Genworth Financial Mortgage Insurance Pty Limited

ABN 60 106 974 305

Annual Financial Report
31 December 2021

Directors' report

The Directors present their report together with the financial statements of Genworth Financial Mortgage Insurance Pty Limited (the Company) for the year ended 31 December 2021 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:

Current directors
Pauline Blight-Johnston
David Foster
Ian MacDonald
Gai McGrath
Andrea Waters
Duncan West
Alistair Muir (appointed on 1 December 2021)
Gerd Schenkel (appointed on 1 December 2021)

Former directors
Rajinder Singh (resigned on 1 March 2021)
Stuart Take (resigned on 1 March 2021)
Graham Mirabito (retired on 4 August 2021)

Principal activities

The principal activity of the Company during the financial year was the provision of lender's mortgage insurance (LMI).

Review and result of operations

The Company reported a net profit after tax of $195,996,000 in 2021 compared to $107,698,000 net loss after tax in 2020. The profit was driven by favourable delinquency and claims experience during the year in addition to decrease in acquisition costs, with 2020 impacted by a one-off write-down of deferred acquisition costs (DAC) of $184.5 million.

Corporate structure

Genworth Financial Mortgage Insurance Pty Limited is incorporated and domiciled in Australia. The parent entity of the Company is Genworth Mortgage Insurance Australia Limited (GMA). GMA is a company limited by shares incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Stock Exchange (ASX).

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

Change in the state of affairs

On 3 March 2021, GMA's major shareholder, Genworth Financial Inc (GFI) (through certain wholly owned subsidiaries), sold its entire holding of shares in GMA. Consequently, GFI no longer owns any shares in the issued capital of GMA.

A number of commercial agreements to which the Company and GFI (or their related bodies corporate) are party, which were established at the time of the initial public offering of GMA will terminate following transition periods. As a result, the Company has undertaken a programme of separation activity to transition relevant services to in-house or to local service providers which is progressing on schedule.

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

Dividends

The Company paid an ordinary dividend per share of $0.0157 and $0.0143 amounting to $22,000,000 and $20,000,000 to its shareholder, GMA on 30 August 2021 and 23 November 2021 respectively. In 2020, the Company paid an ordinary dividend per share of $0.0221 amounting to $31,000,000 to its shareholder, GMA on 18 March 2020.

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

On 25 February 2022, the directors declared a final dividend of 7.85 cents per ordinary share totalling approximately $110,000,000 for the year ended 31 December 2021.

On 27 January 2022, the Company was selected as the exclusive provider of Lenders Mortgage Insurance (LMI) to the Commonwealth Bank of Australia (CBA), excluding Bankwest, subject to agreeing contractual terms. The terms of the new contract is expected to be for a period of 3 years commencing 1 January 2023 and expiring on 31 December 2025.

The current Supply and Service contract between CBA and Genworth will expire at the end of the current exclusivity agreement on 31 December 2022.

There are no other events that have arisen since 31 December 2021 to the date of this report that, in the opinion of the Directors, have significantly affected or may significantly affect the operations of the Company or the state of affairs of the Company in future years.

Likely developments

Significant groundwork has been undertaken on the rebranding of the business and shareholders will be asked to approve the new Company name over the course of 2022.

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 2021 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 2022. Such insurance contracts insure against liability (subject to certain exclusions) persons who are or have been Directors or officers of the Company.

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

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

Directors' interests and benefits

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

Rounding off

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that instrument, amounts in the financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Lead auditor’s independence declaration

The lead auditor’s independence declaration is set out on page 6 and forms part of the Directors’ report.

Signed in accordance with a resolution of the Directors:

Ian MacDonald
Chairman

Dated at Sydney, 25 February 2022

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 of Genworth Financial Mortgage Insurance Pty Limited for the financial year ended 31 December 2021 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

Julia Gunn

Julia Gunn
Partner

Sydney
25 February 2022

Financial statements

Contents

Statement of comprehensive income

for the year ended 31 December 2021

	Note	2021 $'000	2020 $'000
Gross written premium	3.1	549,587	561,730
Movement in unearned premium		(122,626)	(192,674)
Outward reinsurance premium expense		(56,928)	(57,529)
Net earned premium		370,033	311,527
Net claims written back/(incurred)	4.1	8,043	(289,821)
Acquisition costs		(10,464)	(198,820)
Other underwriting expenses	3.3	(68,772)	(59,033)
Underwriting result		298,840	(236,147)
Investment (loss)/income on assets backing insurance liabilities	3.2	(33,978)	59,917
Insurance profit/(loss)		264,862	(176,230)
Investment income on equity holders' funds	3.2	27,604	34,763
Investment expense		(4,029)	(4,363)
Other income		1,285	1,330
Financing costs		(10,291)	(10,709)
Profit/(loss) before income tax		279,431	(155,209)
Income tax (expense)/benefit	3.5(a)	(83,435)	47,511
Profit/(loss) for the year		195,996	(107,698)
Total comprehensive income/(loss) for the year		195,996	(107,698)

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 2021

	Note	2021	2020
		$'000	$'000
Assets			
Cash and cash equivalents	6.1	37,740	82,831
Accrued investment income		16,680	20,444
Investments	2.2(d)	3,598,497	3,286,132
Trade and other receivables	6.2	17,152	54,317
Prepayments		2,605	1,695
Recoveries receivable	4.4	21,594	33,254
Deferred acquisition costs	4.2	87,181	40,264
Plant and equipment		3.448	4,301
Lease assets	6.3	3,618	5,955
Deferred tax assets	3.5(b)	41,578	54,153
Investment in controlled entity	7.4	27,598	27,598
Intangibles	6.4	4,643	6,490
Goodwill	6.5	7,490	7,490
Total assets		3,869,824	3,624,924
Liabilities			
Trade and other payables	6.6	81,764	48,692
Lease liabilities	6.3	7,663	12,324
Reinsurance payable		10,992	11,283
Outstanding claims	4.3	479,952	539,806
Unearned premiums	4.5	1,562,810	1,440,177
Employee benefits provision	6.7	7,282	7,645
Interest bearing liabilities	5.2	188,229	187,781
Total liabilities		2,338,692	2,247,708
Net assets		1,531,132	1,377,216
Equity			
Share capital	5.3(a)	1,401,559	1,401,559
Share-based payment reserve	5.3(b)	101	181
Other reserves	5.5	(603,268)	(603,268)
Retained earnings		732,740	578,744
Total equity		1,531,132	1,377,216

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 2021

	Share capital	Other reserves	Share-based payment reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2020	1,401,559	(603,268)	638	717,442	1,516,371
Loss after taxation	-	-	-	(107,698)	(107,698)
Dividend declared and paid	-	-	-	(31,000)	(31,000)
Share-based payment expense recognised	-	-	(422)	-	(422)
Share-based payment settled	-	-	(35)	-	(35)
Balance at 31 December 2020	1,401,559	(603,268)	181	578,744	1,377,216
Balance at 1 January 2021	1,401,559	(603,268)	181	578,744	1,377,216
Profit after taxation	-	-	-	195,996	195,996
Dividend declared and paid	-	-	-	(42,000)	(42,000)
Share-based payment expense recognised	-	-	(80)	-	(80)
Balance at 31 December 2021	1,401,559	(603,268)	101	732,740	1,531,132

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 2021

	Note	2021	2020
		$'000	$'000
Cash flows from operating activities			
Premiums received		598,080	621,779
Interest and other income		42,842	45,648
Claims paid		(41,141)	(123,930)
Outwards reinsurance premium expense paid		(57,219)	(57,941)
Interest paid		(12,268)	(12,190)
Cash payments in the course of operations		(171,097)	(153,971)
Income tax paid		(7,025)	(23,169)
Net cash provided by operating activities	3.4	352,172	296,226
Cash flows from investing activities			
Payments for plant and equipment and intangibles		-	(529)
Payment for the purchase of investments		(2,519,912)	(3,425,821)
Proceeds from sale of investments		2,168,047	3,192,327
Proceeds from dividend income		115	542
Proceeds from sub-lease of property		1,774	1,629
Net cash used in investing activities		(349,976)	(231,852)
Cash flows from financing activities			
Net repayment of long-term borrowings		-	(12,434)
Payment of lease liabilities		(4,649)	(4,304)
Dividends paid		(42,000)	(31,000)
Net cash used in financing activities		(46,649)	(47,738)
Net (decrease)/increase in cash held		(44,453)	16,636
Effects of exchange rate changes on balances of cash held in foreign currencies		(638)	196
Cash and cash equivalent at the beginning of the financial year		82,831	65,999
Cash and cash equivalent at the end of the financial year	6.1	37,740	82,831

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 2022.

1.2 Significant accounting policies

(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. The financial reports of the Company also comply with IFRS and interpretations adopted by the International Accounting Standards Board (IASB).

The current IFRS standard for insurance contracts does not include a comprehensive set of recognition and measurement criteria (refer to note 1.2(c)(iii)). The IASB has issued a new standard (IFRS 17 *Insurance Contracts* – adopted as AASB 17 *Insurance Contracts* in an Australian context), that does include such criteria, with an effective date of 1 January 2023. At the time of implementation of AASB 17, AASB 9 *Financial Instruments* will be implemented as well given the Company meets the requirements for deferral under AASB 4 *Insurance Contracts*. Until this standard takes effect, the financial reports of insurers in different countries that comply with IFRS may not be comparable in terms of the recognition and measurement of insurance contracts.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the financial position and performance of the Company.

(b) Basis of preparation of the financial report

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 notes to the financial statements.

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

The Company does not prepare consolidated accounts for the consolidated entity comprising it and its controlled entity pursuant to applying the exemption under AASB 10 *Consolidated financial statements*.

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

(c) Accounting policies adopted

The accounting policies adopted in the preparation of this financial report have been applied consistently by the Company and are the same as those applied for the previous reporting year, unless otherwise stated. The significant accounting policies adopted in the preparation of this financial report are set out within the relevant notes to the financial statements.

(i) New and amended standards adopted by the Company

There are additional new accounting standards and interpretations, effective on or after 1 January 2021 (refer to the table below) which were adopted by the Company. The adoption of these standards did not have a material effect on the Company's financial statements.

	New standards, amendments and interpretations	Operative date
AASB 2020-8	Amendments to Australian Accounting Standards -Interest Rate Benchmark Reform – Phase 2	1 January 2021

(ii) New accounting standards and amendments issued but not yet effective

There are various new accounting standards, amendments and interpretations noted below which are effective for annual periods beginning on or after 1 January 2022 and have not been applied in preparing these financial statements. An initial assessment of the financial impact of these standards and amendments has been undertaken and they are not expected to have a material impact on the Company's financial statements, except for AASB 17.

	New standards, amendments and interpretations	Operative date
AASB 17 / AASB 2020-5	Insurance Contracts / Amendments to Australian Accounting Standards – Insurance Contracts	1 January 2023
AASB 9	Financial Instruments	1 January 2023 (subject to exemption)
AASB 2020-1 / AASB 2020-6	Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current	1 January 2023
AASB 2021-2	Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates	1 January 2023
AASB 2021-5	Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
AASB 2017-5	Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	1 January 2022
AASB 2020-3	Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments	1 January 2022
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2022

(iii) AASB 17 Insurance Contracts

AASB 17, the new accounting standard for insurance contracts, was adopted by the Australian Accounting Standards Board in July 2020. Various implementation and interpretation matters are still being discussed by various stakeholders at the AASB 17 Transition Resource Group. At this stage, it is not expected that those discussions will lead to further changes to AASB 17. The first applicable annual reporting period for the Company will be for the year ending 31 December 2023, with the comparative period for the year ending 31 December 2022 and the Statement of Financial Position at 1 January 2022.

The Company continues to progress its AASB 17 implementation program including the detailed impact assessment of the new standard and the requirements to implement and modify systems and processes for adoption on 1 January 2023. As at the date of this report, key aspects considered under the Company's detailed impact assessment of the new standard include:

- **Insurance contracts** - the Company currently comprises a single portfolio, of insurance contracts with similar risks which are managed together. The Company expects that all its contracts considered to be insurance contracts under AASB 1023 will continue to be accounted for as insurance contracts under AASB 17. Under AASB 17, the insurance contract portfolio is required to be disaggregated to a more granular level into underwriting years and levels of profitability at inception. For the Company's direct insurance business, the insurance contract is expected to be deemed at the borrower level (as opposed to the lender policyholder) as the Company has the ability to accept or reject individual applications. For the Company's reinsurance business, the insurance contract is expected to be at the lender policyholder level. The Company is expecting to include direct contracts issued and reinsurance contracts issued in different groups;
- **Level of aggregation** - the Company's single portfolio of insurance contracts needs to be disaggregated by underwriting years, with a further breakdown for contracts considered onerous (unprofitable);
- **Measurement overview** – AASB 17 also introduces a new general measurement model for accounting of insurance contracts based on fulfilment cashflows (discounted future cash flows risk adjusted for non-financial risk) and contractual service margin (CSM). The application of a simplified approach is permitted in certain circumstances, although the vast majority of insurance contracts underwritten by the Company are not expected to meet the requirements of the simplified approach due to their long-term coverage period;
- **Fulfillment cash flows** - all future fulfilment cash flows relating to in-force insurance contracts need to be estimated and recognised within the insurance contract liabilities;
- **CSM** - for each group of insurance contracts, the expected future profit is included within the insurance contract liability and represents the CSM. The CSM is released to insurance revenue over the coverage period as the insurance service is provided by the Company. The provision of insurance service, which underpins the recognition of the CSM, is expected to be based on several factors including the estimated negative equity within the portfolio (shortfall of the property value compared to the outstanding loan balance). This is expected to be estimated by adjusting the outstanding loan balance by severity factors, informed by past experience. These assumptions will be reviewed on a regular basis;
- **Risk adjustment** - the insurance liability also includes a risk adjustment for non-financial risk under AASB 17 to reflect the compensation that the entity requires for bearing uncertainty about the amount and timing of the cash flows. The risk adjustment is expected to be determined using a confidence level approach to measure insurance contract liabilities;
- **Discounting** – the fulfilment cash flows within the insurance contract liability is expected to be discounted using discount rates that are based on market rates at the valuation date. The Company expects to recognise the insurance finance expense (effect of unwinding the discounting impact and the changes in discount rates) fully in profit or loss, as opposed to disaggregating it between profit or loss and other comprehensive income. This would ensure the most effective matching with the investment portfolio which is expected to be measured at fair value through profit or loss upon adoption of AASB 9 as disclosed in note 1.2(c)(iv); and
- **Presentation and disclosures** - AASB 17 introduces substantial changes to the presentation and disclosures of the financial statements. The disclosures are expected to be more extensive, requiring increased granularity and analysis of movements.

In December 2021, the Australian Prudential Regulation Authority (APRA) has issued a second Quantitative Impact Study (QIS), as part of its ongoing work to update its prudential and reporting standard in light of the adoption of AASB 17. APRA has invited all the insurance companies to participate in the QIS, on a best endeavours basis, with responses due by 31 March 2022. APRA has indicated that the updates to its prudential and reporting framework were not intended to alter the minimum capital levels required to be held by insurance companies.

The requirements of AASB 17 are complex and the Companys expectations noted above are subject to change as it continues to assess the impact of the standard and interpretation developments. Regulators are considering their response to the new standard which may result in changes to the prudential and reporting standards, as well as the *Income Tax Assessment Act 1997*. The Company continues to closely monitor all these developments and to assess the financial impacts of the standard on the Company.

The Company expects the timing of recognition of profit will change under AASB 17 due to the different valuation method used to determine the insurance liability. This could lead to a significant change in the net asset position on transition at 1 January 2023. At the date of this report, the financial impact of adopting AASB 17 remains uncertain and cannot be reasonably estimated by the Company.

(iv) AASB 9 Financial Instruments

AASB 9 applies to annual reporting periods beginning on or after 1 January 2018. The Company is allowed to apply the temporary exemption from AASB 9 as it has not previously adopted any version of AASB 9 and its activities are predominantly connected with insurance, as prescribed by AASB 4 Insurance Contracts (i.e. at 31 December 2015, the carrying amount of the Company's insurance liabilities, including insurance debt instruments, was significant compared to the total carrying amount of all its liabilities and the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities was greater than 90%).

The AASB (in line with the IASB) extended the temporary exemption from the adoption of AASB 9 to reporting periods beginning 1 January 2023, for companies meeting these criteria. The Company, having met those criteria, has deferred the adoption of AASB 9 and is expecting to adopt AASB 9 at the same time as AASB 17.

AASB 9 introduces changes to the classification and measurements of financial instruments, replaces the 'incurred losses' impairment model with a new 'expected loss' model when recognising expected credit losses on financial assets, and includes new general hedge accounting requirements.

The Company's investments are currently designated at fair value through profit or loss on initial recognition and are subsequently remeasured to fair value at each reporting date, reflecting the business model applied by the Company to manage and evaluate its investment portfolio on a fair value basis. Under the Company's current business model, it is expected the adoption of AASB 9 is likely to result in the investment portfolio continuing to be measured at fair value through profit or loss. Hence, the Company does not expect any material changes to the carrying value of its financial instruments upon the adoption of AASB 9.

(d) Rounding off

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that instrument, amounts in the financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(e) Critical accounting estimates and judgements

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

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

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment are discussed in note 4.7.

COVID-19 pandemic

The ongoing COVID-19 pandemic continues to impact the estimation uncertainty in the preparation of these financial statements. The Company has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2021 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Company. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates particularly impacted by these associated uncertainties are predominantly related to the:

- valuation of the Outstanding Claims Liability (refer to note 4.3 and 4.7);
- valuation of the Unearned Premium (refer to note 4.5 and 4.7);
- estimates of future claims and related expenses for the preparation of the Liability Adequacy Test (refer to note 4.6) and the Company's regulatory capital position (refer to note 4.8);
- recoverable amount assessments of Intangible Assets (refer to note 6.4);
- recoverable amount assessments of Goodwill (refer to note 6.5); and
- fair value measurement of investments (refer to note 2.2(d)).

The impact of the COVID-19 pandemic on accounting estimates is discussed in the relevant notes to the financial statements.

(f) Comparative figures

Comparative figures have been reclassified, where necessary, to conform to the basis of presentation and the classification used in the current year.

Section 2 Risk management

This note presents information about the Company's objectives, policies and processes for measuring and managing risk.

2.1 Risk management framework

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

The Audit Committee assists the Board in providing an objective non-executive review of the effectiveness of the Risk Management Framework, in relation to the management of material financial risks.

The Company's risk management policies are established to identify and assess the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed to reflect changes in market conditions and the Company's activities. The Company, through its management policies and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

2.2 Financial risk management

The Company has exposure to market, credit and liquidity risks relating to its use of financial instruments.

(a) Market risk

Market risk is the risk that the market price of assets changes and the potential for such change to result in the actual market value of the Company's assets being adversely impacted.

(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 debt securities, in receivables and payables denominated in a currency other than Australian dollars and the net investment in foreign branch operations. The currencies giving rise to the risk are United States dollars and New Zealand dollars (2020: United States dollars, Euros and New Zealand dollars).

The Company used forward foreign exchange contracts to mitigate currency risk arising from interest bearing securities denominated in currencies other than Australian dollars. The risk management processes required both Board and regulatory approvals. Transactions are subject to close senior management scrutiny in addition to the regular risk management and monitoring processes. 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 are closely monitored.

The potential impact on the Company's profit or loss (before tax) resulting from a 10% depreciation or appreciation of the Australian dollar (AUD) compared with selected currencies, net of related derivatives at the reporting date, assuming all other variables remain constant, is shown below.

	2021		2020	
	+10%	-10%	+10%	-10%
	$'000	$'000	$'000	$'000
New Zealand dollar	(160)	160	(79)	79
United States dollar	(14)	14	(185)	185
Euros	-	-	201	(201)

(ii) Cash flow and fair value interest rate risk

The Company is exposed to interest rate risk primarily arising from interest bearing assets. Assets with floating interest rate 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 predominantly in high quality, liquid debt securities and cash and to actively manage the duration.

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

The Company has exposure to interest rate risk on its term subordinated notes. The interest rate on these notes is reset quarterly.

The potential impact of movements in interest rates on the Company's profit or loss resulting from 50 basis points (2020: 50 basis points) increase or decrease in interest rates on interest bearing assets, assuming all other variables remain constant, are shown below:

	2021		2020	
	+50bps	-50bps	+50bps	-50bps
	$'000	$'000	$'000	$'000
Interest bearing assets	(33,222)	33,222	(42,167)	42,167

(iii) Equity price risk

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

The potential impact of movements in price risk on the Company's profit or loss (before tax) as resulting from a 10% increase or decrease in the value of equity securities at reporting date are shown below:

	2021		2020	
	+10%	-10%	+10%	-10%
	$'000	$'000	$'000	$'000
Investments – unit trusts equity securities	17,501	(17,501)	11,631	(11,631)
Investments – unlisted equities	767	(767)	967	(967)

(b) Credit risk

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

The Company's investment portfolio comprises 84% (2020: 80%) of total securities and cash with counterparties having a rating of A- or better. The Company does not expect any investment counterparties to fail to meet their obligations given their strong credit ratings.

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

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

	2021	2020
	$'000	$'000
Cash at bank and short-term deposits		
AAA	25,088	13,176
AA	186,582	143,147
A	105,558	23,975
	317,228	180,298
Investments (excluding short-term deposits and equities)		
AAA	850,633	1,037,638
AA	954,878	906,963
A	931,029	583,671
BBB	399,780	519,831
BB	-	14,590
	3,136,320	3,062,693
Accrued interest receivable		
AAA	2,679	5,407
AA	7,362	8,178
A	3,425	2,529
BBB	1,766	3,315
BB	-	200
Not rated	1,448	815
	16,680	20,444
Trade and other receivables		
Premium receivables		
AA	3,831	163
Not rated	5,618	11,231
Other receivables		
A	3,723	33,834
Not rated	3,980	9,089
	17,152	54,317

(c) Liquidity risk

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

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

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

2021	Less than 1 year	1 - 5 years	Total
Financial liabilities	$'000	$'000	$'000
Trade and other payables	80,781	983	81,764
Reinsurance payable	10,992	-	10,992
Lease liabilities	4,922	2,741	7,663
	96,695	3,724	100,419

2020	Less than 1 year	1 - 5 years	Total
Financial liabilities	$'000	$'000	$'000
Trade and other payables	47,750	942	48,692
Reinsurance payable	11,283	-	11,283
Lease liabilities	4,978	7,346	12,324
	64,011	8,288	72,299

Interest bearing liabilities which is classified as financial liabilities are separately disclosed in note 5.2.

(d) Fair value measurements

Accounting policies

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.
- *Interest bearing securities, derivatives and unlisted equities* are initially recognised at fair value, determined as the quoted 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 using the fair values of recent arm's length transactions involving the same or similar instruments. In the absence of observable market information, unobservable inputs which reflect management's view of market assumption are used. Valuation techniques maximise the use of observable inputs and minimise the use of unobservable inputs.
- *Unlisted unit trusts securities* are valued using quoted current unit prices as advised by the responsible entity, trustee or equivalent of the investment vehicle.

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 premium) plus an allowance for capital adequacy.

The Company has designated the assets backing general insurance activities based on its function. Initially insurance technical balances are offset against the required assets with all 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 all assets backing insurance activities at fair value through profit or loss, with any unrealised gains and losses recognised in the statement of comprehensive income.

Financial assets not backing general insurance liabilities

Investments not backing insurance liabilities are designated as financial assets at fair value through profit or loss on the same basis as those backing insurance liabilities.

Derivative financial instruments

The Company used forward foreign exchange contracts to hedge currency exposures arising from interest bearing securities denominated in currencies other than Australian dollars, with both the foreign exchange and derivatives impact reported through profit or loss. 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 and attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value through profit or loss. The investment related derivatives are presented together with the underlying investments or as payables when the fair value is negative. Forward foreign exchange contracts are determined using observable inputs (level 2 in the fair value hierarchy).

The following table presents investments that are measured and recognised at fair value:

Investments

	2021 $'000	2020 $'000
Fixed interest rate		
Short-term deposits	279,489	97,216
Australian government and state government bonds	1,063,850	1,433,219
Corporate bonds and others	790,286	864,136
	2,133,625	2,394,571
Floating interest rate		
Short-term deposits	-	251
Corporate bonds and others	1,282,183	747,867
	1,282,183	748,118
Derivatives		
Investment related derivatives	-	17,471
Equity securities		
Unlisted unit trust	175,015	116,306
Unlisted equities	7,674	9,666
	182,689	125,972
Total investments	3,598,497	3,286,132
Comprising:		
Current	865,259	364,977
Non-current	2,550,549	2,795,183
Equities	182,689	125,972
	3,598,497	3,286,132

There were $180.0 million of undrawn commitments to an externally managed unlisted infrastructure fund at 31 December 2021 (2020: nil).

Since the fair value of the majority of the Company's investments is determined based on observable market data, this measurement basis has not changed as a result of COVID-19.

Fair value hierarchy

The Company investments carried at fair value have been classified under the three levels of the AASB 13 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. This

category includes unlisted equities. The fair value has been assessed based on the most recent capital raising price of the unlisted equity investment.

2021	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial instruments				
Australian government and state-government bonds	-	1,063,850	-	1,063,850
Corporate bonds and others	-	2,072,469	-	2,072,469
Short-term deposits	279,489	-	-	279,489
Unlisted unit trusts	-	175,015	-	175,015
Unlisted equities	-	-	7,674	7,674
Total	279,489	3,311,334	7,674	3,598,497

2020	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial instruments				
Australian government and state-government bonds	-	1,433,219	-	1,433,219
Corporate bonds and others	-	1,612,003	-	1,612,003
Short-term deposits	97,467	-	-	97,467
Derivative assets	-	17,471	-	17,471
Unlisted unit trusts	-	116,306	-	116,306
Unlisted equities	-	-	9,666	9,666
Total	97,467	3,178,999	9,666	3,286,132

There have not been any transfers between levels during the current and prior years.

The reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy is set out in the table below:

	Balance at 1 January 2021	Purchases	Disposals	Movement in fair value	Balance at 31 December 2021
2021	$'000	$'000	$'000	$'000	$'000
Financial Instruments					
Unlisted equities	9,666	-	-	(1,992)	7,674
Total	9,666	-	-	(1,992)	7,674

	Balance at 1 January 2020	Purchases	Disposals	Movement in fair value	Balance at 31 December 2020
2020	$'000	$'000	$'000	$'000	$'000
Financial Instruments					
Unlisted equities	4,000	-	-	5,666	9,666
Total	4,000	-	-	5,666	9,666

Derivative financial instruments

Reporting date positions

The notional amount and fair value of derivative financial instruments at balance date is set out in the table below:

	2021			2020		
	Exposure	Fair value asset	Fair value liability	Exposure	Fair value asset	Fair value liability
	$'000	$'000	$'000	$'000	$'000	$'000
Forward foreign exchange contracts	339,120	-	10,260	673,100	17,471	14
	339,120	-	10,260	673,100	17,471	14

All derivative contracts are expected to be settled within 12 months.

Section 3 Results for the year

3.1 Gross written premium

Accounting policies

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

	2021 $'000	2020 $'000
Direct premium	547,724	560,322
Inward reinsurance premium	1,863	1,408
	549,587	561,730

In Australia, the majority of mortgages are originated through the country's four largest banks. The gross written premium (GWP) for the Company's two largest customers is included in the table below. The second largest customer changed in 2021 with the loss of the National Australia Bank (NAB) contract, which was not renewed and expired on 20 November 2020.

Lender customer	2021 GWP	2020 GWP
Largest customer	64.6%	56.9%
Second largest customer	9.0%	11.0%

3.2 Investment (loss)/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.

Dividend/distribution revenue

Dividends are recognised on the date the dividends/distributions are declared, which for listed equity securities is deemed to be the ex-dividend date. Dividend revenue is recognised net of franking credits and gross of withholding tax.

Refer to note 2.2 (d) fair value measurements Accounting policies for further details.

	2021 $'000	2020 $'000
Dividend from subsidiary	115	542
Interest revenue	36,438	49,770
Dividend/Distribution revenue	6,668	1,210
Unrealised losses including derivatives	(10,658)	(45,775)
Realised (losses)/gains including derivatives	(39,725)	90,369
Other income gains/(losses)	788	(1,436)
Total investment (loss)/income	(6,374)	94,680
Represented by:		
Investment (loss)/income on assets backing insurance liabilities	(33,978)	59,917
Investment income on equity holders' funds	27,604	34,763
	(6,374)	94,680

3.3 Other underwriting expenses

	2021 $'000	2020 $'000
Depreciation and amortisation expense	5,036	4,859
Employee expenses:		
– Salaries and wages	29,044	25,250
– Superannuation contributions	1,899	1,592
– Employee benefits	(198)	291
Administrative expenses	32,991[1]	27,041
	68,772	59,033

[1] Includes separation costs of $8.4 million for the cost of transition and implementation of new software, hardware and services previously provided by GFI.

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.

	2021 $'000	2020 $'000
Profit/(loss) after income tax	195,996	(107,698)
Less items classified as investing/financing activities:		
– Loss/(gain) on sale of investments	39,725	(90,369)
– Unrealised losses on investments including derivatives	10,658	45,775
– Dividend income	(115)	(542)
Add non-cash items:		
– Share-based payments	(80)	(457)
– Loss on disposal of plant and equipment	-	-
– Depreciation and amortisation	5,036	4,869
– Interest income from leases	(164)	(221)
Net cash provided by/(used in) operating activities before change in assets and liabilities	251,056	(148,643)
Change in assets and liabilities during the financial year:		
Decrease/(increase) in receivables	19,849	(7,644)
(Decrease)/increase in outstanding claims liability	(59,854)	179,421
Increase/(decrease) in payables and borrowings	53,193	(16,072)
(Increase)/decrease in deferred acquisition costs	(46,917)	142,614
Decrease/(increase) in deferred tax balances	12,575	(46,811)
(Decrease)/increase in provision for employee entitlements	(363)	549
Increase in unearned premiums	122,633	192,812
Net cash provided by operating activities	352,172	296,226

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. Current tax is the 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 nor taxable profit; and 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.

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.

	2021 $'000	2020 $'000
(a) Income tax expense/(benefit)		
Current tax	70,860	(1,713)
Deferred tax	12,575	(45,063)
Under/(over) provision in prior year:		
Current tax	-	(700)
Deferred tax	-	(35)
Income tax expense/(benefit)	83,435	(47,511)

Reconciliation of income tax expense/(benefit) to prima facie tax payable

	2021 $'000	2020 $'000
Prima facie income tax expense/(benefit) calculated at 30% of profit/(loss)	83,829	(46,563)
Decrease/(increase) in income tax expense/(benefit) due to:		
Foreign tax rate differential	(26)	21
Under/(over) provision in prior year	-	(735)
Franking tax credit	(459)	(396)
Non-deductible items	(319)	324
Other non-taxable items	410	(162)
Income tax expense/(benefit)	83,435	(47,511)

(b) Deferred tax assets

Deferred tax asset balance comprises temporary differences attributable to:	2021 $'000	2020 $'000
Leases	345	557
Employee benefits	4,691	3,519
Share-based payments and accrued expenses	827	504
Provision for indirect claims handling costs	5,454	5,333
Deferred acquisition costs	29,800	44,038
Other	461	202
	41,578	54,153
Net deferred tax		
Balance as at 1 January	54,153	9,055
(Debited)/credited to the statement of comprehensive income	(12,575)	45,063
Over provision of prior year tax	-	35
Balance as at 31 December	41,578	54,153

In the current year, the New Zealand shareholder continuity test requiring at least 49% of a company's voting shares to be maintained was not met due to the divestiture of GMA by GFI. This, in isolation, would have resulted in the loss of the entire $74,145,000 of carried forward tax losses from 2020. No deferred tax asset had been recognised in respect of these tax losses due to insufficient certainty of future profits in New Zealand to utilise those losses.

During the year, the New Zealand Inland Revenue Department also introduced a business continuity test to be considered in addition to the shareholder continuity test. This business continuity test allows, where there has been no major change in the business during the year, companies to continue to carry forward tax losses incurred from the 2013-14 income year onwards even if the shareholder continuity test has not been met. The Company has met the conditions of the business continuity test and as such, the eligible carry forward tax losses from the New Zealand operations from 2013-14 income year onwards was $1,009,000. These carry forward tax losses were fully utilised against the income generated by the Company's New Zealand operations in 2021.

As at 31 December 2021, the Company had carried forward tax losses from the New Zealand operations amounting to nil (2020: $74,145,000).

3.6 Dividends

Accounting policy

A provision for dividends is made in respect of ordinary shares when dividends have been 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 per share of $0.0157 and $0.0143 amounting to $22,000,000 and $20,000,000 to its shareholder, GMA on 30 August 2021 and 23 November 2021 respectively. In 2020, the Company paid an ordinary dividend per share of $0.0221 amounting to $31,000,000 to its shareholder, GMA on 18 March 2020.

(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.

(c) Dividends not recognised at reporting date

On 25 February 2022, the directors declared a final dividend of 7.85 cents per ordinary share totalling approximately $110,000,000 for the year ended 31 December 2021.

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 (written back)/incurred

(a) Claims analysis

	2021 $'000	2020 $'000
Gross claims (written back)/incurred	(4,511)	296,809
Reinsurance and other recoveries revenue	(3,532)	(6,988)
Net claims (written back)/incurred	(8,043)	289,821

(b) Claims development

	2021 Current Year $'000	2021 Prior Years $'000	2021 Total $'000	2020 Current Year $'000	2020 Prior Years $'000	2020 Total $'000
Gross claims expense						
Direct	90,482	(86,422)	4,060	133,460	147,785	281,245
Inwards reinsurance	2,584	(11,155)	(8,571)	5,705	9,859	15,564
Gross claims (written back)/incurred[1]	93,066	(97,577)	(4,511)	139,165	157,644	296,809
Reinsurance and other recoveries revenue	(263)	(3,269)	(3,532)	(398)	(6,590)	(6,988)
Net claims (written back)/incurred	92,803	(100,846)	(8,043)	138,767	151,054	289,821

[1] including reinsurance and other recoveries provision movement

Net claims written back in 2021 was supported by favourable claims experience from high growth in dwelling prices, and low numbers of mortgages in possession, new delinquencies and paid claims.

4.2 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 (refer to note 4.6).

Refer to note 4.7 Accounting estimates and judgements (including Actuarial assumptions and methods) for further detailed information.

	2021 $'000	2020 $'000
Balance as at 1 January	40,264	182,878
Acquisition costs incurred during the year	57,705	56,824
Amortisation charge	(10,788)	(199,438)[1]
Balance as at 31 December	87,181	40,264
Comprising:		
Current	10,813	5,958
Non-current	76,368	34,306
	87,181	40,264

[1]After conducting the liability adequacy test as at 31 March 2020, the Company had a liability deficiency of $184.5 million which resulted in a DAC write-down of $184.5 million.

4.3 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, incurred but not reported (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.

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

Refer to note 4.7 Accounting estimates and judgements (including Actuarial assumptions and methods) for further detailed information.

	2021 $'000	2020 $'000
Central estimate	410,015	462,514
Risk margin	69,937	77,292
Gross outstanding claims	479,952	539,806

(a) Reconciliation of changes in outstanding claims	2021 $'000	2020 $'000
Balance as at 1 January	539,806	360,385
Current year net claims (written back)/incurred	(8,043)	289,821
Movement in non-reinsurance and borrower recoveries	(11,660)	10,514
Net claims paid	(40,151)	(120,914)
Balance as at 31 December	479,952	539,806

	2021	2020
	$'000	$'000
Comprising:		
Current	95,717	148,304
Non-current	384,235	391,502
	479,952	539,806

(b) Claims development

Underwriting years	Prior years	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	Total $'000
At end of year of underwriting		1,079	1,021	777	1,424	860	1,162	1,019	632	2,231	1,354	
One year later		7,805	6,825	12,917	6,803	8,620	6,716	11,193	13,399	7,299		
Two years later		11,246	20,870	20,319	16,711	8,680	8,885	18,599	5,720			
Three years later		24,535	29,722	21,130	13,560	8,238	18,443	1,010				
Four years later		43,917	28,494	20,825	14,601	17,099	(516)					
Five years later		34,634	30,254	31,018	31,787	1,533						
Six years later		21,273	18,955	38,764	(7,958)							
Seven years later		13,540	31,205	(13,098)								
Eight years later		26,026	(5,143)									
Nine years later		(3,477)										
Net incurred to date		180,578	162,203	132,652	76,928	45,030	34,690	31,821	19,751	9,530	1,354	
Net paid to date		148,500	118,569	82,190	35,021	10,000	5,605	1,729	109	43	-	
Net outstanding claims provision at 31 December 2021	165,587	32,078	43,634	50,462	41,907	35,030	29,085	30,092	19,642	9,487	1,354	458,358
Non-reinsurance recoveries at 31 December 2021												21,594
Gross outstanding claims provision at 31 December 2021												479,952

4.4 Recoveries receivable

Accounting policies

Reinsurance and non-reinsurance recoveries receivable on paid claims, reported claims not yet paid and IBNR 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 an asset within the Recoveries receivable balance.

The following table presents non-reinsurance recoveries.

	2021 $'000	2020 $'000
Balance as at 1 January	33,254	22,740
Movement of non-reinsurance recoveries	(11,660)	10,514
Balance as at 31 December	21,594	33,254

There were no reinsurance recoveries at 31 December 2021 (2020: nil).

4.5 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 12 years based on an actuarial assessment of the pattern and period of risk. The earned portion of premium received is recognised as revenue. The balance of premium received or receivable is recorded as unearned premium.

Refer to note 4.7 Accounting estimates and judgements (including Actuarial assumptions and methods) for further detailed information.

	2021 $'000	2020 $'000
Balance as at 1 January	1,440,177	1,247,365
Premiums incepted during the year	549,587	561,730
Premiums earned during the year	(426,954)	(368,918)
Balance as at 31 December	1,562,810	1,440,177
Comprising:		
Current	263,927	303,749
Non-current	1,298,883	1,136,428
	1,562,810	1,440,177

4.6 Liability adequacy test

Accounting policies

The liability adequacy test (LAT) is an assessment of the carrying amount of the unearned premium liability and is conducted at each reporting date. It comprises 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. If the future claim costs exceed the unearned premium liability less related deferred reinsurance expense and deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The test is performed at the portfolio level 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 probability of adequacy (POA) adopted for liability adequacy test is set at 70% and differs from the 75% probability of adequacy adopted in determining the outstanding claims liabilities (refer to note 4.7(a)). The reason for this difference is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liabilities.

The process used to determine the risk margin is discussed in note 4.7(a).

As at 31 December 2021 and 31 December 2020, the LAT resulted in a surpluses for the LMI portfolio:

	2021 $'000	2020 $'000
Net central estimate of present value of expected cash flows associated with future claims	805,171	983,564
Risk margin of the present value of expected cash flows on future claims	111,337	137,124
Net premium liabilities	**916,508**	**1,120,688**
Risk margin percentage	17%	17%
Probability of adequacy	70%	70%

Expected future claims are inherently uncertain, particularly in the current environment as the economic effects of COVID-19 continue to evolve.

The Company has projected future claims based on a range of possible economic scenarios and has adopted a central scenario estimate for the liability valuation incorporating a median view of economic forecasts.

At 31 December 2021, under the Company's central scenario estimate, expected future claims (including an appropriate risk margin) exceeded the net insurance liabilities, creating a LAT surplus of $559.1 million (2020: $279.2 million).

4.7 Accounting estimates and judgements (including Actuarial assumptions and methods)

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

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

(a) Outstanding claims

Estimation of outstanding claims liabilities (note 4.3)

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

The estimated cost of claims includes 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, it is likely that the final outcome will prove to be different from the original liability established.

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

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.

Responses to COVID-19 such as government stimulus and repayment deferrals are delaying the development and progression of delinquencies and claims and increasing uncertainty around potential claims emergence. The delinquency and claim experience in 2021 has been favourable with lower numbers of new delinquencies reported and lower ageing of delinquencies due to significant house price increases over the year. In establishing the COVID-19 specific element of the net outstanding claims liability, significant management judgement has been applied to derive a reasonable estimate of the probability-weighted view of potential future cash flows. All related uncertainties have been factored into the Company's probability weighting when estimating the provision.

Actuarial valuation approach

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 delinquency portfolio. The Company establishes provisions for outstanding claims in two parts:

- Delinquent policies advised to the Company by lenders as being 90 days delinquent at the valuation date;
- IBNR, being the liability for future claims from policies which have missed at least 1 monthly repayment (or equivalent) and are not currently reported by lenders as being 3 months or more in delinquency. This includes policies that were reported delinquent in past periods and may re-report as delinquent in future periods.

For loans where the mortgagee is in possession (MIP) and a claim has been submitted, the claimed amount adjusted for amounts not eligible to be claimed is provided. For loans where there is a MIP but a claim has not yet been submitted, a case estimate based approach is used utilising 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.

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;
- 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.

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, house price appreciation (HPA) 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 geographic region of the properties secured by the mortgages and mortgagor groups. 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 for policies being greater than 90 days delinquent at the valuation date:

- Average frequency factor is 33% (2020: 31%)
- Average severity factor is 27% (2020: 27%)

IBNR

The IBNR provision is estimated by analysing the historical pattern of reported delinquencies, separated into:

- Policies reported by lenders as being between 30 and 90 days delinquent at the valuation date (not all lenders provide such reporting);
- Policies estimated as being at least 30 days delinquent at the valuation date but not reported by lenders; and
- Policies which were reported as being at least 30 days delinquent in past periods and may re-report as delinquent in future periods.

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 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 not often be apparent to the insured until sometime after the events giving rise to the claims have happened.

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;
- Increased uncertainty due to future legislative changes.

A risk margin for outstanding claims of 18% (2020: 18%) of net central estimate has been assumed and is intended to achieve a 75% PoA.

No discounting has been applied to non-current claims on the basis that the effect is immaterial (2020: nil).

The weighted average term to settlement is estimated to be 31 months (2020: 28 months).

Sensitivity Analysis

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

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

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

Various scenarios regarding key economics including HPA, unemployment, as well as the upper and lower bounds of a 95% confidence interval of frequency 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 claims liabilities.

Impact on net outstanding claims liabilities to changes in key variables

Sensitivity Change	2021				2020			
	Net Outstanding Claims Liability		Net Premium Liability		Net Outstanding Claims Liability		Net Premium Liability	
	$M	%	$M	%	$M	%	$M	%
Base[1]	389		805		429		984	
Ultimate Loss Ratio								
Upside Economics – 5% House Price Appreciation (HPA), 1% reduction in unemployment rate	(19)	(5)	(62)	(8)	(22)	(5)	(145)	(15)
Downside Economics - 5% House Price Depreciation (HPD), 1% increase in unemployment rate	20	5	96	12	22	5	156	16
Downside Economics - 10% HPD, 1% increase in unemployment rate	30	8	143	18	34	8	209	21
Downside Economics - 15% HPD	30	8	144	18	33	8	146	15
Discount Rate								
+ 0.5%	-	-	(20)	(2)	-	-	(27)	(2)
+ 1.0%	-	-	(39)	(5)	-	-	(50)	(5)

[1] Net outstanding claims liability includes central estimate less non-reinsurance recoveries.

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.

(b) Unearned premium

Estimation of premium revenue/ unearned premium/ deferred acquisition costs (note 3.1, note 4.5 and note 4.2)

The principle underlying the earning recognition is to derive a premium earnings curve which recognises the premium in accordance with the incidence of claims risk.

The Appointed Actuary has undertaken a review of the earnings curve. The review of the premium earnings curve is based on analysis of a number of factors including the historical pattern of claims incurred, the pattern of policy cancellations, economic outlook and policyholder risk profile. Changes are recommended by the Appointed Actuary when the results of an analysis indicate an ongoing change in the pattern of emergence of risk.

The review of the earnings curve resulted in a lengthening of the average duration of the period over which we recognise our revenue. The updated curve has been applied in the recognition of earned premium in the profit or loss from 1 April 2021. The changes resulted in a reduction in Net Earned Premium in 2021 of approximately $38.5 million.

DAC are amortised under the same premium earnings curve as the related insurance contract.

The adopted earnings curve recognises premium written over a period of 12 years post-underwriting. The impact of shortening (or lengthening) the term over which premium is recognised by six months would increase (or decrease) the current unearned premium by less than $10.0 million (2020: $10.0 million), with an equal and opposite impact in non-current unearned premium, as at 31 December 2021.

4.8 Capital adequacy

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.

The calculation of the Prescribed Capital Amount (PCA) is provided in the table below:

	2021 $'000	2020 $'000
Tier 1 capital		
Paid-up ordinary shares	1,401,559	1,401,559
Reserves	(603,167)	(603,087)
Retained earnings	732,740	578,744
Less: Deductions	(69,613)	(77,054)
Net surplus relating to insurance liabilities	364,195	110,764
Common equity Tier 1 capital	1,825,714	1,410,926
Tier 2 capital	190,000	190,000
Total capital base	2,015,714	1,600,926
Insurance risk charge	277,531	331,959
Insurance concentration risk charge	573,862	506,871
Asset risk charge	196,291	165,527
Operational risk charge	35,632	43,416
Aggregation benefit	(83,049)	(71,681)
Total PCA	1,000,267	976,092
PCA coverage	2.02x	1.64x

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 policyholders' interests and satisfy regulatory requirements. Capital finances growth and capital expenditure also provide 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 two core considerations.

(a) Regulatory capital

The Company is subject to APRA's prudential standards, which set out the basis for calculating the Prudential Capital Requirements (PCR), the minimum level of capital that the regulator deems must be held to meet policyholders' obligations. The capital base is expected to be adequate for the size, business mix, complexity and risk profile of the business and, as such, 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. 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 event, 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 have occurred up to and including the reporting date.

(b) Ratings capital

The Company maintains its capital strength by reference to a targeted financial strength rating from two independent rating agencies. The ratings help reflect the financial strength of the Company and demonstrate to stakeholders its ability to pay claims.

Following a reassessment of the impact of the COVID-19 pandemic, in May 2021, Fitch affirmed the insurer financial strength (IFS) rating of the Company as 'A' (Strong) and revised the outlook from 'negative' to 'stable'. In February 2022, Standard and Poor affirmed the IFS rating as 'A', with the outlook revised from 'negative' to 'stable'. Both agencies acknowledged the capital strength and strong competitive position of the Company.

Internal capital adequacy assessment process (ICAAP) management

The Company has implemented an ICAAP as part of its compliance with the Life And General Insurance Capital 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. 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, and 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.

	2021	2020
	$'000	$'000
Subordinated notes	190,000	190,000
Less: capitalised transaction costs	(1,771)	(2,219)
	188,229	187,781

On 3 July 2020, the Company exchanged $146,575,000 of the previously outstanding $200,000,000 due in July 2025 (prior 2015 notes) for $146,575,000 of new 10-year non-call five-year floating rate subordinated notes due on 3 July 2030 (new 2020 notes). The Company also issued $43,425,000 additional new 2020 notes. The new 2020 notes totalling $190,000,000 qualify as Tier 2 Capital under 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 5.0% per annum;
- The notes mature on 3 July 2030 (non-callable for the first five years) with the issuer having the option to redeem at par from 3 July 2025. 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

	2021 $'000	2020 $'000
Issued fully paid capital		
1,401,559,000 ordinary shares (2020: 1,401,559,000)	1,401,559	1,401,559

The Company's issued shares do not have a par value. 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

	2021 $'000	2020 $'000
Balance as at 1 January	181	638
Share-based payment expense	(80)	(422)
Share-based payment settled	-	(35)
Balance as at 31 December	101	181

Refer to note 7.5 Share-based payments for further detailed information.

5.4 Capital commitments and contingencies

Capital commitments

There were no capital commitments as at 31 December 2021 (31 December 2020: nil).

Contingencies

Contingent liabilities are not recognised on the balance sheet but are disclosed where the possibility of settlement is less than probable but more than remote. Provisions are not required with respect to these matters as it is not probable that a future sacrifice of economic benefits will be required, or the amount is not reliably measurable. If settlement becomes probable, a provision is recognised. The best estimate of the settlement amount is used in measuring a contingent liability for disclosure.

There were no contingent liabilities as at 31 December 2021 (31 December 2020: nil).

5.5 Other reserves

	2021	2020
	$'000	$'000
Other reserves	(603,268)	(603,268)

The balance in the other reserves represents 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 Cash and cash equivalents

Accounting policies

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term and highly liquid investments with maturity from date of acquisitions of three months or less that are readily convertible to known amounts of cash, that are subject to an insignificant risk of changes in value and which are used to meet short-term cash commitments. 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:

	2021	2020
	$'000	$'000
Cash assets	37,740	82,831

6.2 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. The amounts are discounted where the time value of money effect is material.

	2021	2020
	$'000	$'000
Premium receivable from external parties	3,831	416
Premium receivable from related entities	5,618	11,231
Other related entities receivables	3,723	33,834
Other receivables	3,980	8,836
	17,152	54,317
Comprising:		
Current	13,216	45,347
Non-current	3,936	8,970
	17,152	54,317

Under the tax consolidation system, current tax liabilities recognised for the year by the Company are assumed by GMA, 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 receivable to the head entity in the tax consolidated group. Included in the related party receivables are the balances related to taxes receivables from the parent entity of nil (2020: $30,100,000) and other related entities of $3,723,000 (2020: $3,734,000).

Carrying amounts of receivables reasonably approximate fair value at the reporting date. None of the receivables are impaired or past due as at 31 December 2021 and 31 December 2020.

6.3 Leases

The Company leases properties for its office space. These leases have varying terms (from three to five years), escalation clauses and renewal rights. On renewal, the terms of the leases are usually renegotiated. As a result of the adoption of AASB 16, the Company determined that it was not reasonably certain to exercise renewal options. The optional term is usually the same length as the initial term.

The Company also leased equipment for its offices. These leases have varying terms, from one year to three years. The equipment asset leased are of low value.

Accounting policies

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease incentives received.

The right-of-use-asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the Company changes its assessment of whether it will exercise extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets, including office equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As an intermediate lessor

The Company classifies a sub-lease as finance or an operating lease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset (i.e. the item of property being leased).

The Company accounts for its interests in the head lease and the sub-lease separately. At the commencement date of a sub-lease, the Company assesses whether the sub-lease transfers substantially all the risks and rewards incidental to ownership of the right-of-use asset arising from the head lease. If this is the case, then the sub-lease is a finance lease; if not, then it is an operating lease.

At inception of a finance sub-lease, the Company derecognises the right-of-use asset that arises from the head lease and recognises its net investment in the sub-lease as a receivable, measured as the present value of the future payments to be received from the tenant, using the same discount rate used for the head lease.

The Company subsequently measures the net investment in a sub-lease using the effective interest rate method.

Lease assets (right-of-use assets)

	2021 $'000	2020 $'000
Balance as at 1 January	5,955	11,166
Additions	-	300
Disposals	-	(8)
Decrease from recognition of sub-lease asset	-	(2,739)
Depreciation charge for the year	(2,330)	(2,671)
Modification of leases	(7)	(93)
Balance as at 31 December	3,618	5,955

Lease liabilities

	2021 $'000	2020 $'000
Balance as at 1 January	12,324	16,430
Payments made	(5,098)	(4,935)
Additions	-	300
Disposals	(12)	(17)
Interest expense	445	639
Modification of leases	4	(93)
Balance as at 31 December	7,663	12,324
Comprising:		
Current	4,922	4,978
Non-current	2,741	7,346
	7,663	12,324

Maturity analysis – contractual undiscounted cash flows

Future payments to be made arising from lease contracts:		
Within one year	5,263	5,097
One year or later and no later than five years	2,678	7,942
Total undiscounted lease liabilities as at 31 December	7,941	13,039

Amounts recognised in profit or loss

Depreciation charge for the period	(2,330)	(2,671)
Interest expense on lease liabilities	(445)	(639)
Income from subleasing right-of-use assets	164	221

The interest expense on lease liabilities and the income from subleasing the right-of-use assets are presented as financing costs in the statement of comprehensive income.

6.4 Intangibles

The intangibles balance represents software development expenditure.

Accounting policies

Acquired software

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).

Internally developed capitalised software

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 five 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 its carrying value. An impairment charge is recognised in the statement of comprehensive income when the carrying value exceeds the calculated recoverable amount. The impairment charges can be reversed if there has been a change in the estimate used to determine the recoverable amount.

The assumptions underpinning the value-in-use calculation continue to reflect reasonable estimates of the impact of COVID-19 and the increased risks associated with the estimated cash flows.

There was no impairment charge recognised during the year (2020: nil).

Reconciliations

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

	2021 $'000	2020 $'000
Cost		
Balance as at 1 January	32,861	32,454
Additions	-	407
Balance as at 31 December	32,861	32,861

	2021 $'000	2020 $'000
Accumulated amortisation and impairment losses		
Balance as at 1 January	(26,371)	(25,114)
Amortisation	(1,847)	(1,257)
Balance as at 31 December	(28,218)	(26,371)
Total net intangibles	4,643	6,490

6.5 Goodwill

Accounting policies

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 has an indefinite useful life and is therefore not subject to amortisation, but is tested for impairment annually, or more often if there is an indication of impairment. Goodwill is stated at deemed cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to cash-generating units (CGU). At 31 December 2021, the Company comprises of a single CGU (Mortgage Insurance Australia), which reflects the level at which goodwill is monitored for impairment by management.

The impairment test involves the use of accounting estimates and assumptions. The recoverable amount of the CGU is determined on the basis of value-in-use calculation which is performed on a pre-tax basis. The present value of future cash flow projections is based on the most recent management approved budgets.

The assumptions underpinning the value-in-use calculation continue to reflect reasonable estimates of the impact of COVID-19 and the increased risks associated with the estimated cash flows.

	2021 $'000	2020 $'000
Goodwill - at deemed cost	7,490	7,490

The following describes the key assumptions on which management based its cash flow projections when conducting the impairment testing:

- Cash flow forecast is based on the latest five-year business plan approved by management. This business plan is based on a combination of historical performance and management's expectations of future performance based on prevailing and anticipated market factors;
- Terminal value is calculated using a perpetuity growth formula applied to the cash flows projected for the last year of the forecast period. The terminal growth rate used by management for its impairment assessment as at 31 December 2021 is 1.3% (2020: 1.6%).
- Discount rate reflects a beta and equity risk premium applicable to the Company. The pre-tax discount rate used at 31 December 2021 is 12.9% (2020: 12.9%).

Management believes that any reasonably possible change in the key assumptions on which the value-in-use of the Company's CGU is based would not cause the goodwill to be impaired. This is demonstrated in the sensitivity analysis below:

Sensitivity analysis
Under each of the stressed assumption scenarios used below (all other assumptions remaining constant), the Company's goodwill is not impaired:

- Reduction of the projected cash flows by 15%;
- Terminal growth rate of 0%;
- Increase of the discount rate by 200 basis points;

6.6 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.

	2021	2020
	$'000	$'000
Accrued expenses	22,356	15,252
Trade creditors and other payables	15,411	33,426
Income tax payable	33,737	-
Derivative financial instrument	10,260	14
	81,764	48,692
Comprising:		
Current	80,781	47,750
Non-current	983	942
	81,764	48,692

6.7 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 corporate bond yields 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 Company has a defined contribution superannuation plan. 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.

	2021 $'000	2020 $'000
Annual leave	2,667	2,943
Long service leave	4,615	4,702
	7,282	7,645
Comprising:		
Current	6,250	5,842
Non-current	1,032	1,803
	7,282	7,645

As at the balance date there were 209 employees (2020: 181).

Section 7 Other disclosures

7.1 Remuneration of auditors

	2021 $	2020 $
Audit and review of financial statements	411,868	351,868
Regulatory audit services	64,026	64,026
Audit related services	10,085	53,330
	485,979	469,224

7.2 Key management personnel disclosures

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

Directors of the Company

Pauline Blight-Johnston

David Foster

Ian MacDonald

Gai McGrath

Andrea Waters

Duncan West

Alistair Muir (appointed on 1 December 2021)

Gerd Schenkel (appointed on 1 December 2021)

Executive KMP

Andrew Cormack

Jeremy Francis (appointed on 26 April 2021)

Michael Cant (appointed on 27 September 2021)

Former Directors

Rajinder Singh (resigned on 1 March 2021)

Stuart Take (resigned on 1 March 2021)

Graham Mirabito (retired on 4 August 2021)

Former Executive KMP

Michael Bencsik (ceased employment on 24 September 2021)

Steven Degetto (ceased employment on 30 August 2021)

The key management personnel compensation is:

	2021 $'000	2020 $'000
Short-term employee benefits	5,260	3,342
Termination and post-employment benefits	992	265
Equity compensation benefits	305	104
	6,557	3,711

7.3 Related party disclosures

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

(a) Other related party transactions

The following transactions occurred with related parties:

Type of transactions	Class of related party	2021 $'000	2020 $'000
Share based payment	Parent entity	288	578
Service and management fees income	Other related entities	1,250	1,250
Service and management fees expense	Ultimate parent entity	(3,365)	(4,561)
Dividends paid	Parent entity	(42,000)	(31,000)
Dividends received	Other related entities	115	542
Tax receipt	Parent entity	4,377	-

(b) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

Type	Class of related party	2021 $'000	2020 $'000
Premium receivable	Other related entities	5,618	11,231
Expense (payable)/ reimbursement	Other related entity	-	51
Tax (payable)/receivable	Parent entity	(33,737)	30,100
Expense reimbursement	Parent entity	1,637	3,706
Share-based payment	Other related entities	288	(23)
Service and management fees	Ultimate parent	-	(2)

Parent entity

The parent entity of the Company is Genworth Mortgage Insurance Australia Limited (GMA). GMA is a company limited by shares incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Stock Exchange (ASX).

On 3 March 2021, Genworth Financial Inc (GFI) (through certain wholly owned subsidiaries) sold its entire holding of shares in the Company. Consequently, GFI no longer owns any shares in the issued capital of the GMA. GFI was the ultimate parent enity up until 3 March 2021.

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 considers the purpose and design of each entity 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.

Investment in the 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 (%)	
			2021	2020
Genworth Financial Mortgage Indemnity Limited	Australia	Ordinary	100	100

7.5 Share-based payments

Accounting policies

Share-based remuneration is provided in various forms to eligible employees and executive directors of the Company in compensation for services provided to the Company.

The fair value at the grant date, being the date, both the employee and the employer agree to the arrangement, is determined using a valuation model based on the share price at grant date and the vesting conditions. The fair value does not change over the life of the instrument. At each reporting period during the vesting period and upon final vesting or expiry of the equity instruments, the total accumulated expense is revised based on the fair value at grant date and the latest estimate of the number of equity instruments that are expected to vest based on the vesting conditions and taking into account the expired portion of the vesting period. The movement in the total of accumulated expenses from the previous reporting date is recognised in the profit or loss with a corresponding movement in the share-based payment reserve.

To satisfy obligations under the various share-based remuneration plans, shares are generally expected to be equity settled.

(a) Share Rights Plan

Between 7 May 2015 and 1 March 2017, the Company granted restricted share rights to a number of key employees. The aggregate amount of these share rights was $1,501,907. One quarter of the share rights granted during the year vest on each of the first, second, third and fourth anniversaries of the grant date. If at any time an employee ceased continuous service with the Company, any unvested share rights were immediately cancelled, except in cases of retirement, redundancy, total and permanent disability or death.

From 1 January 2018, it was decided that no further grants would be made under the share rights plan. All outstanding grants (prior to 2018) made under the share rights plan continued to vest per the original terms and conditions of the plan.

Share rights plan grant date	Available to	Vesting period	Total ($)
1 March 2017	Nominated employees	Four equal tranches vested on successive anniversaries of grant date	$492,910

The fair value of the share rights was calculated as at the grant date using a Black Scholes valuation. The factors and assumptions used for the valuation are summarised in the below table:

	2017
Grant date	1 March 2017
Share price on grant date ($)	$2.81
Dividend yield	8.60%

Risk free rate (%)	Tranche 1: 1.83% Tranche 2: 2.00% Tranche 3: 2.15% Tranche 4: 2.29%
Vesting dates	Tranche 1: 1 March 2018 Tranche 2: 1 March 2019 Tranche 3: 1 March 2020 Tranche 4: 1 March 2021

The final tranche of the 2017 Equity Plan grant vested on 1 March 2021.

Key terms and conditions:

- The share rights are granted for nil consideration.
- Holders do not receive dividends and do not have voting rights until the share rights are exercised.

(b) Deferred short term incentive

Plan	Eligibility	Nature of award	Vesting conditions
Short Term Incentive (STI) Deferral Plan	Executives and any employee with an annual STI award >$50,000	• One-third of the dollar value of the annual Short-Term Incentive (STI) is converted to a grant of deferred share rights for executives; • For any annual STI payment greater than $50,000, one-third of the amount greater than $50,000 is converted to a grant of deferred share rights, provided the amount is $10,000 or more (applies to any STI > $50,00 for non-executive employees). • Notional dividend equivalents accrue during the vesting period and are delivered through an adjustment to the number of vested share rights at the end of the deferral period.	• Continuous active employment for 12 months from grant date; • Board and Committee satisfaction that adverse outcomes have not arisen that were not apparent when performance was assessed, and satisfaction that there was not excessive risk taking in achievement of results.

Details of the number of employee share rights granted, exercised and forfeited or cancelled for the short term incentive during the year were as follows:

2021 Grant date	Balance at 1 January 2021	Granted in the year	Exercised in the year	Cancelled/forfeited in the year	Balance at 31 December 2021	Vested and exercisable at end of the year
	Number	Number	Number	Number	Number	Number
1 March 2017[1]	40,177	-	(40,177)	-	-	-
1 March 2020	117,533	3,237[3]	(120,770)	-	-	-
1 March 2021[2]	-	20,802	-	-	20,802	-
Total	157,710	24,039	(160,947)	-	20,802	-

[1] The share rights balance in the period originally granted on 1 March 2017 represent the outstanding awards from the 2017 Equity Plan. All remaining share rights under this plan have now vested and been fully expensed.

[2] The number of share rights granted in the period representing the deferred short-term incentive component under the 2020 remuneration program.

[3] The number of notional dividends issued in relation to vest awards from the 2019 STI deferral plan.

2020 Grant date	Balance at 1 January 2020	Granted in the year	Exercised in the year	Cancelled/forfeited in the year	Balance at 31 December 2020	Vested and exercisable at end of the year
	Number	Number	Number	Number	Number	Number
6 May 2016	34,302	-	(34,302)	-	-	-
1 March 2017	85,393	-	(42,674)	(2,542)	40,177	-
1 March 2020	215,087	35,321	(244,532)	(5,876)	-	-
1 March 2021	-	117,533[1]	-	-	117,533	-
Total	334,782	152,854	(321,508)	(8,418)	157,710	-

[1] The number of share rights granted in the period representing the deferred short term incentive component under the 2019 remuneration program.

(c) Long term incentive plan

The Company implemented a long-term incentive (LTI) plan for executive KMP which is performance oriented and reflects local market practice.

The vesting conditions for each of the LTI plan granted include:

- Continuous active employment for four years from grant date;
- Performance conditions.

LTI grant date	Nature of award	Total
1 March 2017	share rights	$1,873,986
1 March 2018	share rights	$1,886,491
1 March 2019	share rights	$1,688,601
1 March 2020	share rights	$1,771,188
1 March 2021	share rights	$1,694,685

Key terms and conditions for the 2021 LTI:

- The rights are granted for nil consideration;
- Holders are entitled to receive notional dividend equivalents during the vesting period but do not have voting rights;
- Each allocation is split into two portions which are subject to different performance hurdles with a twelve-month deferral period after the performance period ends. The first vesting condition is not market related and requires continuous active employment for four years from grant date. The second set of vesting conditions are as follows:
  - 25% is subject to underlying return on equity (ROE) performance condition. The Company's three-year average underlying ROE measured against regulatory capital (based on the upper end of the Board's target range above the prescribed capital amount) is tested against target underlying ROEs over a three-year period, and weighted for each year during the performance period as follows:
    - 2021 – 25%
    - 2022 – 37.5%
    - 2023 – 37.5%
  - 75% is subject to relative total shareholder return (TSR) performance condition. The Company's TSR is tested against comparator group, the ASX 200 financial services excluding Real Estate Investment Trusts (REITs) over a three-year period.
- The number of share rights offered is determined by dividing the grant value of the 2021 long term incentive plan by $2.3107, being the 10-day volume weighted average price (VWAP) of the Company share price as at 31 December 2020 results, rounded down to the nearest whole share right. Each share right is a right granted to acquire a fully paid ordinary share of the Company;
- The fair value of the share rights is the share price as at the grant date.

If an employee ceases employment with the Company before the performance conditions are tested, their unvested rights will generally lapse.

The fair value of the share rights for LTI linked to relative TSR performance huddles is calculated as at the grant date using Monte Carlo simulation. The factors and assumptions used for the valuation are summarised in the below table.

	2021	2020	2019	2018
Grant date	1 March 2021	1 March 2020	1 March 2019	1 March 2018
Share price on grant date ($)	$2.42	$3.22	$2.53	$2.37
Dividend yield (%)	0%[1]	0%[1]	0%[1]	0%[1]
Volatility (%)	48.23%	31.94%	31.02%	34.1%
Correlation	A correlation matrix for the ASX 200 financial	A correlation matrix for the ASX 200 financial	A correlation matrix for the ASX 200 financial	A correlation matrix for the ASX 200 financial

	services (excluding REITs) has been used	services (excluding REITs) has been used	services (excluding REITs) has been used	services (excluding REITs) has been used
Risk free rate (%)	0.40%	0.54%	2.24%	2.1%
Vesting date	31 December 2024	31 December 2023	31 December 2022	31 December 2021

[1] Consistent with the requirements set out in AASB 2 *Share-based payment*, given participants in the LTI plan are entitled to dividend equivalents on the underlying shares, the input for expected dividend yield has been set to zero. For the purposes of relative TSR fair value calculations, the expected dividend yield of the comparator group has also been set to zero.

Details of the number of employee share rights granted, exercised and forfeited or cancelled for the long term incentive plan during the year were as follows:

2021 Grant date	Balance at 1 January 2021 Number	Granted in the year Number	Exercised in the year Number	Cancelled/forfeited in the year Number	Balance at 31 December 2021 Number	Vested and exercisable at end of the year Number
1 March 2017[1]	-	62,915	(62,915)	-	-	-
1 March 2018	246,982	-	(123,937)	(123,045)	-	-
1 March 2019	471,407	-	-	(33,437)	437,970	-
1 March 2020	450,708	-	-	(126,900)	323,808	-
1 March 2021	-	993,777	-	(185,155)	808,622	-
Total	1,169,097	1,056,692	(186,852)	(468,537)	1,570,400	-

[1] Represents notional dividends awarded as share rights associated with 2017 LTI plan share rights that had previously vested/been exercised on 31 December 2020.

2020 Grant date	Balance at 1 January 2020 Number	Granted in the year Number	Exercised in the year Number	Cancelled/forfeited in the year Number	Balance at 31 December 2020 Number	Vested and exercisable at end of the year Number
6 May 2016[1]	-	60,393	(60,393)	-	-	-
1 March 2017	453,430	-	(80,112)	(373,318)	-	-
17 July 2017	75,025	-	(37,512)	(37,513)	-	-
1 March 2018	583,215	-		(336,233)	246,982	-
1 March 2019	777,190	-	-	(305,783)	471,407	
1 March 2020	-	474,328	-	(23,620)	450,708	-
Total	1,888,860	534,721	(178,017)	(1,076,467)	1,169,097	

[1] Represents notional dividends awarded as share rights associated with 2016 LTI plan share rights that had previously vested/been exercised on 31 December 2019.

(d) Omnibus Incentive Plan

GFI and the Company entered into a Cost Agreement on 15 July 2005 (as varied from time to time) pursuant to which GFI agreed to offer its 2004 Omnibus Incentive Plan and its 2012 Omnibus Incentive Plan (Omnibus Incentive Plans) to certain employees of the Company.

Under the Omnibus Incentive Plans, GFI issues stock options, stock appreciation rights, restricted stock, restricted stock units (RSU), other stock-based awards and dividend equivalent awards with respect to its common stock to employees of its affiliates throughout the world. The Company has reserved for such costs and the amount of the reserve is marked to market to reflect the Company’s exposure to those costs having regard to the price of GFI shares.

There have been no grants to employees of GFMI under the Omnibus Incentive Plans since 2014, and the Company will continue to satisfy all remaining obligations under this plan notwithstanding the GFI is no longer the major shareholder or ultimate parent entity.

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

2021 Grant date	Expiry date	Exercise price[1] ($)	Balance at 1 January 2021 Number	Granted in the year Number	Exercised in the year Number	Cancelled/ forfeited in the year Number	Balance at 31 December 2021 Number	Vested and exercisable at end of the year Number
09/02/2011	09/02/2021	17.53	8,500	-	-	(8,500)	-	-
14/02/2012	14/02/2022	12.21	11,700	-	-	-	11,700	11,700
15/02/2013	15/02/2023	12.46	13,500	-	-	-	13,500	13,500
20/02/2014	20/02/2024	20.94	14,000	-	-	-	14,000	14,000
Total			47,700	-	-	(8,500)	39,200	39,200
Weighted average exercise price ($)			15.79	-	-	17.53	15.41	15.41

[1]The exercise price is the AUD equivalent of the USD exercise price at 31 December 2021

2020 Grant date	Expiry date	Exercise price[1] ($)	Balance at 1 January 2020 Number	Granted in the year Number	Exercised in the year Number	Cancelled/ forfeited in the year Number	Balance at 31 December 2020 Number	Vested and exercisable at end of the year Number
10/02/2010	10/02/2020	18.41	27,000	-	-	(27,000)	-	-
09/02/2011	09/02/2021	16.55	26,500	-	-	(18,000)	8,500	8,500
14/02/2012	14/02/2022	11.53	32,100	-	-	(20,400)	11,700	11,700
15/02/2013	15/02/2023	11.76	31,500	-	-	(18,000)	13,500	13,500
20/02/2014	20/02/2024	19.77	14,000	-	-	-	14,000	14,000
Total			131,100	-	-	(83,400)	47,700	47,700
Weighted average exercise price ($)			14.90	-	-	14.89	14.91	14.91

[1]The exercise price is the AUD equivalent of the USD exercise price at 31 December 2020

7.6 Events subsequent to reporting date

On 25 February 2022, the directors declared a final dividend of 7.85 cents per ordinary share totalling approximately $110,000,000 for the year ended 31 December 2021.

On 27 January 2022, the Company was selected as the exclusive provider of Lenders Mortgage Insurance (LMI) to the Commonwealth Bank of Australia (CBA), excluding Bankwest, subject to agreeing contractual terms. The terms of the new contract is expected to be for a period of 3 years commencing 1 January 2023 and expiring on 31 December 2025.

The current Supply and Service contract between CBA and Genworth will expire at the end of the current exclusivity agreement on 31 December 2022.

There are no other events that have arisen since 31 December 2021 to the date of this report that, in the opinion of the Directors, that have significantly affected or may significantly affect the operations of the Company or the state of affairs of the Company in future years.

Directors' declaration

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

(a) the financial statements and notes set out on pages 8 to 52 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company as at 31 December 2021 and of its performance, as represented by the results of its operations and its cash flows for the year ended on that date; and

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

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

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Ian MacDonald
Chairman

Dated at Sydney, 25 February 2022

Independent Auditor's Report

To the shareholders of Genworth Financial Mortgage Insurance Pty Limited

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the Company's financial position as at 31 December 2021 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of financial position as at 31 December 2021;
- Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

Basis for opinion

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

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

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

Other Information

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

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinions.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

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

KPMG

KPMG

Julia Gunn

Partner

Sydney

25 February 2022