
**Genworth Financial
Mortgage Insurance Pty
Limited**

ABN 60 106 974 305

**Annual Financial Report
31 December 2015**

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 2015 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:

Ellen Comerford (Ceased to be a Director on 9 October 2015)
Anthony Gill
Richard Grellman
Ian MacDonald
Samuel Marsico
Leon Roday
Stuart Take
Gayle Tollifson
Jerome Upton

Principal activities

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

Review and result of operations

The Company's profit after income tax amounted to \$226,452,000 (2014: \$322,906,000).

Corporate structure

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

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

Dividends

The Company paid an ordinary dividend of \$0.0892 and \$0.2354 per ordinary share amounting to \$125,000,000 and \$330,000,000 to its shareholder, Genworth Financial Services Pty Limited on 30 June 2015 and 15 December 2015 respectively. In 2014, the Company paid an ordinary dividend of \$0.0157 and \$0.1773 per ordinary share, amounting to \$22,000,000 and \$248,500,000 to its shareholder, Genworth Financial Services Pty Limited on 26 August 2014 and 16 December 14 respectively.

State of affairs

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

Environmental regulations

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

Events subsequent to reporting date

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

- On 29 January 2016, Fitch Ratings (Fitch) affirmed its insurer financial strength rating of the Company assigning an 'A+' rating.

Likely developments

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

Indemnification and insurance of officers and auditors

During the financial year, the Company paid premiums to insure Directors and certain officers of the Company for the year ended 31 December 2015 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 2016. 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:



Richard Grellman
Director



Gayle Tollifson
Director

Dated at Sydney, 25 February 2016

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 2015 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

25 February 2016

FINANCIAL STATEMENTS

Contents

Statement of comprehensive income	6
Statement of financial position	7
Statement of changes in equity	8
Statement of cash flows	9
Section 1 Basis of preparation	10
1.1 Reporting entity	10
1.2 Basis of preparation	10
Section 2 Risk management	12
2.1 Risk management	12
2.2 Financial risk management	15
Section 3 Results for the year	21
3.1 Gross written premium	21
3.2 Investment income	21
3.3 Other underwriting expenses	22
3.4 Net cash provided by operating activities	22
3.5 Income taxes	23
3.6 Dividends	24
Section 4 Insurance Contracts	24
4.1 Net claims incurred	24
4.2 Deferred reinsurance expense	25
4.3 Deferred acquisition costs	26
4.4 Outstanding claims	26
4.5 Non reinsurance recoveries	28
4.6 Unearned premiums	29
4.7 Liability adequacy test	29
4.8 Accounting estimates and judgements	30
4.9 Actuarial assumptions and methods	31
4.10 Capital adequacy position	33
Section 5 Capital management and financing	34
5.1 Capital management	34
5.2 Interest bearing liabilities	35
5.3 Equity	36
5.4 Capital commitments and contingencies	37
5.5 Other reserves	37
Section 6 Operating assets and liabilities	38
6.1 Intangibles	38
6.2 Employee benefits provision	39
6.3 Trade and other receivables	40
6.4 Trade and other payables	40
6.5 Cash and cash equivalents	41
Section 7 Other disclosures	41
7.1 Auditor's remuneration	41
7.2 Key management personnel disclosures	42
7.3 Related party disclosures	42
7.4 Controlled entity	43
7.5 Share-based payments	43
7.6 Events subsequent to reporting date	46

Statement of comprehensive income

For the year ended 31 December 2015

	Note	2015 \$'000	2014 \$'000
Gross written premium	3.1	507,563	634,251
Movement in unearned premium		42,042	(113,549)
Outward reinsurance premium expense		<u>(79,729)</u>	<u>(74,945)</u>
Net earned premium		469,876	445,757
Net claims incurred	4.1	(112,956)	(84,420)
Acquisition costs		(54,536)	(48,971)
Other underwriting expenses	3.3	<u>(67,471)</u>	<u>(68,976)</u>
Profit from underwriting		234,913	243,390
Investment income on assets backing insurance liabilities		<u>39,048</u>	<u>49,924</u>
Insurance profit		273,961	293,314
Investment income on shareholders' funds		65,720	175,687
Financing costs		<u>(16,547)</u>	<u>(11,261)</u>
Profit before income tax		323,134	457,740
Income tax expense	3.5(a)	<u>(96,682)</u>	<u>(134,834)</u>
Profit for the year		<u>226,452</u>	<u>322,906</u>
Total comprehensive income for the year		<u>226,452</u>	<u>322,906</u>
Profit attributable to the members		<u>226,452</u>	<u>322,906</u>
Total comprehensive income attributable to members		<u>226,452</u>	<u>322,906</u>

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 2015

	Note	2015 \$'000	2014 \$'000
Assets			
Cash		69,951	66,096
Accrued investment income		34,398	40,674
Investments including derivatives	2.2(d)	3,612,052	3,795,305
Trade and other receivables	6.3	2,743	3,634
Prepayments		2,079	2,074
Deferred reinsurance expense	4.2	71,040	80,602
Non-reinsurance recoveries		28,752	16,378
Deferred acquisition costs	4.3	145,075	124,470
Plant and equipment		828	1,234
Deferred tax asset	3.5(b)	10,398	8,056
Investment in controlled entity		27,598	27,598
Intangibles	6.1	1,026	2,803
Goodwill		7,490	7,490
Total assets		4,013,430	4,176,414
Liabilities			
Trade and other payables	6.4	77,821	114,769
Reinsurance payable		86,754	93,948
Outstanding claims	4.4	276,434	230,088
Unearned premiums	4.6	1,320,590	1,362,632
Employee benefits provision	6.2	6,595	7,146
Interest bearing liabilities	5.2	244,416	138,575
Total liabilities		2,012,610	1,947,158
Net assets		2,000,820	2,229,256
Equity			
Share capital	5.3(a)	1,401,559	1,401,559
Share based payment reserve	5.3(b)	2,258	2,146
Other reserves	5.5	(603,268)	(603,268)
Retained earnings		1,200,271	1,428,819
Total equity		2,000,820	2,229,256

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 2015

	Share capital \$'000	Other reserves \$'000	Share based payment reserve \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 January 2014	1,401,559	(603,268)	1,954	1,376,413	2,176,658
Dividend declared and paid	-	-	-	(270,500)	(270,500)
Share based payment expense recognised	-	-	1,615	-	1,615
Share based payment settled	-	-	(1,423)	-	(1,423)
Profit after taxation	-	-	-	322,906	322,906
Balance at 31 Dec 2014	<u>1,401,559</u>	<u>(603,268)</u>	<u>2,146</u>	<u>1,428,819</u>	<u>2,229,256</u>
Balance at 1 January 2015	1,401,559	(603,268)	2,146	1,428,819	2,229,256
Dividend declared and paid	-	-	-	(455,000)	(455,000)
Share based payment expense recognised	-	-	829	-	829
Share based payment settled	-	-	(1,184)	-	(1,184)
Share based payment expense to be recharged back to the major shareholder	-	-	467	-	467
Profit after taxation	-	-	-	226,452	226,452
Balance at 31 Dec 2015	<u>1,401,559</u>	<u>(603,268)</u>	<u>2,258</u>	<u>1,200,271</u>	<u>2,000,820</u>

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 2015

	Note	2015 \$'000	2014 \$'000
Cash flows from operating activities			
Premiums received		507,563	634,251
Interest and other income		153,252	179,079
Financial expense on long term borrowings		(13,893)	(11,261)
Claims paid		(78,984)	(94,478)
Cash payments in the course of operations		(187,573)	(178,807)
Income tax paid		(166,476)	(81,038)
Net cash provided by operating activities	3.4	<u>213,889</u>	<u>447,746</u>
Cash flows from investing activities			
Payments for plant and equipment and intangibles		(251)	(584)
Payment for investments		(822,216)	(1,353,766)
Proceeds from sale of investments		962,845	1,158,406
Proceeds from dividend income		408	-
Net cash provided/(used) in investing activities		<u>140,786</u>	<u>(195,944)</u>
Cash flows from financing activities			
Net proceeds from long term borrowings		104,180	-
Payment of dividends		(455,000)	(270,500)
Net cash used in financing activities		<u>(350,820)</u>	<u>(270,500)</u>
Net increase/(decrease) in cash held		3,855	(18,698)
Cash at the beginning of the financial year		<u>66,096</u>	<u>84,794</u>
Cash at the end of the financial year	6.5	<u><u>69,951</u></u>	<u><u>66,096</u></u>

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

Notes to the financial statements

Section 1 Basis of preparation

1.1 Reporting entity

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

The financial statements were authorised for issue by the Board of Directors on 25 February 2016.

1.2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of preparation

The financial report is presented in Australian dollars.

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

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

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

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

(c) Changes in accounting policies

New accounting standards and amendments issued but not yet effective

A number of new standards, amendments to standards and interpretations noted below are effective for annual periods beginning on or after 1 January 2016, and have not been applied in preparing these consolidated 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 2018 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.

	New Standards, Amendments and Interpretations	Operative date
AASB 9	Financial Instruments	1/01/2018
AASB 2013-9	Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instrument: Part C Financial Instruments	1/01/2018
AASB 15	Revenue from contracts with customers	1/01/2017
AASB 2014-1	Amendments to Australian Accounting Standards - Part E	1/01/2018
AASB 2014-4	Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation	1/01/2016
AASB 2015-1	Amendments to Australian Accounting Standards - Annual improvement to Australian Accounting Standards 2012-2014 Cycle	1/01/2016
AASB 2015-2	Amendments to Australian Accounting Standards - Disclosure Initiative: Amendment to AASB 101	1/01/2016
AASB 2015-8	Amendments to Australian Accounting Standards – Effective date of AASB 15	1/01/2017
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 materiality	1/07/2015

(d) 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.

(e) Use of estimates and judgements

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

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

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

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

The accounting policies have been applied consistently by the Company.

(f) Goodwill

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

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

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

Section 2 Risk management

2.1 Risk management

Risk management objectives and policies for mitigating risk

The Company has established policies, processes and procedures for managing its material risks. The risk under any one insurance contract arises out of the uncertainty surrounding the timing and severity of any potential 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.

The Company manages its risk and capital profile with the aim of reducing 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"). The RMS incorporates the Company's Risk Appetite Statement.

The RMF and RMS 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 and RMS 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.

The Company defines its material risks as follows:

Strategic risk	The risk to current and prospective earnings and/or capital arising from strategy, execution of strategy and responses to the external environment.
Market risk	The risk that the market price of assets change and the potential for such change or volatility to result in the actual market value of Genworth Australia's assets being adversely impacted.
Credit risk	The risk of default by borrowers and transactional counterparties as well as the loss of value of assets due to deterioration in credit quality. Credit risk includes policy concentration risk in relation to geographic location, product and customer.
Housing risk	The risk of loss caused by the Company's obligation to pay insurance benefits due to macroeconomic events such as unemployment, housing prices and interest rates.
Underwriting risk	The risk that inadequate or inappropriate underwriting, claims management, product design and pricing will expose the Company to financial loss and the consequent inability to meet its liabilities.
Reinsurance risk	The risk of insufficient reinsurance coverage or inability of reinsurers to meet claims or liabilities in part or in full.
Operational risk	The risk of financial loss or non-compliance resulting from inadequate or failed internal processes, people and systems or from external events.
Compliance risk	The risk of legal or regulatory sanctions, material financial loss, or loss to reputation as a result of a failure to comply with laws, regulations, rules, standards, and codes of conduct applicable to the Company.
Liquidity risk	The risk that there is insufficient cash resources to meet payment obligations to Policyholders and creditors without affecting the daily operations or the financial condition of the Company.
Reputation risk	The risk that current or prospective enterprise value is impacted by negative stakeholder opinion.

Underwriting strategy

The Company's underwriting strategy is to manage Underwriting risk to an acceptable level. Acceptable risks to the Company constitute loans advanced against residential real estate security located in Australia and, until it ceased writing new business 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 controlled entities 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 and an analysis of portfolio trends, and an outline of key risk issues affecting the Company.

Reinsurance strategy

Through reinsurance, the Company aims to mitigate Housing and Credit 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, as well as the ability to write policies in amounts larger than the risk the Company is willing to retain.

During the year, the Company renewed excess of loss reinsurance treaties with external 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.

All of the non-related reinsurers have ratings from Standard & Poor's ("S&P") or AM Best equivalent of A- or better.

Terms and conditions of insurance contracts

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

Product features

The Company offers 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.

Risk Concentration

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

Due to the nature of the Australian economy, the majority of mortgages are originated through the country's four largest banks. The Company has a high concentration of business written on mortgages originating through three of these lenders.

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 the financial and capital impact of these risks follow APRA's requirements and methodology to determine the probable maximum loss ("PML"). The Company's reinsurance arrangements provide protection against this exposure.

2.2 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 RMS which is discussed in more detail in Note 2.1. The RMF recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated 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

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

(i) Currency risk

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

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

	2015		2014	
	+10%	-10%	+10%	-10%
	\$'000	\$'000	\$'000	\$'000
Impact to profit and loss and equity from 10% depreciation/ appreciation in the Australian Dollar on New Zealand assets and liabilities.	677	(828)	100	(122)

(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 Company used derivative financial instruments in the form of interest rate swaptions to mitigate interest rate risk arising from fixed interest securities. The risk management processes over these derivative financial instruments include close senior management scrutiny, including appropriate board approval. Derivatives are used only for approved purposes and are subject to delegated authority levels provided to management. The level of derivative exposure is reviewed on an ongoing basis. Appropriate segregation of duties exists with respect to derivative use and compliance with policy, limits and other requirements is closely monitored. For information regarding the notional contract amounts associated with these derivative financial instruments together with a maturity profile and reporting date fair values, refer to the derivatives below.

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 as a result of 1% increase/decrease in the investments including derivatives, assuming all other variables remain constant, are shown below.

	2015		2014	
	+1%	-1%	+1%	-1%
	\$'000	\$'000	\$'000	\$'000
Investments – fixed interest securities and related interest rate derivatives	59,123	(49,710)	69,285	(66,892)

(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 96% (2014 97%) of total securities and cash with counterparties having a rating of A- or better. The Company does not expect any investment counterparties to fail to meet their obligations given their strong credit ratings.

The credit quality of financial assets that are neither past due nor impaired 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.

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

	2015 \$'000	2014 \$'000
Cash at bank and short-term bank deposits		
AAA	14,528	20,858
AA	326,324	159,777
A	5,000	81,132
BBB	8,800	9,987
BB	3,000	3,000
	357,652	274,754
Investments		
AAA	1,621,255	1,482,560
AA	884,749	1,110,262
A	677,320	882,716
BBB	141,027	111,110
	3,324,351	3,586,648
Accrued investment income		
AAA	14,677	14,762
AA	11,346	14,740
A	6,487	9,608
BBB	1,878	1,552
BB	10	12
	34,398	40,674
Receivables without external credit rating	2,743	3,634

(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.

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

2014	Less than 1 year	1 - 5 years	Total
Financial liabilities	\$'000	\$'000	\$'000
Payables	114,469	300	114,769
Reinsurance payable	59,848	34,100	93,948
Outstanding claims provision	181,543	48,545	230,088
	355,860	82,945	438,805

(d) Fair value measurements

Accounting policies

Financial assets backing general insurance liabilities

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

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

In accordance with the Company's investment strategy, the Company actively monitors the average duration of the notional assets allocated to insurance activities to ensure sufficient funds are available for claim payment obligations.

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

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

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

Financial assets not backing general insurance liabilities

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

Derivative financial instruments

The Company uses derivatives to manage risks. Derivatives are used solely to manage risk exposure and are not used for trading or speculation.

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

Investments

	2015 \$'000	2014 \$'000
Fixed interest rate		
Short term deposits	283,873	142,127
Government and semi-government bonds	870,166	588,310
Corporate bonds	1,962,917	2,499,675
	<u>3,116,956</u>	<u>3,230,112</u>
Floating interest rate		
Short term deposits	3,828	66,530
Corporate bonds	489,714	498,663
	<u>493,542</u>	<u>565,193</u>
Derivatives		
Investment related derivatives	1,554	-
Total investments	<u>3,612,052</u>	<u>3,795,305</u>
Current	867,561	649,963
Non-current	<u>2,744,491</u>	<u>3,145,342</u>
	<u>3,612,052</u>	<u>3,795,305</u>

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

The Company investments carried at fair value have been classified under the three levels of the IFRS fair value hierarchy as follows:

Level 1 - Quoted prices in an active market: Fair value investments which are quoted in active and known markets. The quoted prices are those at which transactions have regularly and recently taken place within such markets.

Level 2 - Valuation techniques with observable parameters: Fair value investments using inputs other than quoted prices within Level 1 that are observable either directly or indirectly.

Level 3 - Valuation techniques with significant unobservable parameters: Fair value investments using valuation techniques that include inputs that are not based on observable market data.

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

2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Investments				
Government and semi-government bonds	-	587,829	481	588,310
Corporate bonds	-	2,949,838	48,500	2,998,338
Short term deposits	208,657	-	-	208,657
Total	208,657	3,537,667	48,981	3,795,305

There are an insignificant proportion of investments, 1% (2014: 1%), for which a valuation methodology is used to determine the fair value. These assets are effectively marked to model rather than marked to market. Reasonable changes in the judgement applied in conducting these valuations would not have a significant impact on the statement of financial position.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

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

	Balance at 1 January 2014	Purchases	Disposals	Movement in fair value	Balance at 31 December 2014
2014	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Instruments					
Government and semi-government bonds	477	-	-	4	481
Corporate bonds	48,500	-	-	-	48,500
Total	48,977	-	-	4	48,981

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

Derivative financial instruments

During the year, the Company used derivative financial instruments in the form of interest rate swaptions to mitigate interest rate risk arising from fixed interest securities. An interest rate swaption is an option to enter into an interest rate swap. The option exists for a period of time and the purchaser pays a one-time, up-front premium to acquire the options. The purchaser has a right, but not obligation to exercise the option if the interest rates reach a particular level.

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

Reporting date positions

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

	2015				2014	
	Within 1 year	Maturity profile 1 to 5 years	Maturity profile over 5 years	Notional contract amount	Fair value asset	Fair value asset
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Investment related derivatives						
Interest rate swaptions	1,700,000	-	-	1,700,000	1,554	-

Section 3 Results for the year

3.1 Gross written premium

Accounting policies

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

	2015 \$'000	2014 \$'000
Direct premium	506,488	624,772
Inward reinsurance premium	1,075	9,479
	<u>507,563</u>	<u>634,251</u>

3.2 Investment income

Accounting policies

Interest revenue

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

Gains/ (losses) in fair value of investments

Refer to Note 2.2 (d) Accounting policies and fair value estimations for further details.

	2015 \$'000	2014 \$'000
Dividend	408	-
Interest	146,978	158,197
Gains/ (losses) in fair value of investments		
Unrealised	(52,459)	63,904
Realised	9,841	3,510
Total investment income	<u>104,768</u>	<u>225,611</u>

	2015	2014
	\$'000	\$'000
Represented by		
Investment income on assets backing insurance liabilities	39,048	49,924
Investment income on equity holders' funds	65,720	175,687
	<u>104,768</u>	<u>225,611</u>

3.3 Other underwriting expenses

	2015	2014
	\$'000	\$'000
Depreciation and amortisation expense	2,329	5,337
Employee expenses		
Salaries and wages	31,902	34,284
Superannuation contributions	2,007	2,246
Employee benefits	(305)	626
Occupancy expenses	3,170	3,263
Marketing expenses	738	820
Administrative expenses	27,630	22,400
	<u>67,471</u>	<u>68,976</u>

3.4 Net cash provided by operating activities

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

	2015	2014
	\$'000	\$'000
Profit after income tax	226,452	322,906
Add/(less) items classified as investing/financing activities:		
Gain on sale of investments	(9,834)	(3,510)
Unrealised losses/(gains) on investments	52,459	(63,904)
Dividend income	(408)	-
Add non-cash items:		
Share based payments	112	192
Loss on disposal of plant and equipment	102	105
Depreciation and amortisation	2,329	5,337
Net cash provided by operating activities before change in assets and liabilities	<u>271,212</u>	<u>261,126</u>
Change in assets and liabilities during the financial year:		
Decrease/ (increase) in receivables	4,353	38,839
Increase/ (decrease) in outstanding claims liability	46,346	(10,058)
(Decrease)/ increase in payables and borrowings	(42,482)	39,751
Decrease in deferred acquisition costs	(20,605)	3,916
Increase in deferred tax balances	(2,342)	(447)
Increase in employee benefits provision	(551)	1,070
Increase in unearned premiums	(42,042)	113,549
Net cash provided by operating activities	<u>213,889</u>	<u>447,746</u>

3.5 Income taxes

Accounting policies

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

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

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

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

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

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

	2015 \$'000	2014 \$'000
(a) Income tax expense		
Current tax	97,623	137,069
Deferred tax	(739)	(118)
(Over)/under provision in prior year:		
Current tax	1,401	(1,787)
Deferred tax	(1,603)	(330)
	<u>96,682</u>	<u>134,834</u>

Numerical reconciliation of income tax expense to prima facie tax payable

	2015 \$'000	2014 \$'000
Prima facie income tax expense calculated at 30% (2014: 30%) on profit	96,940	137,323
Increase/ (decrease) in income tax expense due to:		
(Over)/ under provision in prior year	(201)	(2,117)
Other non-taxable items	(57)	(372)
Income tax expense on the profit	<u>96,682</u>	<u>134,834</u>

(b) Deferred tax assets and liabilities

Deferred tax asset balance comprises temporary differences	2015	2014
attributable to:	\$'000	\$'000
Employee benefits	3,767	3,823
Accrued expenses	1,064	134
Provision for indirect claims handling costs	5,401	4,440
Fixed assets and intangibles	166	(341)
	<u>10,398</u>	<u>8,056</u>
Net deferred tax		
Movements in net deferred tax		
Opening balance at 1 January	8,056	7,609
Credited to the statement of comprehensive income	739	117
Over/ (under) provision of prior year tax	1,603	330
Closing balance at 31 December	<u>10,398</u>	<u>8,056</u>

3.6 Dividends

Accounting policy

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

(a) Ordinary shares

The Company paid an ordinary dividend of \$0.0892 and \$0.2354 per ordinary share amounting to \$125,000,000 and \$330,000,000 to its shareholder, Genworth Financial Services Pty Limited on 30 June 2015 and 15 December 2015 respectively. In 2014, the Company paid an ordinary dividend of \$0.0157 and \$0.1773 per ordinary share, amounting to \$22,000,000 and \$248,500,000 to its shareholder, Genworth Financial Services Pty Limited on 26 August 2014 and 16 December 2014 respectively.

(b) Dividend franking account

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

Section 4 Insurance Contracts

Accounting policy

Classification of insurance contracts

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

4.1 Net claims incurred

	2015	2014
	\$'000	\$'000
(a) Claims analysis		
Gross claims incurred	133,452	91,386
Reinsurance and other recoveries revenue	(8,696)	(6,966)
Borrower recoveries recognised	(11,800)	-
Net claims incurred	<u>112,956</u>	<u>84,420</u>

(b) Claims development

	Current Year \$'000	2015 Prior Years \$'000	Total \$'000	Current Year \$'000	2014 Prior Years \$'000	Total \$'000
Gross claims expense						
Direct	204,015	(72,007)	132,008	173,746	(86,960)	86,786
Inwards reinsurance	7,688	(6,243)	1,445	8,353	(3,753)	4,600
Gross claims incurred – undiscounted	211,703	(78,250)	133,453	182,099	(90,713)	91,386
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries – undiscounted	(1,322)	(7,375)	(8,697)	850	(7,816)	(6,966)
Borrower recoveries recognised	(1,331)	(10,469)	(11,800)	-	-	-
Net claims incurred	209,050	(96,094)	112,956	182,949	(98,529)	84,420

4.2 Deferred reinsurance expense**Accounting policies****Reinsurance expense**

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

	2015 \$'000	2014 \$'000
Balance at 1 January	80,602	93,373
Deferral of reinsurance premium on current year contracts	70,166	62,174
Expensing of reinsurance premium previously deferred	(79,728)	(74,945)
Balance as at 31 December	71,040	80,602
Current	59,683	46,502
Non-current	11,357	34,100
	71,040	80,602

4.3 Deferred acquisition costs

Accounting policies

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

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

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

	2015 \$'000	2014 \$'000
Balance at 1 January	124,470	128,386
Acquisition costs incurred in year	70,879	39,686
Amortisation charge	(50,274)	(43,602)
Balance as at 31 December	<u>145,075</u>	<u>124,470</u>
Current	51,940	27,036
Non-current	<u>93,135</u>	<u>97,434</u>
	<u>145,075</u>	<u>124,470</u>

4.4 Outstanding claims

Accounting policies

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

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

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

	2015 \$'000	2014 \$'000
Central estimate	242,589	202,213
Risk margin	33,845	27,875
Gross outstanding claims	<u>276,434</u>	<u>230,088</u>

(a) Reconciliation of changes in outstanding claims

Balance at 1 January	230,088	240,146
Current year net claims incurred	112,956	84,420
Movement in non-reinsurance recoveries	12,374	-
Claims paid	<u>(78,984)</u>	<u>(94,478)</u>
Balance at 31 December	<u>276,434</u>	<u>230,088</u>
Current	201,765	181,543
Non-current	<u>74,669</u>	<u>48,545</u>
	<u>276,434</u>	<u>230,088</u>

(b) Claims development

2015

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

¹ Prior 2007 underwriting years

2014

Underwriting years	Prior years ¹	2007	2008	2009	2010	2011	2012	2013	2014	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At end of year of underwrite	204,831	9,302	8,438	4,393	701	992	1,079	1,021	777	204,831
One year later:	150,001	39,265	44,511	19,629	7,004	6,668	7,805	6,825		150,001
Two years later	129,417	61,383	47,593	36,755	15,005	10,997	11,246			129,417
Three years later	106,324	45,634	52,953	47,621	9,744	9,989				106,324
Four years later	41,696	50,058	79,244	24,386	8,107					41,696
Five years later	34,485	61,174	31,875	16,589						34,485
Six years later	48,112	29,491	22,639							48,112
Seven years later	12,296	10,198								12,296
All future years	(1,947)									(1,947)
Net incurred to date	725,215	306,505	287,253	149,373	40,561	28,646	20,130	7,847	777	1,566,307
Net paid to date	688,393	269,425	238,526	115,504	25,780	10,958	3,325	687		1,352,597
Outstanding claims provision at 31 December 2014	36,822	37,081	48,727	33,869	14,781	17,689	16,805	7,159	777	213,710

¹ Prior 2007 underwriting years

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

	2015	2014
	\$'000	\$'000
Closing outstanding claims provision per claims development table	259,482	213,710
Non reinsurance recoveries	16,952	16,378
Gross closing outstanding claims provision	276,434	230,088

4.5 Non reinsurance recoveries

Accounting policies

Reinsurance and other recoveries receivable

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

	2015	2014
	\$'000	\$'000
Opening balance	16,378	19,631
Movement of non-reinsurance recoveries	574	(3,253)
Borrower recoveries receivable recognised	11,800	-
Closing balance	28,752	16,378

When claims are paid, the Company typically obtains a legally enforceable judgement against borrowers for the amount of the loss incurred. The Company actively engages in collection activities to recover monies from borrowers under these judgements. Based on a history of successful collection activities over the last few years and the current economic conditions, an expected recovery rate was established and a recovery accrual related to claims paid was recorded. This resulted in an \$11.8 million increase in non-reinsurance recoveries receivable and corresponding decrease in net claims incurred.

4.6 Unearned premiums

Accounting policies

Earned and unearned premium revenue

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

	2015 \$'000	2014 \$'000
Balance at 1 January	1,362,632	1,249,083
Premiums incepted during the year	507,563	634,251
Premiums earned during the year	(549,605)	(520,702)
Balance as at 31 December	<u>1,320,590</u>	<u>1,362,632</u>
Current	423,944	391,427
Non-current	<u>896,646</u>	<u>971,205</u>
	<u>1,320,590</u>	<u>1,362,632</u>

4.7 Liability adequacy test

Accounting policies

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

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

The PoS adopted in performing the LAT is set at the 75th percentile (2014: 75th percentile).

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

	2015 \$'000	2014 \$'000
Discounted central estimate of premium liability	737,443	666,987
Risk margin – premium liability (75% PoS)	<u>200,775</u>	<u>188,531</u>
	<u>938,218</u>	<u>855,518</u>

4.8 Accounting estimates and judgements

Critical accounting estimates and judgements

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

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

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

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

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

The review of the premium earning scale is based on an analysis of the historical pattern of claims incurred and the pattern of policy cancellations. The estimate for unearned premiums is established on the basis of this earning scale.

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

Deferred acquisition costs are amortised under the same premium earnings scale as the related insurance contract.

Estimation of outstanding claims liabilities (Note 4.4)

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

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

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

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

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

4.9 Actuarial assumptions and methods

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

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

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

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

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

In applying this formula:

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

For mortgagee in possession ("MIPs") where a claim has been submitted, the approach adopted is to provide for the claimed amount, adjusted for amounts not eligible to be claimed. For loans where there is a MIP 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, or an estimate thereof, and any amounts not eligible to be claimed.

Actuarial assumptions and process

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

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

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

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

Frequency

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

Severity

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

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

- Average frequency factor is 35% (2014: 35%)
- Average severity factor is 25% (2014: 24%)

IBNR

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

Risk Margin

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

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

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

A risk margin for outstanding claims of 15% (2014: 15%) of net central estimate has been assumed and is intended to achieve a 75% PoS.

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

The weighted average term to settlement is approximately 23 months (2014: 21 months).

Sensitivity Analysis

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

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

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

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

Impact on outstanding claims liabilities to changes in key variables

	Change in variable 2015	Impact on outstanding claims liabilities 2015 \$'000	Change in variable 2014	Impact on outstanding claims liabilities 2014 \$'000
Frequency factor – upper 97.5th	18%	96,035	18%	80,257
Frequency factor – lower 2.5th	-13%	-70,013	-13%	-57,948
Severity factor – upper 97.5th	7%	57,576	7%	49,944
Severity factor – lower 2.5th	-6%	-47,927	-5%	-41,575

Claims handling expenses

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

4.10 Capital adequacy position

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

	2015 \$'000	2014 \$'000
Tier 1 capital		
Paid-up ordinary shares	1,401,559	1,401,559
Other reserves	(601,011)	(601,122)
Retained earnings	1,200,270	1,428,817
Less: Deductions	(32,248)	(31,613)
Net surplus relating to insurance liabilities	152,930	261,324
Net Tier 1 capital	2,121,500	2,458,965
Tier 2 capital	249,600	112,000
Total capital base	2,371,100	2,570,965
Insurance risk charge	226,500	201,906
Insurance concentration risk charge	1,333,755	1,488,026
Asset risk charge	75,936	127,034
Asset concentration risk charge	-	-
Operating risk charge	27,671	24,069
Aggregation benefit	(36,616)	(60,066)
Total prescribed capital amount	1,627,246	1,780,969
Prescribed Capital Amount coverage	1.46	1.44

Section 5 Capital management and financing

5.1 Capital management

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

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

(a) Regulatory capital

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

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

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

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

In connection with the 3 July 2015 subordinated notes, the Company redeemed \$90,000,000 of its existing \$140,000,000 subordinated notes, which have a first call date of 30 June 2016. Refer to Note 5.2 Interest bearing liabilities for further information.

(b) Ratings capital

The Company sets its target capital strength by reference to a target financial strength rating from an independent ratings agency. The ratings help to reflect the financial strength of the Company and demonstrate to the stakeholders the ability to pay claims for the long term. The Company has A+ and A3 ratings based on latest ratings published for the Company by Standard & Poor's Rating Services and Moody's, respectively. On 5 August 2015, Fitch Ratings (Fitch) affirmed the Company has an A+ rating.

(c) Economic capital

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

Internal capital adequacy assessment process (ICAAP) management

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

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

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

5.2 Interest bearing liabilities

Accounting policies

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

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

		31 December 2015 \$'000	31 December 2014 \$'000
Subordinated notes			
\$140 million subordinated notes	(i)	49,619	140,000
\$200 million subordinated notes	(ii)	200,000	-
Less: capitalised transaction costs		(5,203)	(1,425)
		<u>244,416</u>	<u>138,575</u>

- i. On 3 July 2015, the Company redeemed \$90,000,000 of its existing \$140,000,000 subordinated notes, which have a first call date of 30 June 2016. The Company incurred a \$2.4 million one-time premium fee paid on the early redemption of the subordinated notes which was included under finance related costs.

Key terms and conditions are:

- Interest is payable quarterly in arrears, with the rate each calendar quarter being the average of the 90 day bank bill swap rate at the end of the prior quarter plus a margin equivalent to 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.

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

Key terms and conditions are:

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

5.3 Equity

(a) Share capital

	2015 \$'000	2014 \$'000
Issued fully paid capital		
1,401,559,000 ordinary shares (2014: 1,401,559,000)	<u>1,401,559</u>	<u>1,401,559</u>

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

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

(b) Share based payment reserve

	2015 \$'000	2014 \$'000
Balance at 1 January	2,146	1,954
Share based compensation	829	1,615
Share based payment settled	(1,184)	(1,423)
Share-based payment expense to be recharged back to the major shareholder	<u>467</u>	<u>-</u>
Balance at 31 December	<u>2,258</u>	<u>2,146</u>

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

5.4 Capital commitments and contingencies

Accounting policies

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

Operating lease commitments

2015	2014
\$'000	\$'000

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

Within one year	6,491	6,368
One year or later and no later than five years	9,988	16,760
	<u>16,479</u>	<u>23,128</u>

Contingencies

There were no contingent liabilities as at 31 December 2015.

5.5 Other reserves

	2015	2014
	\$'000	\$'000
Other reserves	<u>(603,268)</u>	<u>(603,268)</u>

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

Section 6 Operating assets and liabilities

6.1 Intangibles

The intangibles balance represents software development expenditure.

Accounting policies

Acquired intangible assets

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

Software development expenditure

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

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

Impairment assessment

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

There was no impairment charge recognised during the year.

Reconciliations

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

	2015 \$'000	2014 \$'000
Cost		
Opening balance at 1 January	25,471	25,538
Additions	177	370
Disposals	(894)	(437)
Closing balance at 31 December	<u>24,754</u>	<u>25,471</u>
Accumulated amortisation		
Opening balance at 1 January	(22,668)	(18,227)
Amortisation charge	(1,850)	(4,816)
Disposals	790	375
Closing balance at 31 December	<u>(23,728)</u>	<u>(22,668)</u>
Total net intangibles	<u>1,026</u>	<u>2,803</u>

6.2 Employee benefits provision

Accounting policies

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

Wages, salaries and annual leave

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

Long service leave

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

Superannuation commitments

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

	2015 \$'000	2014 \$'000
Annual leave	2,561	2,949
Long service leave	<u>4,034</u>	<u>4,197</u>
	<u>6,595</u>	<u>7,146</u>
Current	4,604	4,893
Non-current	<u>1,991</u>	<u>2,253</u>
	<u>6,595</u>	<u>7,146</u>

As at the balance date there were 259 employees (2014: 314 employees).

6.3 Trade and other receivables

Accounting policies

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

	2015 \$'000	2014 \$'000
Other debtors	<u>2,743</u>	<u>3,634</u>
Current	2,743	3,634
Non-current	<u>-</u>	<u>-</u>
	<u>2,743</u>	<u>3,634</u>

Carrying amounts of receivables reasonably approximate fair value at statement of financial position date.

None of the receivables are impaired or past due.

6.4 Trade and other payables

Accounting policies

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

	2015 \$'000	2014 \$'000
Accrued expenses	40,821	20,980
Interest payable	2,711	57
Trade creditors	11,025	15,479
Payable to related entities	<u>23,264</u>	<u>78,253</u>
	<u>77,821</u>	<u>114,769</u>
Current	68,301	114,469
Non-current	<u>9,520</u>	<u>300</u>
	<u>77,821</u>	<u>114,769</u>

For an analysis of the sensitivity of payables to currency and liquidity risk, refer to Note 2.2(a) and 2.2(c).

Included in the related entity payables are the balances related to taxes payable to the head entity of \$21,416,000 (2014: \$88,868,000), 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.

6.5 Cash and cash equivalents

Accounting policies

Cash and cash equivalents

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

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

	2015 \$'000	2014 \$'000
Cash assets	69,951	66,096
	<u>69,951</u>	<u>66,096</u>

Section 7 Other disclosures

7.1 Auditor's remuneration

	2015 \$	2014 \$
Audit of financial reports	286,649	338,551
Regulatory audit services	56,633	54,045
	<u>343,282</u>	<u>392,596</u>
Other assurance services in connection with IPO	-	1,218,563
Non assurance services	35,000	-
	<u>35,000</u>	<u>1,218,563</u>

In 2014 other assurance services provided primarily related to the IPO and were settled by the ultimate parent entity.

7.2 Key management personnel disclosures

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

Directors of the Company	Executive KMP
Ellen (Ellie) Comerford (Ceased to be a Director on 9 October 2015)	Georgette Nicholas
Anthony (Tony) Gill	Tobin Fonseca
Richard Grellman	Conor O'Dowd (Ceased to be a KMP on 1 October 2015)
Ian MacDonald	Andrew Cormack (Appointed as a KMP on 1 October 2015)
Samuel Marsico	Bridget Sakr
Leon Roday	Luke Oxenham (Appointed as a KMP on 9 October 2015)
Stuart Take	
Gayle Tollifson	
Jerome Upton	

The key management personnel compensation is:

	2015	2014
	\$'000	\$'000
Short-term employee benefits	5,841	5,249
Post-employment benefits	349	338
Equity compensation benefits	2,100	2,017
	<u>8,290</u>	<u>7,604</u>

7.3 Related party disclosures

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

Corporate overhead

The Company entered into a shared services agreement with Genworth Financial Inc. ("GFI"), the Group's major shareholder. The services rendered by GFI consist of finance, human resources, legal and compliance, investment services, information technology and other specified services. These transactions are in the normal course of business and accordingly are measured at fair value. Payment for these service transactions are non-interest bearing and are settled on a quarterly basis. The amount charged to the Company during the year was \$5,581,000. There is a payable balance of \$468,000 as at 31 December 2015.

Other related party transactions

The Company paid \$11,222,000 (2014: \$33,000,000) to the head entity of the tax consolidated group, Genworth Mortgage Insurance Australia Limited, for the final 2014 tax funding notified under the terms of the tax funding agreement.

The Company received \$nil (2014: \$8,265,000) in settlement of intercompany payables from Genworth Financial Mortgage Insurance Finance Pty Limited during the year.

The Company paid \$12,000,000 to Genworth Financial New Holdings Pty Limited for intercompany settlement during the year.

The Company has a services agreement with Genworth Financial Australia Holdings LLC ("LLC"), whereby LLC provides corporate advisory and treasury services to the Company. The amount charged to the Company during the year was \$2,475,000 (2014: \$2,542,000) with fees payable of \$261,000 (2014: \$257,000) as at 31 December 2015.

The Company was charged by Genworth Mortgage Insurance Australia Limited an amount of \$1,409,000 (2014: \$1,691,000) for share based payment transactions during the year with fees payable of \$1,605,000 (2014:\$198,000) as at 31 December 2015.

Dividend

The Company paid an ordinary dividend of \$0.0892 and \$0.2354 per ordinary share amounting to \$125,000,000 and \$330,000,000 to its shareholder, Genworth Financial Services Pty Limited on 30 June 2015 and 15 December 2015 respectively. In 2014, the Company paid an ordinary dividend of \$0.0157 and \$0.1773 per ordinary share, amounting to \$22,000,000 and \$248,500,000 to its shareholder, Genworth Financial Services Pty Limited on 26 August 2014 and 16 December 14 respectively.

The Company received from Genworth Financial Mortgage Indemnity Limited an ordinary dividend amounting to \$408,000 during the year.

Ultimate parent entity

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

7.4 Controlled entity

Accounting policies

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

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

Name of entity	Country of incorporation	Class of shares	Equity holding (%)	
			2015	2014
Genworth Financial Mortgage Indemnity Limited	Australia	Ordinary	100	100

7.5 Share-based payments

Accounting policies

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

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

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

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

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

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

Share-based payment transactions

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

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

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

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

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

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

2015								
Grant date	Expiry Date	Exercise Price Number	Balance at 1 January 2015 Number	Granted in the year Number	Exercised in the year Number	Cancelled/ forfeited in the year Number	Balance at 31 December 2015 Number	Vested and exercisable at end of the year
20/07/2005	20/07/2015	44.04	2,400	-	-	2,400	-	-
09/08/2006	09/08/2016	46.82	6,600	-	-	-	6,600	6,600
13/02/2008	13/02/2018	31.28	7,800	-	-	-	7,800	7,800
12/02/2009	12/02/2019	3.37	20,500	-	3,000	-	17,500	17,500
19/08/2009	20/07/2015	10.70	99	-	-	99	-	-
19/08/2009	09/08/2016	10.70	3,049	-	-	-	3,049	3,049
19/08/2009	31/07/2017	10.70	2,450	-	-	-	2,450	2,450
19/08/2009	13/02/2018	10.70	6,288	-	-	-	6,288	6,288
10/02/2010	10/02/2020	19.45	48,600	-	-	-	48,600	48,600
09/02/2011	09/02/2021	17.49	38,500	-	-	-	38,500	38,500
14/02/2012	14/02/2022	12.18	46,800	-	-	-	46,800	35,100
15/02/2013	15/02/2023	12.43	46,500	-	-	-	46,500	23,250
20/02/2014	20/02/2024	20.89	14,000	-	-	-	14,000	3,500
Total			243,586	-	3,000	2,499	238,087	192,637
Weighted average exercise price			\$16.07		3.37	42.72	\$15.95	\$16.34
Balance at 1 January 2015 is adjusted for options granted in prior periods to employees who transferred into/out of the Group during the year.								

2014								
Grant date	Expiry Date	Exercise Price	Balance at 1 January 2014 Number	Granted in the year Number	Exercised in the year Number	Cancelled/ forfeited in the year Number	Balance at 31 December 2014 Number	Vested and exercisable at end of the year Number
25/05/2004	25/05/2014	23.90	24,180	-	-	24,180	-	-
20/07/2005	20/07/2015	39.34	2,400	-	-	-	2,400	2,400
09/08/2006	09/08/2016	41.83	6,600	-	-	-	6,600	6,600
13/02/2008	13/02/2018	27.94	7,800	-	-	-	7,800	7,800
12/02/2009	12/02/2019	3.01	20,500	-	-	-	20,500	20,500
19/08/2009	25/05/2014	9.56	1,552	-	1,552	-	-	-
19/08/2009	20/07/2015	9.56	398	-	299	-	99	99
19/08/2009	09/08/2016	9.56	1,248	-	199	-	1,049	1,049
19/08/2009	03/10/2016	9.56	1,110	-	1,110	-	-	-
19/08/2009	31/07/2017	9.56	2,149	-	2,149	-	-	-
19/08/2009	13/02/2018	9.56	6,300	-	3,750	-	2,550	2,550
12/02/2010	12/02/2020	17.38	37,800	-	-	1,200	36,600	36,600
09/02/2011	09/02/2021	15.63	30,000	-	-	-	30,000	22,500
14/02/2012	14/02/2022	10.88	35,100	-	-	-	35,100	17,550
15/02/2013	15/02/2023	11.10	33,000	-	-	-	33,000	8,250
Total			210,137	-	9,059	25,380	175,698	125,898
Weighted average exercise price			\$15.34		\$9.56	\$23.59	\$12.08	\$9.31

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

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

2014						
Grant date	Balance at 1 January 2014 Number	Granted in the year Number	Exercised in the year Number	Cancelled/forfeited in the year Number	Balance at 31 December 2014 Number	Vested and exercisable at end of the year Number
07/02/2007	2,500	-			2,500	-
10/02/2010	6,831	-	6,831		-	-
01/11/2010	2,500	-		2,500	-	-
01/03/2011	10,000	-	5,000	-	5,000	-
02/09/2011	24,045	-	12,027	2,249	9,769	-
03/01/2012	11,250	-	3,750	-	7,500	-
06/01/2012	3,750	-	1,250	-	2,500	-
11/01/2012	18,750	-	6,250	-	12,500	-
14/02/2012	61,971	-	20,658	4,750	36,563	-
15/02/2013	184,950	-	46,247	31,537	107,166	-
1/08/2013	7,500	-	1,875	-	5,625	-
1/10/2013	6,000	-	1,500	-	4,500	-
2/12/2013	10,000	-	2,500	-	7,500	-
20/2/2014	-	129,800	-	6,850	122,950	
Total	350,047	129,800	107,888	47,886	324,073	
Balance at 1 January 2014 is adjusted for RSUs granted in prior periods to employees who transferred into the Australian Company during the year.						

7.6 Events subsequent to reporting date

As the following event occurred after reporting date and did not relate to conditions existing at reporting date, no account has been taken in the financial statements for the current reporting year ended 31 December 2015.

- On 29 January 2016, Fitch Ratings (Fitch) affirmed its insurer financial strength rating of the Company assigning an 'A+' rating.

Directors' declaration

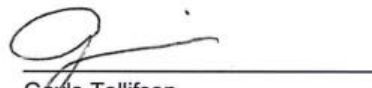
In the opinion of the directors of Genworth Financial Mortgage Insurance Pty Limited (the "Company"):

- (a) the financial statements and notes set out on pages 6 to 46 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 2015 and of its performance, as represented by the results of its operations and its cash flows for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) the financial statements and notes comply with International Financial Reporting Standards; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Richard Grellman
Director



Gayle Tollifson
Director

Dated at Sydney, 25 February 2016.

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 2015, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, notes 1.1 to 7.6 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 1.2(a), 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.

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:

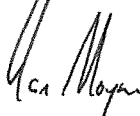
(i) giving a true and fair view of the Company's financial position as at 31 December 2015 and of its performance for the year ended on that date; and

(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 1.2(a).

KPMG

KPMG



Ian Moyser
Partner

Sydney

25 February 2016