related entities	49,420	63,502
	94,854	118,471

	2012 $'000	2011 $'000
Current	88,004	103,571
Non current	6,850	14,900
	94,854	118,471

For an analysis of the sensitivity of payables to foreign exchange risk, refer to Note 29(a).

Included in the related entity payables are the balances related to taxes payable to the head entity of $51,912,000 (2011: $71,486,000), net of other related party receivables. 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.

22 Employee benefits provision

Annual leave	2,744	2,497
Long service leave	2,991	2,809
	5,735	5,306

Current	3,803	3,553
Non-current	1,932	1,753
	5,735	5,306

The long service leave provision not expected to be settled within 12 months of balance date has been calculated on the basis of settlement at 10 years (2011: 10 years). As at the balance date there were 294 employees (2011: 278 employees).

23 Interest bearing liabilities

Subordinated notes	140,000	140,000
Less: capitalised transaction costs	(3,011)	(3,689)
	136,989	136,311

The subordinated notes were issued on 30 June 2011 with a face value of $140 million and are eligible for recognition as lower Tier 2 capital under prudential standards issued by APRA.

Key terms and conditions:

- Interest is payable quarterly in arrears, with the rate each calendar quarter being the average of the 90 day Bank Bill Swap rate ("BBSW") at the end of the prior quarter plus a margin equivalent to 4.75% per annum; and
- The notes mature on 30 June 2021 (non callable for the first 5 years) with the issuer having the option to redeem at par from 30 June 2016. Redemption at maturity, or any earlier date provided for in the terms and conditions of issue, is subject to prior approval by APRA.

	2012 $'000	2011 $'000

24 Share capital

Issued fully paid capital		
1,401,559,000 ordinary shares (2011: 1,401,559,000)	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

Balance at 1 January	1,975	2,191
Share based compensation	802	692
Share based payment recharged from parent company	(317)	(908)
Balance at 31 December	2,460	1,975

Refer to Note 35 for detailed information.

25 Other reserves

Other reserves	(603,268)	(603,268)

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

26 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 it is subject.

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

The Company has considered the implications of the new regulatory environment applicable from 1 January 2013 and assessments made to date indicate that there will be no material differences to the standard minimum capital requirement applicable to the Company under the new Life and General Insurance Capital Standards ("LAGIC") requirements.

(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 A3 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) Internal capital adequacy assessment process (ICAAP)

Effective 1 January 2013, the Company has implemented an ICAAP as part of its compliance with the new LAGIC standards. The purpose of ICAAP is to assist the Company in making a proactive internal assessment of its capital requirements considering the current strategy, business plan and associated risks inherent in that business plan. In addition to the internal capital requirement, the ICAAP recognises the capital required for regulatory and ratings agency purposes, and identifies planned and potential sources of capital required to meet these objectives. The ICAAP is also designed to further augment the current corporate governance practices undertaken by the Board of Directors in respect of the ongoing assessment of the Company' s risk profile, risk appetite, strategic plan and capital adequacy.

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

(i) Risk Management Framework
(ii) Risk Management Strategy
(iii) Capital Management and Planning

- The identification of the amount of capital required to be held against the risks of the business;
- The strategy for ensuring adequate capital is maintained over time, including the identification of specific capital targets; and

- The plans for how target levels of capital are to be met and the means available for sourcing additional capital if and when required;

(iv) Capital Monitoring

- The actions and procedures for monitoring the Company' s compliance with its regulatory capital requirements and capital targets including the triggers to alert management to, and specified actions to avert and rectify, potential breaches of these requirements;
- The processes for reporting on the ICAAP and its outcomes to the Board and senior management.

(v) Stress Testing and scenario analysis relating to potential risk exposures and available capital resources.

(vi) ICAAP integration - ensuring that the ICAAP is taken into account in making business decisions.

(c) Capital composition

Total capital is defined 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.

(d) Regulatory capital compliance

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

	2012 $'000	2011 $'000
Tier 1 capital (section 1)		
Paid-up ordinary shares	1,401,559	1,401,559
Other reserves	(600,807)	(601,293)
Retained earnings	1,328,741	1,188,771
Less: Deductions	(48,643)	(53,560)
Net surplus/ (deficit) relating to insurance liabilities	251,686	247,723
Net Tier 1 capital	2,332,536	2,183,200
Net Lower Tier 2 capital	140,000	140,000
Total capital base	2,472,536	2,323,200
Minimum capital requirement	1,657,605	1,494,540
Capital adequacy multiple	1.49	1.55

27 Commitments

Operating lease commitments

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

Within one year	5,851	6,969
One year or later and no later than five years	21,445	4,447
More than five years	3,324	-
	30,620	11,416

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.

28 Dividends

(a) Ordinary shares

The Company paid an ordinary dividend of $0.0228 (2011: $0.0428) per ordinary share, amounting to $32,000,000 (2011: $60,000,000) to its shareholder(s) on 21 December 2012.

(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.

29 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.

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

	2012		2011	
	+10%	-10%	+10%	-10%
	$'000	$'000	$'000	$'000
Impact to profit and loss and equity of 10% depreciation/ appreciation of Australian Dollar on New Zealand assets and liabilities.	1,047	(1,280)	(1,297)	1,585

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

The potential impact of movements in interest rates on the Company's profit and loss and equity are shown below.

	2012 $'000	2011 $'000
+1% increase in interest rates	(67,987)	(50,945)
-1% decrease in interest rates	68,719	51,447

(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 98% (2011 95%) 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.

	2012	2011
	$'000	$'000
Cash at bank and short-term bank deposits		
AAA	1	1
AA	318,083	641,882
A	17,586	46,199
BBB	18,000	18,000
	353,670	706,082
Investments		
AAA	2,002,196	1,666,178
AA	697,501	578,420
A	439,532	258,157
BBB	53,923	138,141
	3,193,152	2,640,896
Accrued investment income		
AAA	24,682	22,058
AA	9,941	9,926
A	6,583	4,171
BBB	318	1,419
	41,524	37,574
Receivables without external credit rating	4,621	8,585

Note: Investments are grouped by grade

(c) Liquidity risk

Liquidity risk is the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations or the financial condition of the Company.

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

The money market securities are restricted to investment grade securities with concentrations of investments managed as per the investment mandate. Details of the Company's investments are provided in Note 14.

2012	Less than 1 year	1 - 5 years	Total
	$'000	$'000	$'000
Financial liabilities			
Payables	88,004	6,850	94,854
Reinsurance payable	80,806	14,833	95,639
Outstanding claims provision	256,096	45,317	301,413
	424,906	67,000	491,906

2011	Less than 1 year	1 - 5 years	Total
	$'000	$'000	$'000
Financial liabilities			
Payables	103,571	14,900	118,471
Reinsurance payable	19,610	-	19,610
Outstanding claims provision	286,782	48,138	334,920
	409,963	63,038	473,001

(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 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.

2012	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Investments				
Government and semi-government bonds	-	1,289,973	403	1,290,376
Corporate bonds	-	1,854,276	48,500	1,902,776
Total	-	3,144,249	48,903	3,193,152

2011	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Investments				
Government and semi-government bonds	-	842,994	400	843,394
Corporate bonds	-	1,749,002	48,500	1,797,502
Total	-	2,591,996	48,900	2,640,896

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

There is an insignificant proportion of investments, 2% (2011: 2%), for which a valuation methodology is used to determine the fair value. These assets are effectively marked to model rather than marked to market. Reasonable changes in the judgement applied in conducting these valuations would not have a significant impact on the statement of financial position.

The interest bearing liabilities were initially measured at fair value (net of transaction costs) but are subsequently measured at amortised cost. The Company considers the fair value of the interest bearing liabilities to be equal to that of the carrying value.

30 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:

	2012 $'000	2011 $'000
Cash assets (Note 11)	23,071	39,640
Short term deposits (Note 14)	330,599	666,442
	353,670	706,082

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

Profit after income tax	171,970	249,794
Add/(less) items classified as investing/financing activities:		
Gain on sale of investments	(8,531)	(26,966)
Unrealised gains on investments	(64,078)	(74,283)
Add non-cash items:		
Share based payments	485	216
Depreciation and amortisation	6,011	6,041
Net cash provided by operating activities before change in assets and liabilities	105,857	154,802
Change in assets and liabilities during the financial year:		
(Increase)/ decrease in receivables	(63,066)	31,465
(Decrease)/ increase in outstanding claims liability	(33,507)	74,385
Increase/ (decrease) in creditors and borrowings	53,092	(2,839)
Decrease (increase) in deferred acquisition costs	3,946	(36,720)
Increase in deferred tax balances	(435)	(5,604)
Increase in provision for long service leave	429	312
Increase/ (decrease) in unearned premiums	101,530	(43,038)
Net cash provided by operating activities	167,846	172,763

31 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 key management personnel for the entire period:

Directors of the Company	**Executives**
Paul Caputo (Resigned 19 March 2012)	Miles Burge (Until 29 February 2012)
Ellie Comerford	Tobin Fonseca (Appointed 27 February 2012)
Anthony Gill	Richard Galilee
Richard Grellman (Appointed 1 March 2012)	Robert Mullins (Until 26 February 2012)
Ian MacDonald (Appointed 19 March 2012)	Anne O' Driscoll (Until 21 December 2012)
Samuel Marsico (Appointed 19 March 2012)	Jo Ann Rabitz (Appointed 1 March 2012)
Leon Roday (Appointed 19 March 2012)	Martha Ryan
Stuart Take	Bridget Sakr
Gayle Tollifson	Paul Caputo
Jerome Upton	Ellie Comerford

	2012 $'000	2011 $'000
The key management personnel compensation is:		
Short-term employee benefits	3,517	3,245
Post-employment benefits	310	325
Termination benefits	-	-
Equity compensation benefits	661	791
	4,488	4,361

32 Related party disclosures

Related party transactions

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

During the year the Company paid $42,485,000 (2011: $28,694,000) to settle the final 2011 year tax liabilities to Genworth Financial New Holdings Pty Limited under the terms of the tax sharing agreement, and $53,332,000 (2011: $69,432,000) as interim tax funding amounts notified under the terms of the tax funding agreement.

The Company settled $61,000 (2011: $94,000) of intercompany liabilities to Genworth Financial Mortgage Indemnity Limited respectively during the year. In 2011 the Company settled $230,000 of intercompany liabilities to Genworth Financial Services Pty Limited.

Reinsurance policies

On 1 July 2012, the Company terminated its excess of loss reinsurance contract with Genworth Mortgage Insurance Corporation (North Carolina). The Company continues to have in place an excess of loss reinsurance contract with Brookfield Life Assurance Limited.

Reinsurance premiums of $26,103,000 (2011: $41,504,000) were ceded during the year. A premium of $2,781,000 (2011: $9,945,000) is payable for the contracts as at 31 December 2012.

Corporate overhead

The Company received a range of services from Genworth Financial Inc. The amount charged to the Company during the year was $3,585,000 (2011: $5,680,000).

Dividend

The Company paid an ordinary dividend of $0.0228 per ordinary share, amounting to $32,000,000 to its shareholder on 21 December 2012. In 2011 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.

During the year the Company received from Genworth Financial Mortgage Indemnity Limited an ordinary dividend amounting to $10,000,000 (2011: $Nil).

Parent and ultimate parent entity

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

Other related party transactions

The Company has a services agreement with Genworth Financial Australia Holdings LLC ("LLC"), whereby LLC provides corporate advisory and treasury services to the Company. The amount charged to the Company during the year was $2,099,000 (2011: $1,613,000) with fees payable of $647,000 (2011: $177,000) as at 31 December 2012.

33 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 (%)*	
			2012	2011
Genworth Financial Mortgage Indemnity Limited	Australia	Ordinary	100	100

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 (2011: 75th percentile).

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

	2012 $'000	2011 $'000
Discounted central estimate of premium liability	496,935	474,328
Risk margin – premium liability (75% PoS)	103,688	86,464
	600,623	560,792

35 Share-based payments

The ultimate parent entity grants share-based awards to employees of subsidiaries in the form of share options and RSUs under the Genworth Financial Inc Omnibus Incentive Plan.

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

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

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

	2012	2011
Estimated fair value per option	$2.42	$3.05
Valuation assumptions:		
Expected term (years)	6	6
Expected volatility	99.8%	95.2%
Expected dividend yield	0.5%	0.5%
Risk-free interest rate	1.2%	2.9%

There were no stock options issued in 2012, however Genworth Financial Inc issued a number of Share appreciation rights ('SARs'), which deliver the same economic value to participants as stock options. These have been included within the stock option table as they are similar in value and feature and it is considered immaterial to disclose separately. During 2011, the ultimate parent entity granted stock options with exercise prices ranging from $12.46 to $13.19, 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 2012, the ultimate parent entity issued RSUs with restriction periods ranging from three to eight years with a fair value of $4.31 to $8.75 (2011: $5.71 to $13.19), 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:

2012								
Grant date	Expiry Date	Exercise Price	Balance at 1 January 2012 Number*	Granted in the year Number	Exercised in the year Number	Cancelled/ forfeited in the year Number	Balance at 31 December 2012 Number	Vested and exercisable at end of the year Number
25/05/2004	13/09/2012	16.6223	3,757	-	-	3,757	-	-
	25/05/2014	18.7554	25,430	-	-	750	24,680	24,680
20/07/2005	20/07/2015	30.8743	2,400	-	-	-	2,400	2,400
09/08/2006	09/08/2016	32.8268	10,290	-	-	2,790	7,500	7,500
13/02/2008	13/02/2018	21.9294	7,800	-	-	-	7,800	6,240
12/02/2009	12/02/2019	2.3661	31,700	-	7,200	-	24,500	24,500
19/08/2009	25/05/2014	7.5022	9,135	-	-	-	9,135	9,135
19/08/2009	20/07/2015	7.5022	3,064	-	200	-	2,864	2,864
19/08/2009	09/08/2016	7.5022	3,931	-	200	-	3,731	3,731
19/08/2009	03/10/2016	7.5022	1,110	-	-	-	1,110	1,110
19/08/2009	31/07/2017	7.5022	5,466	-	717	-	4,749	4,749
19/08/2009	13/02/2018	7.5022	8,300	-	750	-	7,550	5,100
01/12/2009	01/12/2019	10.7723	15,000	-	-	15,000	-	-
12/02/2010	12/02/2020	13.6385	22,800	-	-	-	22,800	11,400
09/02/2011	09/02/2021	12.2632	12,000	-	-	-	12,000	-
14/02/2012	14/02/2022	8.5409	-	14,700	-	-	14,700	-
Total			162,183	14,700	9,067	22,297	145,519	103,409
Weighted average exercise price			$13.82	$8.54	$3.42	$18.76	$12.97	$12.90

*Balance at 1 January 2012 is adjusted for options granted in prior periods to employees who transferred into/ out of the Australian Company during the year..

2011								
Grant date	Expiry Date	Exercise Price	Balance at 1 January 2011 Number*	Granted in the year Number	Exercised in the year Number	Cancelled/ forfeited in the year Number	Balance at 31 December 2011 Number	Vested and exercisable at end of the year Number
25/05/2004	13/09/2012	16.8870	3,757	-	-	-	3,757	3,757
	25/05/2014	19.0541	28,367	-	-	2,937	25,430	25,430
	26/09/2011	22.1498	2,348	-	-	2,348	-	-
	26/07/2011	27.3127	2,348	-	-	2,348	-	-
20/07/2005	20/07/2015	31.3660	2,700	-	-	300	2,400	2,400
09/08/2006	09/08/2016	33.3496	10,950	-	-	660	10,290	10,290
31/07/2007	31/07/2017	29.8222	2,550	-	-	2,550	-	-
13/02/2008	13/02/2018	22.2787	11,760	-	-	3,960	7,800	4,680
12/02/2009	12/02/2019	2.4038	37,000	-	12,800	2,800	21,400	8,100
19/08/2009	25/05/2014	7.6217	7,247	-	612	-	6,635	4,778
19/08/2009	20/07/2015	7.6217	1,382	-	51	333	998	633
19/08/2009	09/08/2016	7.6217	2,915	-	251	466	2,198	1,453
19/08/2009	03/10/2016	7.6217	1,666	-	556	-	1,110	555
19/08/2009	31/07/2017	7.6217	5,079	-	717	566	3,796	2,055
19/08/2009	13/02/2018	7.6217	7,710	-	750	960	6,000	2,250
01/12/2009	01/12/2019	10.9439	15,000	-	-	-	15,000	10,000
10/02/2010	10/02/2020	13.8558	13,800	-	-	-	13,800	3,450
09/02/2011	09/02/2021	12.4585	-	7,500	-	-	7,500	-
Total			156,579	7.500	15,737	20,228	128,114	79,831
Weighted average exercise price			$13.73	$12.46	$3.48	$18.67	$14.04	$16.75

*Balance at 1 January 2011 includes options granted in prior periods to employees who transferred into the Australian Company during the year.

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

2012						
Grant date	Balance at 1 January 2012* Number	Granted in the year Number	Exercised in the year Number	Cancelled/forfeited in the year Number	Balance at 31 December 2012 Number	Vested and exercisable at end of the year Number
03/01/2005	3,750	-	-	-	3,750	-
07/02/2007	3,750	-	1,250	-	2,500	-
31/07/2007	4,526	-	3,326	1,200	-	-
13/02/2008	5,910	-	-	600	5,310	-
12/02/2009	2,755	-	2,755	-	-	-
10/02/2010	26,523	-	8,844	3,850	13,829	-
01/11/2010	7,500	-	2,500	-	5,000	-
01/03/2011	20,500	-	5,000	-	15,500	-
02/09/2011	58,102	-	14,658	8,998	34,446	-
03/01/2012	-	15,000	-	-	15,000	-
06/01/2012	-	5,000	-	-	5,000	-
11/01/2012		25,000	-	-	25,000	-
14/02/2012	-	96,433	-	-	96,433	-
Total	133,316	141,433	38,333	14,648	221,768	-

*Balance at 1 January 2012 is adjusted for options granted in prior periods to employees who transferred into/ out of the Australian Company during the year.

2011						
Grant date	Balance at 1 January 2011* Number	Granted in the year Number	Exercised in the year Number	Cancelled/forfeited in the year Number	Balance at 31 December 2011 Number	Vested and exercisable at end of the year Number
03/01/2005	3,750	-	-	-	3,750	-
09/08/2006	2,337	-	1,869	468	-	-
07/02/2007	3,750	-	-	-	3,750	-
31/07/2007	4,612	-	-	793	3,819	-
13/02/2008	12,717	-	6,357	1,467	4,893	-
12/02/2009	7,154	-	3,577	622	2,955	-
10/02/2010	47,868	-	11,970	8,625	27,273	-
01/11/2010	10,000	-	2,500	-	7,500	-
01/03/2011	-	20,000	-	-	20,000	-
02/09/2011	-	64,935	-	7,167	57,768	-
Total	92,188	84,935	26,273	19,142	131,708	-

*Balance at 1 January 2011 includes options granted in prior periods to employees who transferred into the Australian Company during the year.

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

	2012 $'000	2011 $'000
Share-based payment expense	802	692

36 Events subsequent to reporting date

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

Directors' declaration

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

(a) the financial statements and notes set out on pages 5 to 41 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 2012 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:

Ellie Comerford
Director

Richard Grellman
Director

Dated at Sydney, 21 February 2013.

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 2012, 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 36 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 judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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 2012 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

KPMG

Ian Moyser

Ian Moyser
Partner

Sydney

21 February 2013

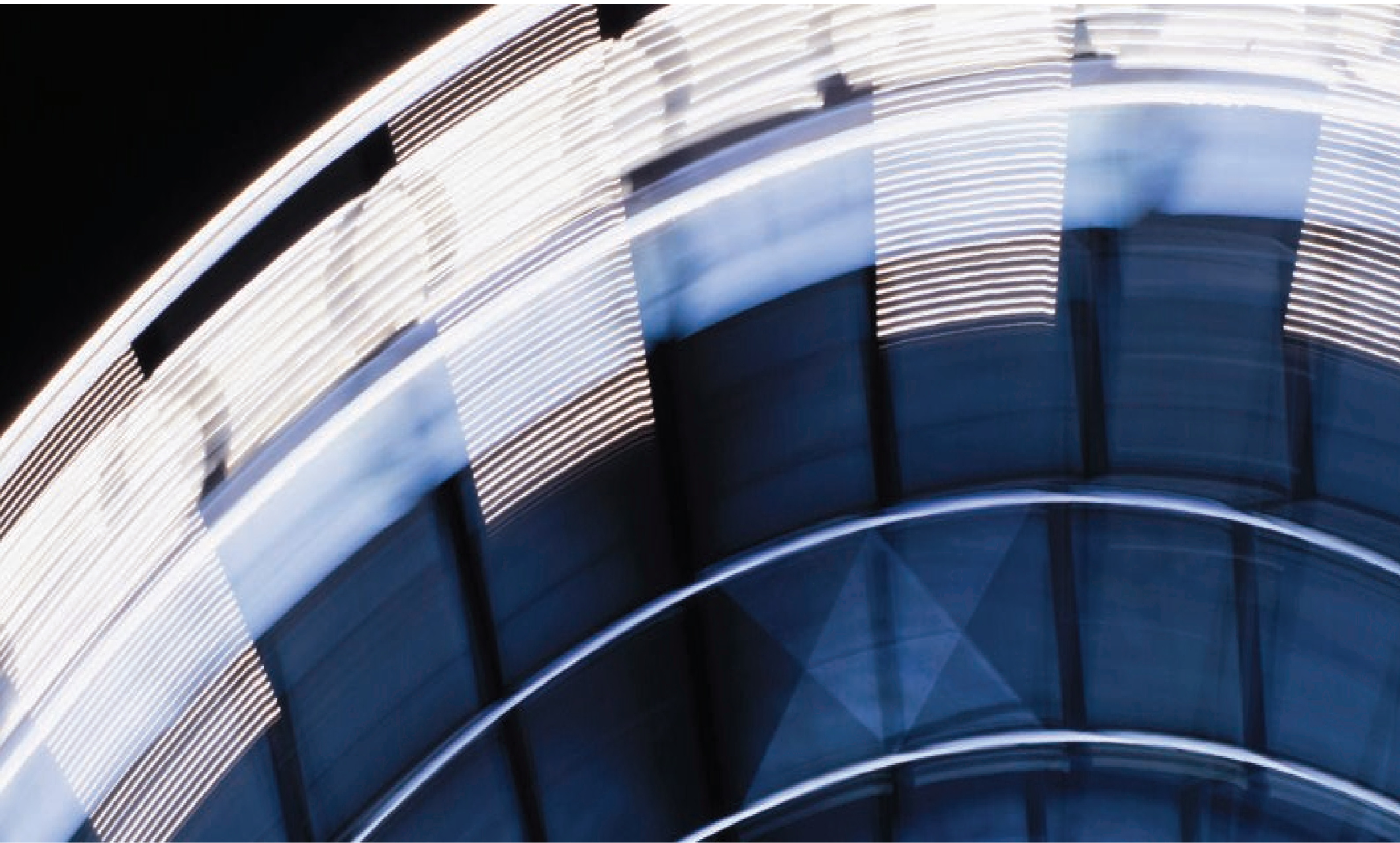
Section 78 (IPSA) Appointed Actuary's Report

New Zealand Branch

Genworth Financial Mortgage Insurance Pty Limited

Tim Spicer, Actuarial Leader

26 March 2013



Introduction and scope

Section 78 of the Insurance (Prudential Supervision) Act 2010 ('IPSA') requires New Zealand ('NZ') insurers to obtain from their Appointed Actuary ('AA') a report that provides a review of the Actuarial Information that is contained in, or used in the preparation of, the financial statements.

Actuarial Information is defined as

- information relating to an insurer's calculations of premiums, claims, reserves, dividends, insurance and annuity rates, and technical provisions; and

- information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur; and

- information specified in an applicable solvency standard as being actuarial information for the purposes of this section.

The scope of work I have undertaken in preparing this report is essentially to confirm that every entry in the financial statements for the NZ branch of Genworth Financial Mortgage Insurance Pty Limited ("GNW Australia") that could reasonably be deemed to be Actuarial Information (as defined above) is accurate and appropriately represented in the financial statements.

No limitations were placed on me in carrying out this work and I received all information and data requested.

This report was requested by GNW Australia.

Declaration of interest in GNW Australia

I currently hold 250 ordinary shares in the US parent company (Genworth Financial Inc. a publicly listed company, NYSE code 'GNW'). The current value of the stock is around US$10 per share.

I also have a further 750 restricted stock units ('RSU') which vest at the rate of 250 per annum over the next 3 years as further ordinary shares.

I am a full-time employee of GNW Australia, based in Sydney.

Opinion on Actuarial Information included in financial statements

I have reviewed the Actuarial Information included in the 2012 financial statements of the New Zealand branch of GNW Australia both for the purpose of this report and for the purpose of the Financial Condition Report ('FCR') prepared for the NZ branch of GNW Australia.

I reviewed entries in

- the Statement of Financial Position (the balance sheet)
- the Statement of Comprehensive Income (the profit and loss)

and all commentary in the notes (1 – 18) to the NZ branch accounts.

I could find no instance where the values of key financial quantities in the financial statements for the NZ branch, as at 31 December 2012, were different to recommendations made to GNW Australia in actuarial reports prepared by the Appointed Actuary to GNW Australia (or in data and/or information provided to the Appointed Actuary to GNW Australia to assist him in preparing his actuarial reports as at 31 December 2012).

I could also find no instance where, in my opinion, the representation of Actuarial Information in the financial statements (including the notes to the accounts) was inappropriate.

Opinion on solvency margin

GNW Australia has an exemption under its licensing conditions from compliance with New Zealand solvency requirements, provided that it continues to meet the equivalent Australian solvency requirements.

I can confirm that GNW Australia held admissible capital in accordance with the Australian Prudential Regulation Authority ('APRA') requirements at **149%** of Minimum Capital Requirements ('MCR') as at 31 December 2012.

GNW Australia was therefore fully compliant with APRA's solvency requirements.

Full details of the solvency position of GNW Australia (including the NZ branch) are included in my FCR on the NZ branch of GNW Australia, dated 22 February 2013.

I recommend this report be read in conjunction with my 2012 FCR.

Tim Spicer, Actuarial Leader and Appointed Actuary to the NZ branch of GNW Australia
Fellow of the New Zealand Society of Actuaries
Fellow of the Institute of Actuaries of Australia

26 March 2013