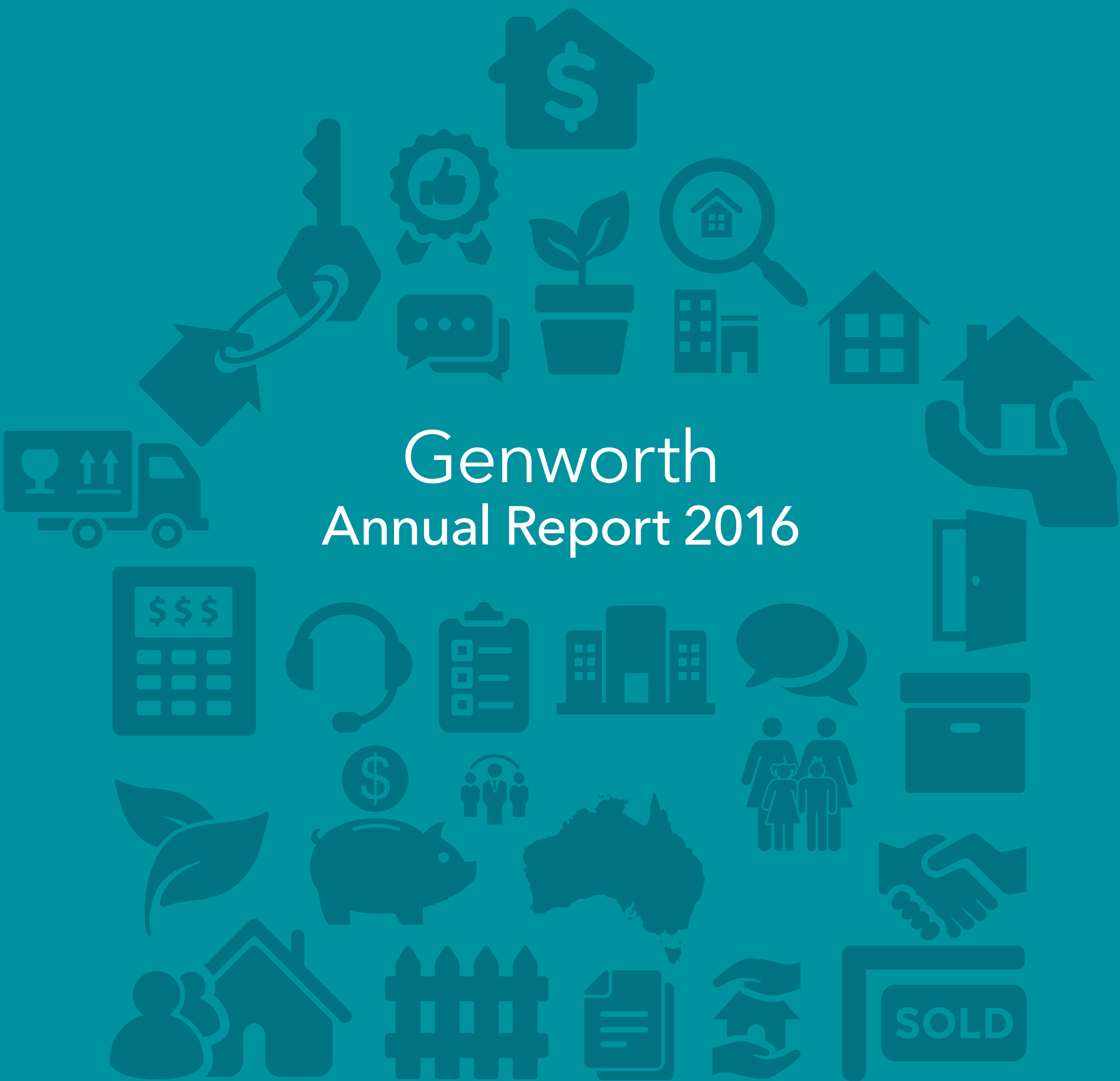
Genworth Mortgage Insurance Australia Limited
ABN 72 154 890 730

genworth.com.au



Genworth
Annual Report 2016

Genworth is the leading provider of Lenders Mortgage Insurance (LMI) in Australia.

LMI has been an important part of the Australian residential mortgage lending market since Housing Loan Insurance Corporation (HLIC) was founded by the Australian Government in 1965.

Contents

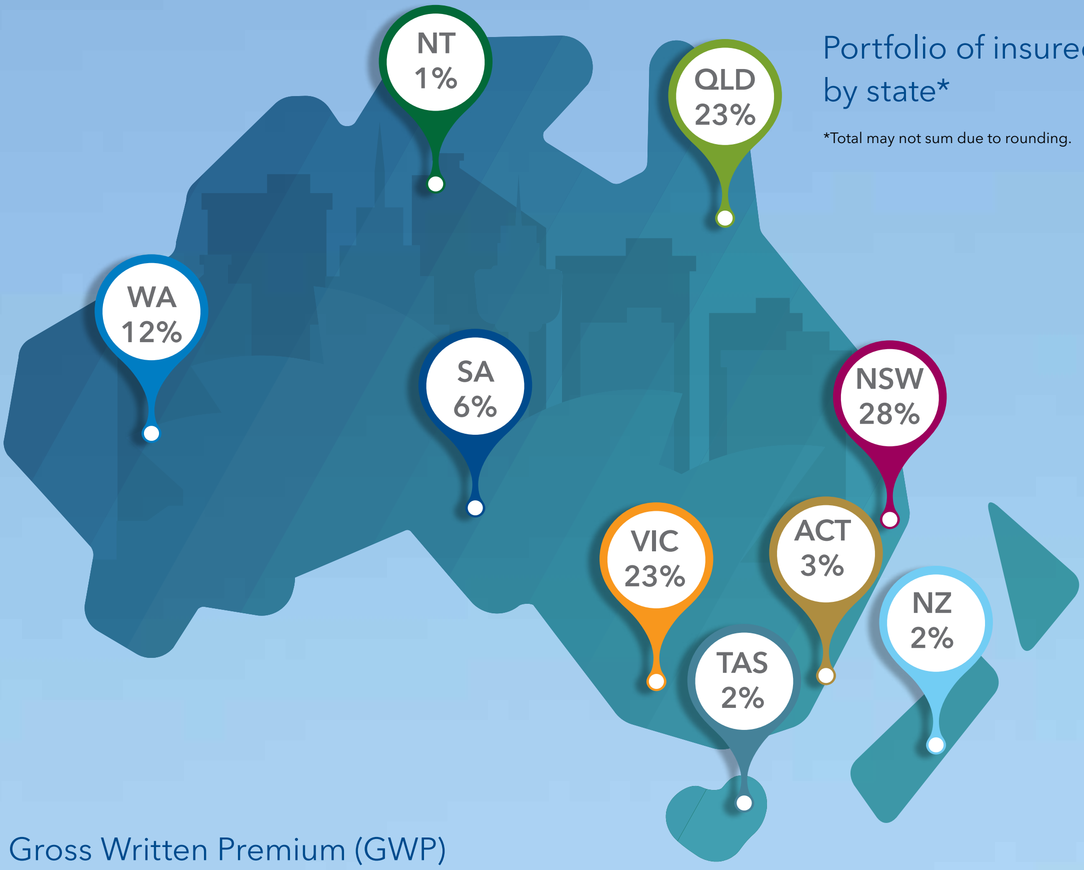
Genworth overview	2
Chairman's message	4
CEO's report	6
Our strategy	8
Board of Directors	10
Senior Leadership Team	12
Annual Financial Report	15

Genworth overview

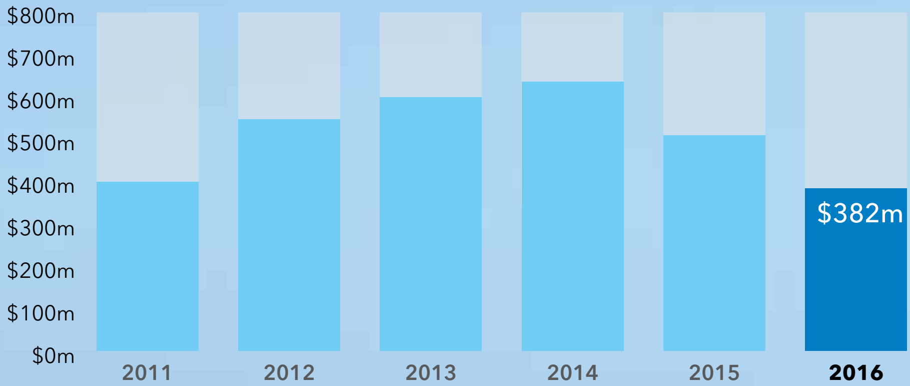
All data as at 31 December 2016 unless otherwise stated

Portfolio of insured loans by state*

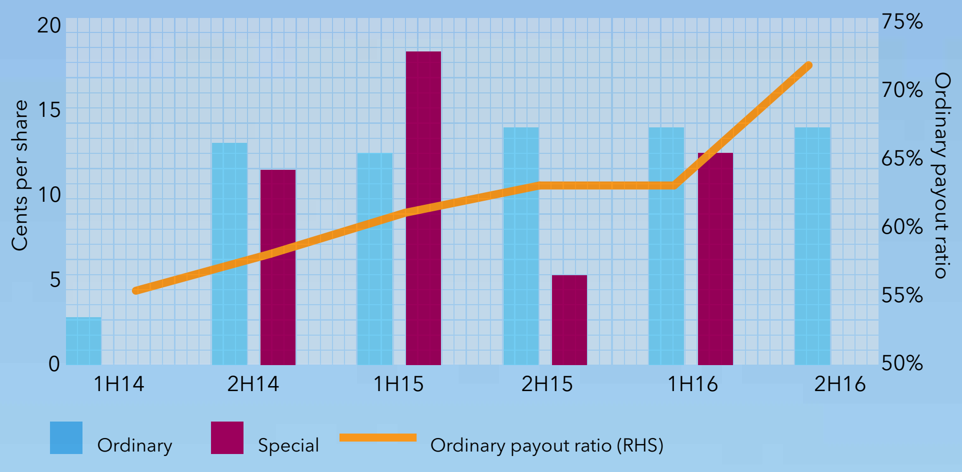
*Total may not sum due to rounding.



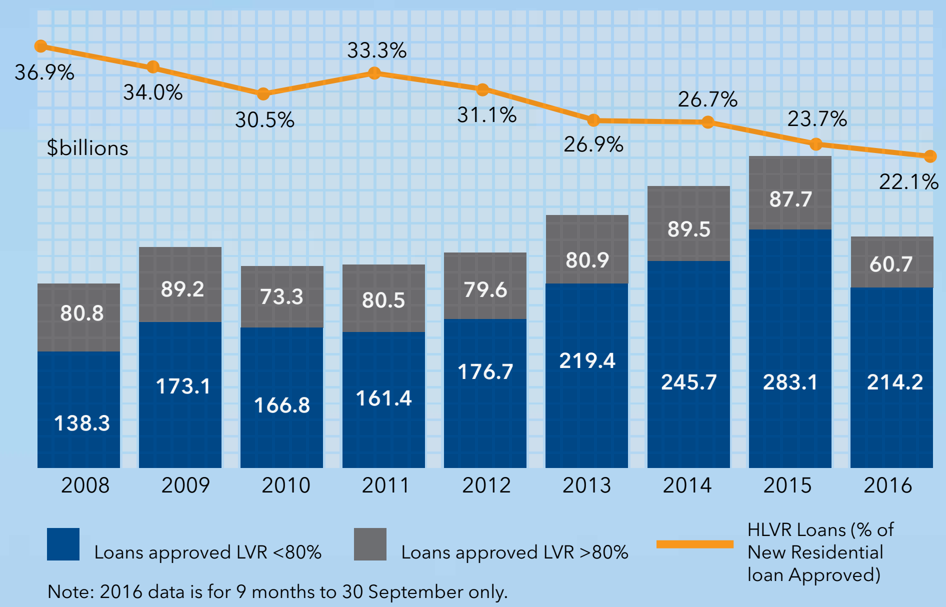
Gross Written Premium (GWP)



Dividends (cents per share)



Residential mortgage market trends



Note: 2016 data is for 9 months to 30 September only.

Snapshot

Almost 1.5m policies in force

77,335 policies written in 2016

$1.7 billion market capitalisation

$3.5 billion investment portfolio

Chairman's message

Ian MacDonald
Chairman

Having joined the Genworth Board in March 2012, it is now my pleasure to write to you as Chairman of Genworth.

At Genworth, our vision is to be a leading provider of customer focused capital and risk management solutions in residential mortgage markets. We work with our lender customers, regulators and policy leaders to promote a stronger and more sustainable housing market in Australia. We believe that the provision of Lenders Mortgage Insurance (LMI) to our lender customers contributes significantly to supporting the Australian dream of homeownership. I am pleased to say that in 2016 alone we helped over 77,000 Australians purchase a residential property.

Genworth Board changes

During the year, I was pleased to welcome Ms Gai McGrath and Mr David Foster to the board as Non-Executive Directors. This follows the retirement of Mr Richard Grellman as Chairman and Mr Samuel Marsico as Non-Executive Director. Ms Georgette Nicholas, the Chief Executive Officer, was appointed as Managing Director in May 2016 following her appointment as CEO in February 2016. I would particularly like to recognise Richard's leadership of the Company since 2012. He was instrumental in establishing an independent Board, preparing the Company for listing on the ASX and managing the transition to the requirements of a listed company. On behalf of my fellow Directors, I thank him for his commitment, guidance and contributions to the Company during his tenure.

I look forward to working with Ms Nicholas, Ms McGrath and Mr Foster in the future and I believe their appointments further enhance the Board's capability and experience.

Diversity

At Genworth, we champion diversity in the workplace. The Workplace Gender Equality Agency (WGEA) recognises our work in this area and awarded us the WGEA Employer of Choice for Gender Equality citation for the second consecutive year.

The Board has resolved to adopt best practice regarding Board diversity by setting a target of having 30% female representation on the Board by the end of 2018. I am pleased to say that we have met that target with 33% women on the Board currently.

In addition, management has set a goal of maintaining female representation of at least 33% on the Senior Leadership Team and is striving for diverse slates for all leadership roles. As of today, 43% of the Senior Leadership Team are women.

Genworth strategy

Over the course of 2016, we undertook a program of work to deliver a refined strategic plan that will ensure we are achieving sustainable long term shareholder returns. We are focused on addressing the strategic needs of our customers through product innovation, being a strong risk management partner, providing insights across the mortgage market given our data and information and using technology to be efficient and agile in our operations. In meeting the strategic needs of our customers, our focus will also be on delivering a sustainable return on equity for our shareholders.

Financial position

The Company's financial position is strong. At the end of 2016, we maintained a regulatory capital base of $2.2 billion and a coverage ratio of 1.57 times the Prescribed Capital Amount (PCA) on a Group (Level 2) basis. This is in excess of the Board's targeted range of 1.32 – 1.44 times the PCA.

We also have a high quality investment portfolio. As at 31 December 2016, the cash and investment portfolio had a market value of $3.5 billion, with 92% invested in Australian dollar denominated cash, cash equivalents and fixed income securities that are rated A- or above by the major ratings agencies.

Capital management

The Company actively manages its capital position as part of its strategy to deliver sustainable long term shareholder returns. In 2016, I am pleased that we were able to reward shareholders with a total of 74.5 cents per share (equivalent to $403.6 million) of capital management initiatives. Since the IPO in May 2014, the Company has returned more than $1 billion of excess capital to shareholders.

Looking ahead

Our vision is to be a leading provider of customer focused capital and risk management solutions. We have a strong value proposition to customers. We provide capital support, reduce risk exposures and deliver underwriting and loss mitigation services that help lenders maintain quality residential lending standards.

Current market conditions are challenging with reduced high loan-to-value lending and areas of pressure as the economy continues to transition away from the mining investment boom. In this environment, our focus is on our risk management discipline and on finding new and innovative ways to address the strategic needs of our customers.

In closing I would like to thank our CEO, Ms Georgette Nicholas, her Senior Leadership Team and all those who work at Genworth for their hard work throughout the year. I also extend my thanks to my fellow Directors for their continued commitment to the Company. Finally, to our shareholders, I thank you for your ongoing support.

Yours sincerely,

Ian MacDonald

> *"Our vision is to be a leading provider of customer focused capital and risk management solutions. We work with our lender customers, regulators and policy leaders to promote a stronger and more sustainable housing market in Australia."*

Chief Executive Officer's report

Georgette Nicholas
Chief Executive Officer

Genworth is focused on the strategic needs of our customers and on delivering a sustainable return on equity for our shareholders. I am pleased to report that the Company delivered another year of strong financial performance in which it met key financial performance measures despite the more challenging market conditions. Our profitability is strong, our business model is resilient and we are strongly capitalised.

Underlying Net Profit After Tax (excluding mark-to-market movements in the investment portfolio) was $212.2 million in 2016, down 19.8% from 2015.

Current market dynamics continue to be challenging with reduced high loan-to-value ratio (LVR) lending as a proportion of total mortgage originations. In response to these trends, and with the inclusion of the loss of business from one of our largest customers in mid 2015, New Insurance Written (NIW) declined 18.4% to $26.6 billion and Gross Written Premium (GWP) was down 24.8% at $381.9 million.

Total revenue, as measured by Net Earned Premium (NEP), fell 3.6% to $452.9 million, reflecting the pattern of revenue recognition from prior book years.

The 2016 loss ratio rose to 35.1% from 24.0% in 2015 and was in line with the company's expectations. New South Wales and Victoria performed strongly, reflecting strong employment and property prices in those states. However, the higher loss ratio reflects a rise in mortgage delinquencies and the expectation of higher average paid claim amounts in resources-exposed regional economies, particularly in Queensland and Western Australia.

Capital management

In 2016, we undertook a number of capital management initiatives to ensure our capital base is at a level that balances our objectives of meeting our policyholder obligations, delivering long term shareholder returns and having flexibility to grow the business in the future. These initiatives included:

- A fully franked special dividend of 12.5 cents per share
- A $202.4 million (or 34 cents per share) distribution to shareholders and associated share consolidation
- A restructure of the reinsurance program with qualifying reinsurance of $950 million as at 1 January 2017.

The Board also declared fully franked ordinary dividends totalling 28 cents per share representing an ordinary dividend payout ratio of 67.2% in 2016. Looking ahead, we will continue evaluate potential uses of excess capital in 2017 to manage to the Board target range of 1.32 to 1.44 times PCA.

Strategy

The business is operating in a competitive and dynamic market where expectations of consumers and lenders are evolving as technology develops and information becomes more available. Bank capital requirements are new, requiring lenders to evaluate old and new solutions to address the increased capital requirements and cost pressures. As we continue to compete in this environment, we strive to be the leading provider of customer-focused capital and risk management solutions.

We have begun a program of work to redefine our core business model, to address our customers' capital and risk management needs further and to deliver a sustainable return on equity for shareholders. In particular, we are focused on improving our underwriting efficiency, enhancing our product offerings and, where appropriate, leveraging our data and partnerships along the mortgage value chain. We will also continue to work with regulators to ensure our role in supporting stability in the housing market remains strong.

Customers

Genworth has commercial relationships with over 100 lender customers across Australia and has Supply and Service Contracts with 10 of its key customers. Our top three customers accounted for 78% of our total NIW and 71% of GWP in 2016. The Group estimates that it had approximately 34% of the Australian LMI market by NIW in 2016.

In November 2016, we announced that we had renewed our Supply and Service Contract with our largest customer, the Commonwealth Bank of Australia, for the provision of LMI for a further three years through to 31 December 2019. This contract represented 47% of GWP in 2016.

Ratings

Genworth's credit ratings were unchanged in 2016. The ratings reflect the financial strength of the company and demonstrate to stakeholders its claim paying ability. Standard & Poor's Ratings Services (S&P) affirmed the Genworth Financial Mortgage Insurance Pty Limited financial strength and issuer credit rating at 'A+' and outlook 'Stable'. Moody's affirmed the insurance financial strength rating of Genworth Financial Mortgage Insurance Pty Limited at 'A3' with an outlook of 'Negative'. Fitch Ratings affirmed its insurer financial strength rating of Genworth Financial Mortgage Insurance Pty Limited, assigning an 'A+' rating with outlook 'Stable'.

> *Genworth is focused on the strategic needs of our customers and on delivering a sustainable return on equity for our shareholders. Our profitability is strong, our business model is resilient and we are strongly capitalised.*

Regulatory environment

Genworth remains engaged with regulators, rating agencies and other industry participants to promote legislative and regulatory policies that support homeownership and continued responsible credit growth.

Throughout 2016, APRA maintained its focus on upholding sound residential mortgage lending standards and ensuring appropriate capital requirements for the residential mortgage industry. Genworth is leading industry efforts to develop solutions with policy makers and regulators that emphasise the importance of LMI to the stability of the Australian financial system, especially its value as a loss absorption and capital management tool.

Community

Genworth seeks to make a meaningful contribution to the communities in which we operate. We make it a priority to contribute to causes that are aligned to our mission and vision of supporting the dream of homeownership by helping Australians get into their home sooner and keeping them there.

In 2016, 38% of Genworth employees dedicated time to volunteering programs with our community partners. This is well above the sector benchmark of 10%. The enthusiasm of our employees and the impact of their efforts continues to be truly remarkable as they offer their time, energy, creativity and expertise to help our community partners and the clients they serve. In addition to a variety of volunteer opportunities, Genworth offers a number of programs including milestone anniversary donations, Make-A-Difference day and, new in 2017, employee-sponsored donations that allow employees to support a community partner of their choice. As an organisation we will continue to focus on our ongoing social responsibility in the year ahead.

2017 outlook

Australian economic conditions have moderated recently as the economy continues to transition away from the mining investment boom. There is considerable variation in economic activity across the country with continued growth in New South Wales and Victoria offset by weaker activity in Queensland and, in particular, Western Australia.

Although the national unemployment rate has been relatively steady recently, key labour market indicators remain mixed. Employment growth is being primarily driven by an increase in part-time employment. The under-employment rate remains elevated and at near-record highs, implying a greater degree of spare capacity in the economy than indicated by the unemployment rate alone. Wage growth is also subdued, especially due to the transition away from mining-led activity and low actual and expected inflation. These labour market dynamics are increasing the instance of mortgage stress in certain regional economies and Genworth expects these trends to drive elevated mortgage delinquencies in these regions in 2017.

House price growth is likely to moderate in 2017, with Sydney and Melbourne continuing to outperform the other major cities. There may be a wider variance in price movements of single dwellings compared to high density properties, particularly in east coast capital cities.

Genworth expects 2017 NEP to decline by approximately 10 to 15% and for the full year loss ratio to be between 40 and 50%. The Board continues to target an ordinary dividend payout ratio range of 50 to 80%. The full year outlook is subject to market conditions as well as unforeseen circumstances or economic events.

We remain committed to supporting Australians in realising their dream of homeownership through the provision of capital and risk management solutions to mortgage lenders.

Thank you

I would like to thank the Chairman and my fellow Directors for their commitment to the company and their support to management during 2016. To all our Genworth people, thank you for your dedication and commitment throughout the year. You continually put our customers first in everything you do and that provides the solid foundation for our business. I look forward to leading the team in the coming year as we execute on our strategic objectives.

To our customers and other partners, thank you for your ongoing support and I look forward to continuing these strong relationships. Finally, I would like to thank our shareholders for your loyalty.

Yours sincerely,

Georgette C. Nicholas

Georgette Nicholas

Our strategy

Genworth's primary business activity is the provision of LMI to our lender customers. Our mission is to support Australian homeownership.

The Group's strategy is to provide capital and risk management solutions to more customers, while investing in technology so we can offer our customers flexible product options, greater value, better service and sharper insights.

The strategy aims to deliver a sustainable Return on Equity (ROE) above the cost of capital by executing on the following priorities:

A customer focused approach to solutions and service

- Focusing on strategic alignment with our customers
- Offering innovative capital and risk management solutions
- Providing relevant mortgage market insights to customers and industry bodies.

1

Targeting appropriate risk-adjusted returns and optimal capital structure

- Pricing NIW to achieve low to mid-teens ROE over the long term
- Ongoing capital optimisation initiatives
- Maintaining strong balance sheet and stable credit ratings.

2

Investing in our core business model

- Investing in our technology platform for more flexibility and responsiveness to operational and customer needs
- Enhancing our competitive position by improving our underwriting capabilities and implementing cost optimisation initiatives.

3

Maintaining strong risk management discipline

- Effective risk decision making
- Continuing to enhance our modelling and analytical capabilities
- Leveraging data and analytics to add value across the mortgage chain.

4

Regulatory advocacy

- Continuing to engage with regulators to reinforce the value proposition of LMI
- Providing value-added insights to regulators.

5

Board of Directors

Ian MacDonald

Chairman, Independent

Ian was appointed to the Board on 19 March 2012 and was appointed as Chairman of the Board on 31 August 2016.

Ian has over 40 years of financial services experience in Australia, the UK and Japan, specifically in banking, insurance, wealth management and technology. He previously held numerous positions with National Australia Bank including various senior executive roles from 1999–2006, Chief Operating Officer Yorkshire Bank from 1997–1999, and head of Retail Services Clydesdale Bank, Glasgow UK from 1994–1997.

Ian is a Senior Fellow and past President of the Financial Services Institute of Australasia and a member of the Australian Institute of Company Directors.

Since 2006, Ian has held a number of directorships including publicly-listed companies, and is currently a director of Arab Bank Australia Ltd and Tasmanian Public Finance Corporation.

David Foster

Director, Independent, Genworth Financial designee

David was appointed to the Board on 30 May 2016. He is Chairman of the Remuneration & Nominations Committee and a member of the Audit Committee, Risk Committee and Capital & Investment Committee.

David has over 25 years of financial services experience, specifically in banking, insurance and wealth management.

David previously held numerous positions with Suncorp Bank including various senior executive roles from 2003 – 2007 and was the Chief Executive Officer from 2008 – 2013.

Prior to Suncorp Bank, David held various management roles at Westpac.

David is a Senior Fellow of the Financial Services Institute of Australasia and a Graduate of the Australian Institute of Company Directors.

David is currently a Director of Thorn Group Limited, G8 Education Limited, Kina Securities Limited and Motorcycle Holdings Limited.

Anthony (Tony) Gill

Director, Independent

Tony was appointed to the Board on 20 February 2012. He is the Chairman of the Capital & Investment Committee and a member of the Audit Committee, Risk Committee and Remuneration & Nominations Committee.

Tony has over 30 years of financial services experience having served on a number of boards over that period. Previously Tony was Group Head, Banking and Securitisation Group at Macquarie Group. He has held senior executive roles in Macquarie Group from 1991–2008.

Prior to Macquarie, Tony was a Chartered Accountant and then held various management roles in mortgage banking and treasury in Australia.

Tony is currently the Chairman of Australian Finance Group and a director of First American Title Insurance Company of Australia Ltd and First Mortgage Services Pty Ltd. Tony is also a member of ASIC's External Advisory Panel.

Tony was previously Chairman of the Australian Securitisation Forum and National President of the Mortgage Finance Association of Australia.

Gai McGrath

Director, Independent

Gai was appointed to the Board on 31 August 2016. She is a member of the Audit Committee, Risk Committee, Capital & Investment Committee and Remuneration & Nominations Committee.

Gai has over 20 years of financial services experience, specifically in retail banking and wealth management.

Gai previously held numerous senior executive positions with the Westpac Group including:

- General Manager, Retail Banking, Westpac Australia from 2012 – 2015
- General Manager, Retail Banking, Westpac New Zealand from 2010 – 2012
- General Manager, Customer Service and General Manager, Risk Solutions at BT Financial Group.

Prior to the Westpac Group, Gai was General Counsel & Company Secretary at Perpetual Limited and a partner at a Sydney-based law firm.

Gai is a Graduate of the Australian Institute of Company Directors.

Gai is currently a director of IMB Bank, UrbanGrowth NSW and Toyota Finance Australia Limited. She is also a member of the Council of the State Library of New South Wales, a trustee and director of the State Library of New South Wales Foundation and a member of the Fundraising and Appeals Committee of The Salvation Army (Eastern Territory).

Leon Roday

Director, Genworth Financial designee

Leon was appointed to the Board on 19 March 2012 and is a member of the Remuneration & Nominations Committee.

Leon was Executive Vice President, General Counsel and Secretary for Genworth Financial to February 2015. Prior to this position, he held the same role at GE Financial since 1996.

Prior to Genworth and GE Financial, Leon was a partner at LeBoeuf, Lamb, Greene & McRae for 14 years, and he is a member of the New York Bar Association.

Stuart Take

Director, Genworth Financial designee

Stuart was appointed to the Board on 20 February 2012.

Stuart has over 25 years' experience, primarily at Genworth and General Electric.

Stuart joined GE Capital in 1987 and has since held a number of senior management positions in Genworth's mortgage insurance platform both domestically and overseas, including President/ CEO of Genworth's Canadian mortgage insurance business, and Senior Vice President of Asia.

Stuart is currently President of the Board of Directors of Genworth Seguros de Credito a la Vivienda S.A. de C.V. (Mexico) and also serves as a Director of India Mortgage Guarantee Corporation (a Genworth joint venture with the International Finance Corporation, the Asian Development Bank and the National housing Bank of India). He was previously Head of Financial Institutions at Deutsche Bank, Asia ex- Japan.

Gayle Tollifson

Director, Independent

Gayle was appointed to the Board on 20 February 2012. She is Chairman of the Audit Committee and Risk Committee and a member of the Capital & Investment Committee.

Gayle has over 35 years of financial services experience and has been an Independent Director since 2006.

Prior to this she worked with QBE Insurance Group in senior executive roles including Chief Risk Officer and Group Financial Controller from 1994 – 2006.

Prior to QBE, Gayle held various roles in public accounting firms in Australia, Bermuda and Canada.

Gayle is a fellow of the Australian Institute of Company Directors and the Institute of Chartered Accountants in Australia.

Gayle is currently Chairman of Munich Holdings of Australasia Pty Limited and subsidiaries and a director of RAC Insurance Pty Limited.

Jerome Upton

Director, Genworth Financial designee

Jerome was appointed to the Board on 20 February 2012 and is a member of the Audit Committee and the Capital & Investment Committee.

Jerome was appointed as Senior Vice President and Chief Financial and Operations Officer, Global Mortgage Insurance for Genworth Financial in 2012.

Previously, Jerome was the Senior Vice President and Chief Operating Officer, Genworth Financial International Mortgage Insurance from 2009. Prior to this Jerome has had a variety of roles at Genworth including Senior Vice President and CFO, Genworth Financial International – Asia Pacific, Canada and Latin America from 2007 – 2009, Head of Global Financial Planning & Analysis from 2004 –2007, International Finance Manager from 2002 – 2004, and Mortgage Insurance Global Controller from 1998 – 2002.

Prior to Genworth, Jerome served in a number of accounting positions at KPMG Peat Marwick, culminating in his role as Senior Manager – Insurance in Raleigh, North Carolina. He obtained the status of Certified Public Accountant whilst the Controller and Director of Financial Reporting for Century American Insurance Company in Durham, North Carolina

Senior Leadership Team

Georgette Nicholas
Chief Executive Officer and Managing Director, Genworth Financial designee

Georgette became Chief Executive Officer in February 2016 after four months as Acting Chief Executive Officer following joining the business as Chief Financial Officer in February 2014. Georgette was appointed Managing Director in May 2016. Georgette brings more than 30 years of financial and industry experience to the role including her extensive global experience in lenders mortgage insurance.

Georgette has effectively leveraged her financial acumen, industry experience and leadership skills across finance, audit, controllership, strategy, actuarial and investor relations. She has a deep understanding of the mortgage insurance business both in international markets as well as the United States having worked with Genworth for over 10 years.

Previously, Georgette held senior roles with Genworth Financial as Senior Vice President, Investor Relations, Public Relations and Rating Agencies, as Chief Financial Officer, US Mortgage Insurance where she was a key member of the management team leading the business through the economic downturn in the US housing market and the GFC, and as Global Controller for both US Mortgage Insurance and International Segments. Prior to Genworth, she spent over 19 years in public accounting, including being a Firm Director at Deloitte.

Georgette has a Bachelor of Science in Accounting from the University of Bridgeport, Connecticut and is a Certified Public Accountant and Chartered Global Management Accountant.

Luke Oxenham
Chief Financial Officer

Luke joined Genworth Australia as Director Corporate Finance & Investor Relations in March 2012 and became Chief Financial Officer in February 2016 following four months as Acting Chief Financial Officer. Luke brings 20 years of financial services experience to his role as Chief Financial Officer, across the banking, finance and insurance industries.

Most recently Luke was directly responsible for a number of finance functions including the planning, development and management of Genworth Australia's capital requirements, the reinsurance program, investment portfolio, product pricing and investor relations activities.

Before joining Genworth, Luke was the Chief Financial Officer of Intoll Group, which was formed from the demerger of Macquarie Infrastructure Group (MIG), where Luke was the Head of Investor Relations. Prior to Macquarie Group, Luke was General Manager, Corporate Affairs & Budgeting at Promina Group having joined prior to the Initial Public Offering in 2003 and being a key member of the management team that oversaw the takeover of Promina by Suncorp in 2007. In his earlier career, Luke spent almost 10 years with National Australia Bank in various roles both in Australia and the UK, as well as a number of years at Metway Bank in Brisbane.

Luke has a Bachelor of Commerce from Griffith University Brisbane and a Graduate Diploma in Advanced Finance and Investment from the Securities Institute, as well as a Graduate Diploma in Psychology from Monash University.

Andrew Cormack
Chief Risk Officer

Andrew joined Genworth Australia as Chief Risk Officer in October 2015. Andy brings more than 20 years of experience to his role as CRO having held senior financial as well as risk roles in the mortgage insurance industry. Andy is a seasoned leader, having had senior management responsibility for teams in commercial, product development and risk for multiple markets across Europe. He is passionate about delivering best in class risk and actuarial business models and building and developing high achieving teams engaged in delivering business objectives.

Before joining Genworth Australia, Andy worked with Genworth Financial Mortgage Insurance in Europe, where most recently he held the role of Chief Risk Officer with responsibility for the risk and actuarial teams. Prior to this he held various positions including Senior Vice President (SVP) Technical Director, SVP Commercial Leader, SVP Product Development & Marketing and Chief Financial Officer.

Earlier in his career, Andy spent three years with JP Morgan where he focused on emerging market fixed income derivatives and prior to this worked at Neville Russell Accountants (now Mazars) as an auditor responsible for Lloyds syndicates.

Andy has a BA(Hons) in Accounting and Finance from Lancaster University and is a qualified Chartered Accountant (ACA)-(ICAEW).

Tobin Fonseca
Chief Operations Officer

Tobin joined Genworth Australia as Chief Operations Officer in February 2012. Tobin brings more than 35 years of experience to his role as COO across a range of areas in the financial services industry.

In his current role Tobin is responsible for underwriting, loss mitigation, collections, the project management office and the Technology team.

Before joining Genworth, Tobin worked at Advantedge Financial Services, a subsidiary of National Australia Bank, where he held the role of General Manager Advantedge Services overseeing the whole lending lifecycle. Prior to National Australia Bank, he was with the Challenger Group holding the Managing Director role with Synergy Capital Management in Hobart and the CEO Role with Challenger Corporate Superannuation Services.

Earlier in his career, Tobin spent 20 years with Merrill Lynch in various leadership roles both in Australia and the US including Chief Administrative Officer/Project Director for Merrill Lynch HSBC Australia and Vice President/Program Manager International Private Client Group in Australia.

Kate Svoboda
Chief Human Resources Officer

Kate was appointed as Chief Human Resources Officer in September 2016 after six months as Acting Chief Human Resources Officer. Kate joined Genworth as Human Resources Director in 2015. Kate brings to the role more than 16 years professional experience working in human resources, the majority of which has been in financial services.

Kate is responsible for leading culture enhancement, organisational development, employee relations, workforce planning, recruitment, learning and talent development, diversity and remuneration and benefits.

Prior to joining Genworth, Kate was HR Business Partner at Challenger and before that worked in various HR roles at Commonwealth Bank of Australia. Kate has also worked in various management and clinical roles in public health.

Kate has a Masters of Business Administration (University of New England) and a Bachelor of Speech Pathology (University of Queensland).

Prudence Milne
General Counsel and Company Secretary

Prue joined Genworth as General Counsel in September 2016. Prue brings over 30 years' experience in private practice, in-house corporate counsel and company secretary roles. She is a highly experienced senior lawyer with deep financial services experience.

Before joining Genworth, Prue worked in private practice at Ashurst and then held a variety of senior legal and company secretary roles at AMP and AMP Capital Investors. In her nearly 18 year career with AMP, she oversaw and facilitated considerable change and transition in the AMP businesses and had considerable exposure to senior executives and boards.

Prue has a Bachelor of Economics and Laws from Monash University, a Master of Laws from the University of Sydney, a Graduate Diploma in Secretarial Practice from Chartered Secretaries Australia and is a Graduate of the Australian Institute of Company Directors.

Genworth

Annual Financial Report for the year ended 31 December 2016

Contents

Corporate Governance Statement	16
Directors' report	17
Remuneration report	30
Lead Auditor's independence declaration	48
Financial Statements	49
Directors' declaration	98
Independent Auditor's report	99
Shareholder information	103
Glossary	107
Corporate directory	109

Corporate Governance Statement

The Corporate Governance Statement is available on the Genworth website.
Please visit investor.genworth.com.au/investor-centre/

Directors' report

The Directors present their report together with the financial statements of the Group comprising the Company and its controlled entities for the year ended 31 December 2016 and the Auditor's Report thereon.

Directors

The Directors of the Company as at 31 December 2016 were as follows:

Name and title	Biography
Ian MacDonald Chairman, Independent	Ian was appointed to the Board on 19 March 2012 and was appointed as Chairman of the Board on 31 August 2016. Ian has over 40 years of financial services experience in Australia, the UK and Japan, specifically in banking, insurance, wealth management and technology. He previously held numerous positions with National Australia Bank including various senior executive roles from 1999 – 2006, Chief Operating Officer Yorkshire Bank from 1997 – 1999, and Head of Retail Services Clydesdale Bank, Glasgow UK from 1994 – 1997. Ian is a Senior Fellow and past President of the Financial Services Institute of Australasia and a member of the Australian Institute of Company Directors. Since 2006, Ian has held a number of directorships including publicly-listed companies, and is currently a director of Arab Bank Australia Ltd and Tasmanian Public Finance Corporation.
Georgette Nicholas Managing Director, Genworth Financial designee	Georgette was appointed Managing Director on 30 May 2016. Georgette became Chief Executive Officer in February 2016 after four months as Acting Chief Executive Officer following joining the business as Chief Financial Officer in February 2014. Georgette brings more than 30 years of financial and industry experience to the role including her extensive global experience in lenders mortgage insurance. In her prior role as Chief Financial Officer, Georgette has effectively leveraged her financial acumen, industry experience and leadership skills across finance, audit, controllership, strategy, actuarial and investor relations. She has a deep understanding of the mortgage insurance business both in international markets as well as the United States having worked with Genworth for over ten years. Previously, Georgette worked as Senior Vice President, Investor Relations, Public Relations and Rating Agencies with Genworth Financial Inc. Other senior roles she has held at Genworth include Chief Financial Officer, US Mortgage Insurance where she was a key member of the management team leading the business through the economic downturn in the US housing market and the GFC, and Global Controller for both US Mortgage Insurance and International Segments. Before joining Genworth in 2005, Georgette was a Director at Deloitte & Touche providing services to companies in the insurance, real estate and broadcasting industries. Earlier in her career, Georgette worked with Freed Maxick Sachs & Murphy, a top 100 accounting firm, in Buffalo, New York where she focused on audit, acquisitions and mergers, tax and strategic financial planning and prior to this as an Internal Auditor at ITT Corporation. Georgette has a Bachelor of Science in Accounting from the University of Bridgeport, Connecticut and is a Certified Public Accountant and Chartered Global Management Accountant.
Anthony (Tony) Gill Director, Independent	Tony was appointed to the Board on 20 February 2012. He is the Chairman of the Capital & Investment Committee and a member of the Audit Committee, Risk Committee and Remuneration & Nominations Committee. Tony has over 30 years of financial services experience having served on a number of boards over that period. Previously Tony was Group Head, Banking and Securitisation Group at Macquarie Group. He has held senior executive roles in Macquarie Group from 1991– 2008. Prior to Macquarie, Tony was a Chartered Accountant and then held various management roles in mortgage banking and treasury in Australia. Tony is currently the Chairman of Australian Finance Group (since 28 August 2008) and a director of First American Title Insurance Company of Australia Ltd and First Mortgage Services Pty Ltd. Tony is also a member of ASIC's External Advisory Panel. Tony was previously Chairman of the Australian Securitisation Forum and National President of the Mortgage Finance Association of Australia.

Directors (continued)

Name and title	Biography
Gai McGrath Director, Independent	Gai was appointed to the Board on 31 August 2016. She is a member of the Audit Committee, Risk Committee, Capital & Investment Committee and Remuneration & Nominations Committee. Gai has over 20 years of financial services experience, specifically in retail banking and wealth management. Gai previously held numerous senior executive positions with the Westpac Group including: • General Manager, Retail Banking, Westpac Australia from 2012 – 2015 • General Manager, Retail Banking, Westpac New Zealand from 2010 – 2012 • General Manager, Customer Service and General Manager, Risk Solutions at BT Financial Group. Prior to the Westpac Group, Gai was General Counsel & Company Secretary at Perpetual Limited and a partner at a Sydney-based law firm. Gai is a Graduate of the Australian Institute of Company Directors. Gai is currently a director of IMB Bank, UrbanGrowth NSW and Toyota Finance Australia Limited. She is also a member of the Council of the State Library of New South Wales, a trustee and director of the State Library of New South Wales Foundation and a member of the Fundraising and Appeals Committee of The Salvation Army (Eastern Territory).
Gayle Tollifson Director, Independent	Gayle was appointed to the Board on 20 February 2012. She is Chairman of the Audit Committee and Risk Committee and a member of the Capital & Investment Committee. Gayle has over 35 years of financial services experience and has been an Independent Director since 2006. Prior to this she worked with QBE Insurance Group in senior executive roles including Chief Risk Officer and Group Financial Controller from 1994 – 2006. Prior to QBE, Gayle held various roles in public accounting firms in Australia, Bermuda and Canada. Gayle is a fellow of the Australian Institute of Company Directors and the Institute of Chartered Accountants in Australia. Gayle is currently Chairman of Munich Holdings of Australasia Pty Limited and subsidiaries and a director of RAC Insurance Pty Limited.
David Foster Director, Independent, Genworth Financial designee	David was appointed to the Board on 30 May 2016. He is Chairman of the Remuneration & Nominations Committee and a member of the Audit Committee, Risk Committee and Capital & Investment Committee. David has over 25 years of financial services experience, specifically in banking, insurance and wealth management. David previously held numerous positions with Suncorp Bank including various senior executive roles from 2003 – 2007 and was the Chief Executive Officer from 2008 – 2013. Prior to Suncorp Bank, David held various management roles at Westpac. David is a Senior Fellow of the Financial Services Institute of Australasia and a Graduate of the Australian Institute of Company Directors. David is currently a Director of Thorn Group Limited (since 1 November 2014), G8 Education Limited (since 1 February 2013), Kina Securities Limited (since 30 July 2013) and Motorcycle Holdings Limited (since 8 March 2015).
Leon Roday Director, Genworth Financial designee	Leon was appointed to the Board on 19 March 2012 and is a member of the Remuneration & Nominations Committee. Leon was Executive Vice President, General Counsel and Secretary for Genworth Financial to February 2015. Prior to this position, he held the same role at GE Financial since 1996. Prior to Genworth and GE Financial, Leon was a partner at LeBoeuf, Lamb, Greene & McRae for 14 years, and he is a member of the New York Bar Association.

Name and title	Biography
Stuart Take Director, Genworth Financial designee	Stuart was appointed to the Board on 20 February 2012. Stuart has over 25 years' experience, primarily at Genworth and General Electric. Stuart joined GE Capital in 1987 and has since held a number of senior management positions in Genworth's mortgage insurance platform both domestically and overseas, including President/CEO of Genworth's Canadian mortgage insurance business, and Senior Vice President of Asia. Stuart is currently President of the Board of Directors of Genworth Seguros de Credito a la Vivienda S.A. de C.V. (Mexico) and also serves as a Director of India Mortgage Guarantee Corporation (a Genworth joint venture with the International Finance Corporation, the Asian Development Bank and the National housing Bank of India). He was previously Head of Financial Institutions at Deutsche Bank, Asia ex- Japan.
Jerome Upton Director, Genworth Financial designee	Jerome was appointed to the Board on 20 February 2012 and is a member of the Audit Committee and the Capital & Investment Committee. Jerome was appointed as Senior Vice President and Chief Financial and Operations Officer, Global Mortgage Insurance for Genworth Financial in 2012. Previously, Jerome was the Senior Vice President and Chief Operating Officer, Genworth Financial International Mortgage Insurance from 2009. Prior to this Jerome has had a variety of roles at Genworth including Senior Vice President and CFO, Genworth Financial International – Asia Pacific, Canada and Latin America from 2007 – 2009, Head of Global Financial Planning & Analysis from 2004 – 2007, International Finance Manager from 2002 – 2004, and Mortgage Insurance Global Controller from 1998 – 2002. Prior to Genworth, Jerome served in a number of accounting positions at KPMG Peat Marwick, culminating in his role as Senior Manager – Insurance in Raleigh, North Carolina. He obtained the status of Certified Public Accountant whilst the Controller and Director of Financial Reporting for Century American Insurance Company in Durham, North Carolina.

The Directors of the Company who ceased to be a Director during the financial year are as follows:

- Richard Grellman (ceased to be a Director on 31 August 2016)
- Samuel Marsico (ceased to be a Director on 5 May 2016)

Principal activity

The principal activity of the Group during the reporting period was the provision of lenders mortgage (LMI) insurance under authorisation from APRA. In Australia, LMI facilitates residential mortgage lending by transferring risk from lenders to LMI providers, predominately for high loan to value ratio residential mortgage loans.

Operating and financial review

Organisation overview and business model

About Genworth

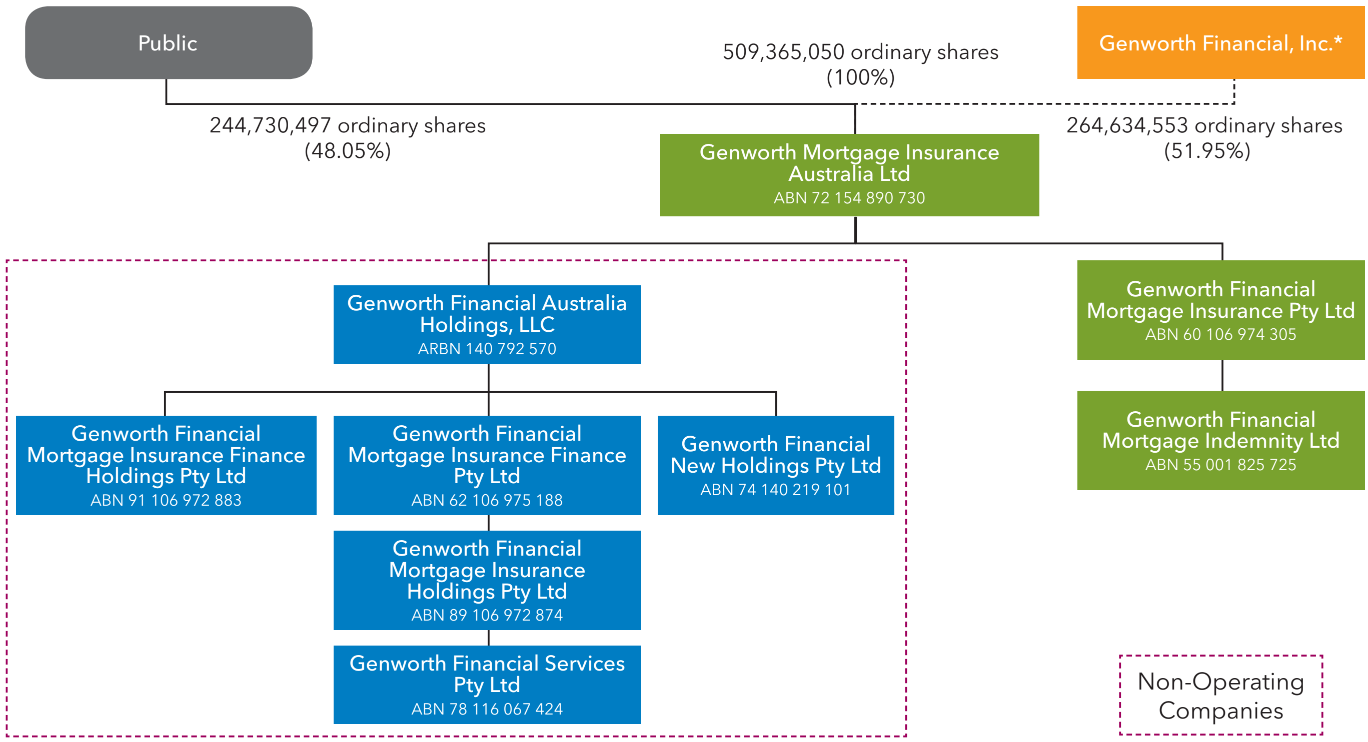
Genworth is the leading LMI provider in the Australian LMI market. The Group estimates that it had approximately 34% of the Australian LMI market by NIW for the 12 months ended 31 December 2016.

The Company was incorporated on 21 December 2011 with $1 share capital and had nil operating activity until 19 May 2014 when the Group was formed and the Company gained 100% control of all the Genworth subsidiaries as part of the IPO restructure. The Company was listed on the ASX on 20 May 2014 under ticker code 'GMA' at an issue price of $2.65 per share, raising $583 million from the offer which represented 33.85% of the issued share capital of the Company with the remaining 66.15% of the share capital indirectly held by Genworth Financial. On 15 May 2015, Genworth Financial sold 92.3 million shares in the Company, reducing its ownership to approximately 52%. The Company commenced an on-market buyback program on 16 November 2015 as part of the Group's capital management initiatives. As at 8 December 2015, 54.6 million shares in the amount of $150 million were successfully purchased from the market. Genworth Financial participated in the on-market sale transactions during the program to maintain the approximately 52% stake in the Group. On 1 June 2016, the Group completed a $202.4 million capital reduction and consolidation of shares. As at 2 June 2016, the number of Genworth shares on issue was 509.4 million.

Operating and financial review (continued)

Organisation overview and business model (continued)

The Group has the following corporate structure:



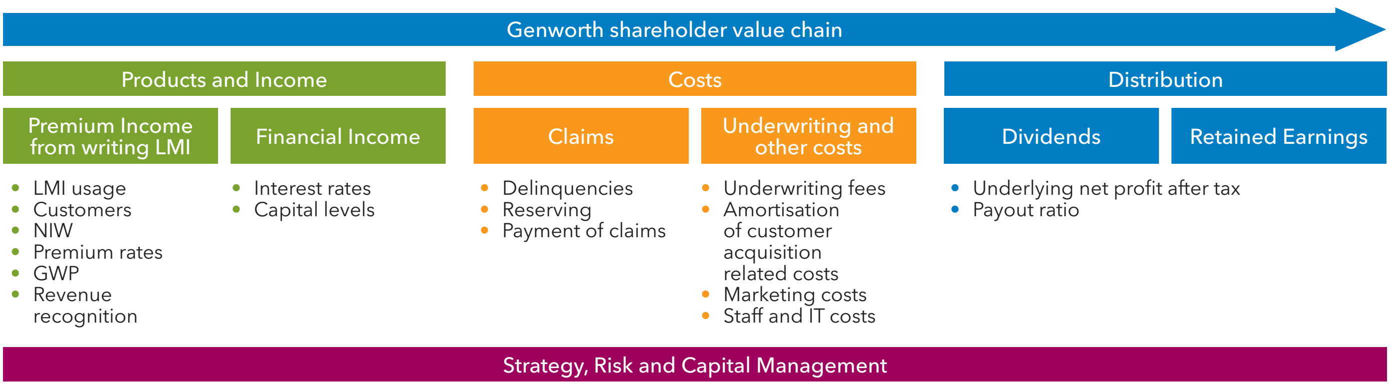
* Genworth Financial, Inc's interest in the Company is held indirectly through the Genworth Financial Group.

In November 2016, the Group completed an internal reorganisation under which Genworth Financial Mortgage Insurance Pty Limited became a wholly-owned subsidiary of the Company. It is proposed that in 2017 the Group will voluntarily deregister six wholly owned entities (the 'Non-Operating Companies' identified in the chart) to simplify the current corporate structure. The actions taken will not impact any operational capabilities of the Group's insurance subsidiaries, but are intended to provide for a more efficient administration.

Business model

Genworth's business activities

As an LMI Provider, Genworth's profitability is driven primarily by its ability to earn premiums and generate financial income in excess of net claims and operating expenses (being underwriting and other costs). The diagram below illustrates how Genworth creates value.



Products and customers

The Group continued to offer three LMI products in 2016, being Standard LMI, Homebuyer Plus and Business Select/Low Doc. In FY16, Standard LMI produced 99% of total GWP.

The Group underwrites LMI through flow and portfolio channels. In FY16, 98% of the business was generated from the flow channel.

During 2016, Genworth maintained commercial relationships with over 100 lender customers across Australia. Genworth has Supply and Service Contracts with 10 of its key lender customers.

In 2016, Genworth's top three customers accounted for 78% of its NIW and 71% of its GWP. The largest customer accounted for 36% of its NIW and 47% of its GWP in FY16, as illustrated below.

Lender customer	FY16 NIW	FY16 GWP
Lender customer 1	36%	47%
Lender customer 2	33%	14%
Lender customer 3	9%	10%
Lender customers 4 – 10	15%	20%
All other lender customers	7%	9%

Strategic priorities

Genworth's strategy is to be the leading provider of customer focused capital and risk management solutions in the Australian residential mortgage market. The Group is focused on delivering a sustainable return on equity for its shareholders as it executes on its strategy.

The strategic priorities of the Group include:

A customer focused approach to solutions and service

- Focusing on strategic alignment with our customers
- Offering innovative capital and risk management solutions
- Providing relevant mortgage market insights to customers and industry bodies

1

Targeting appropriate risk-adjusted returns and optimal capital structure

- Pricing NIW to achieve low to mid-teens ROE over the long term
- Ongoing capital optimisation initiatives
- Maintaining strong balance sheet and stable credit ratings

2

Investing in our core business model

- Investing in our technology platform for more flexibility and responsiveness to operational and customer needs
- Enhancing our competitive position by improving our underwriting capabilities and implementing cost optimisation initiatives

3

Maintaining strong risk management discipline

- Effective risk decision making
- Continuing to enhance our modelling and analytical capabilities
- Leveraging data and analytics to add value across the mortgage chain.

4

Regulatory advocacy

- Continuing to engage with regulators to reinforce the value proposition of LMI
- Providing value-added insights to regulators

5

Operating and financial review (continued)

Risk management

Genworth maintains a disciplined approach to risk management and underwrites to a defined set of underwriting policies that determine which residential mortgage loans it will insure.

Genworth's risk management strategy forms an integral part of its risk management framework, ensuring the risk management framework remains relevant and aligned to the Board's approved strategies.

The key business risks are those that could impact the successful execution of the strategy.

Key risk	Key control / mitigation
The value proposition of LMI in the market may be challenged over the medium term Customers may explore different risk transfer product structures Increased competitive pressure and market disruptions.	• Genworth has a project team dedicated to working on strategies and products to broaden its product set and enhance its value proposition • Continue to work with regulators and the industry to recognise LMI in risk and capital models.
Changing customer dynamics, new entrant in the mortgage risk transfer market, regulatory changes or other factors may lead to reduced new insurance written	• Genworth is working with regulators and the LMI industry to address actual and expected legislative and regulatory changes • Genworth maintains a forward looking government relations plan • Customer plans are in place to monitor the execution of priority areas and key activities of key customers • Flexible product suite includes standard and non-standard product offerings.
Adverse legislative or regulatory changes Adverse regulation may impact Genworth's business model, new business volumes and/or profitability.	• Monitoring of regulatory environment and changes • Continue to work with stakeholders to demonstrate the LMI value proposition • Active regulatory engagement strategy • Continue to work with government and regulators.
Unexpected macroeconomic event results in deterioration in financial and capital performance A deterioration in macroeconomic conditions or outlook could result in a flow on impact to the financial and capital profile of Genworth.	• Product, location and segment risk responses • Continue to enhance reserving and loss forecasting processes • Risk Appetite Statement, review, monitor and report • Contingency impact plans designed and monitored through dashboard • Risk portfolio monitoring • Macroeconomic Contingency Plan • ICAAP and stress testing processes.
Capital relief for LMI LMI may continue to not be explicitly recognised in AIRB lenders' capital models or there may be reduction or removal of capital relief for ADIs that utilise LMI and are currently able to obtain capital relief.	• Genworth seeks to work with customers in relation to their capital positions • Genworth continues to work with regulators and other industry participants to recognise LMI • Management maintains an active engagement plan with government and opposition.
Changes in financial strength ratings Genworth's financial strength rating may be downgraded.	• Genworth has a Contingency Plan to address ratings downgrade • The listing of the Company on the ASX provides for additional capital flexibility if required.
Reinsurance renewals Failure to renew reinsurance contracts as and when they fall due for renewal.	• Capital management strategy including reinsurance management strategy • Ongoing active management of the reinsurance program • Ability to leverage external reinsurance experience.

Key risk	Key control / mitigation
Risks related to Supply and Service Contracts with customers • Termination before the expiry of the contractual term • Change of control of a customer • A ratings downgrade of Genworth • Material breach or force majeure.	• Customer contract renewal and extension process; contractual avenue to address any improvements required • A Contingency Plan is maintained for the loss or potential loss of a customer • Contractual safeguards are included in customer contracts.
Change in interest rate cycle and risk of mark to market loss exposure Lower yield environment continues to pressure both financial and pricing returns. Mark to market adjustments may have an adverse impact on profitability and financial position.	• Execution of the Derivatives strategy • Diversification of investment portfolio within the boundaries set by the Risk Appetite Statement • Investment Committee governance and oversight • Risk Assessment prior to any change to Risk Appetite and related changes to the investment policy.

Performance review and outlook

Financial results

The Group's key financial measures are summarised in the below table. All measures are presented on reported basis.

Financial performance measures (A$ million)	FY16	FY15
Gross earned premium	524.7	549.6
Net earned premium	452.9	469.9
NPAT	203.1	228.0
Underlying NPAT[1]	212.2	264.7
Non-IFRS performance metrics	**FY16**	**FY15**
Loss Ratio[2]	35.1%	24.0%
Expense Ratio[3]	25.7%	26.2%
Combined Ratio[4]	60.8%	50.2%
Insurance Margin[5]	48.1%	58.1%
Investment Return[6]	3.4%	3.7%
ROE[7]	9.7%	9.7%
Underlying ROE[8]	10.4%	11.6%

The underwriting performance in FY16 reflects the following key factors:

(a) GWP fell 24.8% due to a lower average LVR mix of business, as well as the full impact of the changes in customers in 2015;

(b) The loss ratio for FY16 was 35.1% compared to 24.0% in FY15 due to an increase in delinquencies, especially in the mining regions;

(c) The expense ratio decreased from 26.2% in FY15 to 25.7% in FY16 as a consequence of the ongoing expense management;

(d) The insurance margin decreased to 48.1% compared with 58.1% for FY15, driven by higher net claims incurred.

1 Underlying NPAT excludes the after-tax impact of unrealised gains/(losses) and impairment losses on the investment portfolio.
2 The Loss Ratio is calculated by dividing the net claims incurred by the Net Earned Premium.
3 The Expense Ratio is calculated by dividing the sum of the acquisition costs and the other underwriting expenses by the Net Earned Premium.
4 The Combined Ratio is the sum of the Loss Ratio and the Expense Ratio.
5 The Insurance Margin is calculated by dividing the profit from underwriting and interest income on Technical Funds (including realised gains) by the Net Earned Premium.
6 The Investment Return is calculated as the interest income on Technical Funds plus the interest income on Shareholder Funds (excluding realised and unrealised gains/ (losses)) divided by the average balance of the opening and closing cash and investments balance for each financial year.
7 The ROE is calculated by dividing NPAT by the average of the opening and closing equity balance for each financial year.
8 The Underlying ROE is calculated by dividing Underlying NPAT by the average of the opening and closing equity balance for each financial year excluding the impact of after tax changes to the cash and investments balance on the balance sheet.

Operating and financial review (continued)

Review of financial condition

Financial position

Financial position (A$ million)	31 Dec 16	31 Dec 15
Cash and investments	3,522.6	3,925.9
Deferred acquisition costs	142.0	145.1
Total assets	**3,833.4**	**4,232.0**
Trade and other payables	35.0	77.7
Outstanding claims reserve	355.5	277.0
Unearned premium	1,177.8	1,320.6
Interest bearing liabilities	196.0	244.4
Total liabilities	**1,866.0**	**2,013.2**
Net assets	**1,967.4**	**2,218.7**

The total assets of the Group as at 31 December 2016 were $3,833.4 million compared to $4,232.0 million at 31 December 2015. The movement was mainly driven by $403.3 million decrease in investments as a result of cash outflows from the $202.4 million capital reduction and dividend payments.

The total liabilities of the Group as at 31 December 2016 were $1,866.0 million compared to $2,013.2 million at 31 December 2015. Notable movements contributing to the $147.2 million decrease over the period include:

- $42.6 million decrease in other trade and other payables, mainly related to an increase in income tax payments made in FY16;
- $78.5 million increase in outstanding claims reserve driven by a rise in reported delinquencies;
- $142.8 million decrease in unearned premium reflecting relatively lower level of new premium written in 2016, offset by seasoning of prior years' in-force premium; and
- $48.4 million decrease in interest bearing liabilities, mainly related to redemption of $49.6 million of the subordinated notes.

The Group's equity decreased by $251.4 million over the period, mainly reflecting the dividends and capital reduction paid in FY16, partially offset by current year earnings.

Investments

As at 31 December 2016, the Group had a $3,522.6 million cash and investments portfolio, invested 92% in Australian denominated cash, cash equivalents and fixed income securities rated A- or higher.

Significant movements in investments since 31 December 2015 include:

- $187.7 million investment in Australian equities in line with the Group's investment strategy to improve investment returns within acceptable risk tolerances; and
- Decreased funds reflecting the capital management initiatives including the $202.4 million capital reduction and dividend payments.

Capital Mix

The Group measures its capital mix on a net tangible equity basis, i.e. after deduction of goodwill and intangibles, giving it strong alignment with regulatory and rating agency models. At 31 December 2016, the Group's capital mix was:

- Ordinary equity (net of goodwill and intangibles) 90%; and
- Debt 10%.

Capital Management

The Group's capital position was solid at 31 December 2016, reflected in the Group's regulatory capital solvency level of 1.57 times the Prescribed Capital Amount (PCA) and a Common Equity Tier 1 (CET1) capital ratio of 1.42 times. The regulatory solvency position continues to be above the Board's targeted solvency range of 1.32 – 1.44 times the PCA.

The table below illustrates the capital position as at 31 December 2016 compared with the capital position as at 31 December 2015.

PCA coverage ratio (Level 2)

(A$ in millions), as at	31 Dec 16	31 Dec 15
CET1 capital (incl. excess technical provisions)	2,012.8	2,351.2
Tier 2 capital	200.0	249.6
Regulatory Capital Base	**2,212.8**	**2,600.8**
LMI Concentration Risk Charge (LMICRC)	1,095.3	1,344.2
Asset risk charge	111.0	76.9
Insurance risk charge	229.8	226.6
Operational risk charge	30.0	27.7
Aggregation benefit	(52.2)	(37.1)
PCA	**1,413.9**	**1,638.3**
PCA coverage ratio (times)	**1.57x**	**1.59x**

The decrease in CET1 capital in FY16 mainly reflects the $249.9 million dividends paid in FY16, the $202.4 million capital reduction and an $86.5 million decrease in the excess technical provisions, offset by $203.1 million reported NPAT. Tier 2 capital decreased following the redemption of $49.6 million of the $140.0 million notes issued in 2011. The PCA coverage ratio was consistent with FY15.

Full year 2017 outlook

Australian economic conditions have moderated recently as the economy continues to transition away from the mining investment boom. There is considerable variation in economic activity across the country with continued growth in New South Wales and Victoria offset by weaker activity in Queensland and, in particular, Western Australia.

The national unemployment rate has increased slightly to 5.8% in December 2016 and key labour market indicators remain mixed. Employment growth is being primarily driven by an increase in part-time employment. The under-employment rate remains elevated and at near-record highs, implying a greater degree of spare capacity in the economy than indicated by the unemployment rate alone. Wage growth is also subdued, especially due to the transition away from mining-led activity and low actual and expected inflation. These labour market dynamics are increasing the instance of mortgage stress in certain regional economies and Genworth expects these trends to drive elevated mortgage delinquencies in these regions in 2017.

House price growth is likely to moderate in 2017, with Sydney and Melbourne continuing to outperform the other major cities. There may be a wider variance in price movements of single dwellings compared to high density properties, particularly in east coast capital cities.

Genworth remains engaged with other existing and potential customers about the provision of LMI and other risk management solutions and will continue to actively pursue new agreements over the course of 2017. Overall, the Company expects GWP in 2017 to be down between 10 and 15% from 2016, subject to the timing and extent of any changes in the customer portfolio.

Genworth expects 2017 NEP to decline by approximately 10 to 15% and for the full year loss ratio to be between 40 and 50%. The Board continues to target an ordinary dividend payout ratio range of 50 to 80% of underlying NPAT.

The full year outlook is subject to market conditions as well as unforeseen circumstances or economic events.

Dividends

Details of the dividends paid or resolved to be paid by the Group and the dividend policy employed by the Group are set out in the dividends note within the financial statements.

Environmental regulations

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

Operating and financial review (continued)

Market capitalisation

The market capitalisation of the Company as at 31 December 2016 was $1.67 billion based on the closing share price of $3.27.

Events subsequent to reporting date

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

- On 8 February 2017, the Directors declared a 100% franked final dividend of 14 cents per share totalling $71,300,000.

Likely developments

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Company Secretary

Prudence Milne

Ms Prudence Milne was appointed as General Counsel and Company Secretary on 5 September 2016. Between 1998 and 2015, Prudence held Executive Legal Counsel and Company Secretary positions at AMP, with significant exposure across superannuation, life insurance and investment management. Prior to AMP, Prudence worked at Ashurst, Hambros Australia and Herbert Smith Freehills. She brings to Genworth more than 30 years of experience across a range of areas including corporate governance, mergers and acquisitions, litigation, compliance and legal risk management.

Prudence holds a Bachelor of Economics and a Bachelor of Laws from Monash University, a Masters of Laws from the University of Sydney. She is a Graduate of the Australian Institute of Company Directors and holds a Graduate Diploma in Company Secretarial Practice from the Governance Institute.

Assistant Company Secretary

Brady Weissel

Mr Brady Weissel was appointed as Assistant Company Secretary on 10 March 2016. Brady joined Genworth as a Corporate Counsel in July 2014. Prior to joining Brady was a lawyer at Ashurst with experience acting on a range of corporate and commercial matters including, private and public mergers and acquisitions, schemes of arrangement and takeovers, on initial public offerings, equity raisings and joint ventures.

Brady holds a Bachelor of Commerce and Bachelor of Laws from the University of Sydney.

Directors' meetings

The number of Directors' meetings (including meetings of Committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year are:

Director	Board meetings		Audit Committee meetings		Risk Committee meetings		Capital & Investment Committee meetings		Remuneration & Nominations Committee meetings	
	A	B	A	B	A	B	A	B	A	B
Ian MacDonald	10	10	5	5	3	3	4	4	5	5
David Foster (appointed as a Director on 30 May 2016)	4	4	3	3	4	4	4	4	3	3
Anthony Gill	10	10	7	7	6	6	7	7	8	8
Richard Grellman (ceased to be a Director on 31 August 2016)	7	7	-	-	-	-	-	-	-	-
Samuel Marsico (ceased to be a Director on 5 May 2016)	5	6	-	-	2	2	-	-	-	-
Gai McGrath (appointed as a Director on 31 August 2016)	3	3	2	2	3	3	3	3	3	3
Georgette Nicholas (appointed as Managing Director on 3 February 2016)	9	9	-	-	-	-	-	-	-	-
Leon Roday	10	10	-	-	-	-	-	-	8	8
Stuart Take	10	10	-	-	-	-	-	-	-	-
Gayle Tollifson	10	10	7	7	6	6	7	7	-	-
Jerome Upton	10	10	7	7	-	-	7	7	-	-

A - Number of meetings attended B - Number of meetings held during the time the Director held office during the year

Note: All Directors are normally invited to attend all Committee meetings. This register only records attendance of Committee members.

Indemnification and insurance of officers and Directors

During the financial year, a controlled entity paid premiums to insure Directors and certain officers of the Company for the year ended 31 December 2016 and, since the end of the financial year, the controlled entity has paid or agreed to pay premiums in respect of such insurance contracts for the year ending 31 December 2017. Such insurance contracts insure against liability (subject to certain exclusions) persons who are or have been Directors or officers of the Group.

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

Directors' interests and benefits

Other than the aggregate remuneration paid to 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 Group 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 Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and, in accordance with that Class Order, amounts in the consolidated financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Directors' report (continued)

Non-audit services

The Directors are satisfied that the provision of non-audit services during the year by the Auditor of $43,000 is compatible with the general standard of independence for auditors imposed by the Corporations Act and in accordance with Genworth's Auditor Independence Policy, noting that:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the Auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in the Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the Auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the Auditor of the Group, KPMG, and its network firms, for audit and non-audit services provided during the year are set out below:

	2016 $
Audit and review of financial statements	654,165
Regulatory audit services	76,480
Non-assurance services	43,000
Total paid/payable to KPMG	**773,645**

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Remuneration report

Dear Shareholder,

I am pleased to present our remuneration report for the year ended 31 December 2016, and my first as Chairman of the Remuneration & Nominations Committee. The guiding principle of our remuneration programs is that remuneration should reflect a balance of Genworth's overall performance, individual performance, and the experience of our shareholders. This principle manifests in the way the Committee and Board determine performance-based remuneration; so while Genworth has performed solidly in the face of a dynamic and challenging market, performance against financial objectives was below target. This is reflected in a reduction in bonus pool funding and resulting awards. Another reflection of this balance is in how remuneration is delivered. The Board and Committee remain committed to delivering remuneration through shares via both short term and long term incentive programs which, over a long term timeframe, align Key Management Personnel (KMP) with shareholders.

This report clearly and concisely explains how the Committee and Board have determined remuneration outcomes across all the Company's remuneration programs which reflect this balance.

David Foster

Chairman – Remuneration & Nominations Committee

Contents

	PAGE
1. Executive summary	31
2. Remuneration governance, policy and programs	32
3. Relationship between company performance and remuneration	38
4. Remuneration outcomes for executive KMP	39
5. Contractual arrangements for executive KMP	39
6. KMP remuneration tables	40
7. Non-executive director remuneration	44
8. Other tables	46

1. Executive summary

This report provides shareholders with an overview of the Group's remuneration governance, strategy, programs and outcomes for KMP for the year ended 31 December 2016. The table below provides a concise summary of the remuneration received by Executive KMP in 2016. This table is for general information, and is supplementary to the statutory requirements contained in sections 6 and 7. It is not prepared in accordance with accounting standards, as it includes both contracted and actual remuneration received over the calendar year and excludes long service leave accruals, fringe benefit tax attributed to insurances/car parking and other non-monetary benefits.

Table 1a – 2016 Remuneration summary table (unaudited) as at 31 December 2016

				At-risk/performance remuneration			
		Fixed remuneration		Short term incentive (STI)		Long term incentive (LTI)	
Name and position - Executive KMP		Contract TFR[1]	Actual TFR received[2]	STI target	Actual STI awarded[3]	LTI target[4]	LTI vested[5]
Georgette Nicholas	2016	$850,000	$817,981	$744,662	$645,000	$850,000	$14,966
Chief Executive Officer (CEO)	2015	$467,844	$465,186	$300,140	$400,000	$207,792	$73,321
Luke Oxenham	2016	$450,000	$446,351	$225,000	$260,000	$225,000	-
Chief Financial Officer (CFO)	2015	$383,250	$83,407	$27,292	$42,496	-	-
Andrew Cormack	2016	$485,000	$483,378	$145,500	$145,000	$237,500	-
Chief Risk Officer (CRO)	2015	$475,000	$125,555	$42,631	$52,895	-	-
Tobin Fonseca	2016	$450,000	$433,979	$220,493	$150,000	$202,500	$27,117
Chief Operating Officer (COO)	2015	$405,000	$401,641	$202,500	$230,000	$195,000	$101,488
Former Executive KMP							
Bridget Sakr[6]	2016	$435,000	$435,000	$217,500	$227,700	$217,500	$25,082
Former Chief Commercial Officer	2015	$435,000	$433,595	$217,500	$230,000	$212,500	$157,235

Throughout this report, KMP refers to those responsible for planning, directing and controlling the activities of the Company, made up of Non-Executive Directors, the Executive Director and nominated executives. Please refer to section 7 for details relating to Non-Executive Directors.

Table 1b Executive KMP in 2016

Name	Position	Term as KMP
Executive KMP		
G Nicholas	CEO	Full year
L Oxenham	CFO	Full year
A Cormack	CRO	Full year
T Fonseca	COO	Full year
Former Executive KMP		
B Sakr	CCO	1 Jan – 14 Dec

1 Contract total fixed remuneration (TFR) shows the fixed remuneration an individual is entitled to receive for a full year of service under their employment contract as at the end of the reporting period.
2 Actual total fixed remuneration received shows the fixed remuneration earned throughout 2016 as a KMP, and is different to contract TFR due to increases as part of the annual review effective 1 March.
3 Actual STI awarded reflects 2016 STI awards (including any amounts delivered as deferred STI, see section 4 for more details).
4 The 2016 LTI Target reflects the dollar value of the LTI grant awarded for the performance period starting January 1 2016.
5 The dollar value of legacy Genworth Financial equity that vested during the reporting period (calculated using the share price and exchange rate at date of vesting). No Genworth LTI plans have vested as at the end of the reporting period.
6 Ms Sakr ceased as a KMP effective 14 December 2016. Ms Sakr's employment with the Company ceases 14 March 2017. All payments made in 2017 relating to Ms Sakr's employment are disclosed in this reporting period.

2. Remuneration governance, policy and programs

2.1 Governance overview

The Remuneration & Nominations Committee (the Committee) was established to assist the Board in fulfilling its responsibilities to shareholders and regulators in relation to remuneration, succession planning, board effectiveness and renewal, diversity and inclusion. The Board's final approval is required for any decision relating to the Committee's responsibilities. The Committee liaises as required with the Audit Committee and Risk Committee.

2.2 Use of independent remuneration advisors

The Board and the Committee received advice from external advisers Aon Hewitt in 2016. Services included the provision of market data and market practices. All advice provided was accompanied with confirmation from Aon Hewitt that the advice was free from the undue influence of the KMP to whom it may pertain. No remuneration recommendations as defined under the Corporations Act were received in relation to KMP throughout this period.

2.3 Remuneration policy and strategy

Genworth's remuneration policy details the governance, structure and overall strategy through which Genworth compensates employees. Genworth's remuneration strategy is to provide market competitive remuneration programs that help attract, retain and motivate highly competent employees who are dedicated to achieving Genworth's objectives in a manner that is consistent with the long-term interests of the Company and its shareholders. This strategy is reflected in specific remuneration programs which, subject to Board (and, where applicable, shareholder) approval, deliver remuneration which aligns performance, outcomes, timeframes, shareholder, company and employee interests over the long-term.

2.4 Executive KMP remuneration programs

Genworth's Executive KMP remuneration programs are designed to align executive and shareholder interests by:

- using appropriate delivery vehicles (e.g. cash, equity and non-monetary benefits) and pay mix;
- measuring performance and delivering resulting remuneration over an appropriate time frame;
- using appropriate measures of competitiveness (e.g. median of appropriate comparator group); and
- operating within Genworth's risk management framework and relevant regulatory requirements (in particular, APRA Prudential Standard CPS 510 Governance).

Genworth's Executive KMP remuneration programs consist of a TFR component, an STI component and an LTI component. Executive KMP participated in Genworth Financial's global remuneration programs prior to listing in May 2014. Summary table 2.4a presents the link between Genworth's strategy and remuneration programs and outcomes.

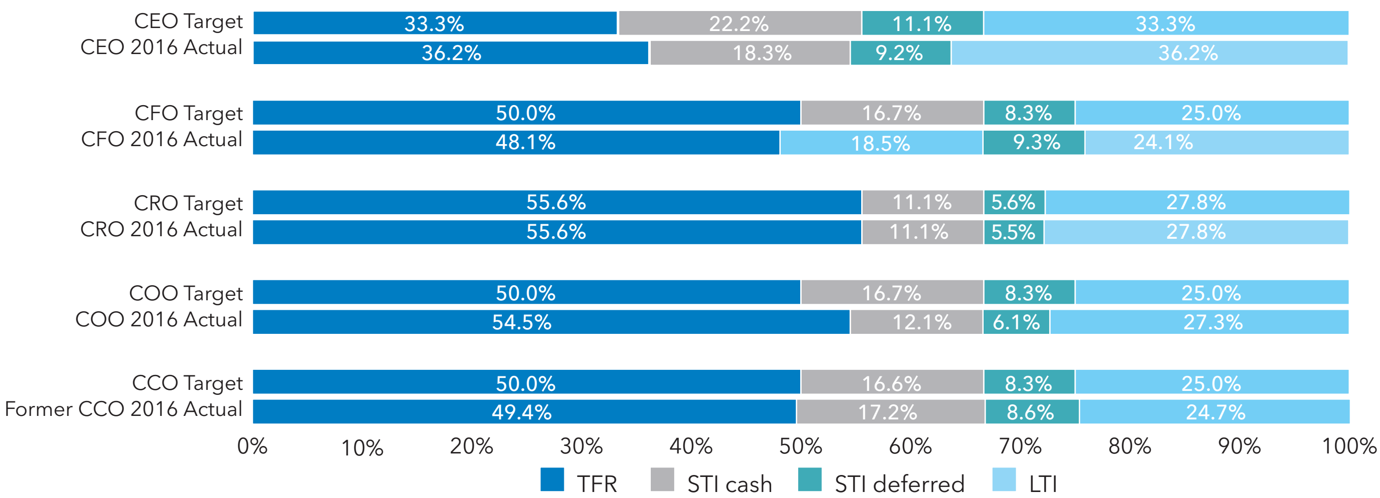
Table 2.4a Remuneration Framework and linkage to Genworth's strategy and performance

Business vision	Remuneration strategy
To be the leading provider of customer focused capital and risk management solutions in residential mortgage markets.	To attract, retain and motivate the best people dedicated to achieving the Genworth's objectives in line with the Genworth's long term interests.
Measures of success	**Actual performance**
• Enhance profitability within risk adjusted return parameters by pricing NIW to achieve low to mid-teens ROE over the long term, focusing on loss mitigation and expenses • Improve productivity while maintaining strong risk management discipline and customer experience • Know our customers to deliver market leading capital and risk management solutions • A high performing, engaged workforce focused on execution • Be the leading provider of LMI in the market.	• Underlying NPAT $212m compared with target of $225m. Underlying ROE was 10.4% compared with target of 10.7%. Expense ratio maintained at 25.7% compared with target range of 26% - 28%. Implemented enhanced loss mitigation models • Piloted DUA with various mutual customers to streamline underwriting process while maintaining risk discipline and implemented continuous technology integration and release automation • Implemented alternative risk management solutions with customers • Engagement level 4% below benchmark. Diversity and inclusiveness responses extremely favourable • Retained market leading position.

Vision and strategy reflected in remuneration programs and actual outcomes

TFR • Individual performance (execution of individual and Genworth objectives and behaviours), size and scope of the role and appropriate benchmark data drive fixed pay outcomes.	**TFR** • Average pay increases to Executive KMP were 2.24% in the 2016 remuneration review (excludes changes made to Ms Nicholas and Mr Oxenham as a result of their appointments as CEO and CFO respectively).
STI • Awards reflect combination of individual performance and Genworth's performance (including operating within risk management framework and behaviours as measured against Genworth's values). Underlying NPAT, Underlying ROE, core business model improvement, renewal of key customer contracts, expense ratio management, loss ratio management and product enhancement.	**STI** • Performance resulted in 87% STI funding. STI awards to Executive KMP ranged from 34% - 58% of the maximum.
LTI • Awards reflect Genworth's performance against ROE and relative Total Shareholder Return (TSR) targets.	**LTI** • As at 31 December 2016, no LTI plans have completed their performance period.

Table 2.4b 2016 target mix of pay (relative weight of each component as a % of total remuneration as at 31 December 2016)



The actual mix of pay delivered in any year is based on an assessment of individual and company performance, applicable regulations and plan rules and, as such, may differ from the targeted mix of pay.

2.5 Total fixed remuneration (TFR)

TFR is the sum of base salary and the value of guaranteed employee benefits such as superannuation and car parking.

TFR for Executive KMP roles is reviewed annually and approved by the Board with reference to a number of factors, including but not limited to the size and scope of the role, the performance of the individual and appropriate benchmark data. Benchmark data for each Executive KMP role is individually sourced from a peer group of comparable roles in comparable organisations primarily from the Australian financial services sector. The median TFR figure from the benchmark data is used for comparative purposes.

As part of the 2016 remuneration review, the Board approved increases to TFR for Executive KMP. For details of these increases, please refer to table 1a.

2.6 Short term incentive (STI)

Executive KMP roles have an STI target, expressed as a percentage of TFR, which is based on internal and external benchmarking utilising the same peer group used for TFR benchmarking. Details of the maximum STI amount that can be awarded are provided in table 2.6a.

In determining individual STI awards, the CEO provides recommendations to the Committee in respect of her direct reports (which includes all Executive KMP except herself). The Committee reviews these recommendations and evaluates the CEO's performance, and recommends to the Board awards which take into account the STI pool funding percentage and the performance of the Executive KMP against individual and business performance goals. These individual goals align to the financial and operational objectives used to determine STI pool funding.

Table 2.6a STI 2016 key characteristics

<table>
<tr><th>STI 2016 features</th><th colspan="3">Detail</th></tr>
<tr><td>Purpose of STI plan</td><td colspan="3">Motivate and retain employees by providing STI outcomes that balance individual and Genworth's performance, reflect the ability of the role to influence Genworth's performance, and operate within the Genworth's risk management framework.</td></tr>
<tr><td rowspan="4">STI % by role</td><td>Executive KMP</td><td>Target % (of TFR)</td><td>Maximum % (of TFR)</td></tr>
<tr><td>CEO:</td><td>100%</td><td>200%</td></tr>
<tr><td>CFO, CCO & COO:</td><td>50%</td><td>100%</td></tr>
<tr><td>CRO:</td><td>30%</td><td>60%</td></tr>
<tr><td>Performance objectives</td><td>Financial objectives
Underlying NPAT (35%)
Underlying ROE (35%)</td><td colspan="2">Strategic objectives
Execute key strategic priorities (30%)</td></tr>
<tr><td>Aggregate objective weighting</td><td>Financial objectives
70%</td><td colspan="2">Strategic objectives
30%</td></tr>
<tr><td>Performance period</td><td colspan="3">1 January 2016 - 31 December 2016.</td></tr>
<tr><td>Performance assessment</td><td colspan="3">In Q1 2017, Genworth's performance against each individual objective was evaluated to determine the STI pool funding percentage.</td></tr>
<tr><td>Award determination</td><td colspan="3">Combination of STI pool funding and individual performance.
Awards determined via Board and Committee review, recommendation and approval process.
The Board and Committee have authority and discretion to adjust STI funding and individual awards (including to $0 if appropriate).</td></tr>
<tr><td>Payment date</td><td colspan="3">Q1 2017.</td></tr>
<tr><td>Payment method</td><td colspan="3">STI - 2/3 of the award paid in cash (inclusive of superannuation).
Deferred STI - 1/3 of the dollar value of award converted to a grant of share rights (subject to vesting conditions).</td></tr>
<tr><td>Deferral period</td><td colspan="3">Deferred STI component deferred for 12 months from 1 March 2017.</td></tr>
<tr><td>Deferred STI vesting conditions</td><td colspan="3">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.</td></tr>
<tr><td>Share rights grant calculation</td><td colspan="3">The number of share rights is determined by dividing the deferred STI dollar value by a 10-day Volume Weighted Average Price (VWAP) as at 31 December 2016. The Committee believes using a VWAP (instead of the share price at a single point in time or a discounted fair value methodology) reduces the impact daily volatility may have on the number granted and provides greater transparency around the value of share rights granted.</td></tr>
</table>

STI 2016 features	Detail
Treatment of dividends calculation	Dividends, or the value of any dividends, are not received on unvested share rights. Notional dividend equivalents accrue during the deferral period and are delivered through an adjustment to the number of vested share rights at the end of the deferral period. This is calculated by taking the value of dividends distributed during the deferral period and dividing by a 10-day VWAP as at the vesting date, in whole share rights.
Treatment upon vesting	Vested share rights entitle the holder to ordinary shares in the Company for nil consideration. The Company retains discretion to satisfy vested share rights delivered through the STI plan via the issuance of new shares or via an on-market purchase.
Treatment of terminating Executive KMP	Eligibility for an STI award is contingent on active, continuous employment throughout the performance period. In the event of resignation or termination, the Executive KMP are ineligible for an STI award, and unvested share rights lapse. In the event of termination with 'Good Leaver' status (retirement, redundancy, death or permanent disability or as determined by the Board) – a pro rated portion of STI may be awarded at the Board and Committee's discretion. Treatment of unvested STI share rights is at the Board and Committee's discretion and may be pro rated, remain subject to the original vesting schedule, be subject to accelerated vesting, or converted to cash.
Change of control	Board has discretion.

Table 2.6b 2017 STI performance objectives

STI performance objective & weighting	Rationale
Underlying NPAT (32.5%)	Underlying NPAT will be used as it excludes the impact of volatile unrealised gains and losses on the investment portfolio (which are generally outside of the control of management).
Underlying ROE (32.5%)	For similar reasons as described above in relation to Underlying NPAT, ROE is measured via Underlying ROE.
Strategic objectives (35%)	2017 strategic objectives are core business model improvement, renewal of key customer contracts, expense ratio management, loss ratio management and product enhancement.

2.7 Long term incentive (LTI)

Prior to listing in May 2014, Executive KMP participated in the Genworth Financial LTI program. Grants to Australian participants were delivered as Restricted Share Units in Genworth Financial, 25% of which vest on each of the 1st, 2nd, 3rd and 4th anniversaries of the grant. These grants were part of Genworth Financial's global remuneration programs and reinforced the link between executive remuneration outcomes and Genworth Financial shareholder outcomes over a longer timeframe. Genworth Financial LTI grants will continue to vest until 2018 and are detailed in the statutory tables.

Beginning in 2015, Executive KMP roles have had an LTI target, expressed as a percentage of TFR, which is based on internal and external benchmarking utilising the same peer group used for TFR and STI benchmarking. LTI dollar targets are calculated by multiplying the individual's LTI percentage by their TFR at the start of the relevant performance period (1 January 2016 for the 2016 LTI plan). LTI is provided via an annual grant of share rights which are subject to vesting conditions. Vesting conditions for the 2016 plan include performance based vesting scales in respect of company performance against Underlying ROE and relative TSR. Relative TSR has been introduced given the Group's strategic priorities and TSR's ability to drive behaviours over the long-term that align shareholder return and executive reward. The comparator group (ASX top 200 excluding resources companies) has been chosen because out-performance against this group represents an important part of our value proposition to shareholders.

2. Remuneration governance, policy and programs (continued)

2.7 Long term incentive (LTI) (continued)

Table 2.7a LTI 2016 key characteristics

LTI 2016 features	Detail
Purpose of LTI plan	Motivate and retain employees by providing LTI outcomes that align with longer term company performance, reflect the ability of the role to influence Genworth's performance and operate within the Genworth's risk management framework.
LTI % and grant value by Executive KMP role	**Executive KMP** / **Target % (of TFR)** CEO: 100% Other KMP: 50%
Performance metrics	**Underlying ROE:** 50% of the 2016 LTI grant. Calculated as the average of three year underlying net profit after tax (excluding unrealised gains or losses from investments) divided by the three year average equity (excluding mark to market value of investments). **Relative TSR:** 50% of the 2016 LTI grant. Calculated as the total return to shareholders (share price movement including value of dividends) over the performance period, expressed as a percentage of the starting share price. Dividends are reinvested on the ex-dividend date closing price and franking credits are excluded.
Comparator group for TSR metric	ASX top 200 excluding resources companies.
Vesting scales summary	See vesting scales table below.
Vesting summary	Vesting occurs on a straight line basis between summary points above and each performance metric is measured and vests (as applicable) independently of the other.
Performance period	1 January 2016 - 31 December 2018.
Performance assessment	Performance to be assessed in Q1 2019. There is no retesting of grants.
Deferral period	12 months from the end of the relevant performance period.
Vesting period/date	Four years in total from the start of relevant performance period (three year performance period with an additional year deferral).
Award determination	Performance period and final vesting percentages determined via Board and Committee review, recommendation and approval process. The Board and the Committee have authority and discretion to adjust LTI vesting % and individual awards (including to 0% of grant if appropriate).
Payment method	Grant of share rights. Vested share rights entitle the holder to ordinary shares in the Company for nil consideration. The Company retains discretion to satisfy vested share rights delivered through the LTI plan via the issuance of new shares or via an on-market purchase.
Vesting Conditions	Continuous active employment for four years 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.
Share rights grant calculation	The number of share rights is determined by dividing the grant value by a 10-day VWAP following the release of full-year results for 2016. The Committee believes using a VWAP (instead of the share price at a single point in time or a discounted fair value methodology) reduces the impact daily volatility may have on the number granted and provides greater transparency around the value of share rights granted.

Vesting scales summary:

Vesting %	0%	50%	60%	70%	80%	90%	100%
Underlying ROE	<9.5%	9.5%	10.2%	10.9%	11.6%	12.3%	12.3%
Relative TSR	<50th	50th	55th	60th	65th	70th	75th

LTI 2016 features	Detail
Treatment of dividends	Dividends, or the value of any dividends, are not received on unvested share rights. 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 vesting period. This is calculated by taking the value of dividends distributed during the vesting period, applying the final vesting percentage and dividing by a 10-day VWAP as at the vesting date, in whole share rights.
Treatment of terminating Executive KMPs	Eligibility for an LTI grant or award is contingent on active, continuous employment throughout the vesting period. In the event of resignation/termination, unvested share rights lapse except as provided at the discretion of the Board for a 'Good Leaver' (see table 2.6a for details: 'treatment of terminating Executive KMPs').
Change of control	Board has discretion.

Table 2.7b LTI 2017 key characteristics

LTI 2017 features	Detail							
Performance metrics	**Underlying ROE:** 50% of the 2017 LTI grant. Calculated as the average of three year underlying net profit after tax (excluding unrealised gains or losses from investments) divided by the three year average equity (excluding mark to market value of investments). **Relative TSR:** 50% of the 2017 LTI grant. Calculated as the total return to shareholders (share price movement including value of dividends) over the performance period, expressed as a percentage of the starting share price. Dividends are reinvested on the ex-dividend date closing price and franking credits are excluded.							
Vesting scales summary	**Vesting %**	**0%**	**50%**	**60%**	**70%**	**80%**	**90%**	**100%**
	Underlying ROE	<9.5%	9.5%	10.2%	10.9%	11.6%	12.3%	13.0%
	Relative TSR	<50th	50th	55th	60th	65th	70th	75th
Relative TSR comparator group	Top 200 ASX excluding resources companies.							

2.8 Share ownership requirement for Executive KMP

To strengthen the alignment between Executive KMP and shareholders, Executive KMP are required to accumulate and maintain a minimum value of shares in the Company. The CEO is required to hold two times, and other Executive KMP one times their TFR (the measurement date for TFR is as at listing or appointment date, as applicable). The value of shares is calculated by using the greater of the preceding 12 month average price or retail price at listing.

Executive KMP must meet the share ownership requirements within five years of appointment to their current role. Executive KMP who were in their current role at the time of the IPO must meet the share ownership requirements within five years of the listing. Share ownership requirements are tested each time share rights vest. Until the ownership requirements are met, 25% of shares vested via equity plans (deferred STI component and LTI) must be retained.

2.9 Appointment of CEO

As reported in 2015 and until her appointment as CEO, Ms Nicholas was an expatriate of Genworth Financial. Her remuneration arrangements, while aligned with the Genworth's remuneration strategy, fell under Genworth Financial's expatriate programs. Accordingly, from the period 1 January 2016 – 16 March 2016, components of her remuneration differed in some respects from those of other Executive KMP. These included a base salary and other remuneration paid in USD, which has been converted to AUD for the purposes of this report using the 2016 average exchange rate (AUD/USD 1/0.7443). Ms Nicholas received an Acting CEO Allowance of $33,672 between the start of the reporting period and her becoming CEO and her 2016 STI target was calculated by pro rating her participation in each respective role.

3. Relationship between company performance and remuneration

3.1 Performance overview

Whilst operating in challenging conditions, Genworth delivered a strong overall NPAT result, maintained dividend payouts and executed capital actions. However, Genworth's performance was below target across the financial measures of net earned premium growth, return on equity and full year loss ratio. This performance is reflected in a reduced bonus pool and resulting awards to Executive KMP.

Table 3.1a Summary of Genworth's performance (2016)

Financial results	2014 (unaudited[1])	2015	2016
Gross Written Premium (A$million)	$634.2	$507.6	$381.9
Net Investment Income (A$million)	$226.9	$107.9	$126.0
Underlying NPAT (A$million)	$279.4	$264.7	$212.2
Expense Ratio	26.5%	26.2%	25.7%
Underlying ROE	12.2%	11.6%	10.4%
Dividends paid	$0.274	$0.503	$0.405
Share price at start of reporting period	$2.65	$3.64	$2.76
Share price at end of reporting period	$3.64	$2.76	$3.27

3.2 Link between performance and STI outcomes

The link between remuneration outcomes and business performance is both explicit and fundamental to the design, administration and outcomes of the Genworth's remuneration programs. In light of Genworth's performance against 2016's STI objectives (see below for more detail), the Board determined the STI pool funding level to be 87% of the sum of STI targets.

Table 3.2a 2016 STI performance objectives and Board assessment of performance

STI performance objective & weighting	Rationale	Assessment of 2016 performance
Underlying NPAT (35%)	As the headline figure of the various components that make up overall company performance, an annual profit measure is a key performance objective.	Underlying NPAT for 2016 was $212m compared with a target of $225m. Key contributors to this result: • GWP pressure due to a lower average LVR mix of business, as well as the full impact of the changes in customers in 2015; • loss ratio at the upper end of the forecast range; and • strong expense management performance.
Underlying ROE (35%)	ROE is a key measure of the Genworth's ability to convert equity into returns (profit).	2016 Underlying ROE results were challenging, delivering 10.4% compared with a target of 10.7%.
Execute key strategic objectives (30%)	Key strategic priorities for each performance period may vary year-to-year based on Genworth's priorities. For the 2016 performance period, this list included renewal of key customer contracts, customer and LMI value proposition and process simplification.	The Board determined overall performance against key strategic objectives to be slightly below target.

1 2014 results are presented in full calendar year pro-forma basis to enable meaningful comparison. As a result, the 2014 figures are unaudited.

4. Remuneration outcomes for Executive KMP

Table 4a STI outcomes

Executive KMP	Target STI % (of TFR)	Target STI $	Max STI $	Cash STI awarded[1]	Deferred STI awarded[2]	Deferred STI share rights	Total STI awarded $	Actual STI awarded (% of TFR)	Actual STI awarded (% of max)	STI not awarded (% of max)
G Nicholas CEO	100%	$744,667	$1,489,334	$430,000	$215,000	67,341	$645,000	76%	43%	57%
L Oxenham CFO	50%	$225,000	$450,000	$173,333	$86,667	27,145	$260,000	58%	58%	42%
A Cormack CRO	30%	$145,500	$291,000	$96,667	$48,333	15,138	$145,000	30%	50%	50%
T Fonseca COO	50%	$220,493	$440,986	$100,000	$50,000	15,660	$150,000	33%	34%	66%
Former Executive KMP										
B Sakr former CCO	50%	$217,500	$435,000	$151,800	$75,900	23,772	$227,700	52%	52%	48%

5. Contractual arrangements for Executive KMP

Table 5a Summary of contract details

Executive KMP	Term of agreement	Notice period	Termination payments
CEO	Ongoing	**Four months either party** Immediate for misconduct, breach of contract or bankruptcy.	Statutory entitlements only for termination with cause. Payment in lieu of notice at Company discretion. For Company termination "without cause", 12 months fixed remuneration or as limited without shareholder approval under the Corporations Act.
Other Executive KMP	Ongoing	**Three months either party** Immediate for misconduct, breach of contract or bankruptcy.	Statutory entitlements only for termination with cause. Payment in lieu of notice at Company discretion. For Company termination "without cause", no more than six months fixed remuneration, pro rata STI is payable for time worked.

All Executive KMP are subject to a non-solicitation undertaking and a non-compete restraint for a maximum period of 12 months after ceasing employment.

1 Cash STI awarded figure is inclusive of superannuation.

2 Deferred STI awarded is the one-third portion of total STI award deferred for 12 months. The deferred STI award is converted to share rights using a 10-day VWAP as at 31 December 2016 ($3.1927) and will vest on 1 March 2018 subject to continuous active service and 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.

6. KMP remuneration tables

Table 6a Statutory remuneration table – 1 January to 31 December 2016

KMP		Short term remuneration: Cash salary[1]	Other benefits[2]	Non-monetary benefits[3]	Cash STI awarded[4]	Deferred STI[5]	Sub-total
Executive KMP							
G Nicholas	2016	$755,503	$190,839	$115,159	$430,000	$101,633	$1,593,134
CEO	2015	$465,186	$286,420	$276,774	$400,000	$0	$1,428,380
L Oxenham	2016	$405,083	$5,280	$18,959	$173,333	$40,968	$643,623
CFO	2015	$75,955	$11,219	$144	$42,496	$0	$129,814
A Cormack	2016	$440,266	$42,171[8]	$5,351	$96,667	$22,847	$607,302
CRO	2015	$106,746	$109,601	$35,738	$35,264	$3,320	$290,669
T Fonseca	2016	$396,829	$0	$3,998	$100,000	$23,635	$524,462
COO	2015	$360,813	$0	$17,871	$153,333	$37,762	$569,780
Former Executive KMP							
B Sakr	2016	$390,256	$5,166	$20,231	$151,800	$35,877	$603,330
Former CCO	2015	$388,971	$2,750	$18,552	$153,333	$37,762	$601,369

Table 6b Share option holdings for the reporting period ended 31 December 2016

Executive KMP	Grant detail	Grant date	Issue price	Vesting date
Name & Position				
G Nicholas CEO	GFI Equity '09	19 Aug '09	$9.41	19 Aug '11, '12, '13
	GFI Equity '10	10 Feb '10	$16.20	10 Feb '11, '12, '13, '14
	GFI Equity '11	9 Feb '11	$12.61	9 Feb '12, '13, '14, '15
	GFI Equity '12	14 Feb '12	$8.31	14 Feb '13, '14, '15, '16
	GFI Equity '13	15 Feb '13	$8.79	15 Feb '14, '15, '16, '17
A Cormack CRO	GFI Equity '09	19 Aug '09	$9.41	19 Aug '10, '11, '12
		19 Aug '09	$9.41	19 Aug '10, '11, '12
		19 Aug '09	$9.41	19 Aug '10, '11, '12, '13
	GFI Equity '10	10 Feb '10	$16.20	10 Feb '11, '12, '13, '14
	GFI Equity '11	9 Feb '11	$12.61	9 Feb '12, '13, '14, '15
	GFI Equity '12	14 Feb '12	$8.31	14 Feb '13, '14, '15, '16
	GFI Equity '13	15 Feb '13	$8.79	15 Feb '14, '15, '16, '17
	GFI Equity '14	20 Feb '14	$16.90	20 Feb '15, '16, '17, '18

1 Cash salary consists of base salary and any salary sacrifice arrangements.
2 Other benefits include annual health reimbursement offered to all employees, cash and acting allowances, and a cash payment in lieu of a salary increase for 2016 for Ms Sakr.
3 Non-monetary benefits include insurance premiums, executive health benefits, other non-cash benefits (such as car parking) and related Fringe Benefits Tax (FBT).
4 Cash STI awarded is the actual STI cash payment relating to 2016 performance, inclusive of super, accrued for in 2016. Actual payment made in March 2017.
5 Deferred STI awarded is the one-third portion of total STI award deferred for 12 months. The value disclosed is the portion of the value of the equity instruments recognised as an expense in this reporting period. The value of each share right granted under the 2016 deferred STI plan has been calculated using the share price at 31 December 2016 ($3.27).
6 Long Service Leave accruals are presented as the expense movement for the reporting period.
7 The fair value of equity instruments calculated at the date of grant using the Black Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the equity instruments recognised as an expense in this reporting period. The fair value of 2016 LTI grants provided to Ms Nicholas, Mr Oxenham, Mr Cormack, Ms Sakr, Mr Fonseca in the period are $2.84 for share rights relating to the ROE performance condition and $1.97 relating to the TSR performance condition.
8 Figure includes an incentive retention payment agreement between Mr Cormack and Genworth Financial (his previous employer). Genworth Financial paid for the complete award.
9 The 2015 report incorrectly identified the number of options held by Mr Cormack as 3,799. The correct number is 3,738.

Long term/post-employment benefits						
Super benefits	Long service Leave[6]	Share-based payments RSUs[7]	Termination benefits	Total	% of total that is performance related	% of total that are options
$193,802	$18,712	$453,670	$0	$2,259,318	33%	0%
$55,347	$0	$339,043	$0	$1,822,770	24%	0%
$38,279	$26,713	$141,105	$0	$849,720	32%	0%
$7,452	$1,086	$26,977	$0	$165,330	26%	0%
$45,776	$5,095	$122,492	$0	$780,665	23%	0%
$16,945	$3,123	$20,516	$0	$331,254	22%	0%
$35,865	$26,610	$321,563	$0	$908,500	19%	0%
$33,418	$14,733	$342,630	$0	$960,562	20%	0%
$37,742	$11,278	$228,417	$332,135	$1,212,912	20%	0%
$37,214	$13,887	$359,829	$0	$1,012,299	20%	0%

	Movement during the year						
# Held 31/12/15	Granted	Forfeited	Vested	Exercised	Expired	# Held 31/12/16	Fair value
2,550	0	0	0	0	0	2,550	$20.88
15,000	0	0	0	0	0	15,000	$11.99
18,000	0	0	0	0	0	18,000	$3.09
20,400	0	0	5,100	0	0	20,400	$2.36
18,000	0	0	4,500	0	0	18,000	$2.40
2,000	0	0	0	0	2,000	0	$41.98
2,450	0	0	0	0	0	2,450	$33.99
3,738[9]	0	0	0	0	0	3,738	$20.88
12,000	0	0	0	0	0	12,000	$11.99
8,500	0	0	0	0	0	8,500	$3.09
11,700	0	0	2,925	0	0	11,700	$2.36
13,500	0	0	3.375	0	0	13,500	$2.40
14,000	0	0	3,500	0	0	14,000	$3.40

6. KMP remuneration tables (continued)

Table 6c Share right holdings for the reporting period ended 31 December 2016

Executive KMP	Grant detail	Grant date	Issue price	Vesting date
Name & Position				
G Nicholas CEO	GFI Equity '12	14 Feb '12	$8.31	14 Feb '16
	GFI Equity '13	15 Feb '13	$8.79	15 Feb '16, '17
	GFI Equity '14	20 Feb '14	$16.90	20 Feb '16, '17, '18
	IPO Special Grant	21 May '14	$2.65	20 May '16, '17, '18
	LTI '15	1 Jan '15	$3.47	31 Dec '18
	LTI '16	1 Jan '16	$2.33	31 Dec '19
L Oxenham CFO	GFI Equity '13	15 Feb '13	$16.91	15 Feb '16, '17
	GFI Equity '14	20 Feb '14	$16.90	20 Feb '16, '17, '18
	IPO Special Grant	21 May '14	$2.65	20 May '16, '17, '18
	Equity '15 Grant	1 March '15	$3.47	1 March '16, '17, '18, '19
	LTI '16	1 Jan '16	$2.33	31 Dec '19
A Cormack CRO	GFI Equity '12	14 Feb '12	$8.31	14 Feb '16
	GFI Equity '13	15 Feb '13	$8.79	15 Feb '16, '17
	GFI Equity '14	20 Feb '14	$16.90	20 Feb '16, '17, '18
	LTI '16	1 Jan '16	$2.33	31 Dec '19
	Deferred STI '15	1 March '16	$2.59	1 March '17
T Fonseca COO	GFI Equity '12	1 March '12	$8.73	1 March '16
	GFI Equity '13	15 Feb '13	$8.79	15 Feb '16, '17
	GFI Equity '14	20 Feb '14	$16.90	20 Feb '16, '17, '18
	IPO Special Grant	21 May '14	$2.65	20 May '16, '17, '18
	LTI '15	1 Jan '15	$3.47	31 Dec '18
	LTI '16	1 Jan '16	$2.33	31 Dec '19
	Deferred STI '15	1 March '16	$2.59	1 March '17
Former Executive KMP				
B Sakr Former CCO	GFI Equity '12	14 Feb '12	$8.31	14 Feb '16
	GFI Equity '13	15 Feb '13	$8.79	15 Feb '16, '17
	GFI Equity '14	20 Feb '14	$16.90	20 Feb '16, '17, '18
	IPO Special Grant	21 May '14	$2.65	20 May '16, '17, '18
	LTI '15	1 Jan '15	$3.47	31 Dec '18
	LTI '16	1 Jan '16	$2.33	31 Dec '19
	Deferred STI '15	1 March '16	$2.59	1 March '17

Notes for share right and option tables:

Issue Price is the share price of the instrument at the date of grant. All GFI grant issue prices and fair values have been converted from USD to AUD using the exchange rate as at the date of grant.

1 The 2014 and 2015 reports incorrectly identified the number of IPO Special Grant share rights held by Ms Nicholas, Mr Fonseca and Ms Sakr as 188,949. The correct number was 188,679.

2 2,400 share rights will be forfeit upon cessation of employment on 14 March 2017.

3 74,438 share rights will be forfeit upon cessation of employment on 14 March 2017.

4 61,301 share rights will be forfeit upon cessation of employment on 14 March 2017.

5 101,739 share rights will be forfeit upon cessation of employment on 14 March 2017.

# Held 31/12/15[1]	Number granted	Movement during the year Forfeited	Vested	Exercised	# Held 31/12/16
1,133	0	0	1,133	1,133	0
4,000	0	0	2,000	2,000	2,000
8,287	0	0	2,763	2,763	5,524
188,679	0	0	62,893	62,893	125,786
59,943	0	0	0	0	59,943
0	364,119	0	0	0	364,119
3,124	0	0	1,562	1,562	1,562
2,962	0	0	988	988	1,974
75,471	0	0	25,157	25,157	50,314
12,981	0	0	3,245	3,245	9,736
0	96,384	0	0	0	96,384
650	0	0	650	650	0
3,000	0	0	1,500	1,500	1,500
2,700	0	0	900	900	1,800
0	101,739	0	0	0	101,739
0	6,817	0	0	0	6,817
3,750	0	0	3,750	3,750	0
7,300	0	0	3,650	3,650	3,650
6,900	0	0	2,300	2,300	4,600
188,679	0	0	62,893	62,893	125,786
56,253	0	0	0	0	56,253
0	86,746	0	0	0	86,746
0	29,644	0	0	0	29,644
3,625	0	0	3,625	3,625	0
8,324	0	0	4,162	4,162	4,162
7,200	0	0	2,400	2,400	4,800[2]
188,679	0	0	62,893	62,893	125,786[3]
61,301	0	0	0	0	61,301[4]
0	101,739	0	0	0	101,739[5]
0	29,644	0	0	0	29,644

7. Non-Executive Director remuneration

Table 7a Key Management Personnel in 2016 – Non-Executive Directors

KMP	Position	Term as KMP
Non-Executive Directors		
Ian MacDonald	Chairman	Full Period
David Foster	Independent Director - Genworth Financial designated	30 May – 31 Dec
Tony Gill	Independent Director	Full Period
Gai McGrath	Independent Director	31 Aug – 31 Dec
Gayle Tollifson	Independent Director	Full Period
Leon Roday	Director - Genworth Financial designated	Full Period
Stuart Take	Director - Genworth Financial designated	Full Period
Jerome Upton	Director - Genworth Financial designated	Full Period
Former Non-Executive Directors		
Richard Grellman	Former Chairman	1 Jan – 31 Aug
Samuel Marsico	Former Director	1 Jan – 5 May

Non-Executive Directors (NEDs) are entitled to such remuneration as determined by the Board, provided the aggregate maximum annual amount (referred to as the aggregate fee cap) approved by shareholders is not exceeded. Throughout the reporting period the aggregate fee cap was $1.5 million per annum, inclusive of superannuation obligations. NEDs who are executives of Genworth Financial (Mr Take and Mr Upton) were paid by Genworth Financial in the ordinary course of their duties and were not paid fees by Genworth Australia. Mr Marsico and Mr Roday retired from their roles as executives of Genworth Financial in 2015 and were paid fees as set out in table 7c.

Table 7b NED fee table

Non-Executive Directors (excluding S Take and J Upton)	Annual fee
Board Chairman	$265,000
Director[1]	$115,000
Committee Chairman (per Committee)	$24,000
Committee member (per Committee)	$12,000

Director fees are reviewed annually and may be adjusted in line with market standards within the aggregate fee cap. Following the review undertaken in late 2015, Committee Chairman and member fees were increased from $20,000 and $10,000 respectively effective 1 January 2016.

The focus of NEDs is principally the stewardship, strategic direction and medium to long term performance of Genworth. Accordingly remuneration programs for NEDs are neither performance based or at risk.

While there are no specific share ownership requirements for NEDs, they are encouraged to own one times their annual base fees in Company shares. The current Independent Directors support this approach and intend to achieve this shareholding over time.

1 Mr Roday is paid by Genworth Financial for serving on the Genworth Canada and Genworth Australia Boards. The amount reflected in the statutory tables is the portion of his remuneration attributable to the Genworth Australia Board and Remuneration & Nominations Committee.

Table 7c Statutory remuneration table – 1 January to 31 December 2016

KMP		Fees	Non-monetary benefits[7]	Superannuation benefits	Total
Non-Executive Directors					
I MacDonald	2016	$187,435	$0	$17,806	$205,241
Chairman	2015	$150,685	$0	$14,315	$165,000
D Foster[1]	2016	$85,798	$0	$8,151	$93,949
Director	2015	-	-	-	-
T Gill[2]	2016	$175,000	$0	$0	$175,000
Director	2015	$165,000	$0	$0	$165,000
G McGrath[3]	2016	$50,020	$0	$4,752	$54,772
Director	2015	-	-	-	-
G Tollifson[4]	2016	$159,817	$0	$15,183	$175,000
Director	2015	$150,685	$0	$14,315	$165,000
L Roday[5]	2016	$127,000	$0	$0	$127,000
Director	2015	$104,167	$0	$0	$104,167
S Take	2016	$0	$0	$0	$0
Director	2015	$0	$0	$0	$0
J Upton[6]	2016	$0	$0	$0	$0
Director	2015	$0	$0	$0	$0
Former Non-Executive Directors					
R Grellman	2016	$161,339	$11,677	$15,327	$188,343
	2015	$242,008	$19,179	$22,991	$284,178
S Marsico	2016	$44,027	$0	$0	$44,027
	2015	$125,000	$0	$0	$125,000

1 Mr Foster is Chairman of the Remuneration & Nominations Committee and a member of the Audit Committee, Risk Committee and Capital & Investment Committee.

2 Mr Gill is Chairman of the Capital & Investment Committee and a member of the Audit Committee, Risk Committee and Remuneration & Nominations Committee.

3 Ms McGrath is a member of the Audit Committee, Risk Committee, Capital & Investment Committee and Remuneration & Nominations Committee.

4 Ms Tollifson is Chairman of the Audit Committee and Risk Committee and a member of the Capital & Investment Committee.

5 Mr Roday is a member of the Remuneration & Nominations Committee.

6 Mr Upton is a member of the Audit Committee and the Capital & Investment Committee.

7 Non-monetary benefits include executive health benefits and other non-cash benefits (such as car parking) and related Fring Benefits Tax (FBT).

8. Other tables

Table 8a KMP and their related parties direct, indirect and beneficial shareholdings (including movements during the period ending 31 December 2016)

	Balance at 31 December 2015	Movement during the period: Received via vesting/ exercising	Movement during the period: Other changes	Balance at 31 December 2016
Executive KMP				
G Nicholas - CEO	0	62,893	(9,088)	53,805
L Oxenham - CFO	0	28,402	(28,402)	0
A Cormack - CRO	0	0	0	0
T Fonseca - COO	0	62,893	(62,893)	0
Former Executive KMP				
B Sakr – Former CCO	0	62,893	(59,088)	3,805
Non-Executive Directors				
I MacDonald - Chairman	75,471	0	(10,906)	64,565
D Foster - Director	0	0	0	0
T Gill - Director	138,679	0	(20,039)	118,640
G McGrath - Director	0	0	0	0
G Tollifson - Director	56,603	0	(8,179)	48,424
L Roday - Director	19,609	0	(2,834)	16,775
S Take - Director	9,699	0	(1,402)	8,297
J Upton - Director	19,534	0	(2,823)	16,711
Former Non-Executive Directors				
R Grellman	36,665	0	(267)	36,398
S Marsico	0	0	0	0

Table 8b Relevant interest of each Director in Genworth and its related bodies corporate (unaudited)

Director	Company balance held directly or indirectly at 31 Dec 2016	Genworth Financial balance directly or indirectly at 31 Dec 2016	Genworth MI Canada Inc. balance directly or indirectly at 31 Dec 2016
I MacDonald	Shares: 64,565	None	None
G Nicholas	Shares: 53,805 Share rights: 549,848	Shares: 11,047 Restricted Stock Units: 7,542 Options: 17,550 Stock Appreciation Rights: 56,400	None
D Foster	None	None	None
T Gill	Shares: 118,640	None	None
G McGrath	None	None	None
G Tollifson	Shares: 48,424	None	None
L Roday	Shares: 16,775	Restricted Stock Units: 577,983 Performance Stock Units: 19,000	Shares: 3,020
S Take	Shares: 8,297	Shares: 23,034 Restricted Stock Units: 55,800 Options: 32,600 Stock Appreciation Rights: 53,200	None
J Upton	Shares: 16,711	Shares: 14,188 Restricted Stock Units: 65,399 Performance Stock Units: 4,050 Options: 24,150 Stock Appreciation Rights: 88,000	Shares: 906

Directors' report (continued)

The lead Auditor's independence declaration is set out on page 48 and forms part of the Directors' report.

Signed in accordance with a resolution of the Directors:

Ian MacDonald
Chairman

Dated at Sydney, 24 February 2017

Lead Auditor’s independence declaration

Lead Auditor’s independence declaration under Section 307C of the Corporations Act 2001

To: the Directors of Genworth Mortgage Insurance Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2016 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit

KPMG

David Kells
Partner

Dated 24 February 2017

Financial statements

Contents

Consolidated statement of comprehensive income		50
Consolidated statement of financial position		51
Consolidated statement of changes in equity		52
Consolidated statement of cash flows		53
Section 1 Basis of preparation		**54**
1.1	Reporting entity	54
1.2	Basis of preparation	54
Section 2 Risk management		**56**
2.1	Financial risk management	56
Section 3 Results for the year		**64**
3.1	Gross written premium	64
3.2	Investment income	64
3.3	Other underwriting expenses	65
3.4	Net cash provided by operating activities	65
3.5	Income taxes	66
3.6	Dividends	67
3.7	Earnings per share	68
Section 4 Insurance contracts		**70**
4.1	Net claims incurred	70
4.2	Deferred reinsurance expense	71
4.3	Deferred acquisition costs	71
4.4	Outstanding claims	72
4.5	Non reinsurance recoveries	74
4.6	Unearned premium	75
4.7	Liability adequacy test	75
4.8	Accounting estimates and judgements	76
4.9	Actuarial assumptions and methods	77
4.10	Capital adequacy	79
Section 5 Capital management and financing		**80**
5.1	Capital management	80
5.2	Interest bearing liabilities	81
5.3	Equity	82
5.4	Capital commitments and contingencies	83
5.5	Other reserves	83
Section 6 Operating assets and liabilities		**84**
6.1	Intangibles	84
6.2	Goodwill	85
6.3	Employee benefits provision	85
6.4	Trade and other receivables	86
6.5	Trade and other payables	86
6.6	Cash and cash equivalents	86
Section 7 Other disclosures		**87**
7.1	Parent entity disclosures	87
7.2	Auditor's remuneration	87
7.3	Key management personnel disclosures	88
7.4	Related party disclosures	88
7.5	Controlled entities	89
7.6	Share based payments	89
7.7	Deed of cross guarantee	96
7.8	Events subsequent to reporting date	97

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	Note	2016 $'000	2015 $'000
Gross written premium	3.1	381,910	507,563
Movement in unearned premium		142,790	42,042
Outward reinsurance premium expense		(71,824)	(79,729)
Net earned premium		452,876	469,876
Net claims incurred	4.1	(158,783)	(112,710)
Acquisition costs		(52,505)	(54,536)
Other underwriting expenses	3.3	(64,045)	(68,525)
Underwriting result		177,543	234,105
Investment income on assets backing insurance liabilities		40,353	39,048
Insurance profit		217,896	273,153
Investment income on equity holders' funds		85,641	68,836
Financing costs		(14,205)	(16,545)
Profit before income tax		289,332	325,444
Income tax expense	3.5(a)	(86,238)	(97,462)
Profit for the year		203,094	227,982
Total comprehensive income for the year		203,094	227,982
Earnings per share			
Basic earnings per share (cents per share)	3.7	37.2	35.3
Diluted earnings per share (cents per share)	3.7	37.1	35.2

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

Consolidated statement of financial position

As at 31 December 2016

	Note	2016 $'000	2015 $'000
Assets			
Cash		57,634	78,114
Accrued investment income		28,754	34,621
Investments including derivatives	2.1(f)	3,464,951	3,847,759
Trade and other receivables	6.4	1,592	2,831
Prepayments		2,326	2,179
Deferred reinsurance expense	4.2	80,163	71,040
Non-reinsurance recoveries	4.5	34,414	28,770
Deferred acquisition costs	4.3	141,997	145,075
Plant and equipment		472	828
Deferred tax assets	3.5(b)	9,963	10,593
Intangibles	6.1	2,006	1,026
Goodwill	6.2	9,123	9,123
Total assets		3,833,395	4,231,959
Liabilities			
Trade and other payables	6.5	34,954	77,658
Reinsurance payable		95,328	86,753
Outstanding claims	4.4	355,546	276,983
Unearned premium	4.6	1,177,801	1,320,590
Employee benefits provision	6.3	6,413	6,810
Interest bearing liabilities	5.2	195,972	244,416
Total liabilities		1,866,014	2,013,210
Net assets		1,967,381	2,218,749
Equity			
Share capital	5.3(a)	1,354,034	1,556,470
Share based payment reserve	5.3(b)	3,389	5,521
Other reserves	5.5	(476,559)	(476,559)
Retained earnings		1,086,517	1,133,317
Total equity		1,967,381	2,218,749

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

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Share capital	Other reserves	Retained earnings	Share based payment reserve	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2015	1,706,467	(476,559)	1,266,735	3,832	2,500,475
Profit after taxation	-	-	227,982	-	227,982
Dividends declared and paid	-	-	(361,400)	-	(361,400)
Share based payment expense recognised	-	-	-	2,515	2,515
Share based payment settled	-	-	-	(1,293)	(1,293)
Buy-back of shares, net of transaction costs	(149,997)	-	-	-	(149,997)
Share based payment expense to be recharged back to majority shareholder	-	-	-	467	467
Balance at 31 December 2015	1,556,470	(476,559)	1,133,317	5,521	2,218,749
Balance at 1 January 2016	1,556,470	(476,559)	1,133,317	5,521	2,218,749
Profit after taxation	-	-	203,094	-	203,094
Dividends declared and paid	-	-	(249,894)	-	(249,894)
Share based payment expense recognised	-	-	-	1,441	1,441
Share based payment settled	-	-	-	(3,514)	(3,514)
Capital reduction	(202,436)	-	-	-	(202,436)
Share based payment expense to be recharged back to majority shareholder	-	-	-	(59)	(59)
Balance at 31 December 2016	1,354,034	(476,559)	1,086,517	3,389	1,967,381

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

Consolidated statement of cash flows

For the year ended 31 December 2016

	Note	2016 $'000	2015 $'000
Cash flows from operating activities			
Premiums received		381,910	507,563
Interest and other income		133,908	156,835
Claims paid		(85,864)	(78,959)
Financial expense on long term borrowings		(11,527)	(13,893)
Cash payments in the course of operations		(205,881)	(199,915)
Income tax paid		(110,319)	(155,263)
Net cash provided by operating activities	3.4	102,227	216,368
Cash flows from investing activities			
Payment for plant and equipment and intangibles		(1,520)	(251)
Payments for investments		(896,886)	(822,238)
Proceeds from sale of investments		1,277,648	1,002,856
Net cash used in investing activities		379,242	180,367
Cash flows from financing activities			
Repayment of long term borrowings		(49,619)	-
Net proceeds from long term borrowings		-	104,180
Dividends paid		(249,894)	(361,400)
Capital reduction		(202,436)	-
Payments for on-market buy-back of shares		-	(149,997)
Net cash provided by financing activities		(501,949)	(407,217)
Net (decrease)/increase in cash held		(20,480)	(10,482)
Cash and cash equivalents at the beginning of the financial year		78,114	88,596
Cash and cash equivalents at the end of the financial year	6.6	57,634	78,114

The consolidated 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

This general purpose consolidated financial report is for the year ended 31 December 2016 and comprises the consolidated financial statements for Genworth Mortgage Insurance Australia Limited and its controlled entities (together referred to as the Group). The Company is a for-profit entity domiciled in Australia and its shares are publicly traded on ASX. The Group operates in one business and geographical segment conducting loan mortgage insurance business in Australia; hence no segment information is presented.

The annual financial report was authorised for issue by the Board of Directors on 24 February 2017.

1.2 Basis of preparation

(a) Statement of compliance

This report has been prepared in accordance with the Corporations Act, Australian Accounting Standards adopted by the Australian Accounting Standards Board and the ASX listing rules. International Financial Reporting Standards form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS. The financial report also complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

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

(b) Basis of preparation

The consolidated financial report is presented in Australian dollars.

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

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

(c) Changes in accounting policies

New and amended standards adopted by the Group

The Group has adopted the following accounting standards which became effective for the annual reporting period commencing on 1 January 2016. These standards have introduced new disclosures but did not materially affect the amounts recognised in the financial statements.

	New standards, amendments and interpretations	Operative date
AASB 2014-4	Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
AASB 2015-1	Amendments to Australian Accounting Standards - Annual improvement to Australian Accounting Standards 2012-2014 Cycle	1 January 2016
AASB 2015-2	Amendments to Australian Accounting Standards - Disclosure Initiative: Amendment to AASB 101	1 January 2016
AASB 1057	Application of Australian Accounting Standard	1 January 2016
AASB 2015-9	Amendments to Australia Accounting Standards - Scope and Application Paragraphs	1 January 2016
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	1 July 2015

New accounting standards and amendments issued but not yet effective

A number of new standards, amendments to standards and interpretations noted below are effective for annual periods beginning on or after 1 January 2017, and have not been applied in preparing these consolidated financial statements. The application of these standards is not expected to have a material impact on the Group's accounting policies.

The adoption of AASB 9 Financial Instruments and AASB 15 Revenue from contracts with customers which becomes mandatory for the Group's 2018 financial statements are not expected to result in significant changes to accounting for investments and revenue recognition respectively. An initial assessment of the AASB 16 Leases has been undertaken and it is not expected to have a material impact on the financial statements.

	New standards, amendments and interpretations	Operative date
AASB 9	Financial Instruments	1 January 2018
AASB 15	Revenue from contracts with customers	1 January 2018
AASB 16	Leases	1 January 2019
AASB 2014-1	Amendments to Australian Accounting Standards – Financial instruments Part E	1 January 2018
AASB 2015-8	Amendments to Australian Accounting Standards – Effective date of AASB 15	1 January 2018
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 January 2017
AASB 2016-3	Amendments to Australian Accounting Standards – Clarifications to AASB 15	1 January 2018
AASB 2016-5	Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions	1 January 2018

(d) Rounding off

The Group 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 Class Order, amounts in the consolidated financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Section 1 Basis of preparation (continued)

1.2 Basis of preparation (continued)

(e) Use of estimates and judgements

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances, the results of which form the basis of making judgements about the 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 4.8.

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

The accounting policies have been applied consistently by the Group.

(f) Principles of consolidation

The Group incorporates the assets and liabilities of the Company and all subsidiaries as at the reporting date and the results of the Company and all subsidiaries for the period set out in note 1.2(b) as if they had operated as a single entity.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Section 2 Risk management

The Group has exposure to credit, liquidity and market risks relating to its use of financial instruments. This note presents information about the Group's exposure to each of these risks, the Group's objectives, policies and processes for measuring and managing risk.

2.1 Financial risk management

(a) 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 as well as an Audit Committee and Capital & Investment Committee. The Risk Committee is responsible for developing and monitoring the Group's risk management policies, and reports regularly to the Board on its activities. Furthermore, the Committee assists the Board in providing an objective non-executive review and oversight of the implementation and on-going operation of the Company's Risk Management Framework. The 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. Similarly, the Capital & Investment Committee assists the Board in monitoring compliance with the Risk Management Framework, in relation to the execution of the Group's capital and investment strategy.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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 Group's activities. The Group, through its management policies and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Risk concentration

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

Due to the nature of the Australian economy, the majority of mortgages are originated through the country's four largest banks. The Group's top three lender customers accounted for approximately 71% of the Group's gross written premium, as outlined in the table below:

Lender customer	FY16 GWP	FY15 GWP
Lender customer 1	47%	44%
Lender customer 2	14%	12%
Lender customer 3	10%	10%

(c) Market risk

Market risk is the risk that the market price of assets change and the potential for such change to result in the actual market value of Genworth'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 Group is exposed to currency risk on its investments in receivables and payables denominated in a currency other than Australian dollars and the net investment in foreign branch operations. The currency giving rise to the risk is New Zealand dollars. The NZ currency risk exposure to the Group is not material.

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

	2016		2015	
	+10%	-10%	+10%	-10%
	$'000	$'000	$'000	$'000
Impact to profit and loss and equity of 10% depreciation/ appreciation of Australian Dollar on New Zealand assets and liabilities.	954	(1,165)	185	(226)

(ii) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk primarily arising from interest bearing assets. Assets with floating rate interest expose the Group to cash flow interest rate risk. Fixed interest rate assets expose the Group to fair value interest rate risk.

The Group's strategy is to invest in high quality, liquid fixed interest securities and cash and to actively manage the duration. The Group used derivative financial instruments in the form of interest rate swaptions to mitigate interest rate risk arising from fixed interest securities. The risk management processes over these derivative financial instruments include close senior management scrutiny, including appropriate board approval. Derivatives are used only for approved purposes and are subject to delegated authority levels provided to management. The level of derivative exposure is reviewed on an ongoing basis. Appropriate segregation of duties exists with respect to derivative use and compliance with policy, limits and other requirements is closely monitored.

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

Section 2 Risk management (continued)

2.1 Financial risk management (continued)

(ii) Cash flow and fair value interest rate risk (continued)

The potential impact of movements in interest rates on the Group's profit and loss and equity as a result of 1% increase/decrease in interest rates on interest bearing assets, assuming all other variables remain constant, are shown below.

	2016		2015	
	+1%	-1%	+1%	-1%
	$'000	$'000	$'000	$'000
Interest bearing assets	51,067	(40,437)	59,174	(49,761)

(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 Group has exposure to equity price risk through investment in equities.

During the year, the Group purchased equity securities as a return enhancing investment for the shareholder funds portfolio. The equity investment also provides a diversification benefit to the overall investment portfolio. The investment is structured to provide a lower volatility return outcome than a market-weighted allocation to Australian equities. The equity investment targets a volatility of 10% by allocating dynamically between cash and a portfolio of shares which replicate the S&P ASX 200 Index.

The potential impact of movements in price risk on the Group's profit and loss and equity as a result of a 10% increase/decrease in value of equity securities at reporting date are shown below.

	2016		2015	
	+10%	-10%	+10%	-10%
	$'000	$'000	$'000	$'000
Investments – equity securities	13,136	(13,136)	-	-

(d) Credit risk exposures

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 Group's credit risk arises predominantly from investment activities and the amounts are as indicated by the carrying amounts of the financial assets.

The Group's investment portfolio comprises 97% (2015: 96%) of total securities and cash with counterparties having a rating of A- or better. The Group 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 & Poor's or Moody's.

	2016	2015
	$'000	$'000
Cash at bank and short term bank deposits		
AAA	41,359	37,534
AA	315,293	547,188
A	16,450	5,000
BBB	15,000	8,800
BB	3,000	3,000
	391,103	601,522
Investments		
AAA	1,532,210	1,621,255
AA	766,319	884,749
A	548,031	677,320
BBB	97,266	141,027
	2,943,826	3,324,351
Accrued interest receivable		
AAA	12,789	14,808
AA	9,845	11,437
A	5,289	6,487
BBB	418	1,879
BB	10	10
	28,351	34,621
Receivables without external credit rating	1,592	2,831

Section 2 Risk management (continued)

2.1 Financial risk management (continued)

(e) Liquidity risk

Liquidity risk is the risk that there are insufficient cash resources to meet payment obligations to policyholders and creditors without affecting the daily operations or the financial condition of the Group.

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

2016	Less than 1 year	1 - 5 years	Total
Financial liabilities	$'000	$'000	$'000
Payables	34,954	-	34,954
Reinsurance payable	83,689	11,639	95,328
Outstanding claims provision	273,250	82,296	355,546
	391,893	93,935	485,828

2015	Less than 1 year	1 - 5 years	Total
Financial liabilities	$'000	$'000	$'000
Payables	68,138	9,520	77,658
Reinsurance payable	75,396	11,357	86,753
Outstanding claims provision	202,181	74,802	276,983
	345,715	95,679	441,394

(f) Fair value measurements

Accounting policies

Financial assets backing general insurance liabilities

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

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

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

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

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

- Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn; and
- Fixed interest securities 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
- Listed equity securities are designated as financial assets at fair value through profit and loss upon initial recognition. They are initially recorded at fair value, determined as the quoted cost at date of acquisition and are subsequently remeasured to fair value at each reporting date.

Financial assets not backing general insurance liabilities

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

Derivative financial instruments

Derivatives are used solely to manage risk, not for trading or speculation.

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

Investments

	2016	2015
	$'000	$'000
Fixed interest rate		
Short term deposits	149,738	496,574
Government and semi-government bonds	929,739	870,166
Corporate bonds	1,504,132	1,962,917
	2,583,609	3,329,657
Floating interest rate		
Short term deposits	183,731	26,834
Corporate bonds	480,131	489,714
Government and semi-government bonds	26,936	-
	690,798	516,548
Equity securities		
Listed	187,655	-
Derivatives		
Investment related derivatives	2,889	1,554
Total investments	3,464,951	3,847,759
Current	821,766	1,103,268
Non-current	2,455,530	2,744,491
Equity	187,655	-
	3,464,951	3,847,759

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

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

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

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

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

Section 2 Risk management (continued)

2.1 Financial risk management (continued)

(f) Fair value measurements (continued)

Accounting policies (continued)

31 December 2016	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial instruments				
Government and semi-government bonds	-	956,675	-	956,675
Corporate bonds	-	1,984,263	-	1,984,263
Short term deposits	333,469	-	-	333,469
Derivatives	-	-	2,889	2,889
Equity investments	187,655	-	-	187,655
Total	521,124	2,940,938	2,889	3,464,951

There is an insignificant proportion of investments, less than 1% (2015: 1%), for which a valuation methodology is used to determine the fair value. These assets are effectively marked to model rather than fair value. Reasonable changes in the judgement applied in conducting these valuations would not have a significant impact on the statement of financial position.

31 December 2015	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial instruments				
Government and semi-government bonds	-	870,166	-	870,166
Corporate bonds	-	2,404,131	48,500	2,452,631
Short term deposits	523,408	-	-	523,408
Derivatives	-	-	1,554	1,554
Total	523,408	3,274,297	50,054	3,847,759

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

	Balance at 1 January 2016	Purchases	Disposals	Movement in fair value	Balance at 31 December 2016
	$'000	$'000	$'000	$'000	$'000
Financial instruments					
Corporate bonds	48,500	-	(48,500)	-	-
Derivatives	1,554	1,568	-	(233)	2,889
Total	50,054	1,568	(48,500)	(233)	2,889

	Balance at 1 January 2015	Purchases	Disposals	Movement in fair value	Balance at 31 December 2015
	$'000	$'000	$'000	$'000	$'000
Financial instruments					
Government and semi-government bonds	962	-	(962)	-	-
Corporate bonds	48,500	-	-	-	48,500
Derivatives	-	2,502	-	(948)	1,554
Total	49,462	2,502	(962)	(948)	50,054

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

Derivative financial instruments

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

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

Reporting date positions

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

	2016					2015	
	Within 1 year	Maturity profile 1 to 5 years	Maturity profile over 5 years	Notional contract amount	Fair value asset	Notional contract amount	Fair value asset
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Investment related derivatives							
Interest rate swaptions	1,650,000	-	-	1,650,000	2,889	1,700,000	1,554

Section 3 Results for the year

3.1 Gross written premium

Accounting policies

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

	2016	2015
	$'000	$'000
Direct premium	381,361	506,488
Inward reinsurance premium	549	1,075
	381,910	507,563

3.2 Investment income

Accounting policies

Interest revenue

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

Dividend revenue

Dividend is recognised on the date the dividends/distributions are declared, which for listed equity securities is deemed to be the ex-dividend date.

Gains/(losses) in fair value of investments

Refer to Note 2.1(f) Accounting policies and fair value estimations for further details.

	2016	2015
	$'000	$'000
Interest	120,927	150,530
Dividend revenue	7,113	-
Gains/(losses) in fair value of investments		
Unrealised	(12,525)	(52,436)
Realised	11,010	9,790
Impairments	(531)	-
Total investment income	125,994	107,884
Represented by		
Investment income on assets backing insurance liabilities	40,353	39,048
Investment income on equity holders' funds	85,641	68,836
	125,994	107,884

3.3 Other underwriting expenses

	2016	2015
	$'000	$'000
Depreciation and amortisation expense	895	2,329
Employee expenses:		
– Salaries and wages	27,772	33,465
– Superannuation contributions	1,768	2,100
– Employee benefits	(218)	(338)
Occupancy expenses	2,820	3,192
Marketing expenses	566	776
Administrative expenses	30,442	27,001
	64,045	68,525

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.

	2016	2015
	$'000	$'000
Profit after income tax	203,094	227,982
Less items classified as investing/financing activities:		
– Gain on sale of investments	(10,478)	(9,789)
– Unrealised loss/(gains) on investments	12,525	52,449
Add non-cash items:		
– Share based payments	(2,132)	1,689
– Loss on disposal of plant and equipment	1	104
– Depreciation, amortisation and impairment	895	2,329
Net cash provided by operating activities before change in assets and liabilities	203,905	274,764
Change in assets and liabilities during the financial year:		
(Increase)/Decrease in receivables	(7,809)	4,368
Increase in outstanding claims liability	78,563	46,109
(Increase)/Decrease in payables and borrowings	(32,954)	(43,237)
Decrease/(Increase) in deferred acquisition costs	3,078	(20,605)
(Decrease)/Increase in provision for employee entitlements	(396)	(607)
(Decrease)/Increase in unearned premiums	(142,790)	(42,042)
Decrease/(Increase) in deferred tax asset balances	630	(2,382)
Net cash provided by operating activities	102,227	216,368

Section 3 Results for the year (continued)

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

Deferred tax is provided using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable profit; 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.

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

The Group's subsidiaries constitute a tax consolidated group of which the Company is the head entity. 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 Group where the head entity defaults, subject to the terms of a valid tax sharing agreement between the entities in the Group. Assets and liabilities arising from the Company under the tax funding arrangement are recognised as amounts receivable from or payable to other entities in the Group.

(a) Income tax expense

	2016	2015
	$'000	$'000
Current tax	85,247	98,293
Deferred tax	462	(718)
(Over)/under provision in prior year		
Current tax	361	1,551
Deferred tax	168	(1,664)
	86,238	97,462

(i) Reconciliation of income tax expense to prima facie tax payable

	2016	2015
	$'000	$'000
Prima facie income tax expense calculated at 30% on profit	86,800	97,633
Increase in income tax expense due to:		
Foreign tax rate differential	(59)	-
(Over)/under provision in prior year	529	(113)
Other non-taxable items	(1,032)	(58)
Income tax expense on the profit	86,238	97,462

(ii) Current tax liabilities

The Company is liable for the current income tax liabilities of the tax consolidated group.

The Group's liability includes the income tax payable by all members of the tax consolidated group.

(b) Deferred tax assets and liabilities

	2016	2015
	$'000	$'000
Deferred tax asset balance comprises temporary differences attributable to:		
Employee benefits	3,224	3,951
Share based payments and accrued expenses	400	1,063
Fixed assets and intangibles, including Research & development	-	166
Provision for indirect claims handling costs	6,339	5,413
	9,963	10,593
Net deferred tax		
Balance at 1 January	10,593	8,211
(Debited)/credited to the statement of comprehensive income	(462)	718
Under/(over) provision of prior year tax	(168)	1,664
Closing balance at 31 December	9,963	10,593

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) Restrictions that may limit the payment of dividends

There are currently no restrictions on the payment of dividends by the Company other than:

- the provisions of the Corporations Act and the Company's constitution; and
- the payment of dividends is generally limited to profits subject to ongoing solvency obligations noting that, under the APRA Level 2 Group supervision requirements, the Company is required to obtain approval from APRA before payment of dividends on ordinary shares that exceeds the Group's after tax earnings as defined by APRA.

	Cents per share	Total amount $m	Payment date	Tax rate for franking credit	Percentage franked
2015 final dividend	14.0	83.4	4 March 2016	30%	100%
2015 special dividend	5.3	31.5	4 March 2016	30%	100%
2016 interim dividend	14.0	71.3	31 August 2016	30%	100%
2016 special dividend	12.5	63.7	31 August 2016	30%	100%

The Board normally resolves to pay dividends for a period after the relevant reporting date. In accordance with the accounting policy, dividends for a six monthly period are generally recognised in the following six month period.

(b) Dividends not recognised at reporting date

In addition to the above dividends, the Board determined to pay the following dividend after the reporting date but before finalisation of this financial report and it has not been recognised in this financial report.

	Cents per share	Total amount $m	Expected payment date	Tax rate for franking credit	Percentage franked
2016 final dividend	14.0	71.3	8 March 2017	30%	100%

Section 3 Results for the year (continued)

3.6 Dividends (continued)

Accounting policy (continued)

(c) Dividend franking account

The balance of the franking account arises from:

- franked income received or recognised as a receivable at the reporting date;
- income tax paid, after adjusting for any franking credits which will arise from the payment of income tax provided for in the financial statements; and
- franking debits from payment of dividends recognised as a liability at the reporting date.

	2016	2015
Franking account balance at reporting date at 30%	28,552,903	5,225,329
Franking credits to arise from payment of income tax payable	7,665,088	21,834,947
Franking credits available for future reporting periods	36,217,991	27,060,276
Franking account impact of dividends determined before issuance of financial report but not recognised at reporting date	(30,561,903)	(49,248,086)
Franking credits available/(deficits) for subsequent financial periods based on a tax rate of 30%	5,656,088	(22,187,810)

In accordance with the tax consolidation legislation, the Company as the head entity in the tax consolidated group has assumed the benefit of available franking credits. The Company actively manages the franking account to ensure the balance remains positive at each reporting date, in accordance with tax legislation.

3.7 Earnings per share

Accounting policies

Basic earnings per share is calculated by dividing the profit after tax by the weighted average number of shares on issue during the reporting period.

Diluted earnings per share is calculated by dividing the profit after tax adjusted for any costs associated with dilutive potential ordinary shares by the weighted average number of ordinary shares and dilutive potential ordinary shares.

Basic and diluted earnings per share have been calculated using the weighted average and dilutive number of shares outstanding during the year of 545,276,000. The difference between basic and diluted earnings per share is caused by the granting of potentially dilutive securities such as share rights, options and restricted share units (RSUs).

	2016	2015
Basic earnings per share (cents per share)	37.2	35.3
Diluted earnings per share (cents per share)	37.1	35.2

(a) Reconciliation of earnings used in calculating earnings per share

	2016	2015
	$'000	$'000
Profit after tax	203,094	227,982
Profit used in calculating basic and diluted earnings per share	203,094	227,982

(b) Reconciliation of weighted average number of ordinary shares used in calculating earnings per share

	2016	2015
	’000	’000
Weighted average number of ordinary shares on issue	545,276	645,532
Weighted average number of shares used in the calculation of basic earnings per share	545,276	645,532
Weighted average number of dilutive potential ordinary shares		
Bonus element of shares	1,673	2,056
Weighted average number of shares used in the calculation of diluted earnings per share	546,949	647,588

Section 4 Insurance contracts

4.1 Net claims incurred

Accounting policies

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.

(a) Claims analysis

	2016 $'000	2015 $'000
Gross claims incurred	166,536	133,206
Reinsurance and other recoveries revenue	(6,853)	(8,696)
Borrower recoveries recognised	(900)	(11,800)
Net claims incurred	158,783	112,710

(b) Claims development

	2016			2015		
	Current year $'000	Prior years $'000	Total $'000	Current year $'000	Prior years $'000	Total $'000
Gross claims expense						
Direct	254,952	(94,234)	160,718	204,013	(72,360)	131,653
Inwards reinsurance	9,863	(4,045)	5,818	7,689	(6,136)	1,553
Gross claims incurred – undiscounted	264,815	(98,279)	166,536	211,702	(78,496)	133,206
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries – undiscounted	(812)	(6,041)	(6,853)	(1,321)	(7,375)	(8,696)
Borrower recoveries recognised	(107)	(793)	(900)	(1,331)	(10,469)	(11,800)
Net claims incurred	263,938	(105,155)	158,783	209,050	(96,340)	112,710

4.2 Deferred reinsurance expense

Accounting policies

Reinsurance expense

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

	2016 $'000	2015 $'000
Balance at 1 January	71,040	80,602
Deferral of reinsurance premium on current year contracts	147,638	70,165
Expensing/reversing of reinsurance premium previously deferred	(138,515)	(79,727)
Balance as at 31 December	80,163	71,040
Current	68,524	59,683
Non-current	11,639	11,357
	80,163	71,040

4.3 Deferred acquisition costs

Accounting policies

Costs associated with obtaining and recording mortgage insurance contracts are referred to as acquisition costs and are capitalised when they relate to the acquisition of new business or the renewal of existing business. These are presented as deferred acquisition costs (DAC) and amortised using 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 a liability adequacy test.

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

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

	2016 $'000	2015 $'000
Balance at 1 January	145,075	124,470
Acquisition costs incurred in year	52,864	70,879
Amortisation charge	(55,942)	(50,274)
Balance as at 31 December	141,997	145,075
Current	51,273	51,940
Non-current	90,724	93,135
	141,997	145,075

Section 4 Insurance contracts (continued)

4.4 Outstanding claims

Accounting policies

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

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

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

	2016 $'000	2015 $'000
Central estimate	314,428	242,938
Risk margin	41,118	34,045
Gross outstanding claims	355,546	276,983

(a) Reconciliation of changes in outstanding claims

	2016 $'000	2015 $'000
Balance at 1 January	276,983	230,874
Current period net claims incurred	158,783	112,710
Movement in non-reinsurance and borrower recoveries	5,644	12,358
Claims paid	(85,864)	(78,959)
Balance at 31 December	355,546	276,983
Current	273,251	202,181
Non-current	82,295	74,802
	355,546	276,983

(b) Claims development

2016 Underwriting years	Prior years[1] $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	Total $'000
At end of year of underwrite	204,459	9,302	8,438	4,393	701	992	1,079	1,021	778	1,424	860	233,447
One year later	150,229	39,265	44,511	19,629	7,004	6,668	7,805	6,825	12,917	6,803		301,656
Two years later	129,761	61,383	47,593	36,755	15,005	10,997	11,246	20,871	20,319			353,930
Three years later	106,407	45,635	52,954	47,621	9,744	9,989	24,535	29,722				326,607
Four years later	42,476	50,058	79,244	24,386	8,108	15,925	43,917					264,114
Five years later	34,904	61,174	31,875	16,589	23,971	23,182						191,695
Six years later	48,439	29,491	22,638	40,761	11,717							153,046
Seven years later	12,446	10,197	23,698	12,537								58,878
Eight years later	(1,819)	(11,264)	8,579									(4,504)
Nine years later	(40,129)	4,116										(36,013)
All future years	(2,970)											(2,970)
Net incurred to date	684,203	299,357	319,530	202,671	76,250	67,753	88,582	58,439	34,014	8,227	860	1,839,886
Net paid to date	663,010	273,774	283,637	165,886	51,900	31,997	27,654	15,497	4,849	550	0	1,518,754
Outstanding claims provision at 31 December 2016	23,358	26,741	37,388	38,155	25,182	36,922	62,879	44,313	30,088	7,919	887	333,832
Recoveries on Paid Claims at 31 December 2016	2,165	1,158	1,494	1,371	833	1,166	1,951	1,370	923	242	27	12,700

2015 Underwriting years	Prior years[1] $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	Total $'000
At end of year of underwrite	204,831	9,303	8,438	4,393	701	992	1,079	1,021	777	1,424	232,959
One year later	150,229	39,265	44,511	19,629	7,004	6,668	7,805	6,825	12,917		294,853
Two years later	129,761	61,383	47,593	36,755	15,006	10,997	11,246	20,870			333,611
Three years later	106,406	45,634	52,954	47,621	9,744	9,990	24,535				296,884
Four years later	42,476	50,059	79,244	24,386	8,107	15,925					220,197
Five years later	34,904	61,174	31,875	16,589	23,971						168,513
Six years later	48,439	29,491	22,638	40,761							141,329
Seven years later	12,446	10,196	23,698								46,340
Eight years later	(1,819)	(11,264)									(13,083)
All future years	(40,129)										(40,129)
Net incurred to date	687,544	295,241	310,951	190,134	64,533	44,572	44,665	28,716	13,694	1,424	1,681,474
Net paid to date	660,996	267,051	269,299	149,983	43,410	23,024	14,617	4,284	558	39	1,433,261
Outstanding claims provision at 31 December 2015	28,285	29,470	43,543	41,974	22,082	22,526	31,412	25,541	13,732	1,448	260,013
Recoveries on Paid Claims at 31 December 2015	1,737	1,280	1,891	1,823	959	978	1,364	1,109	596	63	11,800

1 Prior 2007 underwriting years

Section 4 Insurance contracts (continued)

4.4 Outstanding claims (continued)

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

	2016 $'000	2015 $'000
Closing outstanding claims provision per claims development table	333,832	260,013
Non reinsurance recoveries	21,714	16,970
Gross closing outstanding claims provision	355,546	276,983

4.5 Non-reinsurance recoveries

Accounting policies

Reinsurance and non-reinsurance recoveries

Reinsurance and other 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 Group of its liabilities to policyholders and reinsurance recoveries are, if applicable, presented as a separate asset on the statement of financial position.

	2016 $'000	2015 $'000
Opening balance	28,770	16,412
Movement of non-reinsurance recoveries	4,744	558
Borrower recoveries receivable recognised	900	11,800
Closing balance	34,414	28,770

When claims are paid, Genworth typically obtains a legally enforceable judgement against borrowers for the amount of the loss incurred. Genworth actively engages in collection activities to recover monies from borrowers under these judgements. Based on a history of successful collection activities over the last few years and current economic conditions, an expected recovery rate was established and a recovery accrual related to claims paid was recorded. This resulted in a $11.8 million recorded in non-reinsurance recoveries receivable and a corresponding decrease in net claims incurred in 2015.

4.6 Unearned premium

Accounting policies

Earned and unearned premium revenue

Premiums have been brought to account as income from the date of attachment of risk over periods up to ten years based on an actuarial assessment of the pattern and period of risk. The earned portion of premium received is recognised as revenue. The balance of premium received is recorded as unearned premium.

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

	2016 $'000	2015 $'000
Balance at 1 January	1,320,590	1,362,632
Premiums incepted during the year	381,910	507,563
Premiums earned during the year	(524,699)	(549,605)
Balance as at 31 December	1,177,801	1,320,590
Current	377,680	423,944
Non-current	800,121	896,646
	1,177,801	1,320,590

4.7 Liability adequacy test

Accounting policies

The liability adequacy test is an assessment of the carrying amount of the unearned premium liability and is conducted at each reporting date. If current estimates of the present value of the expected cash flows relating to future claims plus an additional risk margin to reflect the inherent uncertainty in the central estimate exceed the unearned premium liability less related deferred reinsurance and deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The test is performed at the 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 liability adequacy test has identified a surplus in the portfolio of contracts that are subject to broadly similar risks.

The probability of adequacy adopted in performing the liability adequacy test is set at the 70th percentile (2015: 75th percentile), includes a risk margin of 14% (2015: 29%). The 70% PoA represented by the LAT differs from the 75% represented by the outstanding claims liability as the former is reflective of experience, whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liability.

Section 4 Insurance contracts (continued)

4.8 Accounting estimates and judgements

Critical accounting estimates and judgements

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

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

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

Premium is earned over periods of up to 10 years. The principle underlying the earning recognition is to derive a premium earning scale which recognises the premium in accordance with the incidence of claims risk.

The review of the premium earning scale is based on an analysis of the historical pattern of claims incurred and the pattern of policy cancellations. The estimate for unearned premiums is established on the basis of this earning scale. Assumptions recommended by the Appointed Actuary recognise that the unearned premium relating to cancelled policies is brought to account immediately.

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

Estimation of outstanding claims liabilities (Note 4.4)

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

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of expected third party recoveries. The Group 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 Group is determined after considering the uncertainty in the portfolio, industry trends, the Group'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 Group, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until some time after the events giving rise to the claims have happened.

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

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

4.9 Actuarial assumptions and methods

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

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

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

For loans where the mortgagee is in possession 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, case estimate based approach is used using the current outstanding loan balance including accumulated arrears adjusted for selling costs, the most recent property valuation, or an estimate thereof, and any amounts not eligible to be claimed.

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 Group by the lenders as being delinquent;
- the frequency and severity factors are based on a review of historical claims and delinquency experience performed by the Appointed Actuary and adopted by the Group.

Actuarial assumptions and process

Historical information relating to arrears and claims history for the Group is provided to the Appointed Actuary in order to determine the underlying assumptions. The Appointed Actuary examines all past underwriting years, including the mix of business by loan to value ratio and loan size band, the region in which the mortgaged property is located, product types, loan purpose and arrears duration.

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

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

Frequency

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

Severity

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

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

- Average frequency factor is 34% (2015: 36%)
- Average severity factor is 24% (2015: 25%)

IBNR

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

Section 4 Insurance contracts (continued)

4.9 Actuarial assumptions and methods (continued)

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

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

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

A risk margin for outstanding claims of 14% (2015: 15%) 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.

The weighted average term to settlement is approximately 19 months (2015: 23 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 (for new delinquencies) impact frequency and, to a lesser extent, severity.

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

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

Impact on outstanding claims liabilities to changes in key variables.

	Change in variable 2016	Impact on outstanding claims liabilities 2016 $'000	Change in variable 2015	Impact on outstanding claims liabilities 2015 $'000
Frequency factor – upper 97.5th	10%	68,572	18%	98,021
Frequency factor – lower 2.5th	(9%)	(57,148)	-13%	-71,367
Severity factor – upper 97.5th	10%	101,751	7%	58,633
Severity factor – lower 2.5th	(8%)	(78,437)	-6%	-48,807

Claims handling expenses

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

4.10 Capital adequacy

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 companies in the Group.

When an insurer is a controlled entity of an authorised non-operating holding company (NOHC), the Level 2 Group comprises the authorised NOHC and its controlled entities. The Company became the authorised NOHC for the Level 2 Group after acquiring 100% ownership of all Australian subsidiaries as a result of the IPO reorganisation structure.

The following companies comprise the APRA Level 2 Group:

Genworth Financial Mortgage Insurance Finance Pty Limited

Genworth Financial New Holdings Pty Ltd

Genworth Financial Mortgage Insurance Holdings Pty Limited

Genworth Financial Mortgage Insurance Pty Limited

Genworth Financial Services Pty Limited

Genworth Financial Mortgage Indemnity Limited

Genworth Financial Australia Holdings, LLC

The calculation for Prescribed Capital Amount (PCA) for the APRA Level 2 Group provided below is based on the APRA Level 2 Group requirements.

	2016 $'000	2015 $'000
Tier 1 capital		
Paid-up ordinary shares	1,354,034	1,556,470
Other reserves	(473,171)	(471,038)
Retained earnings	1,086,517	1,133,316
Less: Deductions	(20,826)	(20,258)
Net surplus relating to insurance liabilities	66,223	152,720
Net Tier 1 capital	2,012,777	2,351,210
Tier 2 capital	200,000	249,600
Total capital base	2,212,777	2,600,810
Insurance risk charge	229,807	226,642
Insurance concentration risk charge	1,095,275	1,344,181
Asset risk charge	111,002	76,930
Operational risk charge	29,954	27,679
Aggregation benefit	(52,158)	(37,086)
Total PCA	1,413,880	1,638,346
PCA coverage ratio (times)	1.57x	1.59x

Section 5 Capital management and financing

5.1 Capital management

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

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

(a) Regulatory capital

The regulated controlled entities are subject to APRA's prudential standards, which set out the basis for calculating the Prescribed Capital Requirement, the minimum level of capital that the regulator deems must be held to meet policyholder obligations. The capital base is expected to be adequate for the size, business mix, complexity and risk profile of the business and, 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 Group's policy to hold regulatory capital levels in excess of the PCR. The Group maintains sufficient capital to support the PCR, which is APRA's derivation of the required capital to meet a 1 in 200 year risk of absolute ruin, and has at all times during the current and prior financial year complied with the externally imposed capital requirements to which it is subject.

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

On 1 June 2016, the Company undertook a capital reduction of $202,436,000. Refer to Note 5.3 Equity for further information.

On 30 June 2016, the Company's wholly owned subsidiary, GFMI redeemed the remaining $49,619,000 of its existing 2011 subordinated notes. Refer to Note 5.2 Interest bearing liabilities for further information

(b) Ratings

The controlled entities maintain their capital strength by reference to a target financial strength rating from an independent ratings agency. The ratings help to reflect the financial strength of these entities and demonstrate to stakeholders their ability to pay claims.

Standard & Poor's

On 4 November 2016, S&P reaffirmed Genworth Financial Mortgage Insurance Pty Limited's financial strength rating at 'A+' and outlook 'stable'.

Moody's

On 11 March 2016, Moody's reaffirmed the insurance financial strength rating of Genworth Financial Mortgage Insurance Pty Limited at 'A3' with an outlook of 'Negative'. On 14 March 2016, Moody's withdrew the financial strength and credit ratings on Genworth Financial Mortgage Indemnity Ltd at Genworth's request following Genworth's review of the benefits of continuing to having this run-off entity rated.

Fitch Ratings

On 25 September 2016, Fitch reaffirmed Genworth Financial Mortgage Insurance Pty's financial strength rating at 'A+' and outlook 'stable'.

(c) Economic capital

The Group uses an economic capital model (ECM) to assess the level of capital required for the underwriting, claims estimation, credit, market, liquidity, operational and group risk to which it is exposed. Economic capital is determined as the level of capital the Group needs to ensure that it can satisfy its ultimate policyholder obligations in relation to all insurance contracts issued on or before the end of the business plan year. The ECM is used by management to help in the determination of strategic capital allocation, business planning, underwriting performance, pricing and reinsurance arrangements. The Group reviews its capital structure on an ongoing basis to optimise the allocation of capital whilst minimising the cost of capital. Active management of the business and its capital has enabled the Group to maintain its insurer financial strength and credit rating.

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 borrowings.

		2016 $'000	2015 $'000
Subordinated notes			
$140 million subordinated notes	(A)	-	49,619
$200 million subordinated notes	(B)	200,000	200,000
Less: capitalised transaction costs		(4,028)	(5,203)
		195,972	244,416

(A) On 30 June 2016, GFMI redeemed the remaining $49,619,000 of its existing $140,000,000 subordinated notes issued on 30 June 2011.

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

Key terms and conditions are:

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

Section 5 Capital management and financing (continued)

5.3 Equity

(a) Share capital

	2016 $'000	2015 $'000
Issued fully paid capital		
Balance at 1 January	1,556,470	1,706,467
Buy-back shares, net of transaction costs	-	(149,997)
Capital reduction	(202,436)	-
Balance at 31 December	1,354,034	1,556,470

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.

Capital reduction and share consolidation

On 1 June 2016, $202.4 million of capital was returned to shareholders as part of the Group's capital management initiatives. As a result of the capital reduction, the Company consolidated its share capital through the conversion of every one share into 0.8555 shares. Following the completion of the share consolidation the total number of shares on issue is 509,365,050 ordinary shares.

On-market buy-back

On 30 October 2015, the Company announced its intention to commence, with effect from 16 November 2015, an on-market share buy-back program for shares up to a maximum equivalent value of $150 million. In 2015 the Company bought back and cancelled 54,600,000 shares for a total consideration of $150 million.

(b) Share based payment reserve

	2016 $'000	2015 $'000
Balance at 1 January	5,521	3,832
Share-based payment expense	1,441	2,515
Share-based payment settled	(3,514)	(1,293)
Share-based payment expense to be recharged back to the major shareholder	(59)	467
Balance as at 31 December	3,389	5,521

Refer to Note 7.6 Share based payments for further detailed information.

5.4 Capital commitments and contingencies

Accounting policies

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

Operating lease commitments

	2016 $'000	2015 $'000
The estimated future amounts of operating lease commitments not provided for in the financial statements are payable:		
Within one year	6,362	6,491
One year or later and no later than five years	3,773	9,988
	10,135	16,479

Contingencies

There were no contingent liabilities as at 31 December 2016.

5.5 Other reserves

	2016 $'000	2015 $'000
Other reserves	(476,559)	(476,559)

Under the pre IPO Group structure, there was no single Australian company with 100% control of Genworth's Australian subsidiaries. As part of the reorganisation plan, a corporate reorganisation was undertaken to reorganise the intragroup debt and equity funding arrangements and to facilitate the repayment of funding arrangements with the Genworth Financial Group. The following steps were applied to reflect the reorganisation plan:

- $450 million of preference shares issued by Genworth Financial New Holdings Pty Ltd and held by GFI were transferred to the Group. As a result, the Preference Shares were eliminated in the consolidated statements of financial position;
- The receivable associated with a loan provided by GFI to Genworth Financial Australia Holdings, LLC was transferred to the Group. As a result, the loan receivable was eliminated in the consolidated statements of financial position; and
- $720 million short term note provided by GFI to the Group was repaid with the proceeds of the Offer.

Following the implementation of the reorganisation plan, the Company became the holding company of the Group and the following entities were consolidated to form the Group:

- Genworth Financial Mortgage Insurance Pty Limited;
- Genworth Financial Mortgage Indemnity Limited;
- Genworth Financial Services Pty Limited;
- Genworth Financial Mortgage Insurance Holdings Pty Limited;
- Genworth Financial Mortgage Insurance Finance Holdings Limited;
- Genworth Financial Mortgage Insurance Finance Pty Limited;
- Genworth Financial New Holdings Pty Limited; and
- Genworth Financial Australia Holdings, LLC.

The Group has determined that the reorganisation represents a business combination involving entities under common control and therefore the Group is not required to account for the reorganisation as a business combination under AASB 3 Business combinations. The reorganisation involved transactions with owners from which no goodwill arises; therefore any difference in these transactions is recognised directly in equity as other reserves.

Section 6 Operating assets and liabilities

6.1 Intangibles

The intangibles balance represents software development expenditure.

Accounting policies

Acquired intangible assets

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

Software development expenditure

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

All capitalised costs are deemed to have an expected useful life of 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 the carrying value. An impairment charge is recognised when the carrying value exceeds the calculated recoverable amount and recognised in the income statement. The impairment charges can be reversed if there has been a change in the estimate used to determine the recoverable amount.

There was no impairment charge recognised during the year.

Reconciliations

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

	2016 $'000	2015 $'000
Cost		
Balance at 1 January	24,754	25,472
Additions	1,513	176
Disposals	(19)	(894)
Balance at 31 December	26,248	24,754

	2016 $'000	2015 $'000
Accumulated amortisation and impairment losses		
Balance at 1 January	(23,728)	(22,670)
Amortisation	(532)	(1,848)
Disposals	18	790
Balance at 31 December	(24,242)	(23,728)
Total net intangibles	2,006	1,026

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

The carrying value of goodwill is tested for impairment at each reporting date. The impairment test involves the use of accounting estimates and assumptions. The recoverable amount of the cash generating unit 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, which generally do not forecast beyond five years. The carrying value of identifiable intangible assets is deducted from the value generated in the cash flow projections to arrive at a recoverable value for goodwill, which is then compared with the carrying value of goodwill.

	2016 $'000	2015 $'000
Goodwill – at deemed cost	9,123	9,123

6.3 Employee benefits provision

Accounting policies

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

Wages, salaries and annual leave

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

Long service leave

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

Superannuation commitments

The Group 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 Group are, as a minimum, in accordance with the Superannuation Guarantee Levy.

	2016 $'000	2015 $'000
Annual leave	2,493	2,666
Long service leave	3,920	4,144
	6,413	6,810
Current	4,711	4,760
Non-current	1,702	2,050
	6,413	6,810

As at the balance date there were 223 employees (2015: 259)

Section 6 Operating assets and liabilities (continued)

6.4 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.

	2016 $'000	2015 $'000
Other debtors	1,592	2,831
Current	1,592	2,831

Carrying amounts of receivables reasonably approximate fair value at the reporting date. None of the receivables are impaired or past due.

6.5 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.

	2016 $'000	2015 $'000
Accrued expenses	22,983	41,452
Related party (receivables)/payables	(2,157)	22,479
Interest payable	32	2,711
Trade creditors and other payables	14,096	11,016
	34,954	77,658
Current	34,954	68,138
Non-current	-	9,520
	34,954	77,658

Included in the related party payables are the balances related to taxes (receivable)/payable to the head entity of $2,877,000 (2015: $21,835,000). Under the tax consolidation system, current tax liabilities recognised for the year by the Group are assumed by the head entity in the tax consolidated group.

6.6 Cash and cash equivalents

Accounting policies

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

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

	2016 $'000	2015 $'000
Cash assets	57,634	78,114

Section 7 Other disclosures

7.1 Parent entity disclosures

	2016 $'000	2015 $'000
Result of the parent entity		
Profit for the year	220,644	263,977
Total comprehensive income for the year	220,644	263,977
Financial position of parent entity		
Current assets	128,778	213,061
Total assets	1,942,162	2,149,534
Current liabilities	32,034	18,752
Total liabilities	32,034	18,752
Net assets	1,910,128	2,130,782
Total equity of the parent entity comprising of:		
Share capital	1,354,034	1,556,470
Retained earnings	119,344	148,595
Share based payment	2,075	3,264
Other reserves	434,675	422,453
Total equity	1,910,128	2,130,782

7.2 Auditor's remuneration

	2016 $	2015 $
Audit and review of financial statements	654,165	688,655
Regulatory audit services	76,480	56,810
	730,645	745,465
Non assurance services	43,000	35,000
	773,645	780,465

Section 7 Other disclosures (continued)

7.3 Key management personnel disclosures

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

Directors of the Company
Ian MacDonald
David Foster (appointed on 30 May 2016)
Anthony (Tony) Gill
Richard Grellman (resigned on 31 August 2016)
Samuel Marsico (resigned on 5 May 2016)
Gai McGrath (appointed on 31 August 2016)
Georgette Nicholas (appointed on 30 May 2016)
Leon Roday
Stuart Take
Gayle Tollifson
Jerome Upton

Executive KMP
Andrew Cormack
Tobin Fonseca
Georgette Nicholas
Luke Oxenham
Bridget Sakr (resigned 14 December 2016)

The aggregate key management personnel compensation is:

	2016 $'000	2015 $'000
Short-term employee benefits	5,306	5,841
Post-employment benefits	501	349
Equity compensation benefits	1,267	2,100
	7,074	8,290

7.4 Related party disclosures

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

Corporate overhead

On settlement of the Company's IPO, the Group entered into certain agreements with Genworth Financial and its affiliates. Under the agreements GFI will provide certain services to the Group, with most services being terminated if GFI ceases to beneficially own more than 50% of the common shares of the Company or at the request of either party at annual successive renewal terms after the initial term ends on 31 December 2016. The services rendered by GFI and affiliated companies consist of finance, human resources, legal and compliance, investments services, information technology and other specified services. These transactions are in the normal course of business and accordingly are measured at fair value. Payment for these service transactions are non-interest bearing and are settled on a quarterly basis. The Group incurred net charges of $5,462,000 (2015: $5,581,000) for the year ended 31 December 2016. There is a payable balance of $452,000 (2015: $468,000) as at 31 December 2016.

Other related party transactions

Certain non-executive directors of the Group were employed by the major shareholder, GFI, during the financial year. Costs of services provided by these directors were not charged to the Group.

Majority shareholder and its ultimate parent entity

The majority shareholder of the Group is Genworth Financial International Holdings, LLC & Genworth Holdings, Inc. (as partners of the Genworth Australian General Partnership) representing 51.95% ownership. The ultimate parent entity of AGP is GFI which is incorporated in Delaware, United States of America.

GFI and China Oceanwide have entered into a definitive agreement under which China Oceanwide has agreed to acquire all of the outstanding shares of GFI, subject to approval by GFI stockholders as well as other closing conditions. Upon completion of the transaction GFI will be a standalone subsidiary of China Oceanwide

7.5 Controlled entities

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 entity. 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 ability to direct those activities and who receives the returns from those activities. The financial statements of controlled entities are included from the date control commences until the date control ceases.

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities.

			Equity holding (%)	
Name of entity	Country of incorporation	Class of shares	2016	2015
Genworth Financial Mortgage Insurance Holdings Pty Limited	Australia	Ordinary	100	100
Genworth Financial Mortgage Insurance Pty Limited	Australia	Ordinary	100	100
Genworth Financial Services Pty Limited	Australia	Ordinary	100	100
Genworth Financial Mortgage Indemnity Limited	Australia	Ordinary	100	100
Genworth Financial Mortgage Insurance Finance Pty Limited	Australia	Ordinary	100	100
Genworth Financial Mortgage Insurance Finance Holdings Pty Limited	Australia	Ordinary	100	100
Genworth Financial New Holdings Pty Limited	Australia	Ordinary	100	100
Genworth Financial Australia Holdings, LLC	USA	Ordinary	100	100

7.6 Share based payments

Accounting policies

Share-based payment transactions

Share based remuneration is provided in various forms to eligible employees and executive Directors of the Group in compensation for services provided to the Group.

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 and 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.

Section 7 Other disclosures (continued)

7.6 Share based payments (continued)

Accounting policies (continued)

Share rights plan

On 21 May 2014, the Group granted restricted share rights to a number of key employees including executive KMP. The aggregate amount of these share rights was $7,265,000. One third of the share rights granted during the year vest on each of the second, third and fourth anniversaries of the grant date. If at any time an employee ceases continuous service with the Group, any unvested share rights are immediately cancelled, except in cases of retirement, redundancy, total and permanent disability or death.

In addition to the grants to key employees, other employees were granted an amount of share rights in the aggregate amount of $276,000. All share rights granted to other employees vest on the third anniversary of the grant date. If at any time an employee ceases continuous service with the Group, any unvested share rights vest immediately. The aggregate amount of $276,000 was expensed during the year ended 31 December 2014.

On 7 May 2015, the Group granted additional share rights in the aggregate amount of $509,967 to 16 employees. One fourth of the share rights vest on each of the four vesting dates, which are 1 March 2016, 1 March 2017, 1 March 2018 and 1 March 2019.

On 6 May 2016, the Group granted share rights in the aggregate amount of $499,030 to nominated employees. One fourth of the share rights vest on each of the four vesting dates, which are 1 March 2017, 1 March 2018, 1 March 2019 and 1 March 2020.

The fair value of the share rights is 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:

	2016	2015	2014
Grant date	6 May 2016	7 May 2015	21 May 2014
Share price on grant date ($)	$3.00	$3.09	$2.95
Dividend yield	11.36%	11.16%	7.8%
Risk free rate (%)	Tranche 1: 1.57%	Tranche 1: 2.03%	Tranche 1: 2.60%
	Tranche 2: 1.57%	Tranche 2: 2.03%	Tranche 2: 2.71%
	Tranche 3: 1.57%	Tranche 3: 2.20%	Tranche 3: 3.08%
	Tranche 4: 1.80%	Tranche 4: 2.35%	
Vesting dates	Tranche 1: 1 March 2017	Tranche 1: 1 March 2016	Tranche 1: 20 May 2016
	Tranche 2: 1 March 2018	Tranche 2: 1 March 2017	Tranche 2: 20 May 2017
	Tranche 3: 1 March 2019	Tranche 3: 1 March 2018	Tranche 3: 20 May 2018
	Tranche 4: 1 March 2020	Tranche 4: 1 March 2019	

Key terms and conditions:

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

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

2016 Grant date	Balance at 1 January 2016	Granted in the year	Exercised in the year (*)	Cancelled/ forfeited in the year	Balance at 31 December 2016	Vested and exercisable at end of the year
	Number	Number	Number	Number	Number	Number
21 May 2014	2,554,698	-	(840,969)	(869,709)	844,020	-
21 May 2014	70,876	-	(16,211)	-	54,665	-
7 May 2015	139,904	-	(34,967)	(5,409)	99,528	-
6 May 2016	-	280,281[1]	-	(8,567)	271,714	-
Total	2,765,478	280,281	(892,147)	(883,685)	1,269,927	-

1 The number of share rights granted in the year includes 66,105 shares rights, representing the deferred short-term incentive component under the 2015 remuneration program.

* included employees who ceased service with the Group, any unvested share rights vested immediately.

2015 Grant date	Balance at 1 January 2015	Granted in the year	Exercised in the year (*)	Cancelled/ forfeited in the year	Balance at 31 December 2015	Vested and exercisable at end of the year
	Number	Number	Number	Number	Number	Number
21 May 2014	2,703,775	-	(11,278)	(137,779)	2,554,698	-
21 May 2014	99,250	-	(28,374)	-	70,876	-
7 May 2015	-	147,115	-	(7,211)	139,904	-
Total	2,803,025	147,115	39,652	(144,990)	2,765,478	-

* included employees who ceased service with the Group, any unvested share rights vested immediately.

Long term incentive plan

The Group implemented a long term incentive plan for executive KMP which is performance oriented and reflects local market practice.

On 7 May 2015, the Group granted share rights in the aggregate amount of $1,822,777 to senior management employees.

On 6 May 2016, the Group granted share rights in the aggregate amount of $1,729,230 to senior management employees.

Section 7 Other disclosures (continued)

7.6 Share based payments (continued)

Accounting policies (continued)

Key terms and conditions:

- 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 equally 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:
  - 50% is subject to a return on equity performance condition (ROE). The Group's three year average ROE is tested against target ROEs over a three year period
  - 50% is subject to a relative total shareholder return performance condition (TSR). The Group's TSR is tested against comparator group, the ASX 200 excluding resource companies over a three year period.
- The number of share rights offered is determined by dividing the grant value of the 2016 long term incentive plan by $2.33, being the 10 day volume weighted average price (VWAP) of the Company share price following the release of full-year results for 2015, 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 Group before the performance conditions are tested, their unvested rights will generally lapse.

The fair value of the share rights for LTI 2016 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.

	2016
Grant date	6 May 2016
Share price on grant date ($)	$3.00
Dividend yield	11.36%
Volatility	35.00%
Correlation	A correlation matrix for the ASX 200 (excluding resource companies) has been used
Risk free rate (%)	1.57%
Vesting date	31 December 2019

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

Grant date	Balance at 1 January 2016	Granted in the year	Exercised in the year	Cancelled/ forfeited in the year	Balance at 31 December 2016	Vested and exercisable at end of the year
	Number	Number	Number	Number	Number	Number
7 May 2015	525,834	-	-	(348,337)	177,497	-
22 June 2015	7,737	-	(1,934)	-	5,803	-
6 May 2016	-	742,159	-	-	742,159	-
Total	533,571	742,159	(1,934)	(348,337)	925,459	-

Grant date	Balance at 1 January 2015	Granted in the year	Exercised in the year	Cancelled/ forfeited in the year	Balance at 31 December 2015	Vested and exercisable at end of the year
	Number	Number	Number	Number	Number	Number
7 May 2015	-	525,834	-	-	525,834	-
22 June 2015	-	7,737	-	-	7,737	-
Total	-	533,571	-	-	533,571	-

Omnibus Incentive Plan

GFI, GFMI and LLC 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 GFMI and LLC.

Under the Omnibus Incentive Plans, GFI issues stock options, stock appreciation rights, restricted stock, restricted stock units, other stock based awards and dividend equivalent awards with respect to its common stock to employees of its affiliates throughout the world. Under the Cost Agreement, GFMI and LLC have agreed to bear the costs for their employees' participation in the Omnibus Incentive Plans from time to time. Employees of GFMI and LLC will not, following the IPO, receive any further awards under the Omnibus Incentive Plans. Any incentives after that date will be provided through the Group's share rights plan. However, GFMI and LLC will continue to bear the costs of past awards under the Omnibus Incentive Plans. The Group has reserved for such costs and the amount of the reserve is marked to market to reflect the Group's exposure to those costs having regard to the price of GFI shares.

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

2016 Grant date	Expiry date	Exercise price	Balance at 1 January 2016	Granted in the year	Exercised in the year	Cancelled/ forfeited in the year	Balance at 31 December 2016	Vested and exercisable at end of the year
			Number	Number	Number	Number	Number	Number
09/08/2006	09/08/2016	47.30	6,600	-	-	6,600	-	-
13/02/2008	13/02/2018	31.60	7,800	-	-	-	7,800	7,800
12/02/2009	12/02/2019	3.41	17,500	-	17,500	-	-	-
19/08/2009	09/08/2016	10.81	3,049	-	-	3,049	-	-
19/08/2009	31/07/2017	10.81	2,450	-	-	-	2,450	2,450
19/08/2009	13/02/2018	10.81	6,288	-	-	-	6,288	6,288
10/02/2010	10/02/2020	19.65	48,600	-	-	18,000	30,600	30,600
09/02/2011	09/02/2021	17.67	38,500	-	-	12,000	26,500	38,500
14/02/2012	14/02/2022	12.31	46,800	-	-	14,700	32,100	35,100
15/02/2013	15/02/2023	12.56	46,500	-	-	15,000	31,500	23,250
20/02/2014	20/02/2024	21.11	14,000	-	-	-	14,000	3,500
Total			238,087	-	17,500	69,349	151,238	147,488
Weighted average exercise price			$16.11	-	$3.41	$18.46	$16.51	$16.41

Section 7 Other disclosures (continued)

7.6 Share based payments (continued)

Accounting policies (continued)

Omnibus Incentive Plan (continued)

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

Balance at 1 January 2015 is adjusted for options granted in prior periods to employees who transferred into/out of the Group during the year.

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

2016 Grant date	Balance at 1 January 2016	Granted in the year	Exercised in the year	Cancelled/ forfeited in the year	Balance at 31 December 2016	Vested and exercisable at end of the year
	Number	Number	Number	Number	Number	Number
03/01/2012	3,750	-	3,750	-	-	-
06/01/2012	1,250	-	1,250	-	-	-
11/01/2012	6,250	-	-	6,250	-	-
14/02/2012	17,681	-	16,306	1,375	-	-
15/02/2013	68,984	-	32,693	15,396	20,895	-
1/10/2013	3,000	-	-	3,000	-	-
2/12/2013	5,000	-	2,500	-	2,500	-
20/02/2014	91,942	-	29,870	28,632	33,440	-
20/03/2015	1,350	-	-	-	1,350	-
Total	199,207	-	86,369	54,653	58,185	-

2015 Grant date	Balance at 1 January 2015	Granted in the year	Exercised in the year	Cancelled/ forfeited in the year	Balance at 31 December 2015	Vested and exercisable at end of the year
	Number	Number	Number	Number	Number	Number
07/02/2007	2,500	-	2,500	-	-	-
01/03/2011	5,000	-	5,000	-	-	-
02/09/2011	10,477	-	10,477	-	-	-
03/01/2012	7,500	-	3,750	-	3,750	-
06/01/2012	2,500	-	1,250	-	1,250	-
11/01/2012	12,500	-	6,250	-	6,250	-
14/02/2012	37,863	-	18,933	1,249	17,681	-
15/02/2013	111,666	-	37,234	5,448	68,984	-
1/08/2013	5,625	-	-	5,625	-	-
1/10/2013	4,500	-	1,500	-	3,000	-
2/12/2013	7,500	-	2,500	-	5000	-
20/02/2014	126,550	-	31,646	2,962	91,942	-
20/03/2015	-	1,350	-	-	1,350	-
Total	334,181	1,350	121,040	15,284	199,207	-

Balance at 1 January 2015 is adjusted for RSUs granted in prior periods to employees who transferred into/out of the Group during the year.

Section 7 Other disclosures (continued)

7.7 Deed of cross guarantee

The following entities are parties to a deed of cross guarantee under which each party to the deed guarantees the debts of each other party to the deed. Under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission (ASIC), the Australian incorporated subsidiaries that are parties to the Deed have been relieved from the requirement to prepare, have audited and lodge with ASIC financial reports and Directors' reports under the Corporations Act.

The subsidiaries of the Company that are parties to the Deed are:

- Genworth Financial Australia Holdings, LLC
- Genworth Financial Mortgage Insurance Finance Pty Ltd
- Genworth Financial Mortgage Insurance Finance Holdings Pty Ltd
- Genworth Financial New Holding Pty Ltd
- Genworth Financial Mortgage Insurance Holdings Pty Ltd
- Genworth Financial Services Pty Ltd.

A consolidated statement of comprehensive income and consolidated statement of financial position, comprising the Company and its controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee for the year ended 31 December 2016 is set out as follows:

Consolidated statement of comprehensive income

	2016 $'000	2015 $'000
Income	2,039	2,471
Expenses	(2,091)	(3,121)
Financial income	2,534	2,450
Profit before income tax	2,482	1,800
Income tax expense	(1,008)	618
Profit for the year	1,474	1,182
Total comprehensive income for the year	1,474	1,182

Consolidated statement of financial position

	2016 $'000	2015 $'000
Assets		
Cash	6,701	869
Investments	121,979	212,924
Trade and other receivables	-	1,004
Prepayments	98	102
Deferred tax asset	-	184
Total assets	128,778	215,083
Liabilities		
Trade and other payables	1,565	610
Employee benefits provision	-	214
Total liabilities	1,565	824
Net assets	127,213	214,259
Equity		
Share capital	1,354,034	1,556,470
Share based payment reserve	2,075	3,264
Other reserves	(476,559)	(476,558)
Retained earnings	(752,337)	(868,917)
Total equity	127,213	214,259

On 1 December 2016, a deed of revocation in respect of the entities participating in the deed of cross guarantee was lodged with the ASIC. This is as a result of a reorganisation taken by the Group to simplify the current corporation structure. The revocation will not be effective until mid-2017.

7.8 Events subsequent to reporting date

As the following event occurred after reporting date and did not relate to conditions existing at reporting date, no account has been taken in the financial statements for the current reporting year ended 31 December 2016.

- On 8 February 2017, the Directors declared a 100% franked final dividend of 14 cents per share totalling $71,300,000.

Directors' declaration

In the opinion of the Directors of Genworth Mortgage Insurance Australia Limited (the Company):

(a) the consolidated financial statements and notes set out on pages 50 to 97 are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance, as represented by the results of its operations, and its cash flows for the period ended on that date; and

   (ii) complying with Australian 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 Group 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, 24 February 2017.

Independent Auditor's report

To the shareholders of Genworth Mortgage Insurance Australia Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Genworth Mortgage Insurance Australia 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 ***Group's*** financial position as at 31 December 2016 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.

- Consolidated Statement of financial position as at 31 December 2016
- Consolidated Statement of comprehensive income, Consolidated Statement of changes in equity, and Consolidated Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

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 Group 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* (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.

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Valuation of Gross Outstanding Claims Liability
- Net Earned Premium and Unearned Premium Liability.

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Gross Outstanding Claims Liability - $356m

The key audit matter	How the matter was addressed in our audit
Refer to the accounting policy in Note 4.4 Outstanding Claims, Note 4.8 Accounting estimates and judgments, Note 4.9 Actuarial assumptions and methods, Note 2.1(e) Liquidity risk and Note 4.1 Net claims incurred. The outstanding claims liability is a key audit matter due to the complexity of the valuation methodology. This complexity requires us to exercise judgment when evaluating the methodologies and assumptions adopted. Genworth's insurance policies are very similar in nature and as a result our audit focused on the way in which the Group used common characteristics to segment the stages of claim emergence when applying frequency and severity (size) factors to calculate the outstanding claims liability. These common characteristics include region, loan originator, outstanding loan size and loan to value ratio. The outstanding claims liability reflects an assessment of future expected outcomes. These outcomes are influenced by a number of factors, including macroeconomic ones, which are subject to a wide range of views and interpretations. The valuation methodology requires assumptions to be made in respect of these factors including: • the uncertainty in the timing of claim payments and recoveries; • the frequency at which claims emerge, and the subsequent severity of those claims. Frequency and severity may be influenced by changes in macroeconomic factors such as interest rates, unemployment, property prices, house price movements and performance of industry and geographic segments; • the timing of receipt of information from lenders indicating that a delinquency or claim has occurred; • whether past claims experience is a reasonable predictor of future experience. The assumptions adopted have a significant impact on the financial performance of the Group. As a result, this key audit matter involved more senior audit team members, including actuarial specialists, who understand the valuation methodologies, the Group's business, its industry and the economic environment it operates in.	Our audit procedures included testing the key controls designed and operated by the Group for the outstanding claims liabilities. Alongside our IT specialists, we assessed the key controls for significant data inputs used to determine the outstanding claims liability. Our assessment included testing specific reconciliation controls and output from key IT systems used in the actuarial valuation processes. We focused on the assumptions and valuation methodology used by management in estimating the Group's outstanding claims liability. In so doing we challenged the methodology and the assumptions used in the valuation, including the Group's approach to segmenting the portfolio using common characteristics. We were assisted by KPMG actuarial specialists in this and in our consideration of the work and findings of the Group's Appointed Actuary. Our detailed testing included considering the Group's valuation methodology and assumptions for consistency between reporting periods, as well as indicators of possible management bias. Our challenge focused on the assumptions applied to delinquencies and claims. We did this by: • evaluating the underlying documentation for the assumptions. For example we considered actual versus expected claims data and the timing of claims payments and recoveries (using historical data) • considering external information available (e.g. macroeconomic assumptions such as forecast interest rates, unemployment, property prices, house price movements) and investigating significant variances • identifying and analysing key changes from previous periods • assessing the consistency of information (such as claims experience and trends) across the Group's operations.

Net Earned Premium - $453m and Unearned Premium Liability - $1,178m

Key Audit Matters	How the matter was addressed in our audit
Refer to the accounting policy in Note 4.6 and Note 4.8 Accounting estimates and judgments. Genworth receives payment for all insurance policies upfront however recognises this premium revenue over time. The timing pattern for recognition of premiums, and the resulting valuation of the unearned premium liability (the proportion of the premium revenue not yet recognised), was determined by applying actuarial modelling techniques to develop an earnings curve. In this way the timing of revenue recognition is dependent on the way in which claims are expected to emerge. Net earned premiums and the unearned premium liability are a key audit matter due to the complexity of the actuarial methodology used to model the earnings curve and the significant level of judgment applied in assessing the assumptions adopted. The earnings curve and the timing of revenue recognition is dependent on an assessment of future claim emergence. As a result the complexities discussed in the key audit matter 'Outstanding Claims Liabilities' are also relevant to our work over net earned premiums and the valuation of the unearned premium liability. The assumptions adopted have a significant impact on the financial performance of the Group. Accordingly, we involved more senior audit team members, including actuarial specialists, who understand the Group's business, its industry and the economic environment it operates in.	We tested the key controls designed and operated by the Group for the unearned premium liability and net earned premiums. Working with our IT specialists, this included testing specific reconciliation controls, the data used in the actuarial modelling processes and output from key IT systems used in the valuation of the unearned premium liability. Working alongside KPMG Actuarial Specialists we focused on the assumptions and valuation methodology used by management. Our detailed testing included the procedures outlined in the key audit matter 'Valuation of gross outstanding claims liability' as timing of revenue recognition is dependent upon future claim emergence. Additional procedures were performed for each key segment of the portfolio, reflecting underwriting year, loan type and policy type and considered indicators of possible management bias. These included: • an assessment of consistency in the adopted pattern of risk emergence • an assessment of the historical accuracy of the assumptions (using actual versus expected analysis of the earnings curve) and analysis of key changes from previous periods • consideration of the impact of changes in the products and operations of the Group to the assumptions adopted.

Other Information

Other Information is financial and non-financial information in Genworth Mortgage Insurance Australia Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. This includes the Investor Report and Investor Presentation as at 8 February 2017. 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
- assessing the Group's ability to continue as a going concern. 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 Group 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 this 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_files/ar2.pdf

This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Genworth Mortgage Insurance Australia Limited for the year ended 31 December 2016, complies with *Section 300A of the Corporations Act 2001*.

Director's Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001.*

Our responsibilities

We have audited the Remuneration Report included in pages 30 to 46 of the Director's report for the year ended 31 December 2016.

Our responsibility is to express an opinion on the Remuneration Report, based on our Audit conducted in accordance with *Australian Auditing Standards*.

KPMG

David Kells
Partner

Sydney

24 February 2017

Shareholder information

Unless otherwise stated, the information in this section is current as at 1 February 2017.

Annual General Meeting

The 2017 Annual General Meeting (AGM) of Genworth Mortgage Insurance Australia Limited will be held on Thursday, 11 May 2017, at The Mint, 10 Macquarie Street, Sydney NSW 2000. The AGM will be webcast live on the internet at http://investor.genworth.com.au and an archive version will be placed on the website to enable the AGM to be viewed at a later time.

Genworth Mortgage Insurance Australia Limited is listed on ASX and its ordinary shares are quoted under the ASX code "GMA".

Annual Report

The default option for receiving annual reports is in electronic format via Genworth's website at genworth.com.au. To request a copy of the Annual Report, please contact the Share Registry.

Online voting

Shareholders can lodge voting instructions electronically either as a direct vote or by appointing a proxy for the 2017 AGM at investorcentre.linkmarketservices.com.au. The information required to log on and use online voting is shown on the voting form distributed to shareholders with the Notice of AGM.

Voting rights

At a general meeting, a shareholder present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll has one vote for each fully paid share held. A person who holds a share which is not fully paid is entitled, on a poll, to a fraction of a vote equal to the proportion which the amount paid bears to the total issue price of the share.

Voting at any meeting of shareholders is by a show of hands unless a poll is demanded in the manner described in the Company's Constitution. If there are two or more joint holders of a share and more than one of them is present at a general meeting, in person or by proxy, attorney or representative, and tenders a vote in respect of the share, the Company will count only the vote cast by, or on behalf of, the shareholder by the joint holder whose name appears first in the Company's register of shareholder.

The quorum required for a meeting of members is two shareholders. If the votes are equal on a proposed resolution, the matter is decided in the negative.

Shareholder questions

Shareholders can submit a written question to the Company or the Company's Auditor in relation to the AGM or any of the proposed resolutions to be considered at the AGM, using the form supplied with the Notice of AGM distributed to shareholders. Forms should be returned to the Company with the personalised voting form in the pre-addressed envelope provided or by fax to +61 1300 366 228.

Shareholders may also submit questions after completing online voting instructions online at investorcentre.linkmarketservices.com.au

Questions for the Company's auditor must be received by 5pm on Thursday, 4 May 2017. Members will also be given a reasonable opportunity to ask questions of the Company and the auditor at the AGM.

During the course of the AGM, the Company intends to answer as many of the frequently asked questions as practicable but will not be responding to individual questions. Responses to the most commonly asked questions will be added to the website at genworth.com.au.

Manage your holding

Questions regarding shareholdings can be directed to the Company's Share Registry. Your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) will be required to verify your identity. Share Registry contact information can be found in the Corporate Directory of this report.

Shareholders that are broker (CHESS) sponsored should direct queries relating to incorrect registrations, name changes and address changes to their broker.

Shareholder information (continued)

Information about Genworth

Information about Genworth Mortgage Insurance Australia Limited, including company announcements, presentations and reports can be accessed at investor.genworth.com.au

Shareholders can register to receive an email alert advising of new Genworth media releases, financial announcements or presentations. Registration for email alerts is available on Genworth's website at http://investor.genworth.com.au under the Investor Services section.

If information is not directly available on Genworth's website, shareholders may contact the Company directly at investorrelations@genworth.com

Important dates *	
Company financial year end	31 December 2016
Full year results and dividend announced	8 February 2017
Record date for dividend	22 February 2017
Dividend payment date	8 March 2017
Annual Report and Notice of AGM mail out commences	31 March 2017
AGM	11 May 2017

* Note: dates may be subject to change.

Ordinary shares and share rights

As at 1 February 2017, the Company had on issue the following equity securities:

- 509,365,050 Shares
- 2,195,386 Share Rights.

Ordinary shares information

Substantial holders of ordinary shares

Name	Number of shares	Voting power (%)	Date of notice
Genworth Financial International Holdings, LLC and Genworth Holdings, Inc. (as partners of the Genworth Australian General Partnership), and their related bodies corporate	337,700,000	52.0	2 October 2015
Asia Pacific Global Capital Co., Ltd. and Asia Pacific Global Capital USA Corporation	264,634,553	51.95	25 October 2016

Note: substantial holder details are as disclosed in substantial holding notices given to the Company.

Twenty largest holders of ordinary shares

Rank	Name	Number of shares	% of issued shares
1	Genworth Financial International Holdings, LLC and Genworth Holdings, Inc. (as partners of the Genworth Australian General Partnership)	264,634,553	51.95
2	HSBC Custody Nominees (Australia) Limited	88,681,367	17.42
3	J P Morgan Nominees Australia Limited	36,129,021	7.10
4	Citicorp Nominees Pty Limited	32,746,774	6.43
5	National Nominees Limited	14,660,898	2.88
6	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	6,242,772	1.23
7	BNP Paribas Nominees Pty Ltd <DRP>	5,421,604	1.06
8	Brazil Farming Pty Ltd	4,850,000	0.95
9	Argo Investments Limited	3,208,901	0.63
10	AMP Life Limited	1,789,446	0.35
11	BNP Paribas Nominees Pty Ltd <Agency Lending Collateral>	1,774,000	0.35
12	HSBC Custody Nominees (Australia) Limited-GSCO ECA	1,591,897	0.31
13	RBC Investor Services Australia Nominees Pty Limited <BK Cust A/C	1,400,679	0.27
14	ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	1,282,363	0.25
15	Sandhurst Trustees Ltd <DMP Asset Management A/C>	1,271,599	0.25
16	Mr Stephen Craig Jermyn <Jermyn Family S/Fund A/C>	1,026,600	0.20
17	Brispot Nominees Pty Ltd <House Head Nominee A/C>	919,555	0.18
18	HSBC Custody Nominees (Australia) Limited – A/C 3	713,814	0.14
19	National Nominees Limited <DB A/C>	687,145	0.13
20	HSBC Custody Nominees (Australia) Limited – A/C 2	642,342	0.13
	Total for Top 20	**469,675,330**	**92.21**

Distribution schedule of holders of ordinary shares

Range	Number of holders	Number of shares	% of issued shares
1-1000	1,087	556,004	0.11
1,001 – 5,000	1,719	4,759,687	0.93
5,001 – 10,000	849	6,344,755	1.25
10,001 – 100,000	765	18,331,183	3.60
100,001 and over	59	479,373,421	94.11
Total	**4,479**	**509,365,050**	**100.00**

Shareholders with less than a marketable parcel of 148 ordinary shares ($3.39 on 1 February 2017) is 145 and they hold 4,109 ordinary shares

Dividend details

Share class	Dividend	Franking	Amount per share	Payment date
Ordinary	Interim	Fully franked	14.0 cents	31 August 2016
Ordinary	Special	Fully franked	12.5 cents	31 August 2016
Ordinary	Final	Fully franked	14.0 cents	8 March 2017

Shareholder information (continued)

Share rights information

Distribution schedule of holders of share rights

Range	Number of holders	Number of share rights	% of total share rights
1-1000	145	54,665	2.49%
1,001 – 5,000	20	79,074	3.60%
5,001 – 10,000	20	157,790	7.19%
10,001 – 100,000	27	934,855	42.58%
100,001 and over	6	969,002	44.14%
Total	**218**	**2,195,386**	**100.00%**

Voting rights

Share Rights do not carry any voting rights. Ordinary shares issued or transferred to participants on the vesting of Share Rights carry the same rights and entitlements as other issued shares.

Shares purchased on-market for the purposes of the Genworth share rights plan

899,962 shares were purchased on-market for the purposes of the Genworth Share Rights Plan during the period from 1 January 2016 to 31 December 2016 at an average price of $2.64 per share.

On-market buy-back

There is no current on-market buy-back.

Glossary

AASB	Australian Accounting Standards Board
AGP	Genworth Australian General Partnership
AIFRS	Australian equivalents to IFRS
APRA	Australian Prudential Regulation Authority
ASX	Australian Securities Exchange
Australian Subsidiaries	Genworth Financial's 100% owned Australian subsidiaries prior to the IPO
Book Year	The calendar year an LMI policy is originated
CET1 or Tier 1 Capital	As defined by GPS 112, Tier 1 Capital comprises the highest quality components of capital that fully satisfy all of the following essential characteristics: • provide a permanent and unrestricted commitment of funds; • are freely available to absorb losses; • do not impose any unavoidable servicing charge against earnings; and • rank behind the claims of policyholders and creditors in the event of winding up
China Oceanwide	China Oceanwide Holdings Group Co., Ltd
Combined ratio	The sum of the loss ratio and the expense ratio
Corporations Act	Corporations Act 2001 (Cth)
DUA	Delegated underwriting authority
EPS	Earnings per share
Expense ratio	Calculated by dividing the sum of the acquisition costs and the other underwriting expenses by the net earned premium
FBT	Fringe benefit tax
Genworth or the Group	The Company and its subsidiaries
Genworth Financial Group	Genworth Financial and its subsidiaries, excluding Genworth
Genworth Financial or GFI	Genworth Financial, Inc. and, where relevant, its predecessors
GFMI	Genworth Financial Mortgage Insurance Pty Limited
GMA or the Company	Genworth Mortgage Insurance Australia Limited ABN 72 154 890 730
Gross earned premium or GEP	The earned premium for a given period prior to any outward reinsurance expense
GWP	Gross written premium
HLVR	High loan to value ratio. Generally, a residential mortgage loan with an LVR in excess of 80% is referred to as an HLVR loan
IBNR	Delinquent loans that have been incurred but not reported
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
Indemnity	Genworth Financial Mortgage Indemnity Ltd
Insurance margin	Calculated by dividing the profit from underwriting and interest income on technical funds (including realised and unrealised gains or losses) by the net earned premium
Investment return	Calculated as the interest income on technical funds plus the interest income on shareholder funds (excluding realised and unrealised gains/(losses)) divided by the average balance of the opening and closing cash and investments balance for each financial year
IPO	Initial Public Offering
KMP	Key Management Personnel, as the term is defined in the Corporations Act 2001 (Cth)
Level 2 and Level 2 Group	"Level 2 insurance group" as defined by APRA under Prudential Standard GPS 001, referring to a consolidated insurance group
LLC	Genworth Financial Australia Holdings, LLC
LMI	Lenders Mortgage Insurance
LMI market	The market for LMI provided by external LMI Providers and LMI subsidiaries but excluding the retention of risk by Lenders and other forms of risk mitigation or risk transfer by Lenders in relation to the credit risk of residential mortgage loans
LMI provider	A provider of LMI, excluding LMI subsidiaries
LMI subsidiary	A provider of LMI owned or controlled by the insured or a member of its corporate group

Glossary (continued)

Loss ratio	Calculated by dividing the net claims incurred by the net earned premium
LTI	Long term incentive
LVR	Loan to value ratio. This percentage is calculated by dividing the gross value of a loan (excluding capitalisation of LMI premium) by the value of the property securing the loan. The value is based on the lower of the valuation of the underlying property accepted or externally obtained by the lender at origination or the price paid
Major Banks	Australia and New Zealand Banking Group Limited ABN 11 005 357 522, Commonwealth Bank of Australia ABN 48 123 123 124, National Australia Bank Limited ABN 12 004 044 937 and Westpac Banking Corporation ABN 33 007 457 141 and each of their affiliated brokers and other residential lending distribution channels
MIP	Mortgagee in possession
NED	Non-executive director
Net earned premium or NEP	The earned premium for a given period less any outward reinsurance expense
NIW	New insurance written
NOHC	Non-operating holding company
NPAT	Net profit after tax
Omnibus Incentive Plans	The Genworth Financial 2004 Omnibus Incentive Plan and 2012 Omnibus Incentive Plan
PCA	Prescribed capital amount
PCA coverage	Calculated by dividing the regulatory capital base by the prescribed capital amount
PCR	The PCA plus any supervisory adjustment determined by APRA
PCP	Prior corresponding period
PDR	Performance and Development Review
PoA	Probability of adequacy
Regulatory capital base	The sum of Tier 1 Capital and Tier 2 Capital
ReMS	Reinsurance Management Strategy
Return on Equity (ROE)	Calculated by dividing NPAT by the average of the opening and closing equity balance for a financial period
Rights Plan	Genworth Australia Share Rights Plan
RMF	Risk Management Framework
RMS	Risk Management Strategy
RSU	Restricted share units
S&P	Standard & Poor's Ratings Services
Shareholder Agreement	The agreement between the Company, Genworth Holdings, Inc., Genworth Financial International Holdings, LLC and Genworth Financial dated 21 May 2014, as amended
SLT	Senior Leadership Team
STI	Short term incentive
Supply and Service Contract	A contract between a lender customer and Genworth Australia for the supply of LMI and related services
Technical Funds	Investments held to support unearned premium and outstanding claims reserves
TFR	Total fixed remuneration
Tier 2 Capital	As defined by GPS 112, Tier 2 Capital comprises components of capital that fall short of the quality of Tier 1 Capital but nonetheless contribute to the overall strength of a regulated institution and its capacity to absorb losses
Underlying Equity	Total equity excluding the after-tax impact of unrealised gains or losses on the investment portfolio. For 2014, this has been calculated on a pro forma basis
Underlying NPAT	Underlying NPAT excludes the after-tax impact of unrealised gains or losses on the investment portfolio
Underlying ROE	Calculated by dividing Underlying NPAT by the average of opening and closing Underlying equity for a financial period
VWAP	Volume weighted average price
WGEA	Workplace Gender Equality Agency

Corporate directory

Registered office

Genworth Mortgage Insurance Australia Limited

Level 26
101 Miller Street
North Sydney NSW 2060

Telephone: +61 1300 655 422
Fax: +61 1300 366 228

Website: genworth.com.au

Company Secretary
Ms Prudence Milne, General Counsel & Company Secretary

Assistant Company Secretary
Mr Brady Weissel, Corporate Counsel & Assistant Company Secretary

Share registry

Link Market Services Limited

Level 12
680 George Street
Sydney NSW 2000

Telephone: +61 1300 554 474
Fax: +61 2 9287 0303

Email: registrars@linkmarketservices.com.au

Website: linkmarketservices.com.au

Link Investor Centre

investorcentre.linkmarketservices.com.au

Australian Securities Exchange

Genworth Mortgage Insurance Australia Limited is listed under the ASX code "GMA".

Annual Report

To request a copy of the Annual Report, please contact the Share Registry.
Electronic versions of the Annual Report are available at investor.genworth.com.au

RECYCLED CONTENT FOREST MANAGEMENT EMS ENVIRONMENTAL MANAGEMENT SYSTEMS ISO CERTIFICATION ECF ELEMENTAL CHLORINE FREE

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Genworth®